

# **Corporate Policies and Procedure Amended and Restated Corporate Governance**

Approved by the Board of Directors April 19, 2009

## **Corporate Governance overview**

The Providence Service Corporation has always been committed to effective employee communication, demonstrated best practice models, high quality training opportunities and published outcomes of our programs. Providence's clinical mission is *to ensure the provision of accessible, effective, high quality behavioral health services that meet the needs of those we serve.*

We are also committed to high standards of Corporate Governance, as we recognize that creating sustainable stockholder value depends upon the management of our business in a manner consistent with our values and principles. We believe that the services offered by Providence can positively impact on the wider society and we work hard to earn the trust of all of our stakeholders, including stockholders, staff and clients in our care. We see the opportunity to enhance stockholder value through effective Corporate Governance.

We comply with stringent NASDAQ requirements for Corporate Governance including maintaining a majority of independent directors, a compensation committee made up solely of independent directors, regularly scheduled sessions with only the independent directors present, independent audit committee directors, stockholder meetings and solicitation of proxies, review of related party transactions, Code of Conduct, and compliance with the Sarbanes-Oxley Act.

Sarbanes-Oxley requires strict internal control and oversight of the company's accounting controls, practices and procedures, along with a significant review by the company's independent auditors.

All Board members are required to abide by our Code of Conduct and Ethics as well as our Corporate Ethics Program which the Board has approved and adopted for our company. We believe our Corporate Governance practices enhance the Board's ability to maintain effective oversight of a company that is rapidly expanding to meet the needs of the evolving human services field. We are committed to maintaining and enhancing governance practices which create value for our stockholders.

This document outlines the procedures we practice to maintain our high standards of conducting business. Our Corporate Governance procedures can be found, among others, within our Amended and Restated Bylaws (the "Bylaws"), Board committee charters, Code of Conduct and Ethics, Corporate Ethics Program and whistle blower policy.

## **Management by Board of Directors**

The business and affairs of the Company are managed by an active governing Board of Directors. The Board of Directors is able to exercise all business of the Company and do all such lawful acts that are not directed or required to be exercised or done by the stockholders.

### **Responsibilities**

It is the responsibility of the Board of Directors to establish policy in maintaining the quality of operations and promoting continuous organizational improvements and developments. At a minimum, the Board meets on a quarterly basis. The primary goal of the Board is to provide oversight of the company and improve overall services through effective leadership. The Board also reviews and approves the company's business plan including a process for short and long range planning, and goals and objectives that address the improvement of services. Ongoing fiscal performance is monitored through review of the annual budget, comparison of the actual to budgeted revenues, and expenditures as well as any expense variation.

The Board, including committees of the Board, is responsible for the development, maintenance and approval of company policies and procedures that provide an ethical environment for the management and delivery of services. The Board, or a committee thereof, reviews all governing documents and adherence to the provisions contained therein.

Finally, the Board participates in an annual evaluation of the effectiveness of the company's governance.

New members of the Board are oriented to Board procedures through reading the history and background of the organization and through attendance at quarterly meetings.

### **Board Compensation**

No director is entitled to any salary as such, but non-employee directors will be compensated for their services in a form approved by the Board of Directors from time to time, including a reasonable annual fee for acting as a director and for chairing a committee of the Board of Directors, for attending meetings of the Board of Directors, or committees thereof.

### **Assessing the Performance of the Board as a Whole**

The Nominating and Governance Committee is responsible to oversee and report annually to the Board regarding the self-evaluation by the Board to determine effectiveness and opportunities for improvement. The purpose of this assessment is to increase the effectiveness of the Board as a whole, not to focus on individual Board members.

In this role, the Nominating and Governance Committee will oversee performance evaluations for the Board as a whole, the directors and management. Additionally, the committee will maintain an orientation program for new directors and continuing education programs for directors.

## **Composition of the Board**

### **1. Size of the Board**

The Board of Directors will consist of not less than five (5) nor more than eleven (11) directors. The number of directors to be elected, within these limits, is determined by resolution of the Board of Directors.

Our Board of Directors is divided into three classes as nearly equal in size as possible, serving staggered three year terms. At each annual meeting of stockholders, the successors to the directors whose terms will expire will be elected to serve. They will serve from the time of their election until the third annual meeting following or until their successors have been duly elected, or until their earlier death, resignation or removal.

Vacancies in the Board of Directors, including vacancies resulting from an increase in the number of directors, shall be filled by the affirmative vote of at least a majority of the remaining members of the Board of Directors, even if less than a quorum, or by a sole remaining director. Each Board member will then hold office for a term that coincides with the term of the class to which such director was elected or appointed and until his or her successor is elected, except in the event of his or her earlier resignation, removal or disqualification.

Any director may resign at any time. Such resignation must be in writing, and acceptance is not necessary to make it effective.

