

MAXIMUS INC  
Form 10-Q  
February 04, 2010  
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## **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 December 31, 2009**



**Commission File Number: 1-12997**



## **MAXIMUS, INC.**

(Exact name of registrant as specified in its charter)

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**Virginia**

(State or other jurisdiction of  
incorporation or organization)

**54-1000588**

(I.R.S. Employer  
Identification No.)

**11419 Sunset Hills Road**

**Reston, Virginia**

(Address of principal executive offices)

**20190**

(Zip Code)

(703) 251-8500

(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 x No o

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 o No o

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 o

Accelerated filer x

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

Smaller reporting company o

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

As of January 29, 2010, there were 17,387,937 shares of the registrant's common stock (no par value) outstanding.

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**MAXIMUS, Inc.**



**Quarterly Report on Form 10-Q**

**For the Quarter Ended December 31, 2009**



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*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,<br>2009 | December 31,<br>2009<br>(unaudited) |
|--|-----------------------|-------------------------------------|
| <b>ASSETS</b>  |                       |                                     |
| Current assets:  |                       |                                     |
| Cash and cash equivalents  | \$ 87,815             | \$ 126,940                          |
| Restricted cash  | 3,919                 | 4,590                               |
| Accounts receivable billed, net of reserves of \$5,812 and \$5,628 | 132,058               | 122,574                             |
| Accounts receivable unbilled                                       | 16,706                | 19,153                              |
| Note receivable  | 736                   | 458                                 |
| Income taxes receivable  | 7,501                 |                                     |
| Deferred income taxes  | 5,389                 | 11,609                              |
| Prepaid expenses and other current assets                          | 19,749                | 18,750                              |
| Current assets of discontinued operations                          | 18,238                | 8,916                               |
| Total current assets   | 292,111               | 312,990                             |
| Property and equipment, at cost                                    | 98,781                | 103,300                             |
| Less accumulated depreciation and amortization                     | (53,495)              | (56,857)                            |
| Property and equipment, net  | 45,286                | 46,443                              |
| Capitalized software   | 26,475                | 29,402                              |
| Less accumulated amortization                                      | (7,506)               | (8,504)                             |
| Capitalized software, net  | 18,969                | 20,898                              |
| Deferred contract costs, net                                       | 8,206                 | 7,753                               |
| Goodwill   | 61,029                | 61,364                              |
| Intangible assets, net   | 2,455                 | 3,218                               |
| Deferred income taxes  | 1,239                 | 3,434                               |
| Other assets, net  | 3,939                 | 3,975                               |
| Total assets   | \$ 433,234            | \$ 460,075                          |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                        |                       |                                     |
| Current liabilities:   |                       |                                     |
| Accounts payable   | \$ 44,368             | \$ 47,550                           |
| Accrued compensation and benefits                                  | 31,713                | 29,361                              |
| Deferred revenue   | 22,177                | 32,278                              |
| Income taxes payable   |                       | 4,982                               |
| Other accrued liabilities  | 15,083                | 16,396                              |
| Liabilities of discontinued operations                             | 14,124                | 14,543                              |
| Total current liabilities  | 127,465               | 145,110                             |
| Deferred revenue, less current portion                             | 6,527                 | 9,572                               |

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|  |            |            |
|--|------------|------------|
| Income taxes payable, less current portion   | 1,871      | 2,086      |
| Deferred income tax liability  | 243        | 243        |
| Total liabilities  | 136,106    | 157,011    |
| Shareholders' equity:  |            |            |
| Common stock, no par value; 60,000,000 shares authorized; 27,161,849 and 27,223,890 shares issued and 17,599,029 and 17,474,269 shares outstanding at September 30, 2009 and December 31, 2009, at stated amount, respectively | 338,739    | 341,819    |
| Treasury stock, at cost; 9,562,820 and 9,749,621 shares at September 30, 2009 and December 31, 2009, respectively  | (319,149)  | (327,810)  |
| Accumulated other comprehensive income   | 8,268      | 9,351      |
| Retained earnings  | 269,270    | 279,704    |
| Total shareholders' equity   | 297,128    | 303,064    |
| Total liabilities and shareholders' equity   | \$ 433,234 | \$ 460,075 |

*See notes to unaudited condensed consolidated financial statements.*

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**MAXIMUS, Inc.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share data)

(Unaudited)

