

# **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.