### **2. Nomination for Directors and Submission of Proposals**

Nominations for directors to be elected at a meeting of stockholders (whether it be an annual meeting or special meeting of stockholders) may be made only by the Board of Directors (or any committee thereof), or a stockholder of the Company entitled to vote for the election of directors. This business may be conducted at a stockholder's meeting only if such business was specified in the notice of meeting given by or at the direction of the Board of Directors, is otherwise properly brought before the meeting by the Board of Directors, or is otherwise properly and timely brought before the meeting by a stockholder in compliance with the notice procedures and other provisions of the Bylaws. Additionally, at any time prior to the election of directors at a meeting of stockholders, the Board of Directors may designate a substitute nominee to replace any nominee who was nominated and who, for any reason, becomes unavailable for election as a director.

Nominations by stockholders for directors to be elected, or proposals by stockholders to be considered, at a meeting of stockholders and which have not been previously approved by the Board of Directors must be submitted to the Secretary of the Company in writing. Each such nomination or proposal must include identifying and qualifying information of the nominating stockholder as well as the individual nominated. All late nominations and proposals may be rejected by a majority of the Board of Directors. Specific nominating procedures are set forth in the Bylaws.

### **3. Independent and classified board of directors.**

The Board of Directors affirmatively determines the directors that are “Independent” under NASDAQ rules. Members of the Audit Committee, the Compensation Committee, and the Nominating and Governance Committee are required to be Independent under NASDAQ Rules.

Our certificate of incorporation divides our board of directors into three classes. No director may be removed prior to the expiration of his or her term except for cause. These provisions in our certificate of incorporation may tend to discourage a third party from making a tender offer or otherwise attempting to obtain control of our company and may maintain the incumbency of our board of directors, because this structure generally increases the difficulty of, or may delay, replacing a majority of the directors.

### **4. Amendment of the Bylaws.**

Our Bylaws may be amended or repealed in whole or in part, by (i) the affirmative vote of the holders of not less than a majority of the voting power of all of the then outstanding shares of capital stock of the Company entitled to vote at any annual or special meeting of the stockholders or (ii) the affirmative vote of not less than a majority of the Board of Directors. Any decision by the Board of Directors to repeal, alter or amend, or to adopt or readopt any bylaw inconsistent with the bylaw adopted or repealed, altered or amended by the stockholders of the Company shall, if such repeal, alteration or amendment is not approved by stockholders, require the affirmative vote of two-thirds (66 2/3%) of the directors then in office at any regular or special meeting of the Board of Directors.

### **5. Director Memberships on outside Boards**

Providence recognizes the benefits that can come from service on the board of an outside company. Providence therefore encourages this service, but also believes it is critical that directors have sufficient time and energy to dedicate to their responsibilities on the Providence Board. To this end, the Providence CEO, and any other Providence employee who is also a Director, may serve on no more than two boards of public companies. Directors, other than the CEO and Providence employees, may serve on no more than four public company boards while serving on the Providence Board.

### **6. Senior Management Succession Plan**

The Chief Executive Officer is responsible for providing and maintaining a process to advise the Board of Directors on matters including compensation for and potential succession of key executive management positions. To assist the Board in this matter, the CEO annually provides the Board with an assessment of executive managers and other key staff, and their potential to advance within the company. This process assures that there is an adequate pool of competent, qualified managers throughout the company, and to ensure the continuity of top leadership.

## **Corporate Leadership**

The officers of the Company include a Chairman of the Board, a Chief Executive Officer, a President, one or more Vice Presidents, a Secretary, a Treasurer, and such other officers and assistant officers as the Board of Directors may from time to time deem advisable. Except for the Chairman of the Board, Chief Executive Officer, President, Secretary and Treasurer, the Board may refrain from filling any of the said offices at any time and from time to time. The same individual may hold any two (2) or more offices.

The following officers are elected by the Board of Directors: Chairman of the Board, Chief Executive Officer, President, Secretary, and Treasurer. The Chairman of the Board may appoint other officers and assistant officers as he may deem advisable provided that they have a title no higher than Vice President, and they may hold office for such periods as the Chairman of the Board determines. Any officer may be removed at any time, with or without cause, and regardless of the term for which such officer was elected.

The Board will decide whether it is best for the Company at a given point in time for the roles of the Chief Executive Officer and Chairman of the Board to be separate or combined and, if separate, whether the Chairman should be selected from the Independent Directors or be an employee.

### **Organizational Structure**

The Company operates under a flexible, decentralized management system. In our provision of services, we operate as a network of local and regional providers who are part of the communities they serve. Our service professionals have developed extensive relationships with payers and a reputation for providing cost effective, quality service to our clients.