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|   | Three Months<br>Ended December 31, |         |      |         |
|---|------------------------------------|---------|------|---------|
|   | 2008                               |         | 2009 |         |
| Revenue   | \$                                 | 169,710 | \$   | 202,355 |
| Cost of revenue                                       |                                    | 122,806 |      | 150,240 |
| Gross profit  |                                    | 46,904  |      | 52,115  |
| Selling, general and administrative expenses          |                                    | 26,414  |      | 27,324  |
| Legal and settlement expense                          |                                    |         |      | 686     |
| Operating income from continuing operations           |                                    | 20,490  |      | 24,105  |
| Interest and other income, net                        |                                    | 94      |      | 99      |
| Income from continuing operations before income taxes |                                    | 20,584  |      | 24,204  |
| Provision for income taxes                            |                                    | 8,131   |      | 9,576   |
| Income from continuing operations                     |                                    | 12,453  |      | 14,628  |
| Discontinued operations, net of income taxes:         |                                    |         |      |         |
| Loss from discontinued operations                     |                                    | (485)   |      | (2,000) |
| Loss on disposal                                      |                                    | (5)     |      |         |
| Loss from discontinued operations                     |                                    | (490)   |      | (2,000) |
| Net income  | \$                                 | 11,963  | \$   | 12,628  |
| Basic earnings (loss) per share (Note 6):             |                                    |         |      |         |
| Income from continuing operations                     | \$                                 | 0.70    | \$   | 0.83    |
| Loss from discontinued operations                     |                                    | (0.03)  |      | (0.11)  |
| Basic earnings per share                              | \$                                 | 0.67    | \$   | 0.72    |
| Diluted earnings (loss) per share (Note 6):           |                                    |         |      |         |
| Income from continuing operations                     | \$                                 | 0.69    | \$   | 0.81    |
| Loss from discontinued operations                     |                                    | (0.02)  |      | (0.11)  |
| Diluted earnings per share                            | \$                                 | 0.67    | \$   | 0.70    |
| Dividends paid per share                              | \$                                 | 0.10    | \$   | 0.12    |
| Weighted average shares outstanding:                  |                                    |         |      |         |
| Basic   |                                    | 17,802  |      | 17,595  |
| Diluted   |                                    | 17,956  |      | 18,039  |

See notes to unaudited condensed consolidated financial statements.

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**MAXIMUS, Inc.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Dollars in thousands)

(Unaudited)

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|   | Three Months<br>Ended December 31, |            |
|---|------------------------------------|------------|
|   | 2008                               | 2009       |
| <b>Cash flows from operating activities:</b>                                      |                                    |            |
| Net income  | \$ 11,963                          | \$ 12,628  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |            |
| Loss from discontinued operations   | 490                                | 2,000      |
| Depreciation  | 1,961                              | 3,104      |
| Amortization of intangible assets and capitalized software                        | 737                                | 1,436      |
| Deferred income taxes   | 12,043                             | (8,492)    |
| Deferred interest income on note receivable                                       | 107                                | 61         |
| Non-cash equity based compensation  | 1,866                              | 1,865      |
| Change in assets and liabilities:   |                                    |            |
| Accounts receivable billed  | 23,143                             | 9,596      |
| Accounts receivable unbilled  | (5,775)                            | (2,448)    |
| Prepaid expenses and other current assets   | (3,844)                            | 1,042      |
| Deferred contract costs   | (1,236)                            | 479        |
| Other assets  | (899)                              | (34)       |
| Accounts payable  | (10,716)                           | 342        |
| Accrued compensation and benefits   | (3,746)                            | (2,045)    |
| Deferred revenue  | 2,492                              | 13,134     |
| Income taxes  | (21,959)                           | 14,867     |
| Other liabilities   | (34,755)                           | 1,251      |
| Cash provided by (used in) operating activities continuing operations             | (28,128)                           | 48,786     |
| Cash provided by operating activities discontinued operations                     | 951                                | 6,235      |
| Cash provided by (used in) operating activities                                   | (27,177)                           | 55,021     |
| <b>Cash flows from investing activities:</b>                                      |                                    |            |
| Proceeds from note receivable   | 182                                | 217        |
| Purchases of property and equipment   | (2,414)                            | (3,938)    |
| Capitalized software costs  | (1,717)                            | (2,641)    |
| Cash used in investing activities continuing operations                           | (3,949)                            | (6,362)    |
| Cash used in investing activities discontinued operations                         | (11)                               |            |
| Cash used in investing activities   | (3,960)                            | (6,362)    |
| <b>Cash flows from financing activities:</b>                                      |                                    |            |
| Employee stock transactions   | 593                                | 1,004      |
| Repurchases of common stock   | (22,431)                           | (8,661)    |
| Payments on capital lease obligations   | (417)                              |            |
| Tax benefit due to option exercises and restricted stock units vesting            | 53                                 | 135        |
| Cash dividends paid   | (1,765)                            | (2,118)    |
| Cash used in financing activities continuing operations                           | (23,967)                           | (9,640)    |
| Cash used in financing activities discontinued operations                         |                                    |            |
| Cash used in financing activities   | (23,967)                           | (9,640)    |
| Effect of exchange rate changes on cash and cash equivalents                      | (3,040)                            | 106        |
| Net increase/(decrease) in cash and cash equivalents                              | (58,144)                           | 39,125     |
| Cash and cash equivalents, beginning of period                                    | 119,605                            | 87,815     |
| Cash and cash equivalents, end of period  | \$ 61,461                          | \$ 126,940 |

See notes to unaudited condensed consolidated financial statements.



