

MAXIMUS INC  
Form 10-Q  
February 08, 2013  
[Table of Contents](#)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

**For the quarterly period ended December 31, 2012**

**Commission File Number: 1-12997**

**MAXIMUS, INC.**

(Exact name of registrant as specified in its charter)

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

**1891 Metro Center Drive  
Reston, Virginia**  
(Address of principal executive offices)

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

**20190**  
(Zip Code)

**(703) 251-8500**

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(Registrant's telephone number, including area code)

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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

Accelerated filer

Non-accelerated filer   
(Do not check if smaller reporting company)

Smaller reporting company

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 January 31, 2013, there were 34,086,283 shares of the registrant's common stock (no par value) outstanding.

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Table of Contents

MAXIMUS, Inc.

Quarterly Report on Form 10-Q  
For the Quarter Ended December 31, 2012

INDEX

**PART I. FINANCIAL INFORMATION**

<u>Item 1.</u>	<u>Consolidated Financial Statements</u>	3
	<u>Consolidated Statements of Operations for the Three Months Ended December 31, 2012 and 2011 (unaudited)</u>	3
	<u>Consolidated Statement of Comprehensive Income for the Three Months Ended December 31, 2012 and 2011 (unaudited)</u>	4
	<u>Consolidated Balance Sheets as of December 31, 2012 (unaudited) and September 30, 2012</u>	5
	<u>Consolidated Statements of Cash Flows for the Three Months Ended December 31, 2012 and 2011 (unaudited)</u>	6
	<u>Notes to Unaudited Consolidated Financial Statements</u>	7
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	17
<u>Item 4.</u>	<u>Controls and Procedures</u>	17

**PART II. OTHER INFORMATION**

<u>Item 1.</u>	<u>Legal Proceedings</u>	18
<u>Item 1A.</u>	<u>Risk Factors</u>	18
<u>Item 2</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	19
<u>Item 6.</u>	<u>Exhibits</u>	19
<u>Signatures</u>		20
<u>Exhibit Index</u>		21

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



Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements.****MAXIMUS, Inc.****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share data)****(Unaudited)**

	<b>Three Months Ended December 31,</b>			
	<b>2012</b>		<b>2011</b>	
Revenue	\$	286,266	\$	239,603
Cost of revenue		209,736		179,756
Gross profit		76,530		59,847
Selling, general and administrative expenses		42,222		32,756
Acquisition-related expenses		148		
Legal and settlement expense		142		186
Operating income from continuing operations		34,018		26,905
Interest and other income, net		1,106		1,104
Income from continuing operations before income taxes		35,124		28,009
Provision for income taxes		13,341		10,351
Income from continuing operations		21,783		17,658
Discontinued operations, net of income taxes:				
Loss from discontinued operations		(503)		
Gain on disposal		36		46
Income (loss) from discontinued operations		(467)		46
Net income	\$	21,316	\$	17,704
Basic earnings (loss) per share:				
Income from continuing operations	\$	0.64	\$	0.52
Income (loss) from discontinued operations		(0.01)		0.01
Basic earnings per share	\$	0.63	\$	0.53
Diluted earnings (loss) per share:				
Income from continuing operations	\$	0.62	\$	0.51
Income (loss) from discontinued operations		(0.01)		
Diluted earnings per share	\$	0.61	\$	0.51
Dividends paid per share	\$	0.09	\$	0.09
Weighted average shares outstanding:				
Basic		34,081		33,663
Diluted		34,876		34,557

*See notes to unaudited consolidated financial statements.*

Table of Contents

**MAXIMUS, Inc.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(Dollars in thousands)**

**(Unaudited)**

	<b>Three Months Ended December 31,</b>			
	<b>2012</b>		<b>2011</b>	
Net income	\$	21,316	\$	17,704
Foreign currency translation adjustments		(603)		4,231
Comprehensive income	\$	20,713	\$	21,935

*See notes to unaudited consolidated financial statements.*

Table of Contents

## MAXIMUS, Inc.

## CONSOLIDATED BALANCE SHEETS

(In thousands)