We believe this model increases our ability to provide appropriate services to clients, and to obtain new contracts. We give local managers responsibility and incentives for local revenue generation. At the same time, we hold our local managers accountable to stringent budgets, allowing us to control costs. Our operations model is easily scalable and allows our employees to focus on, and react quickly to, additional opportunities to provide our services.

The Chief Executive Officer, the Board of Directors, and Senior Management are responsible for selecting qualified members of management and for implementing and working within this organizational structure deemed appropriate for the Company. The Chief Executive Officer, Board, and Senior Management will review and analyze this decentralized system of management for any necessary changes in the event of substantive changes in our industry.

### **Company Policies**

Company policies must be strictly adhered to and overrides are generally not allowed. Any employee who believes that an exception to any of our policies is appropriate in his or her case should contact his or her immediate supervisor first. If the immediate supervisor agrees that an exception is appropriate, the approval of the next level of authority within the corporate structure should be obtained. This includes the Chief Operating Officer, the Chief Financial Officer, and Corporate Legal Counsel.

Management actions to overrule policies or procedures for purposes with the intent of personal gain or an enhanced presentation of the Company's financial condition or compliance status is prohibited.

Any exception to any Company policy for the Company's executive officers may be made only by the Board of Directors. If required by applicable SEC and stock exchange rules and regulations, exceptions will be disclosed to stockholders.

## **Financial Statements**

The Finance Department is responsible for producing, under the oversight of the Board and the Audit Committee, financial statements that fairly present in all material aspects the Company's financial condition, results of operations, cash flows and related risks in a clear and understandable way. The Finance Department must also keep the Board and the appropriate committees of the Board well-informed as to all matters of financial significance to the Company.

The Finance Department adheres to a schedule for monthly, quarterly and annual reporting that meets all timelines and filings mandated by the SEC. This includes a clearly delineated schedule for closing the financial books, preparing financial statements, and communicating with the Board and/or Audit Committee.

The Chief Executive Officer directly notifies the Board of any extraordinary financial event, investigation, or alleged material improper act within 48 hours.

## **Board Role and Responsibilities**

### **Board Meetings**

Regular Meetings. Regular meetings of the Board of Directors are held at least quarterly. The Board of Directors will meet for reorganization at the first regular meeting following the annual meeting of stockholders at which the directors are elected.

Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board of Directors and shall be called whenever a majority of the members of the Board so request in writing. A special meeting of the Board of Directors is deemed to be any meeting other than the regular meeting of the Board of Directors.

Reports and Records. The reports of officers and committees and the records of the proceedings of all committees are filed with the Secretary of the Company and presented to the Board of Directors at its next regular meeting. The Board of Directors keeps complete records of its proceedings in a minute book kept for that purpose. When a director requests, the vote of each director upon a particular question will be recorded in the minutes.

### **Meetings of stockholders**

Place of Stockholders' Meetings. All meetings of the stockholders shall be held at such place or places, inside or outside the State of Delaware, as determined by the Board of Directors from time to time.

Annual Stockholders' Meeting. The annual meeting of the stockholders for the election of directors and the transaction of such other business as may properly come before such meeting shall be held at such time and place as determined by the Board of Directors. Any business which is a proper subject for stockholder action may be transacted at the annual meeting, irrespective of whether the notice of said meeting contains any reference thereto, except as otherwise provided by applicable law.

Special Meetings of Stockholders. Special meetings of the stockholders may be called at any time only by the Board of Directors, the Chairman of the Board of Directors or the President and shall be called by the Chairman of the Board of Directors, the President or the Secretary upon the written request of stockholders holding of record at least 30% of the outstanding shares of the Company entitled to vote at such meeting.

Conduct of Stockholders' Meetings. The Chairman of the Board shall preside at all stockholders' meetings. In the absence of the Chairman of the Board, the Chief Executive Officer (if a different individual) shall preside or, in his or her absence, any officer designated by the Board of Directors shall preside. The officer presiding over the stockholders' meeting may establish such rules and regulations for the conduct of the meeting as he or she may deem to be reasonably necessary or desirable for the orderly and expeditious conduct of the meeting. Unless the officer presiding over the stockholders' meeting otherwise requires, stockholders need not vote by ballot on any questions.

Adjournment of Meetings. Adjournments of stockholders' meetings may be called by the holders of a majority of the votes entitled to be cast by stockholders who are present in person or by proxy at the meeting whether or not a quorum exists. If a quorum exists, the chairman of the meeting may only adjourn the meeting where the adjournment is deemed reasonably necessary, as determined by a majority vote of the Board of Directors, and upon the advice of the Company's counsel, to provide stockholders with a full and fair opportunity to make informed voting decisions with respect to the matters presented or where required for the Company with the Securities Exchange Act of 1934, as amended, or other applicable law.