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**MAXIMUS, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**For the Three Months Ended December 31, 2009 and 2008**



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*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 months ended December 31, 2009 are not necessarily indicative of the results that may be expected for the full fiscal year. The balance sheet at September 30, 2009 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. In addition to the Company's wholly owned subsidiaries, the consolidated financial statements as of and for the three months ended December 31, 2009 and 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, 2009 and 2008 and for each of the three years in the period ended September 30, 2009, included in the Company's Annual Report on Form 10-K for the year ended September 30, 2009 filed with the Securities and Exchange Commission on November 17, 2009.

### 2. Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued a new accounting standard that provides guidance for business combinations. Under this standard, 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 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. The Company will adopt this standard for all acquisitions which occur after October 1, 2009.

In December 2007, the FASB issued a new accounting standard that provides guidance on the accounting and reporting requirements for noncontrolling interests in financial statements. The guidance requires ownership interests in subsidiaries other than MAXIMUS, Inc. to be clearly identified, labeled and presented in the consolidated statement of financial position within equity, but separate from MAXIMUS, Inc.'s equity. It also requires the amount of consolidated net income attributable to MAXIMUS, Inc. and to the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of income. The Company does not have any material noncontrolling interests and, accordingly, there was no material impact on the adoption of this standard.

In February 2008, the FASB issued revised guidance delaying the effective date for requirements relating to the fair valuation of non-financial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. For items within its scope, the update deferred the effective date of the fair value measurement to the start of the Company's current fiscal year, or October 1, 2009. The Company has assessed the impact of this guidance for its non-financial assets and liabilities and determined that there was

no material impact.

In September 2009, the FASB issued revised guidance for accounting for contracts that contain more than one contract element. The revised guidance establishes a selling price hierarchy for determining the selling price of each contract element. The guidance also expands the required disclosures. Adoption of this guidance is effective for the Company on October 1, 2010. We have not yet determined the impact, if any, that this revised guidance will have on our results of operations or disclosures.

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The changes in goodwill for the three months ended December 31, 2009 are as follows (in thousands):

|                                  | <b>Consulting</b> |        | <b>Operations</b> |        | <b>Total</b> |
|----------------------------------|-------------------|--------|-------------------|--------|--------------|
| Balance as of September 30, 2009 | \$                | 18,646 | \$                | 42,383 | \$ 61,029    |
| Foreign currency translation     |                   |        |                   | 335    | 335          |
| Balance as of December 31, 2009  | \$                | 18,646 | \$                | 42,718 | \$ 61,364    |

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

|                                      | <b>As of September 30, 2009</b> |                                 |                               | <b>As of December 31, 2009</b> |                                 |                               |
|--------------------------------------|---------------------------------|---------------------------------|-------------------------------|--------------------------------|---------------------------------|-------------------------------|
|                                      | <b>Cost</b>                     | <b>Accumulated Amortization</b> | <b>Intangible Assets, net</b> | <b>Cost</b>                    | <b>Accumulated Amortization</b> | <b>Intangible Assets, net</b> |
| Technology-based intangibles         | 3,370                           | 3,370                           |                               | 3,370                          | 3,370                           |                               |
| Customer contracts and relationships | 6,100                           | 3,645                           | 2,455                         | 7,410                          | 4,192                           | 3,218                         |
| Total                                | \$ 9,470                        | \$ 7,015                        | \$ 2,455                      | \$ 10,780                      | \$ 7,562                        | \$ 3,218                      |

Intangible assets from acquisitions are amortized over a period of five to ten years. Various customer contracts and relationships are being amortized at December 31, 2009. These assets have an average remaining life of 2.5 years. For the three months ended December 31, 2009, intangible amortization expense was \$0.5 million, compared to \$0.3 million for the same period in fiscal 2009. The estimated amortization expense for the years ending September 30, 2010, 2011, 2012, and 2013 is \$1.6 million, \$1.3 million, \$0.4 million, \$0.4 million, respectively.

**4. 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 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

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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. 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 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.

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(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. 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. MAXIMUS has exited the Federal healthcare claiming business and no longer provides the services at issue in this matter.

*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 December 31, 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 LIBOR) (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, as amended by the Company and its lender on December 12, 2008, provides for the payment of specified fees and expenses, including an up-front fee and commitment and letter of credit fees, and 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 amended Credit Facility as of December 31, 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, 2009 and December 31, 2009, the Company had performance bond commitments totaling \$71.1 million and \$40.9 million, respectively.



Table of Contents**5. Legal and Settlement Expense**

Legal and Settlement Expense consists of costs related to significant legal settlements, including future legal costs estimated to be incurred in connection with those matters.

Legal expenses of \$686,000 for the three month period ended December 31, 2009 relate predominantly to costs incurred in resolving a dispute with one of the Company's subcontractors. There were no comparative costs in the three month period ended December 31, 2008.

