

PROVIDENCE SERVICE CORP  
Form DEFA14A  
May 08, 2009

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only** (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**The Providence Service Corporation**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which the transaction applies:

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(3) Per unit price or other underlying value of the transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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NASDAQ: PRSC  
Spring 2009

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Cautionary Note about Forward-Looking Statements

Certain statements made in this presentation, such as any statements about Providence's confidence or strategies or its expectations about revenues, results of operations, profitability, earnings per share, contracts, collections, award of contracts, acquisitions and related growth, growth resulting from initiatives in certain states, effective tax rate or market opportunities, constitute "forward-looking

statements" within the meaning of the private Securities Litigation Reform Act of 1995. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause Providence's actual results or achievements to be materially different from those expressed or implied by such forward-looking statements. These factors include, but are not limited to, reliance on government-funded contracts, risks associated with government contracting, risks involved in managing government business, legislative or policy changes, challenges resulting from growth or acquisitions, adverse media and legal, economic and other risks detailed in Providence's filings with the Securities and Exchange Commission. Words such as "believe," "demonstrate," "expect," "estimate," "anticipate," "should" and "likely" and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on those forward-looking statements, which speak only as of the date the statement was made. No inference should be drawn that Providence undertakes any obligation to update any forward-looking statement contained herein.

Forward-Looking Statements

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Leading provider of home and community based social services and non-emergency transportation (NET) services management to government beneficiaries, funded largely by Medicaid

Serves children, adolescents and families who are eligible due to income level, emotional/educational disabilities

Provide cost savings for government programs

Not-for-profit

Managed Services

Home and Community

Based Counseling

Home based counseling

Intensive home based counseling

Substance abuse treatment services

School support services

Correctional services

Workforce development

Foster Care

Foster care

Therapeutic foster care

Administrative support

Informational technology

Accounting, payroll services

Intake, assessment , referral

Monitoring services

Case management

Customer, trip

authorization

Call-center management

Utilization management

and data collection

Quality assurance

Billing and claims

Network credentialing

NET Services



4  
PRSC s Expanded National Footprint  
Social Services Only  
Strong Potential for Geographic Growth  
NET Services Only  
Both Social Services and NET Services  
Canada

Hawaii

Locations

Employees: 6,271 Direct

4,202 Managed

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PRSC Overview

Strong Business with Track Record of Success

Positioned to Benefit from Trend toward Home and  
Community Based Care and Away from Institutional Care

Continued Commitment to Best Practices, Innovation and  
Results; 97% Client Satisfaction According to Vanderbilt

University Surveys

Long-Term Payer Relationships; Substantially All Contracts

Renewed over 10 Years

Solid Organic Growth Rate

6  
202  
312  
527  
868  
958  
1,039

2003  
2004  
2005  
2006  
2007  
2008

Contracts

Track Record of Success

18  
21  
25  
36  
38  
44

2003  
2004  
2005  
2006  
2007  
2008

States Served

CAGR 64%

CAGR 39%

CAGR 46%

CAGR 20%

\*

\* **Excludes approx. 6 million eligible NET clients**

\*

Includes District of Columbia

\*

\*

\$59

\$97

\$146

\$192

\$285

\$692

2003

2004

2005

2006

2007

2008

Revenues

(\$

in

millions)

13,371

29,066

35,646

71,134  
76,195  
87,314  
2003  
2004  
2005  
2006  
2007  
2008  
Clients

7  
Diverse, Balanced Business Mix  
2008 Total Revenue by Service  
Social  
Services  
Transportation  
55.1%



Home and  
Community  
Based Services

37.3%

Foster Care  
Services

4.7%

Management Fee  
Income

2.9%

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Revenue increased 143% from 2007

Social services revenue up 18.4%

Home based organic growth of 10%

Foster care organic growth of 8%

Adjusted EBITDA of \$39.1 million

Excluding impairment charge and expense for accelerated vesting

Margins impacted by a few states rationing care  
Increase in both direct and managed client census