## **Board Committee Matters**

"Independent Director" means a person who is independent of management; free from any relationship that, in the judgment of the Board, would interfere with the exercise of independent judgment as a director. Further, "independent" has the meaning proscribed under the rules and regulations put forth by NASDAQ and the Securities and Exchange Commission.

The Board is comprised of a majority of independent directors. The Board is divided into three classes, and the terms of each class is classified so that only one class is elected each year. The

Board affirmatively determines the independence of directors annually, based upon the assessment made by the Nominating and Governance Committee.

The Board consists of the following committees: Nominating and Governance Committee, Audit Committee, and Compensation Committee. The Board reserves the right to create additional committees, including an Executive Committee. The Board of Directors will appoint or shall establish a method of appointing the members of the Executive, Audit, Compensation, Nominating and Governance Committees and of any other committee established by the Board of Directors, and the Chairman of each such committee, to serve until the next annual meeting of stockholders.

The Audit Committee of the Board has sole responsibility to appoint, to determine the compensation of and, when and if deemed advisable, to replace the Company's independent accounting firm that audits the Company's financial statements and to preapprove the engagement terms and the provision of any audit and non-audit services performed by such accounting firm for the Company. The Audit Committee has direct responsibility for monitoring the performance of the accounting firm and guarding against any compromise of its independence, as well as overseeing the financial statements prepared by management, with the goal of assuring that they fairly present the Company's financial condition, results of operations, cash flows and related risks in a clear and understandable way.

Further responsibilities and procedures of each committee are outlined in detail in each committee's charter approved by the Board of Directors.

## **Miscellaneous**

### **Limitations on liability and indemnification of officers and directors**

Our certificate of incorporation includes a provision that eliminates the personal liability of our directors for monetary damages for breach of fiduciary duty as a director, to the fullest extent permitted by Delaware law. Our certificate of incorporation also provides that we must indemnify our directors and officers to the fullest extent permitted by Delaware law and advance expenses to our directors and officers in connection with a legal proceeding to the fullest extent permitted by Delaware law, subject to certain exceptions. We have obtained directors' and officers' insurance for our directors, officers and some employees for specified liabilities.

The limitation of liability and indemnification provisions in our certificate of incorporation may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duty. They may also have the effect of reducing the likelihood of derivative litigation against directors and officers, even though an action of this kind, if successful, might otherwise benefit us and our stockholders. Furthermore, a stockholder's investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions. However, we believe that these indemnification provisions are necessary to attract and retain qualified directors and officers.

## **Nominating and Governance Committee Charter**

This Nominating and Governance Committee Charter (the “Charter”) has been adopted by the Board of Directors (the “Board”) of The Providence Service Corporation (the “Company”).

### **I. Purpose**

The Nominating and Governance Committee (the “Committee”) of the Board is responsible for developing and recommending to the Board a set of corporate governance policies for the Company, establishing criteria for selecting new directors, and identifying, screening and recruiting new directors. The Committee will also select nominees for directors and recommend directors for committee membership to the Board.

### **II. Composition**

The Committee shall be comprised of three or more members, all of whom must qualify as independent directors (“Independent Directors”) under the listing standards of the Nasdaq Stock Market, Inc. (“Nasdaq”).

Notwithstanding this independence requirement, if the Committee is comprised of at least three members, one director, who is not independent as defined in Rule 4200 of the Marketplace Rules of the National Association of Securities Dealers, Inc. (“NASD”), and is not a current officer or employee or a Family Member of such person, may be appointed to the Committee if the Board, under exceptional and limited circumstances, determines that such individual’s membership on the committee is required by the best interests of the Company and its shareholders, and the Board discloses, in the next annual meeting proxy statement subsequent to such determination, the nature of the relationship and the reasons for the determination. A member appointed under this exception may not serve longer than two years.

The Committee members shall be appointed by the Board. The Board shall appoint one member of the Committee as chairperson. If the Board fails to elect a chairperson, the Committee members shall elect a chairperson from their members. The chairperson shall be responsible for leadership of the Committee, including overseeing the agenda, presiding over the meetings and reporting to the Board. If the Committee chairperson is not present at a meeting, the remaining members of the Committee may designate an acting chairperson.

The members shall serve for a term of one year or until their successors shall be appointed and qualified. No member of the Committee shall be removed except by majority vote of the full Board. The Board shall have the authority to fill vacancies or add additional members to the Committee.

A member shall promptly notify the Committee and the Board if the member is no longer an Independent Director and such member shall be removed from the Committee unless the Board determines that an exception to the Independent Director requirement is available

under the Nasdaq rules with respect to such member's continued membership on the Committee.