**6. Earnings Per Share**

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

|  | <b>Three Months<br/>Ended December 31,</b> |             |
|--|--|-------------|
|  | <b>2008</b>                                | <b>2009</b> |
| <b>Numerator:</b>  |  |             |
| Income from continuing operations                          | \$ 12,453                                  | \$ 14,628   |
| Loss from discontinued operations                          | (490)                                      | (2,000)     |
| Net income   | \$ 11,963                                  | \$ 12,628   |
| <b>Denominator:</b>  |  |             |
| Basic weighted average shares outstanding                  | 17,802                                     | 17,595      |
| <b>Effect of dilutive securities:</b>                      |  |             |
| Employee stock options and unvested restricted stock units | 154  | 444         |
| Denominator for diluted earnings per share                 | 17,956                                     | 18,039      |

The calculation excludes share options where the effect of including them would have been antidilutive. For the three months ended December 31, 2008, 586,000 outstanding options were excluded. For the three months ended December 31, 2009, no outstanding options were excluded.

**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 three months ended December 31, 2008 and 2009, the Company repurchased 740,490 and 186,801 common shares at a cost of \$23.2 million and \$8.7 million, respectively. At December 31, 2009, \$49.0 million remained available for future stock repurchases. As of February 4, 2009, the Company had repurchased an additional 91,940 common shares at a cost of \$4.5 million during

the second fiscal quarter of 2010.

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Comprehensive income comprises net income plus changes in cumulative foreign currency translation adjustments. The components of comprehensive income for the three months ended December 31, 2008 and 2009 are as follows:

|  |    | <b>Three Months Ended<br/>December 31,</b> |             |
|--|----|--|-------------|
|  |    | <b>2008</b>                                | <b>2009</b> |
| Net income                               | \$ | 11,963                                     | \$ 12,628   |
| Foreign currency translation adjustments |    | (6,675)                                    | 1,083       |
| Comprehensive income                     | \$ | 5,288                                      | \$ 13,711   |

**9. Segment Information**

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

|   | <b>2008</b> | <b>Three Months Ended December 31,</b> |             |              |
|---|-------------|--|-------------|--------------|
|   |             | <b>% (1)</b>                           | <b>2009</b> | <b>% (1)</b> |
| <b>Revenue:</b>   |             |  |             |              |
| Operations  | \$ 156,338  | 100%                                   | \$ 188,731  | 100%         |
| Consulting  | 13,372      | 100%                                   | 13,624      | 100%         |
| Total   | 169,710     | 100%                                   | 202,355     | 100%         |
| <b>Gross Profit:</b>  |             |  |             |              |
| Operations  | 41,469      | 26.5%                                  | 47,089      | 25.0%        |
| Consulting  | 5,435       | 40.6%                                  | 5,026       | 36.9%        |
| Total   | 46,904      | 27.6%                                  | 52,115      | 25.8%        |
| <b>Selling, general, and administrative expense:</b>                            |             |  |             |              |
| Operations  | 20,442      | 13.1%                                  | 23,127      | 12.3%        |
| Consulting  | 5,737       | 42.9%                                  | 4,056       | 29.8%        |
| Corporate/Other   | 235         | NM(2)                                  | 141         | NM(2)        |
| Total   | 26,414      | 15.6%                                  | 27,324      | 13.5%        |
| <b>Operating income (loss) from continuing operations:</b>                      |             |  |             |              |
| Operations  | 21,027      | 13.4%                                  | 23,962      | 12.7%        |
| Consulting  | (302)       | (2.3)%                                 | 970         | 7.1%         |
| Consolidating adjustments   | (235)       | NM(2)                                  | (141)       | NM(2)        |
| Operating income from continuing operations before Legal and Settlement Expense | 20,490      | 12.1%                                  | 24,791      | 12.3%        |
| Legal and Settlement Expense  |             | NM(2)                                  | (686)       | NM(2)        |
| Total   | \$ 20,490   | 12.1%                                  | \$ 24,105   | 11.9%        |

- 
- (1) % of respective segment revenue
- (2) Not meaningful

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### 10. Discontinued Operations

In September 2009, the Company committed to a sale of its ERP business. We are actively pursuing a buyer and expect to complete this sale by the end of the current fiscal year. The financial position, results of operations, and cash flows of this division, which were previously included in the Company's Consulting segment, are reported as discontinued operations and all prior periods have been reclassified to conform to the current period's presentation.

Effective January 28, 2010, the Company entered into a Mutual Release and Settlement Agreement with a customer of the ERP business under which both parties agreed to a transfer of the project back to the client. The resolution resulted in an after-tax charge to the Company of \$2.2 million, which was recorded in the current quarter.

During fiscal 2008, the Company disposed of five business divisions. Although these sales occurred prior to September 30, 2008, the final sales prices for these Company's were based upon evaluation of the net assets transferred to the purchaser. Accordingly, further losses on disposal continued to be recorded during the three months ended December 31, 2008.

