

MAXIMUS INC  
Form 10-Q  
August 06, 2009  
**Table of Contents**





**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549



# FORM 10-Q





**Quarterly Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934**



**For the quarterly period ended June 30, 2009**



**Commission File Number: 1-12997**



**MAXIMUS, INC.**



(Exact name of registrant as specified in its charter)

Edgar Filing: MAXIMUS INC - Form 10-Q

**Virginia**  
(State or other jurisdiction of  
incorporation or organization)

**11419 Sunset Hills Road**  
**Reston, Virginia**  
(Address of principal executive offices)

**54-1000588**  
(I.R.S. Employer  
Identification No.)

**20190**  
(Zip Code)

(703) 251-8500

(Registrant's telephone number, including area code)







## Edgar Filing: MAXIMUS INC - Form 10-Q

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if smaller reporting company)	Smaller reporting company <input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of July 31, 2009, there were 17,518,207 shares of the registrant's common stock (no par value) outstanding.

---



Table of Contents

**MAXIMUS, Inc.**



**Quarterly Report on Form 10-Q**

**For the Quarter Ended June 30, 2009**



**INDEX**

**PART I. FINANCIAL INFORMATION**

<u>Item 1.</u>	<u>Condensed Consolidated Financial Statements.</u>	3
	<u>Condensed Consolidated Balance Sheets as of September 30, 2008 and June 30, 2009 (unaudited).</u>	3
	<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended June 30, 2008 and 2009 (unaudited)</u>	4
	<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended June 30, 2008 and 2009 (unaudited)</u>	5
	<u>Notes to Unaudited Condensed Consolidated Financial Statements.</u>	6
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	16
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk.</u>	29
<u>Item 4.</u>	<u>Controls and Procedures.</u>	29

**PART II. OTHER INFORMATION**

<u>Item 1.</u>	<u>Legal Proceedings.</u>	29
<u>Item 1A.</u>	<u>Risk Factors.</u>	31
<u>Item 6.</u>	<u>Exhibits.</u>	31
<u>Signature.</u>		32
<u>Exhibit Index.</u>		33

*Throughout this Quarterly Report on Form 10-Q, the terms we, us, our and MAXIMUS refer to MAXIMUS, Inc. and its subsidiaries.*

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements.

## MAXIMUS, Inc.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	September 30, 2008 (Note 1)	June 30, 2009 (unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 119,605	\$ 91,666
Restricted cash	2,736	3,702
Accounts receivable billed, net of reserves of \$5,512 and \$4,473	128,819	116,884
Accounts receivable unbilled	30,695	30,290
Current portion of note receivable	746	949
Income taxes receivable		7,823
Deferred income taxes	21,901	12,695
Due from insurance carrier	12,500	
Prepaid expenses and other current assets	7,892	18,775
Current assets of discontinued operations	193	
Total current assets	325,087	282,784
Property and equipment, at cost	81,232	91,156
Less accumulated depreciation and amortization	(47,238)	(53,311)
Property and equipment, net	33,994	37,845
Capitalized software	19,979	23,970
Less accumulated amortization	(5,854)	(6,769)
Capitalized software, net	14,125	17,201
Deferred contract costs, net	5,324	8,530
Goodwill	60,659	61,288
Intangible assets, net	3,699	2,419
Note receivable, less current portion	1,337	192
Deferred income taxes	10,933	
Other assets, net	3,788	2,918
Total assets	\$ 458,946	\$ 413,177
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 48,950	\$ 49,971
Accrued compensation and benefits	26,684	26,830
Deferred revenue	19,676	21,824
Income taxes payable	12,662	
Capital lease obligations	417	
Other accrued liabilities	53,891	16,554



Edgar Filing: MAXIMUS INC - Form 10-Q

Liabilities of discontinued operations	11,028	3,708
Total current liabilities	173,308	118,887
Deferred revenue, less current portion	8,315	7,219
Income taxes payable, less current portion	1,617	1,753
Deferred income tax liability		2,212
Total liabilities	183,240	130,071
Shareholders' equity:		
Common stock, no par value; 60,000,000 shares authorized; 26,937,498 and 27,075,110 shares issued and 18,302,368 and 17,512,290 outstanding at September 30, 2008 and June 30, 2009, at stated amount, respectively	328,323	334,590
Treasury stock, at cost; 8,635,130 and 9,562,820 shares at September 30, 2008 and June 30, 2009, respectively	(289,103)	(319,146)
Accumulated other comprehensive income	5,536	4,694
Retained earnings	230,950	262,968
Total shareholders' equity	275,706	283,106
Total liabilities and shareholders' equity	\$ 458,946	\$ 413,177

*See notes to unaudited condensed consolidated financial statements.*

Table of Contents

**MAXIMUS, Inc.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**(Dollars in thousands, except per share data)**

**(Unaudited)**

Edgar Filing: MAXIMUS INC - Form 10-Q

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2009	2008	2009
Revenue	\$ 189,364	\$ 185,240	\$ 556,064	\$ 549,533
Cost of revenue	136,576	137,187	405,129	407,222
Gross profit	52,788	48,053	150,935	142,311
Selling, general and administrative expenses	28,949	28,155	84,749	83,489
Gain on sale of building	3,938		3,938	
Legal and settlement expense (recovery), net	700	(4,829)	1,631	(4,461)
Operating income from continuing operations	27,077	24,727	68,493	63,283
Interest and other income, net	490	129	2,098	258
Income from continuing operations before income taxes	27,567	24,856	70,591	63,541
Provision for income taxes	10,271	9,818	27,538	25,099
Income from continuing operations	17,296	15,038	43,053	38,442
Discontinued operations, net of income taxes:				
Loss from discontinued operations	(7,617)	(55)	(13,142)	(464)
Gain (Loss) on disposal	1,726		1,726	(5)
Loss from discontinued operations	(5,891)	(55)	(11,416)	(469)
Net income	\$ 11,405	\$ 14,983	\$ 31,637	\$ 37,973
Basic earnings (loss) per share:				
Income from continuing operations	\$ 0.93	\$ 0.86	\$ 2.24	\$ 2.19
Loss from discontinued operations	(0.32)		(0.60)	(0.03)
Basic earnings per share	\$ 0.61	\$ 0.86	\$ 1.64	\$ 2.16
Diluted earnings (loss) per share:				
Income from continuing operations	\$ 0.92	\$ 0.84	\$ 2.21	\$ 2.15
Loss from discontinued operations	(0.31)		(0.59)	(0.02)
Diluted earnings per share	\$ 0.61	\$ 0.84	\$ 1.62	\$ 2.13
Dividends paid per share	\$ 0.10	\$ 0.12	\$ 0.30	\$ 0.34
Weighted average shares outstanding:				
Basic	18,648	17,503	19,235	17,582
Diluted	18,819	17,839	19,471	17,855

See notes to unaudited condensed consolidated financial statements.

Table of Contents

**MAXIMUS, Inc.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**



(Dollars in thousands)

**(Unaudited)**

Edgar Filing: MAXIMUS INC - Form 10-Q

	Nine Months Ended June 30,	
	2008	2009
<b>Cash flows from operating activities:</b>		
Net income	\$ 31,637	\$ 37,973
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations	11,416	469
Depreciation	7,755	6,468
Amortization of intangible assets and capitalized software	2,149	2,080
Deferred income taxes	5,815	22,350
Gain on sale of building	(3,938)	
Gain on sale of fixed assets		(51)
Deferred interest income on note receivable	37	311
Non-cash equity based compensation	7,028	5,628
Change in assets and liabilities:		
Accounts receivable billed	(1,950)	11,596
Accounts receivable unbilled	(13,296)	(36)
Prepaid expenses and other current assets	(65)	(10,980)
Deferred contract costs	2,681	(3,206)
Due from insurance carrier		12,500
Other assets	275	308
Accounts payable	3,141	1,577
Accrued compensation and benefits	867	(141)
Deferred revenue	(3,859)	1,935
Income taxes	(7,902)	(20,042)
Other liabilities	933	(37,658)
Cash provided by operating activities continuing operations	42,724	31,081
Cash used in operating activities discontinued operations	(4,632)	(7,596)
Cash provided by operating activities	38,092	23,485
<b>Cash flows from investing activities:</b>		
Proceeds from sales of discontinued operations, net of transaction costs	4,643	
Proceeds from sale of building, net of transaction costs	5,929	
Proceeds from sale of fixed assets		54
Proceeds from note receivable	59	631
Purchases of property and equipment	(7,890)	(10,640)
Capitalized software costs	(3,719)	(5,037)
Decrease in marketable securities	126,210	
Cash provided by (used in) investing activities continuing operations	125,232	(14,992)
Cash used in investing activities discontinued operations	(2,259)	
Cash provided by (used in) investing activities	122,973	(14,992)
<b>Cash flows from financing activities:</b>		
Employee stock transactions	3,364	636
Repurchases of common stock	(150,388)	(30,046)
Payments on capital lease obligations	(1,213)	(417)
Tax benefit due to option exercises and restricted stock units vesting	583	6
Cash dividends paid	(5,939)	(5,955)
Cash used in financing activities continuing operations	(153,593)	(35,776)
Cash used in financing activities discontinued operations		
Cash used in financing activities	(153,593)	(35,776)
Effect of exchange rate changes on cash and cash equivalents		(656)
Net increase/(decrease) in cash and cash equivalents	7,472	(27,939)
Cash and cash equivalents, beginning of period	70,472	119,605
Cash and cash equivalents, end of period	\$ 77,944	\$ 91,666

*See notes to unaudited condensed consolidated financial statements.*

Table of Contents

**MAXIMUS, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**For the Three and Nine Months Ended June 30, 2009 and 2008**





## Edgar Filing: MAXIMUS INC - Form 10-Q

*In these Notes to Unaudited Condensed Consolidated Financial Statements, the terms the Company, MAXIMUS, we, or our refer to MAXIMUS, Inc. and its subsidiaries.*

### **1. Organization and Basis of Presentation**

#### *General*

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the three and nine months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the full fiscal year. The balance sheet at September 30, 2008 has been derived from the audited financial statements at that date, including certain reclassifications to conform to the June 30, 2009 presentation, but does not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In addition to the Company's wholly owned subsidiaries, the consolidated financial statements as of and for the three and nine months ended June 30, 2009 and 2008, and as of September 30, 2008, include a majority (55%) owned international subsidiary.