### **III. Meetings and Procedures**

- The Committee shall fix its own rules of procedure, which shall be consistent with the Bylaws of the Company and this Charter.
- The Committee shall meet at least annually and more frequently as circumstances require.
- The chairperson of the Committee or a majority of the members of the Committee may call special meetings of the Committee.
- The chairperson, in consultation with other members of the Committee, shall set the length of each meeting and the agenda of items to be addressed at each meeting and shall circulate the agenda to each member of the Committee in advance of each meeting.
- A majority of the members of the Committee shall constitute a quorum.
- The Committee may form subcommittees for any purpose that the Committee deems appropriate and may delegate to such subcommittees such power and authority as the Committee deems appropriate.
- The Committee may request that any directors, officers or employees of the Company, or other persons whose advice and counsel are sought by the Committee, attend any meeting of the Committee and/or provide such pertinent information as the Committee requests, except that no director of the Company shall participate in discussions or attend any portion of a meeting of the Committee at which that director's nomination or committee selection is being discussed.
- Following each of its meetings, the Committee shall deliver a report on the meeting to the Board, including a description of all actions taken by the Committee at the meeting.
- The Committee shall keep written minutes of its meetings, which minutes shall be maintained by the Company with the books and records of the Company. The chairperson may designate an officer or employee of the Company to serve as secretary to the Committee.

### **IV. Responsibilities and Duties of the Nominating and Governance Committee**

The Nominating and Governance Committee has the following duties and responsibilities:

#### **Selection of Director Nominees and Committee Membership**

- Determine what types of backgrounds are needed to help strengthen and balance the Board and establish criteria for selecting new directors.
- Conduct background and qualifications checks of persons it wishes to recommend to the Board as candidates or to fill vacancies.
- Conduct director evaluations prior to re-nomination of directors for election.
- Select the slate of nominees of directors to be proposed for election by the stockholders and recommend to the Board individuals to be considered by the Board to fill vacancies. Approvals should follow a review by the Committee of the performance and contribution of fellow directors as well as the qualifications of proposed new directors.
- In the event an incumbent director does not receive a majority of the votes cast in an uncontested election, recommend to the Board whether to accept or reject the resignation of such incumbent director or whether action should be taken.
- Recommend to the Board those directors to be selected for membership on the various Board committees. Recommendations should consider the qualifications for membership on each committee, whether the candidate will be able to devote the requisite time to the Committee, the extent to which there should be a policy of periodic rotation of directors among the committees, and any limitations on the number of consecutive years a director should serve on any one Board committee.
- Determine director and committee member/chair compensation for those directors who are not also salaried officers of the Company.

### **Develop and Implement Policies Regarding Corporate Governance Matters**

- Recommend to the Board policies to enhance the Board's effectiveness, including with respect to the distribution of information to Board members, the size and composition of the Board, and the frequency and structure of Board meetings.
- Develop and review periodically, and at least annually, the corporate governance policies of the Company to ensure that they are appropriate for the Company and that policies of the Company comply with applicable laws, regulations and listing standards, and recommend any desirable changes to the Board.
- Create, maintain and recommend to the Board for adoption a Code of Ethics for directors, officers and employees.
- Appoint an Ethics Officer to establish and maintain compliance with the Company's Code of Ethics and obtain an annual report of the Ethics Officer.

- Consider any other corporate governance issues that arise from time to time, and recommend appropriate actions to the Board.
- Assist management in the review of director and officer liability insurance requirements and the alternative methods available for satisfying them.

### **Evaluation of the Board and Management**

- Oversee performance evaluations for the Board as a whole, the directors and management.
- Maintain an orientation program for new directors and continuing education programs for directors.

### **Succession Planning and Other Matters**

- Make recommendations to the Board with respect to potential successors for key management positions.
- Obtain advice and assistance from internal or external legal, accounting or other advisors as required for the performance of its duties.
- Review and evaluate the Committee's performance annually with respect to its evaluation of its performance.
- Review and reassess the adequacy of this Charter on an annual basis and recommend to the Board any appropriate changes.
- Perform such other duties and responsibilities as may be assigned to the Committee, from time to time, by the Board.

### **V. Investigations and Studies; Outside Advisors**

The Committee may conduct or authorize investigations into or studies of matters within the scope of the Committee's duties and responsibilities, and may retain, at the Company's expense, such experts and other professionals as it deems necessary. The Committee shall have the sole authority to retain or terminate any search firm to be used to identify director candidates, including sole authority to approve the search firm's fees and other retention terms, such fees to be borne by the Company.

## **Compensation Committee Charter**

This Compensation Committee Charter (the “Charter”) has been adopted by the Board of Directors (the “Board”) of The Providence Service Corporation (the “Company”).

### **I. Purpose**

The Compensation Committee (the “Committee”) is responsible for formulating, evaluating and approving the compensation of the Company’s officers (as that term is defined in Section 16 of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (the “Exchange Act”)), overseeing all compensation programs involving the issuance of the Company’s stock and other equity securities of the Company and preparing an annual report on executive compensation for inclusion in the Company’s annual proxy statement in accordance with applicable rules and regulations.