	December 31, 2012 (unaudited)	September 30, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 167,138	\$ 189,312
Restricted cash	12,106	11,593
Accounts receivable billed, net of reserves of \$4,114 and \$3,975	198,939	172,705
Accounts receivable unbilled	11,387	10,539
Prepaid income taxes	4,711	3,800
Deferred income taxes	21,779	22,207
Prepaid expenses and other current assets	38,171	38,528
Total current assets	454,231	448,684
Property and equipment, net	58,284	58,798
Capitalized software, net	29,304	27,390
Goodwill	112,021	112,032
Intangible assets, net	24,129	25,330
Deferred contract costs, net	14,619	9,284
Deferred income taxes	833	1,369
Deferred compensation plan assets	9,373	9,220
Other assets, net	3,111	3,186
Total assets	\$ 705,905	\$ 695,293
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 82,826	\$ 73,128
Accrued compensation and benefits	41,707	56,105
Deferred revenue	62,401	60,026
Current portion of long-term debt	176	178
Income taxes payable	1,785	3,100
Other accrued liabilities	6,819	6,599
Total current liabilities	195,714	199,136
Deferred revenue, less current portion	23,619	19,550
Long-term debt	1,494	1,558
Acquisition-related contingent consideration	401	406
Income taxes payable, less current portion	1,436	1,412
Deferred income taxes	8,323	10,384
Deferred compensation plan liabilities, less current portion	13,212	11,741
Total liabilities	244,199	244,187
Shareholders' equity:		
Common stock, no par value; 60,000 shares authorized; 56,866 and 56,516 shares issued and 34,086 and 33,985 shares outstanding at December 31, 2012 and September 30, 2012, at stated amount, respectively	403,706	395,967
Treasury stock, at cost; 22,780 and 22,531 shares at December 31, 2012 and September 30, 2012, respectively	(444,282)	(429,646)
Accumulated other comprehensive income	19,637	20,240



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Retained earnings		482,645		464,545
Total shareholders' equity		461,706		451,106
Total liabilities and shareholders' equity	\$	705,905	\$	695,293

*See notes to unaudited consolidated financial statements.*

Table of Contents

## MAXIMUS, Inc.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Three Months Ended December 31,	
	2012	2011
<b>Cash flows from operating activities:</b>		
Net income	\$ 21,316	\$ 17,704
Adjustments to reconcile net income to net cash provided by operating activities:		
(Income) loss from discontinued operations	467	(46)
Depreciation and amortization	9,975	6,111
Deferred income taxes	(611)	(2,424)
Non-cash equity based compensation	3,475	2,797
Change in assets and liabilities:		
Accounts receivable billed	(26,380)	(2,473)
Accounts receivable unbilled	(845)	(418)
Prepaid expenses and other current assets	72	(1,621)
Deferred contract costs	(5,345)	790
Accounts payable and accrued liabilities	10,526	7,770
Accrued compensation and benefits	(7,694)	(10,553)
Deferred revenue	6,463	7,629
Income taxes	(2,233)	4,978
Other assets and liabilities	933	(2,688)
Cash provided by operating activities continuing operations	10,119	27,556
Cash used in operating activities discontinued operations	(493)	
Cash provided by operating activities	9,626	27,556
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(7,087)	(2,554)
Capitalized software costs	(3,464)	(720)
Proceeds from note receivable	60	148
Proceeds from sale of discontinued operations		2,240
Cash used in investing activities	(10,491)	(886)
<b>Cash flows from financing activities:</b>		
Repurchases of common stock	(15,403)	(9,749)
Employee tax withholding on restricted stock unit vesting	(6,677)	(3,088)
Tax benefit due to option exercises and restricted stock units vesting	2,365	1,740
Cash dividends paid	(3,064)	(3,023)
Stock option exercises	1,752	2,816
Repayment of long-term debt	(44)	
Cash used in financing activities	(21,071)	(11,304)
Effect of exchange rate changes on cash and cash equivalents	(238)	2,732
Net increase/(decrease) in cash and cash equivalents	(22,174)	18,098

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Cash and cash equivalents, beginning of period	189,312	172,950
Cash and cash equivalents, end of period	\$ 167,138	\$ 191,048

*See notes to unaudited consolidated financial statements.*

Table of Contents

**MAXIMUS, Inc.**

**Notes to Unaudited Consolidated Financial Statements**

**For the Three Months Ended December 31, 2012 and 2011**

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

**1. Organization and Basis of Presentation**

*General*

The accompanying unaudited 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 months ended December 31, 2012 are not necessarily indicative of the results that may be expected for the full fiscal year. The balance sheet at September 30, 2012 has been derived from the audited financial statements at that date but does not include all of the information and notes required by generally accepted accounting principles for complete financial statements.

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.

These financial statements should be read in conjunction with the consolidated audited financial statements and the notes thereto at September 30, 2012 and 2011 and for each of the three years ended September 30, 2012, included in the Company's Annual Report on Form 10-K for the year ended September 30, 2012 filed with the Securities and Exchange Commission on November 16, 2012.

Certain financial results have been reclassified to conform with the current period presentation.