These financial statements should be read in conjunction with the consolidated audited financial statements and the notes thereto at September 30, 2008 and 2007 and for each of the three years in the period ended September 30, 2008, included in the Company's Annual Report on Form 10-K for the year ended September 30, 2008 (File No. 1-12997) filed with the Securities and Exchange Commission on December 15, 2008.

#### *Income Taxes*

The Company applies the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109, (FIN 48). FIN 48 clarifies the accounting for uncertainty in income tax positions. FIN 48 provides that the financial statement effects of an income tax position can only be recognized when, based on the technical merits, it is more-likely-than-not that the position will be sustained upon examination. The cumulative effect of applying the provisions of FIN 48 was required to be reported as an adjustment to the opening balance of retained earnings in the period of adoption.

The Company's net unrecognized tax benefits totaled \$2.0 million at September 30, 2008 and \$1.8 million at June 30, 2009 (including related interest amounts) after offsetting deferred tax assets, competent authority benefits, deductions, and/or credits on the Company's tax returns. Including recognized competent authority benefits, the total amount of unrecognized tax benefits that, if recognized, would affect the annual effective income tax rate is \$1.1 million at June 30, 2009. The Company estimates it may recognize \$0.4 million of tax benefits in the next 12 months due to the expiration of statute of limitations.

We record interest and penalties associated with uncertain tax positions as a component of our income tax provision. For the three and nine months ended June 30, 2009, interest and penalties in our current income tax provision were less than \$0.1 million and \$0.1 million, respectively, compared to \$0.1 million and \$0.2 million, respectively, for the same periods in fiscal 2008. The net FIN 48 liability balance at June 30, 2009 of \$1.8 million includes approximately \$0.3 million of interest and penalties.



Table of Contents

The Company files income tax returns in the United States Federal jurisdiction and in various state and foreign jurisdictions. The Company is no longer subject to US Federal income tax examinations for years before 2005 and is no longer subject to state and local, or foreign income tax examinations by tax authorities for years before 2005.

*Legal and Settlement Expense, Net*

Legal and settlement expense consists of costs, net of reimbursed insurance claims, related to significant legal settlements and non-routine legal matters, including future probable legal costs estimated to be incurred in connection with those matters. Legal expenses incurred in the ordinary course of business are included in selling, general and administrative expense.

*Stock-Based Compensation*

The Company's Board of Directors established stock plans during 1997 pursuant to which the Company may grant non-qualified stock options to officers, employees and directors of the Company. Such plans also provide for stock awards of the Company's common stock. At June 30, 2009, the Board of Directors had reserved 8.0 million shares of common stock for issuance under the Company's stock plans. At June 30, 2009, approximately 1.4 million shares remained available for grants under the Company's stock plans.

Stock options are granted at exercise prices equal to the fair market value of the Company's common stock at the date of grant. Stock options generally vest ratably over a period of four years and, beginning in fiscal 2005, expire six years after date of grant. Options issued prior to fiscal 2005 expire ten years after date of grant. For the three and nine months ended June 30, 2009, compensation expense recognized related to stock options was \$0.4 million and \$1.1 million, respectively, compared to \$0.6 million and \$2.2 million, respectively, for the same periods in fiscal 2008.

The Company also issues Restricted Stock Units (RSUs) to certain executive officers and employees under its 1997 Equity Incentive Plan (Plan). Generally, these RSUs vest ratably over six years with full vesting upon the sixth anniversary of the date of grant, provided, however, that the vesting will accelerate if the Company meets certain earnings targets determined by the Board of Directors. The fair value of the RSUs, based on the Company's stock price at the grant date, is expensed over the vesting period. For the three and nine months ended June 30, 2009, compensation expense recognized related to RSUs was \$1.3 million and \$4.5 million, respectively, compared to \$0.9 million and \$5.1 million, respectively, for the same periods in fiscal 2008.

**2. Comprehensive Income**

Comprehensive income includes net income, plus changes in cumulative foreign currency translation adjustments. The components of comprehensive income for the three and nine months ended June 30, 2008 and 2009 are as follows:

Edgar Filing: MAXIMUS INC - Form 10-Q

(in thousands)	Three months Ended June 30,		Nine months Ended June 30,	
	2008	2009	2008	2009
Net income	\$ 11,405	\$ 14,983	\$ 31,637	\$ 37,973
Foreign currency translation adjustments	923	6,465	1,282	(842)
Comprehensive income	\$ 12,328	\$ 21,448	\$ 32,919	\$ 37,131

**3. Deferred Contract Costs**

Deferred contract costs consist of contractually recoverable direct set-up costs relating to long-term service contracts in progress. These costs include direct and incremental costs incurred prior to the commencement of the Company providing contracted services to our customers. These costs totaled \$30.9 million and \$10.5 million at September 30, 2008 and June 30, 2009, respectively. Deferred contract costs are expensed ratably as services are provided under the contracts. At September 30, 2008 and June 30, 2009, accumulated amortization of deferred contract costs was \$25.6 million and \$2.0 million, respectively.

Table of Contents**4. Goodwill and Intangible Assets**

The changes in goodwill for the nine months ended June 30, 2009 are as follows (in thousands):

	<b>Consulting</b>	<b>Operations</b>	<b>Total</b>
Balance as of September 30, 2008	\$ 19,846	\$ 40,813	\$ 60,659
Goodwill activity related to acquisition		724	724
Foreign currency translation		(95)	(95)
Balance as of June 30, 2009	\$ 19,846	\$ 41,442	\$ 61,288

During the fourth quarter of fiscal 2008, the Company acquired 100% of the shares of Westcountry Training and Consultancy Service ( WTCS ) Limited, a privately-owned employment and training company in the United Kingdom that specializes in helping people who are disadvantaged in the labor market gain employment. Per the terms of the share purchase agreement, additional consideration of approximately £0.5 million (approximately \$0.7 million U.S.) was accrued in the first quarter of fiscal 2009 based on the achievement of certain performance objectives. WTCS is part of the Company's Operations Segment.

The following table sets forth the components of intangible assets (in thousands):

	As of September 30, 2008			As of June 30, 2009		
	Cost	Accumulated Amortization	Intangible Assets, net	Cost	Accumulated Amortization	Intangible Assets, net
Non-competition agreements	\$ 1,882	\$ 1,844	\$ 38	\$	\$	\$
Technology-based intangibles	3,370	2,909	461	3,370	3,370	
Customer contracts and relationships	7,077	3,877	3,200	5,460	3,041	2,419
Total	\$ 12,329	\$ 8,630	\$ 3,699	\$ 8,830	\$ 6,411	\$ 2,419

Intangible assets from acquisitions are amortized over a period of five to ten years. The weighted-average amortization periods for non-competition agreements, technology-based intangibles, and customer contracts and relationships are approximately five years, five years, and ten years, respectively. The weighted-average amortization period for total intangible assets is approximately six years. For the three and nine months ended June 30, 2009, intangible amortization expense was \$0.3 million and \$1.0 million, respectively, compared to \$0.4 million and \$1.1 million for the same periods in fiscal 2008. The estimated amortization expense for the years ending September 30, 2009, 2010, 2011, 2012, and 2013 is \$1.4 million, \$1.0 million, \$0.9 million, \$0.1 million and none, respectively.

**5. Commitments and Contingencies***Litigation*

The Company is involved in various legal proceedings, including contract and employment claims, in the ordinary course of its business. The matters reported on below involve significant pending or potential claims against us.

(a) In December 2008, MAXIMUS, Accenture LLP and the Texas Health and Human Services Commission ( HHSC ) entered into an agreement settling all claims among the parties arising from a prime contract between Accenture and HHSC for integrated eligibility services and a subcontract between MAXIMUS and Accenture in support of the prime contract. In connection with that settlement, MAXIMUS paid a total of \$40.0 million and agreed to provide services to HHSC valued at an additional \$10.0 million. The Company's primary insurance carrier previously paid \$12.5 million of the amount due from MAXIMUS. In May 2009, the Company recovered an additional \$6.3 million from one of its excess insurance carriers. The Company continues to pursue additional insurance recoveries from its other excess insurance carriers; however, such recoveries are not assured.

(b) In November 2007, MAXIMUS was sued by the State of Connecticut in the Superior Court in the Judicial District of Hartford. MAXIMUS had entered into a contract in 2003 with the Connecticut Department of Information Technology to update the State's criminal justice information system. The State claims that MAXIMUS breached its contract and also alleges negligence and breach of the implied warranty of fitness for a particular purpose. MAXIMUS has sued its primary subcontractor on the effort (ATS Corporation) which abandoned the project before completing its obligations.

Table of Contents

Although the State did not specify damages in its complaint, it demanded payment of alleged damages of approximately \$6.2 million in a letter sent to the Company in September 2007. The Company denies that it has breached its contract with the State. The Company cannot predict the outcome of the legal proceedings or any settlement negotiations or the impact they may have on the Company's operating results or financial condition.

(c) In March 2009, a state Medicaid agency asserted a claim against MAXIMUS in the amount of \$2.3 million in connection with a contract MAXIMUS had through February 1, 2009 to provide Medicaid administrative claiming services to school districts in the state. MAXIMUS entered into separate agreements with the school districts under which MAXIMUS helped the districts prepare and submit claims to the state Medicaid agency which, in turn, submitted claims for reimbursement to the Federal government. MAXIMUS is currently in discussions with the state about the claim, and no legal action has been initiated. The state has asserted that its agreement with MAXIMUS requires the Company to reimburse the state for the amounts owed to the Federal government. However, the Company's agreements with the school districts require them to reimburse MAXIMUS for such payments and therefore MAXIMUS believes the school districts are responsible for any amounts disallowed by the state Medicaid agency or the Federal government. Accordingly, the Company believes its exposure in this matter is limited to its fees associated with this work and that the school districts will be responsible for the remainder. During the second quarter of fiscal 2009, MAXIMUS recorded a \$0.7 million reduction of revenue reflecting the fees it earned under the contract in the accompanying condensed consolidated statements of operations. No additional charges were recorded in the three month period ended June 30, 2009. MAXIMUS has exited the Federal healthcare claiming business and no longer provides the services at issue in this matter.

