

MAXIMUS INC  
Form 10-Q  
February 08, 2008

**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, 2007**

**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)

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

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

**20190**  
(Zip Code)

**(703) 251-8500**

(Registrant's telephone number, including area code)

Edgar Filing: MAXIMUS INC - Form 10-Q

---

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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, 2008, there were 18,498,626 shares of the registrant's common stock (no par value) outstanding.

---

MAXIMUS, Inc.

Quarterly Report on Form 10-Q

For the Quarter Ended December 31, 2007

INDEX

**PART I. FINANCIAL INFORMATION**

<u>Item 1.</u>	<u>Condensed Consolidated Financial Statements.</u>	3
	<u>Condensed Consolidated Balance Sheets as of September 30, 2007 and December 31, 2007 (unaudited).</u>	3
	<u>Condensed Consolidated Statements of Operations for the Three Months Ended December 31, 2006 and 2007 (unaudited)</u>	4
	<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended December 31, 2006 and 2007 (unaudited)</u>	5
	<u>Notes to Unaudited Condensed Consolidated Financial Statements.</u>	6
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	14
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk.</u>	23
<u>Item 4.</u>	<u>Controls and Procedures.</u>	23

**PART II. OTHER INFORMATION**

<u>Item 1.</u>	<u>Legal Proceedings.</u>	23
<u>Item 1A.</u>	<u>Risk Factors.</u>	24
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds.</u>	25
<u>Item 6.</u>	<u>Exhibits.</u>	25
<u>Signature.</u>		26
<u>Exhibit Index.</u>		27

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



## PART I. FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements.

## MAXIMUS, Inc.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	September 30, 2007 (Note 1)	December 31, 2007 (unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 70,472	\$ 62,279
Marketable securities	126,210	50
Restricted cash	325	325
Accounts receivable billed, net of reserves of \$30,526 and \$28,878	132,962	119,267
Accounts receivable unbilled	42,200	49,771
Deferred income taxes	17,409	11,267
Prepaid expenses and other current assets	9,159	7,688
Total current assets	398,737	250,647
Property and equipment, at cost	83,823	86,356
Less accumulated depreciation and amortization	(47,922)	(50,776)
Property and equipment, net	35,901	35,580
Capitalized software	61,459	63,009
Less accumulated amortization	(31,919)	(33,703)
Capitalized software, net	29,540	29,306
Deferred contract costs, net	8,116	7,712
Goodwill	86,086	86,086
Intangible assets, net	3,603	3,201
Other assets, net	2,481	3,546
Total assets	\$ 564,464	\$ 416,078
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 54,425	\$ 52,441
Accrued compensation and benefits	29,449	25,771
Current portion of deferred revenue	38,545	37,461
Current portion of income taxes payable	5,487	1,422
Current portion of capital lease obligations	1,627	1,643
Other accrued liabilities	2,059	1,253
Total current liabilities	131,592	119,991
Capital lease obligations, less current portion	417	
Deferred revenue, less current portion	10,143	10,213
Income taxes payable, less current portion		2,106
Deferred income taxes	12,912	11,202
Total liabilities	155,064	143,512

Edgar Filing: MAXIMUS INC - Form 10-Q

Shareholders' equity:

Common stock, no par value; 60,000,000 shares authorized; 22,194,489 and 18,497,241 shares issued and outstanding at September 30, 2007 and December 31, 2007, at stated amount, respectively	299,846	305,398
Treasury stock, at cost; 4,490,073 and 8,248,530 shares at September 30, 2007 and December 31, 2007, respectively	(124,637)	(275,025)
Accumulated other comprehensive income	1,730	1,603
Retained earnings	232,461	240,590
Total shareholders' equity	409,400	272,566
Total liabilities and shareholders' equity	\$ 564,464	\$ 416,078

*See notes to unaudited condensed consolidated financial statements.*

MAXIMUS, Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share data)

(Unaudited)

	Three Months Ended December 31,	
	2006	2007
Revenue	\$ 161,138	\$ 201,950
Cost of revenue	140,860	149,183
Gross profit	20,278	52,767
Selling, general and administrative expenses	34,653	36,253
Legal and settlement expense (Note 11)	3,000	
Income (loss) from operations	(17,375)	16,514
Interest and other income, net	477	1,501
Gain on sale of business (Note 12)	684	
Income (loss) before income taxes	(16,214)	18,015
Provision (benefit) for income taxes	(5,819)	7,410
Net income (loss)	\$ (10,395)	\$ 10,605
Earnings (loss) per share (Note 6):		
Basic	\$ (0.48)	\$ 0.52
Diluted	\$ (0.48)	\$ 0.51
Dividends per share	\$ 0.10	\$ 0.10
Weighted average shares outstanding:		
Basic	21,590	20,506
Diluted	21,590	20,854

See notes to unaudited condensed consolidated financial statements.