Table of Contents**2. Segment Information**

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

	2012		Three Months Ended December 31, 2011		% (1)	
<b>Revenue:</b>						
Health Services	\$	175,998	100%	\$	158,043	100%
Human Services		110,268	100%		81,560	100%
Total		286,266	100%		239,603	100%
<b>Gross profit:</b>						
Health Services		45,259	25.7%		35,999	22.8%
Human Services		31,271	28.4%		23,848	29.2%
Total		76,530	26.7%		59,847	25.0%
<b>Selling, general, and administrative expense:</b>						
Health Services		24,633	14.0%		19,216	12.2%
Human Services		17,589	16.0%		13,540	16.6%
Total		42,222	14.7%		32,756	13.7%
<b>Operating income from continuing operations:</b>						
Health Services		20,626	11.7%		16,783	10.6%
Human Services		13,682	12.4%		10,308	12.6%
Subtotal: Segment operating income		34,308	12.0%		27,091	11.3%
Acquisition-related expenses		148	NM			NM
Legal and settlement expense		142	NM		186	NM
Total	\$	34,018	11.9%	\$	26,905	11.2%

(1) % of respective segment revenue. Changes not considered meaningful are marked "NM".

**3. Earnings Per Share**

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

	2012		Three Months Ended December 31, 2011	
<b>Numerator:</b>				
Income from continuing operations	\$	21,783	\$	17,658
Income (loss) from discontinued operations		(467)		46
Net income	\$	21,316	\$	17,704

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Denominator:

Basic weighted average shares outstanding	34,081	33,663
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Effect of dilutive securities:

Employee stock options and unvested restricted stock units	795	894
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Denominator for diluted earnings per share	34,876	34,557
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No shares were excluded from the computation in calculating the earnings per share for the three months ended December 31, 2012 or 2011.

Table of Contents**4. PSI acquisition**

On April 30, 2012 (the acquisition date), the Company acquired 100% of the share capital of PSI Services Holding, Inc. and its wholly-owned subsidiary, Policy Studies, Inc. (PSI). The final cash consideration of \$63.4 million was agreed in the period ended December 31, 2012.

PSI supports clients in the administration of a number of health and human services programs exclusively within the United States. MAXIMUS acquired PSI, among other reasons, to strengthen its leadership in the administration of public health and human services programs. The acquired assets and business have been integrated into the Company's Health Services and Human Services segments.

The assets and liabilities of PSI are recorded in the Company's financial statements at their fair values as of the date of the acquisition. An initial valuation was performed at September 30, 2012 and this valuation has been updated through December 31, 2012 (below, in thousands):

	Purchase Price Allocation		
	Updated through September 30, 2012	Adjustments	Updated through December 31, 2012
Accounts receivable and unbilled receivables	\$ 23,017	\$	\$ 23,017
Other current assets	9,527		9,527
Deferred income taxes	1,931	198	2,129
Property and equipment	6,411		6,411
Other assets	1,332		1,332
Intangible assets	22,183		22,183
Total identifiable assets acquired	64,401	198	64,599
Accounts payable and other liabilities	20,666		20,666
Deferred revenue	19,696	79	19,775
Total liabilities assumed	40,362	79	40,441
Net identifiable assets acquired	24,039	119	24,158
Goodwill	39,161	129	39,290
Net assets acquired	\$ 63,200	\$ 248	\$ 63,448

The Company has completed its evaluation of the valuation of the assets and liabilities acquired. The identifiable assets acquired and liabilities assumed were recognized and measured as of the acquisition date based upon their estimated fair values. The excess of the acquisition date fair value of consideration over the estimated fair value of the net assets acquired was recorded as goodwill and allocated to the Company's two segments, Health Services and Human Services, based upon the respective valuations of the businesses. The Company considers the goodwill to represent a number of potential strategic and financial benefits that are expected to be realized as a result of the acquisition, including, but not limited to bringing new capabilities to MAXIMUS and the assembled workforce. Goodwill is not expected to be deductible for tax purposes.

Included in the purchase price allocation are deferred taxes related to a net operating loss carryforward of \$10.5 million.

**5. Goodwill and Intangible Assets**

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The changes in goodwill for the three months ended December 31, 2012 are as follows (in thousands):

	<b>Health Services</b>		<b>Human Services</b>		<b>Total</b>
Balance as of September 30, 2012	\$	63,517	\$	48,515	\$ 112,032
Changes to allocation of PSI purchase price		65		64	129
Foreign currency translation		(105)		(35)	(140)
Balance as of December 31, 2012	\$	63,477	\$	48,544	\$ 112,021



Table of Contents

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

	As of December 31, 2012			As of September 30, 2012		
	Cost	Accumulated Amortization	Intangible Assets, net	Cost	Accumulated Amortization	Intangible Assets, net
Technology-based intangible assets	\$ 9,062	\$ 5,169	\$ 3,893	\$ 9,114	\$ 4,909	\$ 4,205
Customer contracts and relationships	20,136	3,720	16,416	20,167	3,082	17,085
Trademark	4,442	692	3,750	4,450	497	3,953
Non-compete arrangements	251	181	70	254	167	87
Total	\$ 33,891	\$ 9,762	\$ 24,129	\$ 33,985	\$ 8,655	\$ 25,330