(d) In July 2009 the District of Columbia ( District ) initiated a civil action against MAXIMUS in the Superior Court of the District of Columbia, Civil Division. The District has alleged violations of the District's False Claims Act ( Act ), fraud and unjust enrichment arising from the Company's preparation and submission of federal Medicaid reimbursement claims on behalf of the District. The District seeks treble its actual damages plus a penalty of \$10,000 per claim as provided under the Act. MAXIMUS previously settled a Federal investigation and related whistleblower lawsuit concerning these same activities in 2007. In connection with that settlement, MAXIMUS entered into a two-year Deferred Prosecution Agreement ( DPA ), a five-year Corporate Integrity Agreement ( CIA ) and paid a settlement of \$30.5 million. The DPA has since expired by its terms and the CIA has been suspended in light of the Company's exit from the Federal health care claiming business. The District was, in fact, a named party in the prior whistleblower lawsuit that was dismissed with prejudice, and MAXIMUS believes that the District's claims should be barred. The Company believes the District's claims are without merit and intends to defend this action vigorously. Nevertheless, we cannot predict the outcome of the legal proceedings or the impact they may have on the Company's operating results or financial condition.

*Credit Facilities and Performance Bonds*

The Company's Revolving Credit Agreement provides for a senior secured revolving credit facility, with SunTrust Bank as administrative agent, issuing bank and swingline lender, and a syndicate of other lenders (the Credit Facility ). The Credit Facility provides for a \$35.0 million revolving line of credit commitment, which may be used (i) for revolving loans, (ii) for swingline loans, subject to a sublimit of \$5.0 million, and (iii) to request the issuance of letters of credit on the Company's behalf, subject to a sublimit of \$25.0 million. The Company may request an increase in the commitment under the Credit Facility, such that the aggregate commitments under the Credit Facility shall at no time exceed \$75.0 million. The credit available under the Credit Facility may be used, among other purposes, to refinance the Company's current indebtedness, to repurchase shares of the Company's capital stock and to finance the ongoing working capital, capital expenditure, and general corporate needs of the Company. The Credit Facility matures on January 25, 2013, at which time all outstanding borrowings must be repaid and all outstanding letters of credit must have been terminated or cash collateralized. At June 30, 2009, letters of credit totaling \$10.3 million were outstanding under the Credit Facility.

Subject to applicable conditions, the Company may elect interest rates on its revolving borrowings calculated by reference to (i) the prime lending rate as announced by SunTrust Bank (or, if higher, the federal funds effective rate plus 0.50% or the one-month adjusted LIBO rate) (a

## Edgar Filing: MAXIMUS INC - Form 10-Q

Base Rate Borrowing ), or (ii) the reserve adjusted rate per annum equal to the offered rate for deposits in U.S. dollars for a one (1), two (2), three (3) or six (6) month period in the London Inter-Bank Market (a LIBOR Borrowing ), and, in each case, plus an applicable margin that is determined by reference to the Company's then-current leverage ratio. For swingline borrowings, the Company will pay interest at the rate of interest for a one (1) month LIBOR Borrowing, plus the applicable margin, or at a rate to be separately agreed upon by the Company and the administrative agent.

The Credit Facility contains customary financial and other covenants that require the maintenance of certain ratios including a maximum leverage ratio and a minimum fixed charge coverage ratio. The Company was in compliance with all covenants in the Credit Facility as of June 30, 2009. The Company's obligations under the Credit Facility are guaranteed by certain of the Company's direct and indirect subsidiaries (collectively, the Guarantors ) and are secured by substantially all of MAXIMUS and the Guarantors' present and future tangible and intangible assets, including the capital stock of subsidiaries and other investment property.

At September 30, 2008 and June 30, 2009, the Company had performance bond commitments totaling \$83.4 million and \$88.9 million, respectively.



Table of Contents**6. Earnings (Loss) Per Share**

The following table sets forth the components of basic and diluted earnings (loss) per share (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2009	2008	2009
<b>Numerator:</b>				
Income from continuing operations	\$ 17,296	\$ 15,038	\$ 43,053	\$ 38,442
Loss from discontinued operations	(5,891)	(55)	(11,416)	(469)
Net income (loss)	\$ 11,405	\$ 14,983	\$ 31,637	\$ 37,973
<b>Denominator:</b>				
Basic weighted average shares outstanding	18,648	17,503	19,235	17,582
<b>Effect of dilutive securities:</b>				
Employee stock options and unvested restricted stock units	171	336	236	273
Denominator for diluted earnings (loss) per share	18,819	17,839	19,471	17,855

Outstanding options to purchase 43,000 and 156,000 shares were not included in the computation of diluted earnings per share for the three-month and nine-month periods ended June 30, 2009, respectively, because the options' exercise price was greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

**7. Stock Repurchase Programs**

Under a resolution adopted in July 2008, the Board of Directors has authorized the repurchase, at management's discretion, of up to an aggregate of \$75.0 million of the Company's common stock. The resolution also authorized the use of option exercise proceeds for the repurchase of the Company's common stock. During the nine months ended June 30, 2009, the Company repurchased 927,690 common shares at a cost of \$30.0 million. At June 30, 2009, \$54.2 million remained available for future stock repurchases under the July 2008 resolution.

During the nine months ended June 30, 2008, the Company repurchased 3,758,457 common shares at a cost of \$150.4 million under an Accelerated Share Repurchase program.

Table of Contents**8. Segment Information**

The following table provides certain financial information for each of the Company's business segments (in thousands):

	Three Months Ended June 30,				Nine Months Ended June 30,			
	2008	% (1)	2009	% (1)	2008	% (1)	2009	% (1)
<b>Revenue:</b>								
Operations	\$ 157,917	100%	\$ 165,522	100%	\$ 465,706	100%	\$ 477,486	100%
Consulting	31,447	100%	19,718	100%	90,358	100%	72,047	100%
Total	189,364	100%	185,240	100%	556,064	100%	549,533	100%
<b>Gross Profit:</b>								
Operations	41,870	26.5%	41,981	25.4%	119,593	25.7%	123,683	25.9%
Consulting	10,918	34.7%	6,072	30.8%	31,342	34.7%	18,628	25.9%
Total	52,788	27.9%	48,053	25.9%	150,935	27.1%	142,311	25.9%
<b>Selling, general, and administrative expense:</b>								
Operations	19,025	12.0%	21,942	13.3%	56,074	12.0%	62,388	13.1%
Consulting	9,656	30.7%	6,218	31.5%	27,805	30.8%	20,711	28.7%
Corporate/Other	268	NM(2)	(5)	NM(2)	870	NM(2)	390	NM(2)
Total	28,949	15.3%	28,155	15.2%	84,749	15.2%	83,489	15.2%
<b>Operating income (loss) from continuing operations:</b>								
Operations	22,845	14.5%	20,039	12.1%	63,519	13.6%	61,295	12.8%
Consulting	1,262	4.0%	(146)	(0.7)%	3,537	3.9%	(2,083)	(2.9)%
Consolidating adjustments	(268)	NM(2)	5	NM(2)	(870)	NM(2)	(390)	NM(2)
Subtotal: Segment operating income	23,839	12.6%	19,898	10.7%	66,186	11.9%	58,822	10.7%
Gain on sale of building	3,938	2.1%		%	3,938	0.7%		%
Legal and settlement (expense) recovery, net	(700)	(0.4)%	4,829	2.6%	(1,631)	(0.3)%	4,461	0.8%
Total	\$ 27,077	14.3%	\$ 24,727	13.3%	\$ 68,493	12.3%	\$ 63,283	11.5%

(1) % of respective segment revenue

(2) Not meaningful

**9. Recent Accounting Pronouncements**

In December 2007, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 141 (revised) ( SFAS 141(R) ), Business Combinations, which is effective for business combinations entered into in fiscal years beginning on or after December 15, 2008, which is the Company's 2010 fiscal year. Early adoption of the standard is prohibited. Under SFAS 141(R), more transactions will be recorded as business combinations, as it changes the definitions of a business, which would no longer be required to be self-sustaining or revenue generating, and a business combination, which would include combinations that occur by contract alone or due to changes in substantive participation rights, such as a

## Edgar Filing: MAXIMUS INC - Form 10-Q

lapse in minority veto rights. Certain acquired contingencies will be recorded initially at fair value on the acquisition date. After the acquisition, if new information is available, contingent liabilities will be measured at the higher of the likely amount to be paid and the acquisition-date fair value. Contingent assets will be measured subsequently at the lower of the current estimated future amount to be realized and the acquisition-date fair value. Transaction and restructuring costs generally will be expensed as incurred. In partial acquisitions, companies generally will record 100 percent of the assets and liabilities at fair value, including goodwill. This will likely result in higher related depreciation and amortization charges in subsequent periods than under the current standard. SFAS 141(R) will only impact us if we acquire businesses subsequent to the effective date of the standard.

Table of Contents

Concurrent with the issuance of SFAS 141(R), the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, which is effective for fiscal years beginning on or after December 15, 2008, which is the Company's 2010 fiscal year. Early adoption of the standard is prohibited. This statement will be applied prospectively as of October 1, 2009 except for the presentation and disclosure requirements. The standard changes the accounting and reporting for minority interests and requires the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity. It also requires that the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income. We are in the process of reviewing and evaluating SFAS No. 160, and therefore the ultimate impact of its adoption is not yet known.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events, which is effective for interim or annual periods beginning on or after June 15, 2009. The standard establishes principles and requirements for subsequent events, including disclosure of the date through which an entity has evaluated subsequent events. We have adopted SFAS No. 165 in this period and the adoption of the standard did not significantly impact our financial statements.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162. This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. This standard is not expected to materially impact the Company's results of operations, financial position or related disclosures.