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

|  | Three Months Ended<br>December 31, |            |
|--|------------------------------------|------------|
|  | 2008                               | 2009       |
| <b>Revenue</b>                           | \$ 10,382                          | \$ 3,563   |
| Loss from operations before income taxes | \$ (802)                           | \$ (3,383) |
| Benefit from income taxes                | (317)                              | (1,383)    |
| <b>Loss from discontinued operations</b> | \$ (485)                           | \$ (2,000) |
| Loss on disposal before income taxes     | (9)                                | \$         |
| Benefit from income taxes                | (4)                                |            |
| <b>Loss on disposal</b>                  | (5)                                | \$         |
| <b>Loss from discontinued operations</b> | \$ (490)                           | \$ (2,000) |

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<br>September 30,<br>2009 | As of<br>December 31,<br>2009 |
|--------------------------------|-------------------------------|
|--------------------------------|-------------------------------|

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|   |          |    |        |    |        |
|---|----------|----|--------|----|--------|
| Accounts receivable                                   | billed   | \$ | 6,677  | \$ | 4,866  |
| Accounts receivable                                   | unbilled |    | 11,508 |    | 4,004  |
| Prepaid expenses and other current assets             |          |    | 53     |    | 46     |
| <b>Current assets of discontinued operations</b>      |          | \$ | 18,238 | \$ | 8,916  |
|   |          |    |        |    |        |
| Accounts payable                                      |          | \$ | 6,199  | \$ | 6,039  |
| Accrued compensation and benefits                     |          |    | 930    |    | 996    |
| Deferred revenue                                      |          |    |        |    | 1,232  |
| Other accrued liabilities                             |          |    | 6,995  |    | 6,276  |
| <b>Current liabilities of discontinued operations</b> |          | \$ | 14,124 | \$ | 14,543 |

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**11. Fair Value Measurements**

The Company is required to disclose the fair value of all assets and liabilities subject to fair value measurement and the nature of the valuation techniques, including their classification within the fair value hierarchy, utilized by the Company in performing these measurements. The only such assets or liabilities held by the Company at September 30, 2009 and December 31, 2009 were the Company's cash and cash equivalents of \$87.5 million and \$126.9 million, respectively. Under the FASB's ASC 820, *Fair Value Measurements and Disclosures*, the inputs used to value these assets would be considered Level 1 inputs as the valuation is based upon observable inputs such as quoted prices in active markets for identical assets.

**12. Subsequent Events**

In preparing these financial statements, the Company's management has evaluated subsequent events through February 4, 2010, the date the financial statements were issued.

*Dividend*

On January 8, 2010, 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 February 26, 2010, to shareholders of record on February 12, 2010.

*Stock repurchase*

As of February 4, 2009, the Company had repurchased an additional 91,940 common shares at a cost of \$4.5 million during the second fiscal quarter of 2010.

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



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*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, 2009, filed with the Securities and Exchange Commission on November 17, 2009.*

### **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, 2009 and incorporated herein by reference.

### **Business Overview**



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We provide operations program management and consulting services focused in the areas of health and human services primarily for government-sponsored programs such as Medicaid and the Children's Health Insurance Program (CHIP). Founded in 1975, we are the largest pure-play health and human services provider to government in the United States and are at the forefront of innovation in meeting our mission of *Helping Government Serve the People®*. We use our expertise, experience and advanced technological solutions to help government agencies run more efficient and cost-effective programs, while improving the quality of services provided to program beneficiaries. We operate in the United States, Australia, Canada, the United Kingdom, and Israel. We have held contracts with government agencies in all 50 states in the U.S. For the fiscal year ended September 30, 2009, we had revenue of \$717.3 million and net income of \$46.5 million. For the three months ended December 31, 2009, we had revenue of \$202.4 million and net income of \$12.6 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<br>December 31, |            |
|--|------------------------------------|------------|
|  | 2008                               | 2009       |
| Revenue  | \$ 169,710                         | \$ 202,355 |
| Gross profit   | \$ 46,904                          | \$ 52,115  |
| Selling, general and administrative expense                            | \$ 26,414                          | \$ 27,324  |
| Selling, general and administrative expense as a percentage of revenue | 15.6%                              | 13.5%      |
| Legal and Settlement Expense   |                                    | 686        |
| Operating income from continuing operations                            | \$ 20,490                          | \$ 24,105  |
| Operating margin from continuing operations percentage                 | 12.1%                              | 11.9%      |
| Income from continuing operations, net of income taxes                 | \$ 12,453                          | \$ 14,628  |
| Loss from discontinued operations, net of income taxes                 | \$ (490)                           | \$ (2,000) |
| Net income   | \$ 11,963                          | \$ 12,628  |
| <b>Basic earnings (loss) per share:</b>                                |                                    |            |
| Income from continuing operations                                      | \$ 0.70                            | \$ 0.83    |
| Loss from discontinued operations                                      | (0.03)                             | (0.11)     |
| Basic earnings per share   | \$ 0.67                            | \$ 0.72    |
| <b>Diluted earnings (loss) per share:</b>                              |                                    |            |
| Income from continuing operations                                      | \$ 0.69                            | \$ 0.81    |
| Loss from discontinued operations                                      | (0.02)                             | (0.11)     |
| Diluted earnings per share   | \$ 0.67                            | \$ 0.70    |

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 information from foreign operations is converted into United States dollars using average exchange rates from the same period in fiscal 2009. All of our foreign operations are in the Operations Segment.