The Company's intangible assets have a weighted average remaining life of 6.1 years, comprising 4.6 years for technology-based intangible assets, 6.9 years for customer contracts and relationships, 4.7 years for the trademark, and 1.1 years for non-compete arrangements. Amortization expense for the three months ended December 31, 2012 and 2011 was \$1.1 million and \$0.3 million, respectively. Future amortization expense is estimated as follows (in thousands):

Nine months ended September 30, 2013	\$ 3,427
Year ended September 30, 2014	3,963
Year ended September 30, 2015	3,887
Year ended September 30, 2016	3,830
Year ended September 30, 2017	3,431
Year ended September 30, 2018	2,728
Thereafter	2,863
Total	\$ 24,129

## 6. Credit facilities

On January 25, 2008, the Company entered into a Revolving Credit Agreement providing for a senior secured revolving credit facility, with SunTrust Bank as administrative agent, issuing bank and swingline lender (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 credit available under the Credit Facility may be used, among other purposes, 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.

At December 31, 2012, the Credit Facility had issued five letters of credit totaling \$15.5 million on behalf of the Company. Three letters of credit totaling \$15.2 million may be called by customers in the event that the Company defaults under the terms of a contract, the probability of which we believe is remote. Two letters of credit totaling \$0.3 million have been issued in relation to the Company's insurance policies. These letters of credit are typically held over the life of the arrangement to which they related. At December 31, 2012, the Company has capacity to borrow, subject to covenant constraints, of up to \$19.5 million under this agreement. In addition, two letters of credit for \$3.0 million have been issued on behalf of the Company by another financial institution.

The Credit Facility matures on February 28, 2013, at which time all outstanding borrowings must be repaid and all outstanding letters of credit must be terminated or cash collateralized.

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.

In addition to this credit facility, the Company has a loan agreement with the Atlantic Innovation Fund of Canada. This provides for a loan of up to 1.8 million Canadian Dollars, which must be used for specific technology-based research and development. The loan has no interest charge. This balance is repayable in 38 remaining quarterly installments. At December 31, 2012, \$1.7 million (1.7 million Canadian Dollars) were outstanding under this agreement.

Certain contracts require us to provide a surety bond as a guarantee of performance. At December 31, 2012 and September 30, 2011, the Company had performance bond commitments totaling \$50.4 million and \$48.0 million, respectively. These bonds are typically renewed annually and remain in place until the contractual obligations have been satisfied. Although the triggering events vary from contract to contract, in general, we would only be liable for the amount of these guarantees in the event of default in our performance of our obligations under each contract, the probability of which we believe is remote.

Table of Contents

**7. Commitments and Contingencies**

*Litigation*

The Company is involved in various legal proceedings, including the matters described below, in the ordinary course of its business.

In March 2009, a state Medicaid agency asserted a claim against MAXIMUS, related to a discontinued business line, 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. 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. MAXIMUS has exited the federal healthcare claiming business and no longer provides the services at issue in this matter.

In 2008 MAXIMUS sold the SchoolMAX student information system business line as part of the divestiture of the MAXIMUS Education Systems division. In 2011, a school district ( District ) which was a SchoolMAX client initiated the dispute resolution process under their contract. The District raised a number of issues pertaining to services and products delivered under the contract. In April 2012, the District filed a formal arbitration notice alleging that MAXIMUS and the buyer failed to (i) use best practices in developing the software and (ii) deliver and test product releases as required by the contract. The District contended that those failures resulted in damages of at least \$10 million. In December 2012, the arbitration panel denied the District's claims in their entirety. Costs related to the arbitration proceeding have been included in the current period as discontinued operations. The District has filed a motion to vacate the decision of the arbitration panel. In late 2012, the District asserted that MAXIMUS had defrauded the District in 2007 or 2008 by misrepresenting its intentions regarding the sale of the Education Systems division. That allegation was not part of the arbitration, and no formal claim or lawsuit has been filed. The company believes it has a number of defenses to that allegation and would contest it vigorously if it were asserted.

*Flexible New Deal contract liabilities and contingent gains*

In August 2009, the Company commenced work for the United Kingdom government as a provider of services under the Flexible New Deal, a welfare-to-work initiative. The work was performed in the Company's Human Services Segment. This initiative was terminated for all contract providers during the 2011 fiscal year and replaced with the Work Programme, under which MAXIMUS also performs services. As part of the Flexible New Deal contract, MAXIMUS was entitled to reimbursement for costs incurred as a consequence of early termination, as well as a contract settlement for payments the Company would have received for realizing certain long-term goals under the contract. During the three month period ended December 31, 2011, the Company received a one-time settlement payment of \$2.7 million for revenue foregone and \$1.7 million of cost recoveries, net of subcontractor expenses.