Table of Contents**10. Legal and Settlement Expense (Recovery), Net**

Legal and settlement expense (recovery) consists of costs, net of reimbursed insurance claims, related to significant legal settlements and non-routine legal matters, including future probable legal costs estimated to be incurred in connection with those matters. Legal expenses incurred in the ordinary course of business are included in selling, general and administrative expense. The following table sets forth the matters that represent legal and settlement expense (recovery):

(in thousands)	Three months Ended June 30,		Nine months Ended June 30,	
	2008	2009	2008	2009
Accenture Arbitration and Related Settlement	\$ 700	\$ (6,300)	\$ 1,650	\$ (6,300)
Other		1,471	(19)	1,839
Total	\$ 700	\$ (4,829)	\$ 1,631	\$ (4,461)

Legal and settlement expense (recovery) for the three and nine months ended June 30, 2009 included a \$6.3 million recovery from one of the Company's excess insurance carriers for the Accenture arbitration matter. The Company continues to pursue additional insurance recoveries from its other insurance carriers; however, such recoveries are not assured. For more details, see Note 5 - Commitments and Contingencies above.

**11. Discontinued Operations**

On April 30, 2008, the Company sold its Security Solutions division for cash proceeds of \$4.6 million, net of transaction costs of \$0.4 million, and recognized a pre-tax gain on the sale of \$2.9 million. The financial position, results of operations, and cash flows of this business are reported as discontinued operations and all prior periods have been reclassified to conform to the current period's presentation. The Security Solutions division was previously reported as part of the Company's Systems Segment.

On May 2, 2008, the Company sold its Unison MAXIMUS, Inc. subsidiary. The sale transaction was structured as a sale of stock to the then current management team of the subsidiary. The sale price of \$6.6 million consisted of \$0.1 million in cash, \$0.2 million in a short-term note receivable and \$6.3 million in the form of a promissory note secured by (1) a security interest in all of the assets of the former subsidiary; (2) a pledge of shares by the buyer; and (3) a personal guaranty by members of the then current management team who are shareholders of the buyer. In accordance with Topic 5-U of SEC Staff Accounting Bulletin No. 81, Gain Recognition on the Sale of a Business or Operating Assets to a Highly Leveraged Entity, the Company has deferred recognition of a pre-tax gain on the sale of \$4.0 million, and interest income on the promissory note, until realization is more fully assured. The deferred gain of \$4.0 million is reflected as a deduction from the note receivable on the consolidated balance sheet as of September 30, 2008 and June 30, 2009. The financial position, results of operations, and cash flows of this business are reported as discontinued operations and all prior periods have been reclassified to conform to the current period's presentation. Unison MAXIMUS, Inc. was previously reported as part of the Company's Consulting Segment.

On September 30, 2008, the Company sold its Justice Solutions, Education Systems, and Asset Solutions divisions, which were previously reported as part of its Systems Segment. Total consideration for the transaction was \$40.0 million, including a \$35.0 million cash payment received at closing and a \$5.0 million holdback for one year from closing, subject to a purchase price adjustment and any claims based on representations and warranties. The Company deferred recognition of the holdback and, net of transaction costs of \$2.0 million, recognized a

## Edgar Filing: MAXIMUS INC - Form 10-Q

pre-tax loss on the sale of \$12.2 million. Beginning in the fourth quarter of fiscal 2008, the Company classified the results of operations of these divisions as discontinued operations and incorporated the Enterprise Resource Planning (ERP) Solutions division into the Consulting Segment. The financial position, results of operations, and cash flows of these businesses are reported as discontinued operations and all prior periods have been reclassified to conform to the current period's presentation.

The following table summarizes the operating results of the discontinued operations included in the Condensed Consolidated Statements of Operations (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2009	2008	2009
<b>Revenue</b>	\$ 18,649	\$	\$ 64,483	\$
Loss from discontinued operations	\$ (12,590)	\$ (91)	\$ (21,706)	\$ (767)
Benefit from income taxes	(4,973)	(36)	(8,564)	(303)
<b>Loss from discontinued operations</b>	\$ (7,617)	\$ (55)	\$ (13,142)	\$ (464)
Gain (loss) from discontinued operations	\$ 2,853	\$	\$ 2,853	\$ (9)
Provision for (benefit from) income taxes	1,127		1,127	(4)
<b>Gain (loss) on disposal</b>	\$ 1,726	\$	\$ 1,726	\$ (5)
<b>Loss from discontinued operations</b>	\$ (5,891)	\$ (55)	\$ (11,416)	\$ (469)

Table of Contents

The following table summarizes the carrying values of the assets and liabilities of discontinued operations included in the Condensed Consolidated Balance Sheets (in thousands):

	As of September 30, 2008	As of June 30, 2009
Accounts receivable billed	\$ 192	\$
Prepaid expenses and other current assets	1	
<b>Current assets of discontinued operations</b>	<b>\$ 193</b>	<b>\$</b>
Accounts payable	\$ 10,303	\$ 3,698
Accrued compensation and benefits	725	10
<b>Current liabilities of discontinued operations</b>	<b>\$ 11,028</b>	<b>\$ 3,708</b>

**12. Sale of Building**

During the quarter ended June 30, 2008, the Company sold a 21,000 square foot administrative office building in McLean, Virginia for proceeds of \$5.9 million, net of transactions costs of \$0.2 million, and recognized a pre-tax gain on the sale of \$3.9 million. This gain has been classified as gain on sale of building in the condensed consolidated statement of operations.

**13. Fair Value Measurements**

Effective October 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements (SFAS No. 157), for financial assets and liabilities. This standard defines fair value, establishes a market-based framework or hierarchy for measuring fair value and expands disclosures about fair value measurements. We have deferred the adoption of SFAS No. 157 with respect to non-financial assets and liabilities in accordance with the provisions of FASB Staff Position FAS 157-2 (FSP FAS 157-2), Effective Date of FASB Statement No. 157 which provides a one-year deferral of the effective date of SFAS No. 157. Items in this classification include goodwill and intangible assets with indefinite lives. We are currently evaluating the impact, if any, that FSP FAS 157-2 will have on our results of operations and financial condition.

SFAS No. 157 discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). The statement utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

## Edgar Filing: MAXIMUS INC - Form 10-Q

Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

Active markets are those in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Inactive markets are those in which there are few transactions for the asset, prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly. With regard to the Company's financial assets subject to fair value measurements, the Company believes that all of the assets it holds are actively traded because there is sufficient frequency and volume to obtain information on an ongoing basis.

The Company's financial assets subject to fair value measurements and the necessary disclosures are as follows (in thousands):

Description	Fair Value as of June 30, 2009	Fair Value Measurements as of June 30, 2009 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 91,666	\$ 91,666	\$	\$



Table of Contents

The Company's Level 1 assets include cash, money market instruments and U.S. Treasury securities. The Company's cash balances are valued based on quoted prices from third parties and the U.S. Treasury securities are valued based on broker quotes.

The adoption of SFAS No. 157 did not have an impact on our results of operations or financial condition since the resulting fair values calculated under SFAS No. 157 after adoption were not different than the fair values that would have been calculated under previous accounting guidance.

On October 1, 2008, the Company also adopted SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. We did not elect the fair value option under SFAS No. 159 for any of our financial assets or liabilities upon adoption. There was no impact to our results of operations or financial condition as a result of the adoption of SFAS No. 159.

**14. Subsequent Events**

In preparing these financial statements, the Company's management has evaluated subsequent events through August 6, 2009, the date the financial statements were issued.

*Dividend*

On July 10, 2009, the Company's Board of Directors declared a quarterly cash dividend of \$0.12 for each share of the Company's common stock outstanding. The dividend is payable on August 31, 2009, to shareholders of record on August 14, 2009.

Table of Contents

**Item 2.** Management's Discussion and Analysis of Financial Condition and Results of Operations.



## Edgar Filing: MAXIMUS INC - Form 10-Q

*The following discussion and analysis of financial condition and results of operations is provided to enhance the understanding of, and should be read in conjunction with, our Consolidated Financial Statements and related Notes included both herein and in our Annual Report on Form 10-K for the year ended September 30, 2008, filed with the Securities and Exchange Commission on December 15, 2008.*

### **Forward Looking Statements**

From time to time, we may make forward-looking statements that are not historical facts, including statements about our confidence and strategies and our expectations about revenue, results of operations, profitability, current and future contracts, market opportunities, market demand or acceptance of our products and services. Any statements contained in this Quarterly Report on Form 10-Q that are not statements of historical fact may be forward-looking statements. The words could, estimate, future, intend, may, opportunity, potential, project, anticipates, plans, expect and similar expressions are intended to identify forward-looking statements. These statements may involve risks and uncertainties that could cause our actual results to differ materially from those indicated by such forward-looking statements. These risks are detailed in Exhibit 99.1 to our Annual Report on Form 10-K for the year ended September 30, 2008 and incorporated herein by reference.

### **Business Overview**



## Edgar Filing: MAXIMUS INC - Form 10-Q

We are a leading provider of consulting services and operations program management focused in the areas of health and human services primarily to government. Since our inception, we have been at the forefront of innovation in meeting our mission of Helping Government Serve the People®. We use our expertise, experience and advanced information technology to make government operations more efficient while improving the quality of services provided to program beneficiaries. We operate primarily in the United States, and we have had contracts with government agencies in all 50 states, Canada, Australia, Israel and the United Kingdom. For the fiscal year ended September 30, 2008, we had revenue of \$745.1 million and net income of \$6.7 million. For the nine months ended June 30, 2009, we had revenue of \$549.5 million and net income of \$38.0 million.