**MAXIMUS, Inc.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollars in thousands)  
(Unaudited)

	<b>Three Months Ended December 31,</b>	
	<b>2006</b>	<b>2007</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (10,395)	\$ 10,605
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	2,284	2,854
Amortization	2,769	2,185
Deferred income taxes	(5,098)	4,195
Non-cash equity based compensation	1,020	3,600
Gain on sale of business	(684)	
Change in assets and liabilities, net of effects from sale of business:		
Accounts receivable - billed	26,486	13,695
Accounts receivable - unbilled	6,734	(7,571)
Prepaid expenses and other current assets	(151)	1,470
Deferred contract costs	1,407	404
Other assets	2,065	101
Accounts payable	(9,641)	(1,983)
Accrued compensation and benefits	(2,254)	(3,679)
Deferred revenue	(5,745)	(1,013)
Income taxes	(2,015)	(3,141)
Other liabilities	844	(933)
Net cash provided by operating activities	7,626	20,789
<b>Cash flows from investing activities:</b>		
Proceeds from sale of business, net of transaction costs	2,171	
Purchases of property and equipment	(1,918)	(2,533)
Capitalized software costs	(304)	(1,550)
(Increase) Decrease in marketable securities	(24,496)	126,160
Net cash provided by (used in) investing activities	(24,547)	122,077
<b>Cash flows from financing activities:</b>		
Employee stock transactions	1,526	1,655
Repurchases of common stock		(150,388)
Payments on capital lease obligations	(384)	(401)
Tax benefit due to option exercises and restricted stock units vesting	357	297
Cash dividends paid	(2,159)	(2,222)
Net cash used in financing activities	(660)	(151,059)
Net decrease in cash and cash equivalents	(17,581)	(8,193)
Cash and cash equivalents, beginning of period	39,545	70,472
Cash and cash equivalents, end of period	\$ 21,964	\$ 62,279

*See notes to unaudited condensed consolidated financial statements.*





**MAXIMUS, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**For the Three Months Ended December 31, 2007 and 2006**

*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, 2007 are not necessarily indicative of the results that may be expected for the full fiscal year. The balance sheet at September 30, 2007 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, 2007 and 2006, and as of September 30, 2007, 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, 2007 and 2006 and for each of the three years in the period ended September 30, 2007, included in the Company's Annual Report on Form 10-K for the year ended September 30, 2007 (File No. 1-12997) filed with the Securities and Exchange Commission on December 13, 2007.

*Income Taxes*

During the three months ended December 31, 2006, our historical effective income tax rate was impacted by approximately 4 percentage points as a result of recording a \$0.7 million valuation allowance on certain deferred tax assets related to a foreign subsidiary's net operating losses recorded at September 30, 2006 that were considered more-likely-than-not to be realized at that time. As a result of events that occurred during the first fiscal quarter of 2007 impacting the subsidiary's operating results for that period, the need for a valuation allowance was re-evaluated and it was determined that it was no longer more-likely-than-not that the net operating losses that existed at September 30, 2006 would be realized.

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

Effective October 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board ( FASB ) Interpretation No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109, ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income tax positions. FIN 48 provides that the financial statement effects of an income tax position can only be recognized when, based on the technical merits, it is more-likely-than-not that the position will be sustained upon examination. The cumulative effect of applying the provisions of FIN 48 was required to be reported as an adjustment to the opening balance of retained earnings in the period of adoption.