*Acquired loss-making contract*

During the fiscal year 2012, the Company identified a systems-integration contract acquired with PSI that was anticipated to record significant future losses. This obligation was treated as deferred revenue and disclosed in Note 5 of our financial statements for the year ended September 30, 2012. During December 2012, we were informed that our client may choose to terminate the contract for convenience which may result in a one-time, non-cash gain. At this time, no formal termination notice has been issued and no settlement agreement has been entered into. Accordingly, the Company is unable to estimate the benefit it may receive, if any, and continues to record the fair value of the obligation at acquisition, adjusted for subsequent transactions.

#### **8. Stock Repurchase Programs**

Under a resolution adopted in November 2011, the Board of Directors authorized the repurchase, at management's discretion, of up to an aggregate of \$125.0 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 three months ended December 31, 2012, the Company repurchased 249,549 common shares at a cost of \$14.6 million. The amount available for future repurchases was \$114.6 million at December 31, 2012.

During the three month period ended December 31, 2011, the Company repurchased 236,700 common shares at a cost of \$8.8 million. These purchases were authorized by a share repurchase plan previously adopted by the Board of Directors and replaced by the plan adopted in November 2011.

Table of Contents

**9. Recent accounting pronouncements**

In 2011, the FASB issued new accounting guidance that simplifies goodwill impairment tests. The new guidance states that a qualitative assessment may be performed to determine whether further impairment testing is necessary. We will adopt this accounting standard upon its effective date, which for us will be this current fiscal year. We do not anticipate that this adoption will have a significant impact on our financial position or results of operations.

**10. Subsequent Events**

*Dividend*

On January 4, 2013, the Company's Board of Directors declared a quarterly cash dividend of \$0.09 for each share of the Company's common stock outstanding. The dividend is payable on February 28, 2013, to shareholders of record on February 15, 2013.

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

*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, 2012, filed with the Securities and Exchange Commission on November 16, 2012.*

**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, 2012 and incorporated herein by reference.

**Business Overview**

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We provide business process outsourcing services to government health and human services agencies under our mission of *Helping Government Serve the People*.<sup>®</sup> Our business is focused almost exclusively on administering government-sponsored programs such as Medicaid, the Children's Health Insurance Program (CHIP), health care reform, welfare-to-work, Medicare, child support enforcement and other government programs. Founded in 1975, we are one of the largest pure-play health and human services administrative providers to governments in the United States, Australia, Canada, the United Kingdom and Saudi Arabia. We use our expertise, experience and advanced technological solutions to help government agencies run efficient, cost-effective programs and to improve program accountability, while enhancing the quality of services provided to program beneficiaries.

The Company is managed through two segments, Health Services and Human Services. The Health Services Segment provides a variety of business process outsourcing and administrative support services, as well as consulting services for state, provincial and federal programs, such as Medicaid, CHIP, Medicare, and the British Columbia Health Insurance Program. The Human Services Segment includes a variety of business process outsourcing, case management, job training, and support services for programs such as welfare-to-work, child support enforcement, K-12 special education, and other specialized consulting services.

### **Industry considerations**

Within the United States, fiscal pressures remain a challenge for state governments while at the same time they are also facing increasing demand for critical services from the most vulnerable members of society. The majority of states are required to balance their budgets each year and states have taken steps to more efficiently manage their social programs, including Medicaid. Since Medicaid accounts for a large portion of states' budgets, many states have taken steps to control costs by shifting more populations to managed care, increasing co-pays, reducing provider rates, and modifying benefits. As more populations shift into managed care, demand for our administrative services and program volumes generally increases.

Table of Contents

Economic factors have also impacted international governments who are dealing with significant debt and unsustainable benefits programs. As a result, governments are looking for more affordable ways to effectively manage their social and benefits programs. For example, governments like the United Kingdom have implemented aggressive welfare reform measures as a means to better manage resources. As part of these efforts, the UK has utilized private vendors who can offer sophisticated solutions to help the government achieve desired outcomes. Companies like MAXIMUS may continue to benefit from the need for governments to find more cost-efficient ways to manage these public benefits programs.

**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 December 31,	
	2012	2011
Revenue	\$ 286,266	\$ 239,603
Gross profit	\$ 76,530	\$ 59,847
Selling, general and administrative expenses	\$ 42,222	\$ 32,756
Selling, general and administrative expenses as a percentage of revenue	14.7%	13.7%
Operating income from continuing operations excluding acquisition and legal and settlement expenses	34,308	27,091
Acquisition-related expenses	148	
Legal and settlement expense	142	186
Operating income from continuing operations	\$ 34,018	\$ 26,905
Operating margin from continuing operations percentage	11.9%	11.2%
Interest and other income, net	1,106	1,104
Income from continuing operations before income taxes	\$ 35,124	\$ 28,009
Provision for income taxes	13,341	10,351
Income from continuing operations, net of income taxes	21,783	17,658
Income (loss) from discontinued operations, net of income taxes	(467)	46
Net income	\$ 21,316	\$ 17,704
<b>Basic earnings (loss) per share:</b>		
Income from continuing operations	\$ 0.64	\$ 0.52
Income (loss) from discontinued operations	(0.01)	0.01
Basic earnings per share	\$ 0.63	\$ 0.53
<b>Diluted earnings (loss) per share:</b>		
Income from continuing operations	\$ 0.62	\$ 0.51
Income (loss) from discontinued operations	(0.01)	
Diluted earnings per share	\$ 0.61	\$ 0.51

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The following provides an overview of the significant elements of our consolidated statements of operations. As both of our business segments have different factors driving revenue growth and profitability, the sections that follow cover these segments in greater detail.