Table of Contents**Results of Operations***Consolidated*

The following table sets forth, for the periods indicated, selected statements of operations data:

(dollars in thousands, except per share data)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2009	2008	2009
Revenue	\$ 189,364	\$ 185,240	\$ 556,064	\$ 549,533
Gross profit	\$ 52,788	\$ 48,053	\$ 150,935	\$ 142,311
Selling, general and administrative expenses	\$ 28,949	\$ 28,155	\$ 84,749	\$ 83,489
Selling, general and administrative expense as a percentage of revenue	15.3%	15.2%	15.2%	15.2%
Gain on sale of building	\$ 3,938		\$ 3,938	
Legal and settlement expense (recovery), net	\$ 700	\$ (4,829)	\$ 1,631	\$ (4,461)
Operating income from continuing operations	\$ 27,077	\$ 24,727	\$ 68,493	\$ 63,283
Operating margin from continuing operations percentage	14.3%	13.3%	12.3%	11.5%
Income from continuing operations, net of income taxes	\$ 17,296	\$ 15,038	\$ 43,053	\$ 38,442
Loss from discontinued operations, net of income taxes	\$ (5,891)	\$ (55)	\$ (11,416)	\$ (469)
Net income	\$ 11,405	\$ 14,983	\$ 31,637	\$ 37,973
<b>Basic earnings (loss) per share:</b>				
Income from continuing operations	\$ 0.93	\$ 0.86	\$ 2.24	\$ 2.19
Loss from discontinued operations	(0.32)		(0.60)	(0.03)
Basic earnings per share	\$ 0.61	\$ 0.86	\$ 1.64	\$ 2.16
<b>Diluted earnings (loss) per share:</b>				
Income from continuing operations	\$ 0.92	\$ 0.84	\$ 2.21	\$ 2.15
Loss from discontinued operations	(0.31)		(0.59)	(0.02)
Diluted earnings per share	\$ 0.61	\$ 0.84	\$ 1.62	\$ 2.13

We discuss constant currency revenue information to provide a framework for assessing how our business performed excluding the effect of foreign currency rate fluctuations. To provide this information, current quarter and year-to-date revenue from foreign operations is converted into United States dollars using average exchange rates from the same periods in fiscal 2008. All of our foreign operations are in the Operations Segment.

Revenue decreased 2.2%, but increased 0.7% on a constant currency basis, for the three months ended June 30, 2009, compared to the same period in fiscal 2008. The adverse impact of a strong United States dollar on foreign sourced revenue offset strong revenue growth in our domestic health services division and federal operations.

## Edgar Filing: MAXIMUS INC - Form 10-Q

Revenue decreased 1.2%, but increased 2.2% on a constant currency basis, for the nine months ended June 30, 2009, compared to the same period in fiscal 2008. The adverse impact of a strong United States dollar on foreign sourced revenue partially offset strong revenue growth in our domestic health services division and federal operations.

Operating income from continuing operations for the three months ended June 30, 2009 was \$24.7 million, compared to operating income of \$27.1 million for the same period in fiscal 2008. The decrease in operating income of \$2.4 million is primarily driven by (1) a \$2.8 million and \$1.4 million decrease in operating income in the Operations and Consulting Segments, respectively, (2) a \$3.9 million gain on sale of building in fiscal 2008, partially offset by a \$5.5 million reduction in legal and settlement expense.

Operating income from continuing operations for the nine months ended June 30, 2009 was \$63.3 million, compared to operating income of \$68.5 million for the same period in fiscal 2008. The decrease in operating income of \$5.2 million is primarily driven by (1) a \$2.2 million and \$5.6 million decrease in operating income in the Operations and Consulting Segments, respectively, (2) a \$3.9 million gain on sale of building in fiscal 2008, partially offset by a \$6.1 million reduction in legal and settlement expense.



Table of Contents

Selling, general and administrative expense (SG&A) consists of costs related to general management, marketing and administration. These costs include salaries, benefits, bid and proposal efforts, travel, recruiting, continuing education, employee training, non-chargeable labor costs, facilities costs, printing, reproduction, communications, equipment depreciation, intangible amortization, and legal expenses incurred in the ordinary course of business. SG&A as a percentage of revenue for the three months ended June 30, 2009 was 15.2%, compared to 15.3% for the same period in fiscal 2008, and was 15.2% for the nine months ended June 30, 2009 and 2008.

Legal and settlement expense (recovery) consists of costs, net of reimbursed insurance claims, related to significant legal settlements and non-routine legal matters, including future probable legal costs estimated to be incurred in connection with those matters. Legal expenses incurred in the ordinary course of business are included in selling, general and administrative expense. The following table sets forth the matters that represent legal and settlement expense (recovery):

(dollars in thousands)	Three months ended June 30,		Nine months ended June 30,	
	2008	2009	2008	2009
Accenture Arbitration and Related Settlement	\$ 700	\$ (6,300)	\$ 1,650	\$ (6,300)
Other		1,471	(19)	1,839
Total	\$ 700	\$ (4,829)	\$ 1,631	\$ (4,461)

Legal and settlement expense (recovery) for the three and nine months ended June 30, 2009 included a \$6.3 million recovery from one of the Company's excess insurance carriers for the Accenture arbitration matter. The Company continues to pursue additional insurance recoveries from its other excess insurance carriers; however, such recoveries are not assured.

Provision for income taxes was 39.5% of income from continuing operations before income taxes for the three and nine months ended June 30, 2009. Provision for income taxes was 37.3% and 39.0% of income from continuing operations before income taxes for the three and nine months ended June 30, 2008, respectively.

Income from continuing operations, net of income taxes, was \$15.0 million, or \$0.84 per diluted share, for the three months ended June 30, 2009, compared with \$17.3 million, or \$0.92 per diluted share, for the same period in fiscal 2008. The decrease in income from continuing operations, net of income taxes, of \$2.3 million is primarily driven by the after-tax impact of a \$2.4 million decrease in operating income from continuing operations and a \$0.4 million decrease in interest and other income.

Income from continuing operations, net of income taxes, was \$38.4 million, or \$2.15 per diluted share, for the nine months ended June 30, 2009, compared with \$43.1 million, or \$2.21 per diluted share, for the same period in fiscal 2008. The decrease in income from continuing operations, net of income taxes, of \$4.7 million is primarily driven by the after-tax impact of a \$5.2 million decrease in operating income from continuing operations and a \$1.8 million decrease in interest and other income.

Table of Contents

Net income for the three months ended June 30, 2009 was \$15.0 million, or \$0.84 per diluted share, compared with \$11.4 million, or \$0.61 per diluted share, for the same period in fiscal 2008. The increase in net income of \$3.6 million is primarily attributable to a smaller loss from discontinued operations, net of income taxes, of \$5.9 million offset by a decrease in income from continuing operations, net of income taxes, of \$2.3 million.

Net income for the nine months ended June 30, 2009 was \$38.0 million, or \$2.13 per diluted share, compared with \$31.6 million, or \$1.62 per diluted share, for the same period in fiscal 2008. The increase in net income of \$6.4 million is primarily attributable to a smaller loss from discontinued operations, net of income taxes, of \$11.1 million offset by a decrease in income from continuing operations, net of income taxes, of \$4.7 million.

*Operations Segment*

(dollars in thousands)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2009	2008	2009
Revenue	\$ 157,917	\$ 165,522	\$ 465,706	\$ 477,486
Gross profit	41,870	41,981	119,593	123,683
Operating income	22,845	20,039	63,519	61,295
Operating margin percentage	14.5%	12.1%	13.6%	12.8%

The Operations Segment includes health services, workforce services, child support, and federal managed services and operations work.

Revenue increased 4.8%, or 8.3% on a constant currency basis, for the three months ended June 30, 2009, compared to the same period in fiscal 2008. Constant currency revenue growth was driven by strong growth in health services and federal operations. Operating income for the three months ended June 30, 2009 was \$20.0 million, compared to operating income of \$22.8 million for the same period in fiscal 2008. The decrease in operating income of \$2.8 million is primarily driven by the adverse impact of a strong United States dollar and the start of a large contract that was successfully rebid last year, partially offset by strong revenue growth and margin improvement in health services and federal operations.

Revenue increased 2.5%, or 6.5% on a constant currency basis, for the nine months ended June 30, 2009, compared to the same period in fiscal 2008. Revenue in fiscal 2008 included \$6.9 million of infrequently occurring revenue related to hardware and software for a large health project. Normalized for infrequently occurring revenue and constant currency, revenue increased 8.1% compared to the same period in fiscal 2008 driven by strong growth in health services and federal operations. Operating income for the nine months ended June 30, 2009 was \$61.3 million, compared to operating income of \$63.5 million for the same period in fiscal 2008. The decrease in operating income of \$2.2 million is primarily driven by the impact of a strong United States dollar and the start of a large contract that was successfully rebid last year, partially offset by strong revenue growth and margin improvement in health services and federal operations.

*Consulting Segment*

Edgar Filing: MAXIMUS INC - Form 10-Q

(dollars in thousands)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2009	2008	2009
Revenue	\$ 31,447	\$ 19,718	\$ 90,358	\$ 72,047
Gross profit	10,918	6,072	31,342	18,628
Operating income/(loss)	1,262	(146)	3,537	(2,083)
Operating margin percentage	4.0%	(0.7)%	3.9%	(2.9)%

Table of Contents

The Consulting Segment includes program performance services, program and systems integrity services, educational services, and enterprise resource planning (ERP) solutions.

Revenue was \$19.7 million for the three months ended June 30, 2009, compared to \$31.4 million in the same period in fiscal 2008. Lower revenue reflects our exit from federal healthcare claiming work and the wind down of several ERP projects. Operating loss for the three months ended June 30, 2009 was \$0.1 million, compared to operating income of \$1.3 million for the same period in fiscal 2008. The decrease in operating income of \$1.4 million is primarily attributable to a \$1.3 million provision related to a fixed price ERP contract and the exit from federal healthcare claiming work.

Revenue was \$72.0 million for the nine months ended June 30, 2009, compared to \$90.4 million in the same period in fiscal 2008. Revenue in fiscal 2009 included \$4.8 million of pass-through revenue related to hardware and third party costs for the five-year, \$54.9 million New York City Department of Education special education case management contract. Revenue in fiscal 2008 was adversely impacted by a \$2.3 million charge related to a legacy federal claiming project. Normalized for \$4.8 million of pass-through revenue in fiscal 2009 and the project charge in fiscal 2008, revenue declined 27.4% compared to the same period in fiscal 2008. Lower revenue reflects our exit from federal healthcare claiming work and the wind down of several ERP projects. Operating loss for the nine months ended June 30, 2009 was \$2.1 million, compared to operating income of \$3.5 million for the same period in fiscal 2008. The decrease in operating income of \$5.6 million is primarily attributable to (1) a \$5.4 million provision related to a fixed price ERP contract and (2) the exit from federal healthcare claiming work, partially offset by (3) a \$2.3 million charge related to a legacy federal claiming project in fiscal 2008.