Upon adoption of FIN 48 during the quarter, we accounted for our change in reserve for uncertain tax positions as a \$0.3 million decrease to the beginning balance of retained earnings in our consolidated balance sheet. The Company's unrecognized tax benefits totaled \$2.0 million at October 1, 2007 and \$2.1 million at December 31, 2007. The total amount of unrecognized tax benefits that, if recognized, would affect the annual effective income tax rate is \$1.7 million at October 1, 2007 and December 31, 2007. The Company estimates it may recognize \$0.2 million of tax benefits in the next 12 months due to the expiration of statute of limitations.

We record interest and penalties associated with uncertain tax positions as a component of our income tax provision. Accumulated interest and penalties was \$0.2 million at adoption of FIN 48. We recorded less than \$0.1 million of interest and penalties in our current income tax provision for the three months ended December 31, 2007.

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

The Company files income tax returns in the United States Federal jurisdiction and in various state and foreign jurisdictions. The Company is no longer subject to US Federal income tax examinations for years before 2004 and is no longer subject to state and local, or foreign income tax examinations by tax authorities for years before 2002.

### *Legal and Settlement Expense*

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

### *Stock-Based Compensation*

The Company's Board of Directors established stock option plans during 1997 pursuant to which the Company may grant non-qualified stock options to officers, employees and directors of the Company. Such plans also provide for stock awards and direct purchases of the Company's common stock. At December 31, 2007, the Board of Directors had reserved 8.1 million shares of common stock for issuance under the Company's stock option plans. At December 31, 2007, approximately 1.9 million shares remained available for grants under the Company's stock option plans.

Stock options are granted at exercise prices equal to the fair market value of the Company's common stock at the date of grant. Stock options generally vest ratably over a period of four years and, beginning in fiscal 2005, expire six years after date of grant. Options issued prior to fiscal 2005 expire ten years after date of grant. For the three months ended December 31, 2006, compensation expense recognized related to stock options was \$1.0 million. Compensation expense recognized related to stock options was \$1.0 million for the three months ended December 31, 2007, which includes \$0.5 million to correct for an understatement of compensation expense related to estimated forfeiture rates being applied to fully vested stock options in fiscal 2006 and 2007.

The Company also issues Restricted Stock Units (RSUs) to certain executive officers and employees under its 1997 Equity Incentive Plan (Plan). Generally, these RSUs vest ratably over six years with full vesting upon the sixth anniversary of the date of grant, provided, however, that the vesting will accelerate if the Company meets certain earnings targets determined by the Board of Directors. The fair value of the RSUs, based on the Company's stock price at the grant date, is expensed over the vesting period. Compensation expense recognized related to RSUs was less than \$0.1 million for the three months ended December 31, 2006. During the first quarter of fiscal 2007, the Company increased its estimate of RSU forfeitures based upon historical data, which resulted in a \$0.8 million reduction to compensation expense for the three months ended December 31, 2006. Compensation expense recognized related to RSUs was \$2.6 million for the three months ended December 31, 2007, which includes \$1.7 million to correct for an understatement of compensation expense related to estimated forfeiture rates being applied to fully vested RSUs in fiscal 2006 and 2007.

## **2. Comprehensive Income (Loss)**

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

Comprehensive income (loss) includes net income (loss), plus changes in cumulative foreign currency translation adjustments. The components of comprehensive income (loss) for the three months ended December 31, 2006 and 2007 are as follows:

(in thousands)	Three months Ended December 31,	
	2006	2007
Net income (loss)	\$ (10,395)	\$ 10,605
Foreign currency translation adjustments	1,216	(127)
Comprehensive income (loss)	\$ (9,179)	\$ 10,478

### 3. Deferred Contract Costs

Deferred contract costs consist of contractually recoverable direct set-up costs relating to long-term service contracts in progress. These costs include direct and incremental costs incurred prior to the commencement of the Company providing contracted services to our customers. These costs totaled \$28.6 million and \$29.4 million at September 30, 2007 and December 31, 2007, respectively, of which \$7.6 million consisted of leased equipment. Deferred contract costs are expensed ratably as services are provided under the contracts. At September 30, 2007 and December 31, 2007, accumulated amortization of deferred contract costs was \$20.5 million and \$21.7 million, of which \$5.7 million and \$6.0 million is the accumulated amortization of capital lease assets included in deferred costs, respectively.