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, revenue from foreign operations is converted into United States dollars using average exchange rates from the previous fiscal year.



Table of Contents

The Company acquired PSI on April 30, 2012 and the financial results for the three month period ended December 31, 2012 include the performance of PSI. PSI contributed \$34.1 million of revenue in this period. We provide organic revenue growth information to provide a framework for assessing how our business performed excluding the effects of acquisitions. Organic revenue growth comparisons between fiscal 2013 and fiscal 2012 are performed excluding all PSI revenues.

Constant currency revenue and organic growth are non-GAAP numbers. We believe that these numbers provide a useful basis for assessing the Company's performance. The presentation of these non-GAAP numbers is not meant to be considered in isolation, or as an alternative to revenue growth or operating income as measures of performance.

Revenue for the three month period ended December 31, 2012 increased 19.5% to \$286.3 million compared to the same period in the prior year. Of this growth, 14.2% was driven by the acquisition of PSI in 2012, 4.5% by organic growth and 0.8% from the benefits of foreign exchange. Both segments experienced organic growth. The drivers for each segment are discussed in greater detail below.

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.

Acquisition-related expenses relate to costs incurred directly as a consequence of the acquisition of Policy Studies, Inc. ( PSI ) in fiscal 2012. During the current quarter, we incurred costs related to severance.

Operating income from continuing operations for the quarter ended December 31, 2012 was \$34.0 million compared to the same period in the prior year of \$26.9 million. Growth was driven by the acquisition of PSI, the ramp-up of the Work Programme in the United Kingdom and other organic growth from existing contracts and new work in both segments.

The provision for income taxes in the quarter ended December 31, 2012 was \$13.3 million, reflecting an effective tax rate of 38.0%. The comparative charge in the quarter ended December 31, 2011 was \$10.4 million, an effective rate of 37.0%. The tax rate has increased owing to an increased share of profits being anticipated in jurisdictions which have higher tax rates, notably for our domestic business, compared to the prior year.

Income from continuing operations, net of income taxes, was \$21.8 million, or \$0.62 per diluted share, for the three months ended December 31, 2012, compared with \$17.7 million, or \$0.51 per diluted share, for the same period in fiscal year 2012.

*Health Services*

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(dollars in thousands)	Three Months Ended	
	2012	December 31, 2011
Revenue	\$ 175,998	\$ 158,043
Gross profit	45,259	35,999
Operating income	20,626	16,783
Operating margin percentage	11.7%	10.6%

Revenue increased by 11.4% to \$176.0 million for the three month period ended December 31, 2012, compared to the same period in fiscal year 2012. Revenue growth was driven by the acquisition of PSI, and organic growth from new work, the expansion of existing contracts and higher volumes on transaction-based programs. Most notably, we experienced higher volumes in our Federal Medicare appeals business, we secured work related to health insurance exchanges and we continued to benefit from the shift of new populations from fee-for-service Medicaid into fully capitated Medicaid managed care. Our operating margin increased to 11.7% for the three month period ended December 31, 2012 compared to 10.6% in the prior year. This margin expansion was a result of accretive, organic revenue growth from existing contracts. In addition, the operating margin in fiscal 2012 was tempered by margin dilution from a contract that experienced a temporary spike in low-margin revenue.

Table of Contents*Human Services*

(dollars in thousands)	Three Months Ended December 31,	
	2012	2011
Revenue	\$ 110,268	\$ 81,560
Gross profit	31,271	23,848
Operating income	13,682	10,308
Operating margin percentage	12.4%	12.6%

Revenues increased 35.2% for the three month period ended December 31, 2012, compared to the same period in fiscal year 2012. Revenue growth was driven by the acquisition of PSI, as well as organic growth principally from our international welfare-to-work operations including the expected ramp-up from the Work Programme in the United Kingdom, and new work in Canada and Saudi Arabia. During the first quarter of fiscal 2012, revenue was tempered by the start-up of the Work Programme because revenue is derived from both fixed fees, which are deferred over the period of engagement with a jobseeker, and outcome fees which are paid once a jobseeker remains employed for a specified period of time (typically six months). Accordingly, revenue in earlier periods was moderated by revenue deferral and the required time taken to achieve outcomes. These fees are now being earned as the contract reaches maturity.