Direct client census up 20% in 2008; up 29% in fourth quarter 2008  
over fourth quarter 2007  
Positive cash flow

positioned for growth

Cash of \$29.4 million after repayment of \$8.7 million of long-term  
debt

Net cash from operating activities of \$12.4 million  
Strong 2008 in the Face of a  
Challenging Economic Environment

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Improvements beginning to be seen with government payers  
Increases in client census and rate, combined with operating  
efficiencies and expense reductions, contributed to record  
earnings

Revenue of \$187 million, up 7.5% from prior year period

EPS of \$0.44 (up over 50% from prior year period)

Includes non-recurring expenses of approximately \$2.1 million related to amended credit agreement, dissident s now abandoned consent solicitation and banking and transaction related services

for a total of \$0.09 per share  
Exceptional First Quarter 2009

10  
Medicaid Improvements Create  
Opportunities  
Medicaid  
expenditures  
on  
benefits

are  
expected  
to  
increase  
at  
an  
average  
annual rate of 7.9% to \$673.7 billion by 2017, compared to a projected growth  
rate of 4.8% in the general economy

(1)  
Economic recovery package signed into law in February 2009 includes an  
approximately \$87 billion temporary increase in the share of Medicaid paid by  
the  
federal  
government  
(10/1/08

12/31/10)  
(2)  
Home and community based spending is anticipated to grow at an average  
annual rate of 11.9% through 2017

(1)  
The current economy has caused an expected increase in Medicaid enrollment  
to  
50.0  
million  
beneficiaries,  
a  
2.1%  
increase  
from  
2007  
to  
2008

(3)  
Medicaid enrollment is expected to continue to increase during 2009, a direct  
result  
of  
U.S.  
poverty  
population  
rising  
between  
7.5  
million  
to  
10.3  
million

(4)  
PRSC believes new beneficiaries are more in need of services than ever

direct victims of foreclosures and unemployment

(1)

Centers for Medicare and Medicaid Services

(2)

Center

on

Budget

and

Policy

Priorities

February

2009

(3)

Kaiser

Commission

on

Medicaid

Facts

November

2008

(4)

Center

on

Budget

and

Policy

Priorities

November

2008



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Management focus on growing the core social services business

Growing home/community based care in PA should be driven by Mercer recommendations

Longer term opportunity in NC as payer consolidation takes place

School based services in VA being well received  
Medicaid stimulus package to replenish state coffers  
Growing demand from anticipated increase in  
Medicaid enrollment, SCHIP reauthorization  
Potential for acquisitions  
Providence  
Positioned for Growth

12  
Continually Recognized by Leading  
Business Publications  
Forbes

Providence ranked 98th on annual list of America's 200  
Best Small Companies --

October 2008

Providence ranked 17th on annual list of America's 200  
Best Small Companies --

October 2006

FORTUNE Small Business (FSB)

Providence ranked 82nd on the annual FSB 100 list of the  
fastest growing small companies in America --

July/August

2007.

Business Week

Providence ranked 71st on annual list of top 100 Hot  
Growth

Companies --

May 2006

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Board and Management Respond to  
2008 Challenges

In mid 2008, certain payers began to see increasing pressure on state budgets and a reduction in tax based revenue. States legal requirement to balance budgets led to unprecedented payer behavior in the second half of 2008.

In response, the Providence Board announced strategic initiatives in November 2008 to combat external challenges and enhance stockholder value

Focus on growing core social services business

Reduce corporate and client service costs

Explore the sale of non-strategic assets

Delever the Company's debt

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Actions Taken to Enhance Stockholder  
Value

Concrete actions taken to implement Board's strategic  
initiatives and enhance stockholder value

Implemented operating efficiencies

Reduced total workforce and other overhead expenses

Adjusted certain states

cost structures to reduce number of fixed salaried

personnel in favor of hourly staff -

better aligning revenue and costs (no

reduction in rate taken and no concessions accepted)

Company-wide salary freeze; reduced vacation, holiday and sick leave

80% of management's annual incentive bonus potential suspended for

2009, a potential savings this year of up to \$1 million

Approved health plan benefit modifications to reduce benefits and/or

increase employee contribution effective in July 2009

Suspended executive salary parity plan for 2009 and accelerated

outstanding unvested options and restricted stock awards company-wide,

reducing 2009's operating expenses by approximately \$5 million

Executed credit agreement amendment related to senior term loan

resetting covenant targets for the fourth quarter of 2008 and for all

of 2009, providing significant operating flexibility



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Actions Taken to Enhance Stockholder  
Value (cont.)