Revenue increased by \$32.6 million, or 19.2%, for the three months ended December 31, 2009, compared to the same period in fiscal 2009. On a constant currency basis, the increase in revenue is approximately 13.3%. Revenue growth was driven by new work in the Company's international employment services operations in Australia and the United Kingdom, as well as modest growth in certain domestic business lines including Federal, health and child support.

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Operating income from continuing operations increased \$3.6 million, or 17.6%, for the three month period ended December 31, 2009, compared with the same period last year. On a constant currency basis, the increase is 7.6%. Much of the growth was driven by an increasing revenue contribution from new work in our international employment services business, particularly in Australia.

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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 December 31, 2009 was 13.5%, compared to 15.6% for the same period in fiscal 2009. The decline has been driven by increases in revenues, particularly in our international employment services division, with increases in costs being mitigated by economies of scale, as well as cost efficiencies within the Consulting segment.

Legal and Settlement Expense consists of costs related to significant legal settlements, including future legal costs estimated to be incurred in connection with those matters.

Legal expenses of \$686,000 for the three month period ended December 31, 2009 relate predominantly to costs incurred in resolving a dispute with one of the Company's subcontractors. There were no comparative costs in the three month period ended December 31, 2008.

Income from continuing operations, net of income taxes, was \$14.6 million, or \$0.81 per diluted share, for the three months ended December 31, 2009, compared with \$12.5 million, or \$0.69 per diluted share, for the same period in fiscal 2009.

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## Operations Segment

| (dollars in thousands)      | Three Months Ended<br>December 31, |            |
|-----------------------------|------------------------------------|------------|
|                             | 2008                               | 2009       |
| Revenue                     | \$ 156,338                         | \$ 188,731 |
| Gross profit                | 41,469                             | 47,089     |
| Operating income            | 21,027                             | 23,962     |
| Operating margin percentage | 13.4%                              | 12.7%      |

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

Revenue increased by \$32.4 million, or 20.7%, for the three months ended December 31, 2009, compared to the same period in fiscal 2009. On a constant currency basis, the increase in revenue is approximately 14.2%. Revenue growth was driven by our international employment services operations in Australia and the United Kingdom, as well as modest growth in certain domestic business lines including Federal, health and child support. Operating income from continuing operations increased \$2.9 million, or 14.0%, for the three month period ended December 31, 2009, compared with the same period last year. On a constant currency basis, the increase is 4.2%. Much of the growth was driven by our international employment services division, particularly in Australia.

## Consulting Segment

| (dollars in thousands)             | Three Months Ended<br>December 31, |           |
|------------------------------------|------------------------------------|-----------|
|                                    | 2008                               | 2009      |
| Revenue                            | \$ 13,372                          | \$ 13,624 |
| Gross profit                       | 5,435                              | 5,026     |
| Operating income (loss)            | (302)                              | 970       |
| Operating margin (loss) percentage | (2.3)%                             | 7.1%      |

The Consulting Segment includes program performance services, program and systems integrity services, health and human services consulting, and educational services.

Revenues increased 1.9% for the three months ended December 31, 2009, compared to the same period last year. The operating income for the period was \$1.0 million, compared with a loss of \$0.3 million in the same period last year. The improvement is the result of increased efficiencies and an improved business mix within the segment.



Table of Contents**Discontinued Operations**

In September 2009, the Company committed to a sale of its ERP business. We are actively pursuing a buyer and expect to complete this sale by the end of the current fiscal year. The financial position, results of operations, and cash flows of this division, which were previously included in the Company's Consulting segment, are reported as discontinued operations and all prior periods have been reclassified to conform to the current period's presentation.

Effective January 28, 2010, the Company entered into a Mutual Release and Settlement Agreement with a customer of the ERP business under which both parties agreed to a transfer of the project back to the client. The resolution resulted in an after-tax charge to the Company of \$2.2 million, which was recorded in the current quarter.

During fiscal 2008, the Company disposed of five business divisions. Although these sales occurred prior to September 30, 2008, the final sales prices for these Company's were based upon evaluation of the net assets transferred to the purchaser. Accordingly, further losses on disposal continued to be recorded during the three months ended December 31, 2008.