**Discontinued operations**

During November 2012, the Company entered into arbitration with respect to certain legal matters pertaining to a business which was sold in 2008. No settlement was required as part of the arbitration but the Company incurred costs of \$0.9 million in representing itself.

The Company continues to record small gains on the sale of Unison MAXIMUS, Inc. ( Unison ), a business which was sold in May 2008. The consideration for the sale included a promissory note which is fully reserved. Small payments continue to be received on this note but owing to uncertainties over the collectability of the full balance, the Company has only recorded a gain on sale where recovery is considered assured, which is typically when cash payments are received.

**Liquidity and Capital Resources**

In recent years, the Company has relied upon cash flows from operations to fund operations, capital expenditures, acquisitions, share repurchases and dividends. Both domestic and overseas locations have remained self-sufficient in funding operations and capital resources. The Company expects to be able to continue to fund operations and capital expenditures from operating cash flows. 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.

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At December 31, 2012, the Company held \$167.1 million in cash and cash equivalents. Approximately 75% of these funds were held in overseas locations, principally in Australia. If we were to transfer these funds to the United States, the Company would be required to accrue and pay additional taxes. We have no requirement to repatriate these funds as we believe we have access to sufficient funds in the United States to fund our operations, capital outlays, dividends, share repurchases or any other requirements. Accordingly, we do not intend to repatriate these funds held overseas and we have not attempted to quantify the charges that might arise if we were to make this transaction. The charges would vary based upon tax legislation in the United States and in the overseas jurisdictions as well as the manner and timing of these transactions.

The Company has a loan facility within the United States which is available to provide additional funds for working capital, capital expenditures, share repurchases or acquisitions. The facility is currently used solely to issue letters of credit at a value of \$15.5 million and, accordingly, an additional \$19.5 million was available to borrow, subject to covenant restrictions, at December 31, 2012. The loan facility will expire at the end of February 2013 and management are currently in the process of finalizing a new agreement. The Company has no other indebtedness, with the exception of \$3.0 million in letters of credit held with other financial institutions, a \$1.7 million interest-free loan from the Atlantic Innovation Fund of Canada, the funds of which must be used for certain investment projects in Prince Edward Island, and performance bond commitments of \$50.4 million. The letters of credit and performance bonds are typically renewed annually and remain in place until the contractual obligations have been satisfied. Although the triggering events vary from contract to contract, in general we would only be liable for the amount of these guarantees in the event of default of our obligations under each contract, the probability of which we believe is remote.

Table of Contents

Our primary source of cash is revenues received from customers. Our collection of cash is driven by billing schedules and payment terms which can vary based upon a number of factors, including contract type. In certain contracts, particularly international welfare-to-work contracts, cash receipts are structured around our performance, which may take several quarters to be realized. In these cases, contracts will typically result in cash outflows over the early period of the contract and the ultimate cash flows of the contract will be subject to risk until the performance outcomes are known. Certain contracts require significant financial outlay in terms of capital assets and in reimbursable start-up costs. These expenditures result in our use of cash which may be reimbursed during the set-up phase or over the life of the contract. Related revenue may also be deferred during the set-up phase. At December 31, 2012, management considered that the net book value of all capital assets, including deferred contract costs, was less than the expected future cash flows related to these assets.

*Cash Flows*

(dollars in thousands)	Three Months Ended December 31,	
	2012	2011
Net cash provided by (used in):		
Operating activities continuing operations	\$ 10,119	\$ 27,556
Operating activities discontinued operations	(493)	
Investing activities	(10,491)	(886)
Financing activities	(21,071)	(11,304)
Effect of exchange rate changes on cash and cash equivalents	(238)	2,732
Net increase/(decrease) in cash and cash equivalents	\$ (22,174)	\$ 18,098

Cash flows provided by operating activities from continuing operations for the quarter ended December 31, 2012 were \$10.1 million, compared with \$27.6 million in the comparative quarter in fiscal year 2012. This decline occurred principally owing to short-term delays in cash collections. Such delays often happen during our first fiscal quarter owing to the number and timing of holidays. In addition, the Company's tax payments in the quarter ended December 31, 2012 were \$8.4 million higher than those in the comparative prior period. Such payments are principally driven by higher taxes as well as changes to management's estimated tax positions during the year.

Cash outflows from discontinued operations relate exclusively to the costs of arbitration in resolving a legal matter for a discontinued line of business.

Cash used in investing activities from continuing operations for the three months ended December 31, 2012 was \$10.5 million, compared to \$0.9 million for the same period in fiscal year 2012. The Company has a number of projects commencing at this time, particularly within the United States, and has incurred significant capital expenditure in these areas. During the prior year, the Company received a payment of \$2.2 million related to the sale of the Company's ERP division during fiscal 2010.