Providence already seeing positive results

Operating expense reduction increasing  
profitability

Increased social service direct client census  
(March 2009 was 7.9% higher than March 2008)

Entered into three significant social services  
contracts, and increased the total number of  
social services contracts by nine, in first quarter  
of 2009

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The Providence Board Continues to  
Deliver Value for Stockholders

For first quarter 2009, revenue grew to \$187 million,  
an increase of 7.5% from \$174 million for first quarter  
2008 and an increase of 5% from \$178 million for  
fourth quarter 2008

In Q1 2009, Providence was the biggest percentage gainer in the Russell 3000 index

As of May 7, 2009, Providence's stock is up more than 708% since the beginning of the year, compared to the Russell 3000 Index which is up approximately 3.1% and S&P 500 Index which is up approximately 0.5% for the same period

Providence Has Substantially Outperformed the Russell 3000 and  
S&P 500 Indices in 2009

-100%

0%

100%

200%

300%

400%

500%

600%

12/31/2008

1/31/2009

2/28/2009

3/31/2009

4/30/2009

% CHANGE

Providence

S&P 500

Russell 3000

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The Providence Board Continues to  
Deliver Value for Stockholders (cont d)

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Independent and Experienced Board

Fletcher Jay McCusker.

Chairman of the Board and chief executive officer since  
founding Providence in 1996

Experience includes executive vice president of Nasdaq listed Youth Services

International, Inc., which provided private institutional care for at-risk youth; chief executive officer of Introspect Healthcare Corporation, a large multi-state behavioral health provider; co-founder of mental health care company, Century Healthcare, which was sold to NYSE listed Columbia Healthcare in 1992

Hunter Hurst, III.

Director since 1996. Chairperson of nominating and corporate governance committee

Retired Director of the National Center for Juvenile Justice, the leading resource for juvenile justice research and statistics in the western hemisphere

Kristi L. Meints. **Director since 2003. Chairperson of audit committee**

Vice president and chief financial officer of Chicago Systems Group, Inc., a technology consulting firm and has held positions at Cordon Corporation, Avery Dennison Corporation and SmithKline Beecham Corporation



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Independent and Experienced Board  
(cont.)

Warren S. Rustand.

Director since May 2005. Lead director; Chairperson of  
compensation committee

Managing Director of SC Capital Partners, an investment banking group which includes: corporate advisory services, a private equity fund, capital sourcing, with a focus on the microcap market. He has served on the Board of over 40 public, private, and not-for-profit organizations

Colonel Richard Singleton.

Director since 1998

Retired United States Army colonel. One of the founders of Youth Services

International, Inc., a Nasdaq

listed company that provided private institutional

care for at-risk youth. Additional experience includes superintendent of Boys

School for the Department of Juvenile Justice State of Florida, Regional

Director of operations for Three Springs, Inc., responsible for operations and

management of juvenile justice facilities in the State of Georgia

Craig A. Norris.

Director since November 2008. Chief operating officer since

April 2004; president, eastern division since 1998

Experience includes chief operating officer of Parents and Children Together,

Inc., a home based counseling provider; psychotherapist for the Arizona

Department of Health; treatment coordinator for the Arizona Center for Clinical

Management

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Strong Focus on Corporate Governance  
Providence has a strong independent Board

Two-thirds of the membership of the Board are independent directors

Key Board committees are comprised solely of independent directors

Strong corporate governance practices

Stockholders may call special meetings

Stockholders may act by written consent

No supermajority vote required for stockholders to amend bylaws

Active and engaged Board

Frequent meetings and discussions

12 full Board meetings in 2008

All directors attended at least 75% of the Board meetings held during the period for which he or she was a director

All directors have extensive management and/or leadership experience

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Strong Focus on Corporate

Governance (cont.)