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<br/>December 31,</b> |             |
|--|--|-------------|
|  | <b>2008</b>                                | <b>2009</b> |
| <b>Revenue</b>                           | \$ 10,382                                  | \$ 3,563    |
| Loss from operations before income taxes | \$ (802)                                   | \$ (3,383)  |
| Benefit from income taxes                | (317)                                      | (1,383)     |
| <b>Loss from discontinued operations</b> | \$ (485)                                   | \$ (2,000)  |
| Loss on disposal before income taxes     | (9)  | \$          |
| Benefit from income taxes                | (4)  |             |
| <b>Loss on disposal</b>                  | (5)  | \$          |
| <b>Loss from discontinued operations</b> | \$ (490)                                   | \$ (2,000)  |

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

The economic climate is a challenging one at present for all businesses. The Company operates in a number of jurisdictions across the globe and the issues which arise vary according to local conditions. In general, many of our customers are experiencing increased demand for critical services for the most vulnerable members of society, yet are also experiencing declines in the tax revenues they rely upon to fund these services. 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.

A number of governments worldwide have passed economic stimulus legislation. The Company believes that demand for its services in its core areas of health, education and human services will remain strong and that these stimulus packages could ultimately increase demand for such services. However, any increases in demand resulting from stimulus legislation will depend largely upon the timing, amount and nature of the stimulus.

*Cash Flows*

| (dollars in thousands)                                       | Three Months Ended<br>December 31, |           |
|--|------------------------------------|-----------|
|  | 2008                               | 2009      |
| Net cash provided by (used in):                              |                                    |           |
| Operating activities continuing operations                   | \$ (28,128)                        | \$ 48,786 |
| Operating activities discontinued operations                 | 951                                | 6,235     |
| Investing activities continuing operations                   | (3,949)                            | (6,362)   |
| Investing activities discontinued operations                 | (11)                               |           |
| Financing activities continuing operations                   | (23,967)                           | (9,640)   |
| Effect of exchange rate changes on cash and cash equivalents | (3,040)                            | 106       |
| Net increase/(decrease) in cash and cash equivalents         | \$ (58,144)                        | \$ 39,125 |

Cash provided by operating activities from continuing operations for the three months ended December 31, 2009 was \$48.8 million, compared to cash used in operating activities from continuing operations of \$28.1 million for the same period in fiscal 2009. The difference of \$76.9 million is primarily driven by (1) advanced payments received in the United Kingdom and Australia to cover the start-up costs of new projects, (2) improved cash collections in the period from states who had delayed payments in previous quarters owing to legislative delays in budget approvals, and (3) the payment in fiscal 2009 of \$40 million to cover arbitration matters which have not recurred in the current period.

Cash provided by operating activities from discontinued operations for the three months ended December 31, 2009 was \$6.2 million, compared to \$1.0 million for the same period in fiscal 2009. Our discontinued operations collected significant accounts receivable payments in the current quarter.

Cash used in investing activities from continuing operations for the three months ended December 31, 2009 was \$6.4 million, compared to \$3.9 million for the same period in fiscal 2009. The increase of \$2.5 million is primarily attributable to increased purchases of property and equipment as part of new contracts in the United Kingdom and Australia.

Cash used in financing activities from continuing operations for the three months ended December 31, 2009 was \$9.6 million, compared to \$24.0 million for the same period in fiscal 2009. The decrease is primarily driven by the decline in the Company's share repurchasing program, with \$8.7 million being used in the current period compared to \$22.4 million in the equivalent period in fiscal 2009.

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Although there were exchange rate fluctuations between September 30, 2009 and December 31, 2009, the exchange rates for the most significant foreign currencies utilized by the Company on the beginning and ending date did not vary significantly, resulting in a slight benefit in cash flows from foreign exchange. The fluctuations between the comparable dates in fiscal 2009 were more significant and resulted in an adverse effect on cash flow, caused by the impact of the strengthening United States Dollar.

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)                          |                       | Three Months Ended<br>December 31, |           |
|---|-----------------------|------------------------------------|-----------|
|   |                       | 2008                               | 2009      |
| Cash provided by (used in) operating activities | continuing operations | \$ (28,128)                        | \$ 48,786 |
| Purchases of property and equipment             |                       | (2,414)                            | (3,938)   |
| Capitalized software costs                      |                       | (1,717)                            | (2,641)   |
| Free cash flow from continuing operations       |                       | \$ (32,259)                        | \$ 42,207 |

*Repurchases of the Company's common stock*

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 three months ended December 31, 2008 and 2009, the Company repurchased 740,490 and 186,801 common shares at a cost of \$23.2 million and \$8.7 million, respectively. At December 31, 2009, \$49.0 million remained available for future stock repurchases. As of February 4, 2009, the Company had repurchased an additional 91,940 common shares at a cost of \$4.5 million during the second fiscal quarter of 2010.

*Credit arrangements*

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, 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. At December 31, 2009, letters of credit totaling \$10.3 million were outstanding under the credit facility.