**Interest and Other Income, Net**

(dollars in thousands)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2009	2008	2009
Interest and other income, net	\$ 490	\$ 129	\$ 2,098	\$ 258

Interest and other income was approximately \$0.1 million and \$0.5 million for the three months ended June 30, 2009 and 2008. Interest and other income was \$0.3 million for the nine months ended June 30, 2009, compared to \$2.1 million for the same period in fiscal 2008. The decrease in interest and other income of \$1.8 million is attributable to a reduction in interest income related to the \$150.0 million Accelerated Share Repurchase that was completed during the first quarter of fiscal 2008, which reduced cash balances, and lower interest rates.

Table of Contents**Discontinued Operations**

The following table summarizes the operating results of the discontinued operations included in the Condensed Consolidated Statements of Operations (in thousands):

	<b>Three Months Ended June 30,</b>		<b>Nine Months Ended June 30,</b>	
	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>
<b>Revenue</b>	\$ 18,649	\$	\$ 64,483	\$
Loss from discontinued operations	\$ (12,590)	\$ (91)	\$ (21,706)	\$ (767)
Benefit from income taxes	(4,973)	(36)	(8,564)	(303)
<b>Loss from discontinued operations</b>	<b>\$ (7,617)</b>	<b>\$ (55)</b>	<b>\$ (13,142)</b>	<b>\$ (464)</b>
Gain (loss) from discontinued operations	\$ 2,853	\$	\$ 2,853	\$ (9)
Provision for (benefit from) income taxes	1,127		1,127	(4)
<b>Gain (loss) on disposal</b>	<b>\$ 1,726</b>	<b>\$</b>	<b>\$ 1,726</b>	<b>\$ (5)</b>
<b>Loss from discontinued operations</b>	<b>\$ (5,891)</b>	<b>\$ (55)</b>	<b>\$ (11,416)</b>	<b>\$ (469)</b>

On April 30, 2008, the Company sold its Security Solutions division for cash proceeds of \$4.6 million, net of transaction costs of \$0.4 million, and recognized a pre-tax gain on the sale of \$2.9 million. The financial position, results of operations, and cash flows of this business are reported as discontinued operations and all prior periods have been reclassified to conform to the current period's presentation. The Security Solutions division was previously reported as part of the Company's Systems Segment.

On May 2, 2008, the Company sold its Unison MAXIMUS, Inc. subsidiary. The sale transaction was structured as a sale of stock to the then current management team of the subsidiary. The sale price of \$6.6 million consisted of \$0.1 million in cash, \$0.2 million in a short-term note receivable and \$6.3 million in the form of a promissory note secured by (1) a security interest in all of the assets of the former subsidiary; (2) a pledge of shares by the buyer; and (3) a personal guaranty by members of the then current management team who are shareholders of the buyer. In accordance with Topic 5-U of SEC Staff Accounting Bulletin No. 81, Gain Recognition on the Sale of a Business or Operating Assets to a Highly Leveraged Entity, the Company has deferred recognition of a pre-tax gain on the sale of \$4.0 million, and interest income on the promissory note, until realization is more fully assured. The deferred gain of \$4.0 million is reflected as a deduction from the note receivable on the consolidated balance sheet as of September 30, 2008 and June 30, 2009. The financial position, results of operations, and cash flows of this business are reported as discontinued operations and all prior periods have been reclassified to conform to the current period's presentation. Unison MAXIMUS, Inc. was previously reported as part of the Company's Consulting Segment.

On September 30, 2008, the Company sold its Justice Solutions, Education Systems, and Asset Solutions divisions, which were previously reported as part of its Systems Segment. Total consideration for the transaction was \$40.0 million, including a \$35.0 million cash payment received at closing and a \$5.0 million holdback for one year from closing, subject to a purchase price adjustment and any claims based on representations and warranties. The Company deferred recognition of the holdback and, net of transaction costs of \$2.0 million, recognized a pre-tax loss on the sale of \$12.2 million. Beginning in the fourth quarter of fiscal 2008, the Company classified the results of operations of these divisions as discontinued operations and incorporated the Enterprise Resource Planning (ERP) Solutions division into the Consulting Segment. The financial position, results of operations, and cash flows of these businesses are reported as discontinued operations and all prior periods have been reclassified to conform to the current period's presentation.



Table of Contents**Liquidity and Capital Resources***Current Economic Environment*

With the United States in a very significant recession, the current economic environment facing state and local governments is extremely challenging. Not only are they experiencing declining tax revenues, but they are also facing increasing demand for critical services from the most vulnerable members of society. At the same time, states are generally required to balance their budgets each year. Certain states may delay payments to vendors as a result of budgetary constraints or, as in the case of California, may issue IOUs payable at a future date. In prior periods, the Company has faced short-term payment delays from state customers, all of which were ultimately recovered. The Company believes its liquidity and capital positions are adequate to weather short-term payment delays. In the event of more protracted delays, the Company may be required to seek additional capital sources, amend payment terms or take other actions. Extended payment delays could adversely affect the Company's cash flows, operations and profitability.

The Federal government has passed economic stimulus legislation to address some of the pressures facing state and local governments. The Company believes that demand for its services in its core areas of health, education and human services will remain strong and that the economic stimulus package could ultimately increase demand for such services. However, any increases in demand resulting from the economic stimulus legislation will depend largely upon the timing, amount and nature of the stimulus targeted at the states as well as the timing and nature of the states' actions in response to such funding.

*Cash Flows*

(dollars in thousands)	Nine Months Ended	
	2008	June 30, 2009
Net cash provided by (used in):		
Operating activities - continuing operations	\$ 42,724	\$ 31,081
Operating activities - discontinued operations	(4,632)	(7,596)
Investing activities - continuing operations	125,232	(14,992)
Investing activities - discontinued operations	(2,259)	
Financing activities - continuing operations	(153,593)	(35,776)
Effect of exchange rate changes on cash and cash equivalents		(656)
Net increase/(decrease) in cash and cash equivalents	\$ 7,472	\$ (27,939)

Cash provided by operating activities from continuing operations for the nine months ended June 30, 2009 was \$31.1 million, compared to cash provided by operating activities from continuing operations of \$42.7 million for the same period in fiscal 2008. The decrease in cash provided by operating activities from continuing operations of \$11.6 million is primarily attributable to the after-tax impact of a \$21.2 million cash payment, net of insurance recoveries of \$18.8 million, to settle the Company's arbitration matter.

Cash used in operating activities from discontinued operations for the nine months ended June 30, 2009 was \$7.6 million, compared to cash used in operating activities from discontinued operations of \$4.6 million for the same period in fiscal 2008. The increase in cash used in operating

## Edgar Filing: MAXIMUS INC - Form 10-Q

activities from discontinued operations of \$3.0 million is attributable to the wind-down of the disposed operations.

Cash used in investing activities from continuing operations for the nine months ended June 30, 2009 was \$15.0 million, compared to cash provided by investing activities from continuing operations of \$125.2 million for the same period in fiscal 2008. The decrease in cash provided by investing activities from continuing operations of \$140.2 million is primarily attributable to (1) the sale of \$126.2 million of marketable securities during fiscal 2008 to partially finance the Company's Accelerated Share Repurchase program; (2) cash proceeds of \$5.9 million from the sale of a building during fiscal 2008 and (3) cash proceeds of \$4.6 million from the sales of discontinued operations during fiscal 2008.

Cash used in financing activities from continuing operations for the nine months ended June 30, 2009 was \$35.8 million, compared to \$153.6 million for the same period in fiscal 2008. The decrease in cash used in financing activities from continuing operations of \$117.8 million is primarily attributable to a \$120.4 million decrease in repurchases of common stock. Repurchases of common stock were \$30.0 million and \$150.4 million for the nine months ended June 30, 2009 and 2008, respectively.



Table of Contents

The adverse effect of exchange rate changes on cash and cash equivalents of \$0.7 million for the nine months ended June 30, 2009 is due to the impact of the strengthening United States dollar on cash and cash equivalents held in our foreign operations.

*Other Matters*

Under a resolution adopted in July 2008, the Board of Directors has authorized the repurchase, at management's discretion, of up to an aggregate of \$75.0 million of the Company's common stock. The resolution also authorized the use of option exercise proceeds for the repurchase of the Company's common stock. During the nine months ended June 30, 2009, the Company repurchased 927,690 common shares at a cost of \$30.0 million. At June 30, 2009, \$54.2 million remained available for future stock repurchases under the July 2008 resolution.

Our working capital at June 30, 2009 was \$163.9 million. At June 30, 2009, we had cash and cash equivalents of \$91.7 million and no debt. Management believes this liquidity and financial position, along with the revolving credit facility discussed below, provides sufficient liquidity to continue any contemplated stock repurchase program (depending on the price of the Company's common stock), to pursue selective acquisitions, and to consider the continuation of dividends on a quarterly basis. Restricted cash at June 30, 2009 was \$3.7 million. Restricted cash represents amounts collected on behalf of certain customers where its use is restricted to the purposes specified under our contracts with these customers, and amounts on deposit with foreign banks as compensating balances for certain bank guarantees.

Under the provisions of certain long-term contracts, we may incur certain reimbursable transition period costs. During the transition period, these expenditures resulted in the use of our cash. Reimbursement of these costs may occur in the set-up phase or over the contract operating period. Related revenue may also be deferred during the set-up phase. As of June 30, 2009, \$8.5 million in net costs had been incurred and reported as deferred contract costs on our consolidated balance sheet.