Recent bylaw amendments enacted to enhance corporate  
governance

Implemented majority voting in the election of directors in uncontested

elections

Made it easier for stockholders to call a special meeting of stockholders and nominate candidates for election at Providence's annual meetings

Adoption

of

stockholder-friendly

rights

plan

Three-year term

Annual review by committee of independent directors

20% trigger for flip-in or flip-over

Subject to being redeemed by stockholders in the event of a qualified offer

No dead-hand, slow-hand, no-hand or similar feature that limits the ability of a future board to redeem the pill

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Avalon's Agenda Not in Best Interests  
of ALL Providence Stockholders

The members of the Avalon Group have no significant or  
relevant experience in delivering social services

All of the members of the dissident group soliciting proxies at the 2009 Annual

Meeting in support of their two nominees are affiliates of Avalon Correctional Services, Inc.

Avalon Correctional Services, a publicly-traded company on the pink sheets, operates correctional facilities for governmental payers in 3 states, OK, WY and TX, and has no significant or relevant experience in delivering social services. It also has no experience working with government payers in most of the 42 states in which Providence operates.

Avalon Corrections Services has a history of substandard corporate governance practices

In 2005, Donald Smith, the controlling stockholder and sole director of Avalon Correctional Services, voluntarily delisted it from Nasdaq (after it was threatened with delisting for lack of any independent directors and failure to comply with other Nasdaq requirements).

Donald Smith also unilaterally terminated the registration of Avalon's shares with the SEC in order to **avoid being legally required to comply with the SEC's reporting requirements and the corporate governance and other provisions of Sarbanes-Oxley**



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Avalon's Agenda Not in Best Interests  
of ALL Providence Stockholders  
(Cont.)

Avalon actions suggest undisclosed agenda to obtain  
substantial influence and effective control over Providence

Shortly after acquiring their PRSC stake, the Avalon Group made a transaction proposal to Providence that would have enabled them to: substantially increase their PRSC ownership interest in a manner dilutive, unfair and economically disadvantageous to other stockholders, and acquire PRSC voting rights disproportionate to their economic investment

Since first meeting with Providence in November 08, Avalon has sought to have their hand-picked and unqualified candidates added to the Providence Board

Avalon unequivocally rejected Providence's offer to instead add mutually acceptable independent director with industry expertise who could enhance the Board's composition and represent ALL stockholders. No member of the Avalon Group has ever identified any suggestions for operational improvements or other initiatives to enhance stockholder value.

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Avalon Could Actually Jeopardize

Providence's

Momentum

and

Success

For Providence's continued success it is critical that it maintain its very

strong payer relationships in the 42 states and District of Columbia where it currently operates  
Avalon Correctional Services currently operates in only 3 states, OK, TX and WY, and has a history of challenging relationships with government payers, including in its home state of OK and in CO where it no longer operates

Decertification

of  
residential  
care  
facility  
and  
halting  
of  
funding  
for  
others  
by

Oklahoma Dept of Mental Health and Substance Abuse in 1995, leading to Avalon's discontinuation of all residential care/outpatient mental health operations in 1996

References

in  
1999  
to  
Avalon's  
unacceptable  
record  
due  
to  
inmate  
escapes  
and violence  
and  
Avalon's  
obstinate  
and  
arrogant leadership  
by  
the  
Ex  
Dir  
of the Oklahoma Office of Juvenile Affairs

Highly  
critical  
audits  
of

Avalon s  
correctional  
facilities  
by  
Colorado  
Dept  
of  
Public  
Safety  
in  
2007

-  
untrained  
employees,  
inappropriate  
relationships  
between  
staff  
and offenders, falsified drug tests and lack of sufficient security

Report  
of  
pattern  
of  
suboptimal  
performance  
in  
2008  
by  
Program  
Director  
of  
Colorado Division of Criminal Justice

Avalon s  
Colorado  
corrections  
facility  
contracts  
terminated,  
pulled  
and/or  
suspended  
in 2008 at both the state and county levels, leading to Avalon s  
discontinuation of all corrections facility operations in Colorado that same year



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We Do Not Believe Avalon's Nominees  
Would Add Value to the Providence Board

Avalon's two nominees have:

No

relevant experience with a company of Providence's  
scale and complexity

Never  
served on the board of directors of a public company.