### **II. Composition**

The Committee shall be comprised of three or more members, all of whom must qualify as independent directors (“Independent Directors”) under the listing standards of the NASDAQ Stock Market LLC. (“Nasdaq”). In order for options granted by this Committee to qualify for exemption from Section 16(b) of the Exchange Act, members of this Committee or any subcommittee appointed for such purpose must also meet the definition of Non-Employee Director as defined in Rule 16b-3 of the Exchange Act or any successor rule thereto.

Notwithstanding any provision contained herein, one director who is not independent as defined in Rule 4200 of the applicable rules of the National Association of Securities Dealers, Inc. (“NASD”) and is not a current officer or employee or a Family Member (as such term is defined by the NASD rules) of such person, may be appointed to the Committee if the Board, under exceptional and limited circumstances, determines that such individual’s membership on the committee is required by the best interests of the Company and its stockholders, and the Board discloses, in the next annual proxy statement subsequent to such determination, the nature of the relationship and the reasons for the determination. A member of the Committee appointed under this exception may not serve longer than two years.

The Committee members shall be appointed by the Board. The Board shall appoint one member of the Committee as chairperson. If a Chair is not elected by the Board, the members of the Committee may designate a Chair by majority vote of the full Committee. He or she shall be responsible for leadership of the Committee, including overseeing the agenda, presiding over the meetings and reporting to the Board. If a Committee Chair is not present at a meeting, the members of the Committee may designate an acting Chair.

The members shall serve for a term of one year or until their successors shall be appointed and qualified. No member of the Committee shall be removed except by majority vote of the full Board. The Board shall have the authority to fill vacancies or add additional members to the Committee.

A member shall promptly notify the Committee and the Board if the member is no longer an Independent Director or Non-Employee Director and such member shall be removed from the Committee unless the Board determines that an exception to the Independent Director requirement is available under the Nasdaq rules with respect to such member's continued membership on the Committee and should be made or unless the Board determines that it is not necessary for the Committee to be comprised of non-employee directors for purposes of Section 16 under the Exchange Act.

### **III. Meetings and Procedures**

- The Committee shall fix its own rules of procedure, which shall be consistent with the Bylaws of the Company and this Charter.
- The Committee shall meet at least annually and more frequently as circumstances require.
- The Chair of the Committee or a majority of the members of the Committee may call special meetings of the Committee.
- The Chair, in consultation with other members of the Committee shall set the length of each meeting and the agenda of items to be addressed at each meeting and shall circulate the agenda to each member of the Committee in advance of each meeting (at least three days in advance in the case of the annual meeting).
- A majority of the members of the Committee shall constitute a quorum.
- The Committee may form subcommittees for any purpose that the Committee deems appropriate and may delegate to such subcommittees such power and authority as the Committee deems appropriate.
- The Committee may request that any directors, officers or employees of the Company, or other persons whose advice and counsel are sought by the Committee, attend any meeting of the Committee and/or provide such pertinent information as the Committee requests, except that the Chief Executive Officer (the "CEO") of the Company shall not attend any meeting of the Committee (or portion thereof) at which the CEO's compensation is determined.
- Following each of its meetings, the Committee shall deliver a report on the meeting to the Board, including a description of all actions taken by the Committee at the meeting.
- The Committee shall keep written minutes of its meetings, which minutes shall be maintained with the books and records of the Company.

### **IV. Responsibilities and Duties of the Compensation Committee**

The Compensation Committee has the following duties and responsibilities:

- Annually review and determine the compensation of the CEO and other officers.
- Review and approve compensation paid to family members of officers and directors.
- Determine the Company's policy with respect to the application of Internal Revenue Code Section 162(m).
- Approve the form of employment contracts, severance arrangements, change in control provisions and other compensatory arrangements with officers.
- Approve cash incentives and deferred compensation plans for officers (including any modification to such plans) and oversee the performance objectives and funding for executive incentive plans.
- Approve compensation programs and grants involving the use of the Company's stock and other equity securities, including the administration of the 2003 Stock Option Plan and 2006 Long-Term Incentive Plan.
- Prepare an annual report on executive compensation for inclusion in the Company's proxy statement for each annual meeting of stockholders in accordance with applicable rules and regulations.
- Review and discuss with the Company's management the Compensation Discussion and Analysis ("CD&A") required by the Item 402 of SEC Regulation S-K. Based on such review and discussion, determine whether to recommend to the Board of Directors that the CD&A be included in the Company's annual report or proxy statement for the annual meeting of stockholders.
- Retain and terminate any compensation consultant to be used to assist the evaluation of the compensation of the directors, CEO or officers of the Company, including the sole authority to select the consultant and to approve the firm's fees and other retention terms.
- Obtain advice and assistance from internal or external legal, accounting or other advisors as required for the performance of its duties.
- Monitor compliance with legal prohibitions on loans to directors and officers of the Company.
- Review the Committee's performance annually.