The Company's Revolving Credit Agreement provides for a senior secured revolving credit facility, with SunTrust Bank as administrative agent, issuing bank and swingline lender, and a syndicate of other lenders (the Credit Facility). The Credit Facility provides for a \$35.0 million revolving line of credit commitment, which may be used (i) for revolving loans, (ii) for swingline loans, subject to a sublimit of \$5.0 million, and (iii) to request the issuance of letters of credit on the Company's behalf, subject to a sublimit of \$25.0 million. The Company may request an increase in the commitment under the Credit Facility, such that the aggregate commitments under the Credit Facility shall at no time exceed \$75.0 million. The credit available under the Credit Facility may be used, among other purposes, to refinance the Company's current indebtedness, to repurchase shares of the Company's capital stock and to finance the ongoing working capital, capital expenditure, and general corporate needs of the Company. The Credit Facility matures on January 25, 2013, at which time all outstanding borrowings must be repaid and all outstanding letters of credit must have been terminated or cash collateralized. At June 30, 2009, letters of credit totaling \$10.3 million were outstanding under the Credit Facility.

Subject to applicable conditions, the Company may elect interest rates on its revolving borrowings calculated by reference to (i) the prime lending rate as announced by SunTrust Bank (or, if higher, the federal funds effective rate plus 0.50% or the one-month adjusted LIBO rate) (a Base Rate Borrowing), or (ii) the reserve adjusted rate per annum equal to the offered rate for deposits in U.S. dollars for a one (1), two (2), three (3) or six (6) month period in the London Inter-Bank Market (a LIBOR Borrowing), and, in each case, plus an applicable margin that is determined by reference to the Company's then-current leverage ratio. For swingline borrowings, the Company will pay interest at the rate of interest for a one (1) month LIBOR Borrowing, plus the applicable margin, or at a rate to be separately agreed upon by the Company and the

administrative agent.

The Credit Facility contains customary financial and other covenants that require the maintenance of certain ratios including a maximum leverage ratio and a minimum fixed charge coverage ratio. The Company was in compliance with all covenants in the Credit Facility as of June 30, 2009. The Company's obligations under the Credit Facility are guaranteed by certain of the Company's direct and indirect subsidiaries (collectively, the Guarantors) and are secured by substantially all of MAXIMUS and the Guarantors' present and future tangible and intangible assets, including the capital stock of subsidiaries and other investment property.

At September 30, 2008 and June 30, 2009, the Company had performance bond commitments totaling \$83.4 million and \$88.9 million, respectively.

Table of Contents

At June 30, 2009, we classified accounts receivable of \$1.7 million, net of a \$0.6 million discount, as long-term receivables and reported them within the other assets category on our consolidated balance sheet. These receivables had extended payment terms and collection was expected to exceed one year.

Table of Contents

On July 10, 2009, the Company's Board of Directors declared a quarterly cash dividend of \$0.12 for each share of the Company's common stock outstanding. The dividend is payable on August 31, 2009, to shareholders of record on August 14, 2009.

We believe that we will have sufficient resources to meet our currently anticipated capital expenditures and working capital requirements for at least the next twelve months.

**Critical Accounting Policies and Estimates**

Our discussion and analysis of financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenue and expenses. On an ongoing basis, we evaluate our estimates including those related to revenue recognition and cost estimation on certain contracts, the realizability of goodwill, and amounts related to income taxes, certain accrued liabilities and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from those estimates.

We believe that we do not have significant off-balance-sheet risk or exposure to liabilities that are not recorded or disclosed in our financial statements. While we have significant operating lease commitments for office space, those commitments are generally tied to the period of performance under related contracts. Additionally, although on certain contracts we are bound by performance bond commitments and standby letters of credit, we have not had any defaults resulting in draws on performance bonds. Also, we do not speculate in derivative transactions.

We believe the following critical accounting policies affect the significant judgments and estimates used in the preparation of our consolidated financial statements:

*Revenue Recognition.* In fiscal 2008, approximately 74% of our total revenue was derived from state and local government agencies; 7% from federal government agencies; 16% from foreign customers; and 3% from other sources, such as commercial customers. Revenue is generated from contracts with various pricing arrangements, including: (1) fixed-price; (2) performance-based criteria; (3) costs incurred plus a negotiated fee ( cost-plus ); and (4) time and materials. Also, some contracts contain not-to-exceed provisions. Of the contracts with not-to-exceed provisions, to the extent we estimate we will exceed the contractual limits; we treat these contracts as fixed price. For fiscal 2008, revenue from fixed-price contracts was approximately 33% of total revenue; revenue from performance-based contracts was approximately 36% of total revenue; revenue from cost-plus contracts was approximately 28% of total revenue; and revenue from time and materials contracts was approximately 3% of total revenue. A majority of the contracts with state and local government agencies have been fixed-price and performance-based, and our contracts with the federal government generally have been cost-plus. Fixed-price and performance-based contracts generally offer higher margins but typically involve more risk than cost-plus or time and materials reimbursement contracts.

We recognize revenue on general service arrangements as work is performed and amounts are earned in accordance with the Staff Accounting Bulletin ( SAB ) No. 101, Revenue Recognition in Financial Statements, as amended by SAB No. 104, Revenue Recognition ( SAB 104 ). We consider amounts to be earned once evidence of an arrangement has been obtained, services are delivered, fees are fixed or determinable, and collectibility is reasonably assured.

We recognize revenue on fixed-priced contracts when earned, as services are provided. For certain fixed-price contracts, primarily systems design, development and implementation, we recognize revenue based on costs incurred using estimates of total expected contract revenue and costs to be incurred in accordance with the provisions of AICPA Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* ( SOP 81-1 ). The cumulative impact of any revisions in estimated revenue and costs is recognized in the period in which the facts that give rise to the revision become known. For other fixed-price contracts, revenue is recognized on a straight-line basis unless evidence suggests that revenue is earned or obligations are fulfilled in a different pattern. With fixed-price contracts, we are subject to the risk of potential cost overruns.

Table of Contents

For fixed-price contracts accounted for under SOP 81-1, provisions for estimated losses on incomplete contracts are provided in full in the period in which such losses become known. Costs related to contracts may be incurred in periods prior to recognizing revenue. These costs are generally expensed. However, certain direct and incremental set-up costs may be deferred until services are provided and revenue begins to be recognized, when such costs are recoverable from a contractual arrangement. Set-up costs are costs related to activities that enable us to provide contractual services to a client. The timing of expense recognition may result in irregular profit margins.

We recognize revenue on performance-based contracts as such revenue becomes fixed or determinable, which generally occurs when amounts are billable to customers. For certain contracts, this may result in revenue being recognized in irregular increments.

Revenue on cost-plus contracts is recognized based on costs incurred plus an estimate of the negotiated fee earned. Revenue on time and materials contracts is recognized based on hours worked and expenses incurred.

Our most significant expense is cost of revenue, which consists primarily of project-related costs such as employee salaries and benefits, subcontractors, computer equipment and travel expenses. Our management uses its judgment and experience to estimate cost of revenue expected on projects. Our management's ability to accurately predict personnel requirements, salaries and other costs as well as to effectively manage a project or achieve certain levels of performance can have a significant impact on the gross margins related to our fixed-price, performance-based and time and materials contracts. If actual costs are higher than our management's estimates, profitability may be adversely affected. Service cost variability has little impact on cost-plus arrangements because allowable costs are reimbursed by the customer.

We also license software under license agreements. Software revenue is recognized in accordance with AICPA Statement of Position 97-2, *Software Revenue Recognition* ( SOP 97-2 ), as amended by Statement of Position 98-9, *Modification of SOP 97-2, With Respect to Certain Transactions* ( SOP 98-9 ). Software license revenue is recognized when a customer enters into a non-cancelable license agreement, the software product has been delivered, there are no uncertainties surrounding product acceptance, there are no significant future performance obligations, the license fees are fixed or determinable and collection of the license fee is considered probable. Amounts received in advance of meeting these criteria are deferred and classified as deferred revenue in the accompanying consolidated balance sheets. As required by SOP 98-9, the Company determines the value of the software component of its multiple-element arrangements using the residual method as vendor specific objective evidence ( VSOE ) of fair value exists for the undelivered elements such as the support and maintenance agreements and related implementation and training services, but not for all delivered elements such as the software itself. The residual method requires revenue to be allocated to the undelivered elements based on the fair value of such elements, as indicated by VSOE. VSOE is based on the price charged when the element is sold separately. Maintenance and post-contract customer support revenue are recognized ratably over the term of the related agreements, which in most cases is one year. Revenue from software-related consulting services under time and material contracts and for training is recognized as services are performed. Revenue from other software-related contract services requiring significant modification or customization of software is recognized under the percentage-of-completion method.

Emerging Issues Task Force Issue No. 00-21 ( EITF 00-21 ), *Revenue Arrangements with Multiple Deliverables*, requires contracts with multiple deliverables to be divided into separate units of accounting if certain criteria are met. We apply the guidance therein and recognize revenue on multiple deliverables as separate units of accounting if the criteria are met.

*Impairment of Goodwill.* **We adhere to the Financial Accounting Standards Board's Statements of Financial Accounting Standards No. 141, *Business Combinations* ( FAS 141 ), and No. 142, *Goodwill and Other Intangible Assets* ( FAS 142 ). Under these rules, goodwill is not amortized but is subject to annual impairment tests in accordance with FAS 141 and FAS 142. Goodwill is tested on an annual basis, or more frequently as impairment indicators arise. Annual impairment tests involve the use of estimates related to the fair market values of our reporting units with which goodwill is associated. Losses, if any, resulting from annual impairment tests will be reflected in operating income in our income statement.**





Table of Contents

*Capitalized Software Development Costs.* The Company capitalizes software development costs in accordance with AICPA Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* ( SOP 98-1 ) which are reported in continuing operations. Direct costs of time and material incurred for the development of application software for internal use are capitalized and amortized using the straight-line method over the estimated useful life of the software, ranging from three to seven years. We review capitalized software development costs for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Our review is based on our projection of the undiscounted future operating cash flows of the related customer projects. To the extent such projections indicate that future undiscounted cash flows are not sufficient to recover the carrying amount, we recognize a non-cash impairment charge to reduce the carrying amount to equal projected future discounted cash flows.