Cash used in financing activities from continuing operations for the three months ended December 31, 2012 was \$21.1 million, compared to \$11.3 million for the same period in fiscal year 2012. This includes \$15.4 million and \$9.7 million of cash paid for acquisitions of the Company's own shares in the quarters ended December 31, 2012 and 2011, respectively, and dividend payments of \$3.1 million and \$3.0 million in the quarters ended December 31, 2012 and December 31, 2011, respectively. Other differences are driven by the vesting of RSUs and the exercise of stock options in each period.

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The Company's cash balance decreased by \$0.2 million in the current period owing to foreign exchange rate fluctuations.

To supplement our statements of cash flows presented on a GAAP basis, we use the non-GAAP measure of free cash flows from continuing operations to analyze the funds generated from operations. We believe free cash flow from continuing operations is a useful basis for comparing our performance with our competitors. The presentation of non-GAAP free cash flows from continuing operations is not meant to be considered in isolation, or as an alternative to net income as an indicator of performance, or as an alternative to cash flows from operating activities as a measure of liquidity. We calculate free cash flow from continuing operations as follows:

(dollars in thousands)	<b>Three Months Ended December 31,</b>			
	<b>2012</b>		<b>2011</b>	
Cash provided by operating activities – continuing operations	\$ 10,119	\$	27,556	27,556
Purchases of property and equipment	(7,087)		(2,554)	(2,554)
Capitalized software costs	(3,464)		(720)	(720)
Free cash flow from continuing operations	\$ (432)	\$	24,282	24,282

Table of Contents

*Repurchases of the Company's common stock*

The Company has repurchased 249,549 and 236,700 common shares at a cost of \$14.6 million and \$8.8 million, during the three month periods ended December 31, 2012 and 2011, respectively. At December 31, 2012, \$114.6 million remains available for share repurchases under a board approved plan.

*Dividend*

On January 4, 2013, the Company's Board of Directors declared a quarterly cash dividend of \$0.09 for each share of the Company's common stock outstanding. The dividend is payable on February 28, 2013, to shareholders of record on February 15, 2013.

**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 material 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.

During the three months ended December 31, 2012, there were no significant changes to the critical accounting policies we disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended September 30, 2012.

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

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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.

There have been no material changes in the information presented in Item 7A of our Annual Report on Form 10-K for the year ended September 30, 2012.

### **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

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.



Table of Contents

**PART II. OTHER INFORMATION**

**ITEM 1.           *Legal Proceedings.***

The Company is involved in various legal proceedings, including the matters described below, in the ordinary course of its business.

In March 2009, a state Medicaid agency asserted a claim against MAXIMUS, related to a discontinued business line, 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. 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. MAXIMUS has exited the federal healthcare claiming business and no longer provides the services at issue in this matter.

In 2008 MAXIMUS sold the SchoolMAX student information system business line as part of the divestiture of the MAXIMUS Education Systems division. In 2011, a school district ( District ) which was a SchoolMAX client initiated the dispute resolution process under their contract. The District raised a number of issues pertaining to services and products delivered under the contract. In April 2012, the District filed a formal arbitration notice alleging that MAXIMUS and the buyer failed to (i) use best practices in developing the software and (ii) deliver and test product releases as required by the contract. The District contended that those failures resulted in damages of at least \$10 million. In December 2012, the arbitration panel denied the District's claims in their entirety. Costs related to the arbitration proceeding have been included in the current period as discontinued operations. The District has filed a motion to vacate the decision of the arbitration panel. In late 2012, the District asserted that MAXIMUS had defrauded the District in 2007 or 2008 by misrepresenting its intentions regarding the sale of the Education Systems division. That allegation was not part of the arbitration, and no formal claim or lawsuit has been filed. The company believes it has a number of defenses to that allegation and would contest it vigorously if it were asserted.

**Item 1A.           Risk Factors.**

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, 2012 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.

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

(c) The following table sets forth the information required regarding repurchases of common stock that we made during the three months ended December 31, 2012:

Period		Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan (in thousands)
Oct. 1, 2012	Oct. 31, 2012	126,500	\$ 57.57	126,500	\$ 120,120
Nov. 1, 2012	Nov. 30, 2012	73,500	57.59	73,500	\$ 116,690
Dec. 1, 2012	Dec. 31, 2012	49,549	62.83	49,549	\$ 114,614
<b>Total</b>		<b>249,549</b>	<b>\$ 58.62</b>	<b>249,549</b>	

(1) On November 8, 2011, the Board of Directors replaced the existing share repurchase program with a new program, which authorizes the Company to purchase, at management's discretion, up to \$125.0 million of its common stock. The resolution also authorized the use of option exercise proceeds for the repurchase of the Company's common stock.

**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**

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: February 8, 2013

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**

<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.
101	The following materials from the MAXIMUS, Inc. Quarterly Report on Form 10-Q for the year ended December 31, 2012 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements. Filed electronically herewith.