- Review and reassess the adequacy of this Charter annually and recommend to the Board any appropriate changes.
- Perform such other duties and responsibilities as may be assigned to the Committee, from time to time, by the Board.

#### **V. Investigations and Studies; Outside Advisors**

The Committee may conduct or authorize investigations into or studies of matters within the scope of the Committee's duties and responsibilities, and may retain, at the Company's expense, such experts and other professionals as it deems necessary.

## **Audit Committee Charter**

This Audit Committee Charter (the “Charter”) has been adopted by the Board of Directors (the “Board”) of The Providence Service Corporation (the “Company”).

### **I. Purpose**

There shall be a committee of the board of directors (the “Board”) of The Providence Service Corporation (the “Company”) to be known as the audit committee of the Company. The audit committee’s purpose is to oversee the accounting and financial reporting processes of the Company and the audit of the financial statements of the Company.

### **II. Composition**

The audit committee shall have at least three (3) members, comprised solely of directors who (i) are independent, as such term is defined in Rule 4200(a)(15) of the applicable rules of The NASDAQ Stock Market LLC (“NASDAQ”), subject to the limitations in Rule 4350(d)(2)(A) and the exception in Rule 4350(d)(2)(B) of the NASDAQ listing standards and the Securities and Exchange Commission (“SEC”) Rule 10A-3(b) and (ii) meet the criteria for independence set forth in Section 10A(m)(3) of the Securities Exchange Act of 1934, as amended (the “Act”) and the rules thereunder.

Each member of the audit committee shall be able to read and understand fundamental financial statements, including the Company’s balance sheet, income statement and cash flow statement. In addition, at least one member of the audit committee (i) shall be a financial expert, as defined in Item 309 of Regulation S-K of the SEC and (ii) must have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

Notwithstanding any of the requirements contained herein, and subject to compliance with any applicable SEC or NASDAQ rules or regulations then in effect, a director who

- A. is not independent as defined in Rule 4200(a)(15) of the applicable rules of NASDAQ;
- B. meets the criteria set forth in section 10A(m)(3) of the Act and the rules thereunder;
- C. does not own or control ten percent (10%) or more of the Company’s voting securities (or such lower measurement as may be established by the SEC under section 10A(m) of the Act); and
- D. is not a current officer or employee or an immediate family member of such employee,

may be appointed to the audit committee, if the Board, under exceptional and limited circumstances, determines that membership on the committee by the individual is required by the best interests of the Company and its stockholders, and the Board discloses, in the Company's next annual proxy statement subsequent to such determination, the nature of the relationship and the reasons for that determination. An audit committee member appointed under this exception may not serve longer than two (2) years and may not chair the audit committee.

A member of the audit committee shall promptly notify the audit committee and the Board if the member is no longer an independent director and such member shall be removed from the audit committee unless the Board determines that an exception to the independent director requirement is available under the applicable NASDAQ rules with respect to such member's continued membership and that an exception should be made.

The Board shall appoint (i) the members of the audit committee and (ii) one member of the audit committee as a Chairperson who will have the authority to act on behalf of the audit committee between meetings of the audit committee. If the Chairperson is not present at a meeting, the members of the Committee may designate an acting Chairperson.

The members of the audit committee shall serve for a term of one year or until their successors shall be appointed and qualified. No member of the audit committee shall be removed except by a majority vote of the full Board. The Board shall have the authority to fill vacancies or add additional members to the committee.

### **III. Meetings and Procedures**

- The audit committee shall fix its own rules of procedure, which shall be consistent with the Bylaws of the Company and this Charter.
- The audit committee shall meet at least quarterly and more frequently as circumstances require.
- The Chair of the audit committee or a majority of the members of the audit committee may call special meetings of the audit committee.
- The Chair, in consultation with other members of the audit committee shall set the length of each meeting and the agenda of items to be addressed at each meeting and shall circulate the agenda to each member of the audit committee in advance of each meeting (at least three days in advance in the case of the annual meeting).
- A majority of the members of the audit committee shall constitute a quorum.
- The audit committee may form subcommittees for any purpose that the audit committee deems appropriate and may delegate to such subcommittees such power and authority as the audit committee deems appropriate.

- The audit committee may request that any directors, officers or employees of the Company, or other persons whose advice and counsel are sought by the audit committee, attend any meeting of the audit committee and/or provide such pertinent information as the audit committee requests.
- Following each of its meetings, the audit committee shall deliver a report on the meeting to the Board, including a description of all actions taken by the audit committee at the meeting.
- The audit committee shall keep written minutes of its meetings, which minutes shall be maintained with the books and records of the Company.