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The Credit Facility matures on January 25, 2013, at which time all outstanding borrowings must be repaid and all outstanding letters of credit must be terminated or cash collateralized.

The Credit Facility, as amended by the Company and its lender on December 12, 2008, provides for the payment of specified fees and expenses, including an up-front fee and commitment and letter of credit fees, and 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 amended Credit Facility as of December 31, 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.

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*Other*

Our working capital at September 30, 2009 and December 31, 2009 was \$164.6 million and \$167.9 million, respectively. At December 31, 2009, we had cash and cash equivalents of \$126.9 million and no debt. Management believes this liquidity and financial position, along with the revolving credit facility discussed above, 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 represents amounts collected on behalf of certain customers and its use is restricted to the purposes specified under our contracts with these customers.

Under the provisions of certain long-term contracts, we may incur certain reimbursable transition period costs. During the transition period, these expenditures result in the use of our cash and in our entering into lease financing arrangements for a portion of the costs. 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 December 31, 2009, \$7.8 million in net costs had been incurred and reported as deferred contract costs on our consolidated balance sheet.

On January 8, 2010, 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 February 26, 2010, to shareholders of record on February 12, 2010.

We believe that we will have sufficient resources to meet our currently anticipated capital expenditure 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 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.

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During the three months ended December 31, 2009, 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, 2009.

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**Recent Accounting Pronouncements**

In December 2007, the Financial Accounting Standards Board ( FASB ) issued a new accounting standard that provides guidance for business combinations. Under this standard, 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 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. The Company will adopt this standard for all acquisitions which occur after October 1, 2009.

In December 2007, the FASB issued a new accounting standard that provides guidance on the accounting and reporting requirements for noncontrolling interests in financial statements. The guidance requires ownership interests in subsidiaries other than MAXIMUS, Inc. to be clearly identified, labeled and presented in the consolidated statement of financial position within equity, but separate from MAXIMUS, Inc. s equity. It also requires the amount of consolidated net income attributable to MAXIMUS, Inc. and to the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of income. The Company does not have any material noncontrolling interests and, accordingly, there was no material impact on the adoption of this standard.

In February 2008, the FASB issued revised guidance delaying the effective date for requirements relating to the fair valuation of non-financial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. For items within its scope, the update deferred the effective date of the fair value measurement to the start of the Company s current fiscal year, or October 1, 2009. The Company has assessed the impact of this guidance for its non-financial assets and liabilities and determined that there was no material impact.

In September 2009, the FASB issued revised guidance for accounting for contracts that contain more than one contract element. The revised guidance establishes a selling price hierarchy for determining the selling price of each contract element. The guidance also expands the required disclosures. Adoption of this guidance is effective for the Company on October 1, 2010. We have not yet determined the impact, if any, that this revised guidance will have on our results of operations or disclosures.

**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, 2009.

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**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 first quarter of fiscal 2010, the Company continued with the phased implementation of an enterprise resource planning ( ERP ) system and completed installation of core financial modules for all US based divisions. We have updated the Company s internal controls over financial reporting as necessary to accommodate modifications to business processes and accounting procedures. However, the internal control design remained substantially unchanged for the implementation. Further phases of the implementation are planned during the remainder of fiscal 2010 and the Company will continue to monitor and test any resulting 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 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. 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 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.

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(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. 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. MAXIMUS has exited the Federal healthcare claiming business and no longer provides the services at issue in this matter.

**Item 1A.** Risk Factors.



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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, 2009 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 2.** Unregistered Sales of Equity Securities and Use of Proceeds.



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(c) The following table sets forth the information required regarding repurchases of common stock that we made during the three months ended December 31, 2009:

| Period       |               | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price Paid<br>per Share | Total Number of<br>Shares Purchased as<br>Part of Publicly<br>Announced Plans (1) | Approximate Dollar<br>Value of Shares that<br>May Yet Be<br>Purchased<br>Under the Plan<br>(in thousands) |
|--------------|---------------|---|------------------------------------|---|---|
| Oct. 1, 2009 | Oct. 31, 2009 |   | \$                                 |   | \$ 57,411   |
| Nov. 1, 2009 | Nov. 30, 2009 | 117,000                                   | 45.90                              | 117,000   | \$ 52,165   |
| Dec. 1, 2009 | Dec. 31, 2009 | 69,801                                    | 47.07                              | 69,801  | \$ 48,966   |
| Total        |               | 186,801                                   | \$ 46.34                           | 186,801   |   |

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(1) Under a resolution adopted on July 22, 2008, which rescinds and supersedes all previous resolutions, 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.

**Item 6.** Exhibits.



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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.

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**SIGNATURES**



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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 4, 2010

By:

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

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**EXHIBIT INDEX**

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| Exhibit No. | Description  |
|-------------|--|
| 10.1        | Extension of Employment Agreement of Richard A. Montoni                  |
| 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.                   |