Software development costs are also capitalized in accordance with FAS No. 86, *Accounting for the Cost of Computer Software to be Sold, Leased, or Otherwise Marketed* and are reported in discontinued operations. We capitalize both purchased software that is ready for resale and costs incurred internally for software development projects from the time technological feasibility is established. Capitalized software development costs are reported at the lower of unamortized cost or estimated net realizable value. Upon the general release of the software to customers, capitalized software development costs for the products are amortized over the greater of the ratio of gross revenues to expected total revenues of the product or on the straight-line method of amortization over the estimated economic life of the product, which ranges from three to five years. The establishment of technological feasibility and the ongoing assessment for recoverability of capitalized development costs require considerable judgment by management including, but not limited to, technological feasibility, anticipated future gross revenues, estimated economic life, and changes in software and hardware technologies. Any changes to these estimates could impact the amount of amortization expense and the amount recognized as capitalized software development costs in the consolidated balance sheet.

*Allowance for Doubtful Accounts.* We maintain an allowance for doubtful accounts at an amount we estimate to be sufficient to cover the risk of collecting less than full payment on our receivables. On a regular basis we re-evaluate our client receivables, especially receivables that are past due, and reassess our allowance for doubtful accounts based on specific client collection issues. If our clients were to express dissatisfaction with the services we have provided, additional allowances may be required.

*Deferred Contract Costs.* Deferred contract costs consist of contractually recoverable direct set-up costs relating to long-term service contracts in progress. These costs include direct and incremental costs incurred prior to the commencement of us providing service to enable us to provide the contracted services to our customer. Such costs are expensed over the period services are provided under the long-term service contract. We review deferred contract costs for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Our review is based on our projection of the undiscounted future operating cash flows of the related customer project. To the extent such projections indicate that future undiscounted cash flows are not sufficient to recover the carrying amount, we recognize a non-cash impairment charge to reduce the carrying amount to equal projected future discounted cash flows.

*Contingencies.* From time to time, we are involved in legal proceedings, including contract and employment claims, in the ordinary course of business. We assess the likelihood of any adverse judgments or outcomes to these contingencies as well as potential ranges of probable losses and establish reserves accordingly. The amount of reserves required may change in future periods due to new developments in each matter or changes in approach to a matter such as a change in settlement strategy.

*Legal and Settlement Expense.* Legal and settlement expense consists of costs, net of reimbursed insurance claims, related to significant legal settlements and non-routine legal matters, including future probable legal costs estimated to be incurred in connection with those matters. Legal expenses incurred in the ordinary course of business are included in selling, general and administrative expense.

*Stock-Based Compensation.* Effective October 1, 2005, the Company adopted the provisions of SFAS No. 123(R), *Share-Based Payment*, using the modified-prospective-transition method.

*Income taxes.* To record income tax expense, we are required to estimate our income taxes in each of the jurisdictions in which we operate. In addition, income tax expense at interim reporting dates requires us to estimate our expected effective tax rate for the entire year. This process involves estimating our actual current tax liability together with assessing temporary differences that result in deferred tax assets and liabilities and expected future tax rates. Circumstances that could cause our estimates of income tax expense to change include: the impact of information that subsequently becomes available as we prepare our tax returns; revision to tax positions taken as a result of further analysis and consultation; changes in the geographic mix of our business; the actual level of pre-tax income; changes in tax rules, regulations and rates; and changes mandated as a result of audits by taxing authorities.

Table of Contents

We may also establish tax reserves when, despite our belief that our tax return positions are fully supportable, we believe that certain positions are subject to challenge and that we may not fully succeed. We adjust these reserves in light of changing facts, such as the progress of a tax audit, new case law, or expiration of a statute of limitations.

The Company applies the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109, (FIN 48). FIN 48 clarifies the accounting for uncertainty in income tax positions. FIN 48 provides that the financial statement effects of an income tax position can only be recognized when, based on the technical merits, it is more-likely-than-not that the position will be sustained upon examination.

Table of Contents

**Item 3.** Quantitative and Qualitative Disclosures about Market Risk.



## Edgar Filing: MAXIMUS INC - Form 10-Q

We believe that our exposure to market risk related to the effect of changes in interest rates, foreign currency exchange rates, commodity prices and other market risks with regard to instruments entered into for trading or for other purposes is immaterial.

### **Item 4.** Controls and Procedures.



(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act )) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer concluded that these disclosure controls and procedures were effective and designed to ensure that the information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the requisite time periods.

(b) Changes in Internal Control over Financial Reporting

During the third quarter of fiscal 2009, the Company completed the initial installment of a phased implementation of an enterprise resource planning ( ERP ) system, transferring the core financials for certain divisions of the Company to the new ERP system. We have updated the Company s internal controls over financial reporting as necessary to accommodate modifications to business processes or accounting procedures. However, the internal control design remained substantially unchanged for the initial implementation. Further phases of implementation are planned for fiscal 2010 and the Company will continue to monitor and test these changes as part of management s annual evaluation of internal control over financial reporting.

Other than the matter noted above, there was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation of our internal control that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**





**ITEM 1.     *Legal Proceedings.***

The Company is involved in various legal proceedings, including contract and employment claims, in the ordinary course of its business. The matters reported on below involve significant pending or potential claims against us.

(a) In December 2008, MAXIMUS, Accenture LLP and the Texas Health and Human Services Commission ( HHSC ) entered into an agreement settling all claims among the parties arising from a prime contract between Accenture and HHSC for integrated eligibility services and a subcontract between MAXIMUS and Accenture in support of the prime contract. In connection with that settlement, MAXIMUS paid a total of \$40.0 million and agreed to provide services to HHSC valued at an additional \$10.0 million. The Company's primary insurance carrier previously paid \$12.5 million of the amount due from MAXIMUS. In May 2009, the Company recovered an additional \$6.3 million from one of its excess insurance carriers. The Company continues to pursue additional insurance recoveries from its excess insurance carriers; however, such recoveries are not assured.

(b) In November 2007, MAXIMUS was sued by the State of Connecticut in the Superior Court in the Judicial District of Hartford. MAXIMUS had entered into a contract in 2003 with the Connecticut Department of Information Technology to update the State's criminal justice information system. The State claims that MAXIMUS breached its contract and also alleges negligence and breach of the implied warranty of fitness for a particular purpose. MAXIMUS has sued its primary subcontractor on the effort (ATS Corporation) which abandoned the project before completing its obligations.

Table of Contents

Although the State did not specify damages in its complaint, it demanded payment of alleged damages of approximately \$6.2 million in a letter sent to the Company in September 2007. The Company denies that it has breached its contract with the State. The Company cannot predict the outcome of the legal proceedings or any settlement negotiations or the impact they may have on the Company's operating results or financial condition.

(c) In March 2009, a state Medicaid agency asserted a claim against MAXIMUS in the amount of \$2.3 million in connection with a contract MAXIMUS had through February 1, 2009 to provide Medicaid administrative claiming services to school districts in the state. MAXIMUS entered into separate agreements with the school districts under which MAXIMUS helped the districts prepare and submit claims to the state Medicaid agency which, in turn, submitted claims for reimbursement to the Federal government. MAXIMUS is currently in discussions with the state about the claim, and no legal action has been initiated. The state has asserted that its agreement with MAXIMUS requires the Company to reimburse the state for the amounts owed to the Federal government. However, the Company's agreements with the school districts require them to reimburse MAXIMUS for such payments and therefore MAXIMUS believes the school districts are responsible for any amounts disallowed by the state Medicaid agency or the Federal government. Accordingly, the Company believes its exposure in this matter is limited to its fees associated with this work and that the school districts will be responsible for the remainder. During the second quarter of fiscal 2009, MAXIMUS recorded a \$0.7 million reduction of revenue reflecting the fees it earned under the contract in the accompanying condensed consolidated statements of operations. No additional charges were recorded in the three month period ended June 30, 2009. MAXIMUS has exited the Federal healthcare claiming business and no longer provides the services at issue in this matter.

(d) In July 2009 the District of Columbia ( District ) initiated a civil action against MAXIMUS in the Superior Court of the District of Columbia, Civil Division. The District has alleged violations of the District's False Claims Act ( Act ), fraud and unjust enrichment arising from the Company's preparation and submission of federal Medicaid reimbursement claims on behalf of the District. The District seeks treble its actual damages plus a penalty of \$10,000 per claim as provided under the Act. MAXIMUS previously settled a Federal investigation and related whistleblower lawsuit concerning these same activities in 2007. In connection with that settlement, MAXIMUS entered into a two-year Deferred Prosecution Agreement ( DPA ), a five-year Corporate Integrity Agreement ( CIA ) and paid a settlement of \$30.5 million. The DPA has since expired by its terms and the CIA has been suspended in light of the Company's exit from the Federal health care claiming business. The District was, in fact, a named party in the prior whistleblower lawsuit that was dismissed with prejudice, and MAXIMUS believes that the District's claims should be barred. The Company believes the District's claims are without merit and intends to defend this action vigorously. Nevertheless, we cannot predict the outcome of the legal proceedings or the impact they may have on the Company's operating results or financial condition.

Table of Contents

**Item 1A.** Risk Factors.



## Edgar Filing: MAXIMUS INC - Form 10-Q

In connection with information set forth in this Form 10-Q, the factors discussed under "Risk Factors" in our Form 10-K for fiscal year ended September 30, 2008 should be considered. The risks included in the Form 10-K could materially and adversely affect our business, financial condition and results of operations. There have been no material changes to the factors discussed in our Form 10-K.

### Item 6. Exhibits.

The Exhibits filed as part of this Quarterly Report on Form 10-Q are listed on the Exhibit Index immediately following the Signatures. The Exhibit Index is incorporated herein by reference.

Table of Contents

**SIGNATURES**





Edgar Filing: MAXIMUS INC - Form 10-Q

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MAXIMUS, INC.

Date: August 6, 2009

By:

/s/ David N. Walker  
David N. Walker  
Chief Financial Officer  
(On behalf of the registrant and as Principal Financial  
and Accounting Officer)

Table of Contents

**EXHIBIT INDEX**

Edgar Filing: MAXIMUS INC - Form 10-Q

<b>Exhibit No.</b>	<b>Description</b>
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Section 906 Principal Executive Officer Certification.
32.2	Section 906 Principal Financial Officer Certification.