#### **IV. Responsibilities**

The responsibilities of the audit committee are as follows:

- Sole power to appoint (and terminate), compensate, oversee the work of the outside auditors, including resolution of disagreements between management and the outside auditor regarding financial reporting, for the purpose of preparing or issuing an audit report or related work.
- Pre-approve all auditing services and permissible non-audit services provided by the outside auditor to the Company; provided that, the audit committee may delegate to one or more designated members of the audit committee the authority to grant the foregoing pre-approvals. The decisions of any member of the audit committee to whom the authority to grant pre-approvals has been delegated shall be presented to the full audit committee at each of its scheduled meetings.
- Engage in a dialogue with the outside auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the outside auditor and be responsible for taking, or recommending that the Board take appropriate action to oversee the independence of the outside auditor.
- Ensure its receipt from the outside auditor of a formal written statement, delineating all relationships between the outside auditor and the company consistent with the Independence Standards Board Standard No. 1;
- Review and approve the audit committee report required to be filed with the SEC.
- Review and discuss with the outside auditors for the Company the following:
  - (i) all critical accounting policies and practices to be utilized in connection with the preparation of the Company's financial statements;

- (ii) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with the management of the Company, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the outside auditors; and
  - (iii) other material written communications between the outside auditors and the management of the Company, such as any management letter or schedule of unadjusted differences.
- Review and discuss with the Chief Executive Officer and the Chief Financial Officer of the Company making certifications in each of the Company's annual and quarterly reports filed with the SEC the following:
  - (i) any significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize, and report financial data, as well as any material weaknesses in the Company's internal controls; and
  - (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls.
- Establish procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters as set forth in section 10A(m)(4) of the Act and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
- Review reports submitted to the audit committee pursuant to (i) the reporting provisions of the Code of Ethics of the Company alleging actual or suspected violations of federal, state or local laws or regulations, including anonymous reports of questionable accounting or auditing matters, and (ii) provisions of the Act requiring the Company's counsel to report evidence of a material violation of securities law or breach of fiduciary duty or similar violation by the Company or any agent of the Company, including the Company's directors and officers.
- Review and approve all transactions between the Company and any Related Person that are required to be disclosed pursuant to Item 404 of SEC Regulation S-K ("Item 404"). The terms "Related Person" and "transaction" shall have the meanings given to such terms in Item 404, as may be amended from time to time.
- Review with the outside auditor, the Company's internal auditor, and financial and accounting personnel, the adequacy and effectiveness of the accounting and financial controls of the Company, and elicit any recommendations for the improvement of such internal control procedures or particular areas where new or more detailed controls or procedures are desirable.

- Obtain advice and assistance from internal or external legal, accounting or other advisors as required for the performance of its duties.
- Consider, in consultation with the outside auditor and management of the Company, the audit scope and procedures.
- Review the Company’s Forms 10-Q and 10-K prior to filing with the SEC.
- Review and discuss with management the Company’s earnings press releases, including the use of “pro forma” or “adjusted” non-GAAP information, as well as financial information and earnings guidance provided to analysts and ratings agencies. Such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made).
- Review the financial statements contained in the annual report to stockholders with management and the outside auditor to determine that the outside auditor is satisfied with the disclosure and content of the financial statements to be presented to the stockholders.
- Meet with the internal auditor, outside auditor or the management privately as necessary to discuss any matters that the audit committees, the internal auditor, the outside auditor or the management believe should be discussed privately with the audit committee.
- Review and reassess the adequacy of the audit committee's charter annually.
- Make such other recommendations to the Board on such matters, within the scope of its functions, as may come to its attention and which in its discretion warrant consideration by the Board.
- Engage advisors and determine their compensation, including the authority to:
  - (i) Engage independent counsel and other advisors as it determines necessary to carry out its duties as set forth in section 10A(m)(5) of the Act.
  - (ii) Determine the compensation of (i) the outside auditor employed by the Company for the purpose of rendering or issuing an audit report and (ii) any advisors employed by the audit committee.
- Act as a qualified legal compliance committee as defined in 17 CFR Part 205.2.

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## V. Delegation

Any responsibility or authority of the audit committee, including but not limited to, the authority to pre-approve all audit and permitted non-audit services, may be delegated to one or more members of the committee.

## **VI. Limitations**

The audit committee is responsible for the duties set forth in this Charter but is not responsible for either the preparation of the financial statements or the auditing of the financial statements. Management has the responsibility for preparing the financial statements and implementing internal controls and the independent accountants have the responsibility for auditing the financial statements and monitoring the effectiveness of the internal controls. The review of the financial statements by the audit committee is not of the same quality as the audit performed by the independent accountants. In carrying out its responsibilities, the audit committee believes its policies and procedures should remain flexible in order to best react to a changing environment.