No  
or  
limited  
experience  
serving  
in  
a  
senior  
leadership  
position at a public reporting company.

No  
relevant experience in delivering social services or  
non-emergency  
transportation  
services  
and  
no  
understanding  
of Providence's industries

Like  
the  
Avalon  
Group,  
provided  
no  
business  
plan  
or  
strategic insights



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Closing Remarks

2009 is off to a strong start

Providence is committed to its plan to continuing to deliver value for all stockholders, reduce its debt and grow the company

The Company's management team and Board are comprised of proven executives and leaders with a deep understanding of the

social services industry and broad expertise in public company leadership, finance, accounting and overall executive management

areas that are critical to Providence's overall success

Providence has well-established and long-standing relationships with government payers across the country and its programs are highly rated

Recent corporate governance enhancements are designed to increase accountability of the Providence Board to stockholders and to increase the opportunity of stockholders to participate in the governance of Providence

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Proxy Statement Disclosure

Important Information

The Providence Service Corporation (the Company ) and its directors and certain executive officers and other employees are deemed participants in the solicitation

of

proxies  
from  
stockholders  
in  
connection  
with  
the  
2009

Annual

Meeting of Stockholders (the 2009 Annual Meeting ). The Company has filed a Definitive Proxy Statement with the Securities and Exchange Commission (the SEC ) relating to the 2009 Annual Meeting. Information regarding the interests of such participants is included in the Definitive Proxy Statement. WE URGE INVESTORS TO READ THE DEFINITIVE PROXY STATEMENT (INCLUDING ANY SUPPLEMENTS THERETO) AND ANY OTHER RELEVANT DOCUMENTS THAT THE COMPANY WILL FILE WITH THE SEC WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION.

Stockholders

will  
be  
able  
to  
obtain,  
free  
of

charge, copies of the Definitive Proxy Statement and any other documents filed by the Company with the SEC in connection with the 2009 Annual Meeting at the SEC s

website at <http://www.sec.gov>. and the Company s website at <http://www.provcorp.com>.

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Adjusted EBITDA Reconciliation  
2008  
2007  
Adjusted EBITDA  
39,088  
\$

30,701

\$

Subtract:

Interest expense (income), net

18,599

1,601

Income taxes

(12,311)

9,722

Depreciation and amortization

12,722

4,989

Impairment charge (A)

169,930

-

Acceleration of stock based compensation (B)

5,753

-

Net income (loss)

(155,605)

\$

14,389

\$

(A)

(B)

On December 30, 2008, the Compensation Committee of the Company's Board of Directors approved the acceleration of the vesting dates of all unvested stock options and restricted stock previously awarded to eligible employees, directors and consultants, including stock options and restricted stock granted to executive officers and non-employee directors, under the Company's 2006 Long-Term Incentive Plan, effective on that day. In approving this vesting acceleration, the Compensation Committee considered, among other things, the anticipated boost to employee moral expected to result from such action and that such acceleration would eliminate the Company's recognition of any stock compensation expense with respect to these options and awards in future periods.

The Providence Service Corporation

Reconciliation of Non-GAAP Financial Measures

Adjusted EBITDA

(in thousands)

Due to the significant and sustained decline in the Company's market

capitalization and the uncertainty in the state payer environment as well as the impact of related budgetary decisions on the Company's earnings during the six months ended December 31, 2008, the Company recorded asset impairment charges totaling approximately \$169.9 million related to its goodwill and other intangible assets for the year ended December 31, 2008.