#### 4. Intangible Assets

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

	As of September 30, 2007			As of December 31, 2007		
	Cost	Accumulated amortization	Intangible assets, net	Cost	Accumulated amortization	Intangible assets, net
Non-competition agreements	\$3,275	\$3,257	\$18	\$3,275	\$3,266	\$9
Technology-based intangibles	4,870	3,421	1,449	4,870	3,643	1,227
Customer contracts and relationships	6,475	4,339	2,136	6,475	4,510	1,965
Total	\$14,620	\$11,017	\$3,603	\$14,620	\$11,419	\$3,201

Intangible assets from acquisitions are amortized over five to ten years. The weighted-average amortization period for intangible assets is approximately six years. Intangible amortization expense was \$0.5 million and \$0.4 million for the three months ended December 31, 2006 and 2007, respectively. The estimated amortization expense for the years ending September 30, 2008, 2009, 2010, 2011 and 2012 is \$1.5 million, \$1.1 million, \$0.4 million, \$0.4 million, and \$0.2 million, respectively.

#### 5. Commitments and Contingencies

##### *Litigation*

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

(a) In January 2007, MAXIMUS delivered to Accenture LLP a written formal demand for arbitration to resolve disputes relating to the Company's role as a subcontractor in support of Accenture's prime contract with the Texas Health and Human Services Commission ( HHSC ) for the Integrated Eligibility and Enrollment Services program (the Program ). The Company's claims include (i) Accenture's attempt to misappropriate the Company's intellectual property, (ii) Accenture's failure to deliver required technology under the subcontract, (iii) Accenture's unilateral negotiation of issues with HHSC having a direct effect on the Company, (iv) Accenture's unfounded assertions that the Company had breached its obligations with respect to the Children's Health Insurance Program ( CHIP ) operations under the subcontract, and (v) Accenture's imposition of excessive and unsubstantiated cover costs on the Company arising out of the amendment to the subcontract entered into in June 2006. MAXIMUS seeks to recover its damages which it believes exceed \$100.0 million. Accenture submitted a response disputing MAXIMUS' claims and asserting a counterclaim that MAXIMUS breached the subcontract. Accenture seeks unspecified damages which it has stated could be hundreds of millions of dollars. The subcontract incorporated the terms and conditions of the prime contract which contains a limitation of liability of \$250.0 million.

Also in January 2007, Accenture delivered a letter purporting to declare the Company in default of its obligations under that subcontract. The letter stated that Accenture planned to exercise step-in rights with respect to certain management and supervisory services provided by the Company for the CHIP operations. The letter also stated that Accenture intended to partially terminate the subcontract as of February 5, 2007 with respect to the Company's obligations regarding CHIP integrated eligibility services. The letter included a proposed turnover plan for

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

transitioning the CHIP services from the Company to Accenture. Accenture has alleged that the Company owes damages relating to the CHIP operations of at least \$45.0 million plus \$30.0 million in indemnification for amounts that Accenture agreed to pay to HHSC.

In February 2007, MAXIMUS terminated its subcontract with Accenture. In March 2007, HHSC announced that it was winding down its contract with Accenture. In connection with that process, MAXIMUS has entered into agreements directly with HHSC to provide enrollment broker, CHIP operations and eligibility support services. The contracts for CHIP operations and eligibility support services run through December 31, 2008, and the enrollment broker contract runs through August 31, 2010.

The Company believes that its positions are meritorious and that Accenture's positions are without merit, including Accenture's unjustified issuance of a default notice with respect to the CHIP operations. During the fiscal year ended September 30, 2007, the Company recorded \$10.0 million in legal costs related to the arbitration. This amount represents costs incurred through December 31, 2007 of \$9.0 million and an estimate of future probable legal costs of \$1.0 million. It is reasonably possible that the estimate of future probable legal costs of \$1.0 million will change due to future developments. The Company will continue to aggressively pursue its rights and remedies against Accenture to resolve the current dispute. The arbitration hearing has been postponed and a new schedule has not yet been established but it will not likely occur this fiscal year. The Company cannot predict the outcome of the arbitration proceedings or any settlement negotiations or the impact they may have on the Company's operating results or financial condition, and therefore no accrual for this loss contingency has been recorded on the balance sheet.

(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 has breached its contract with the State. During the fiscal year ended September 30, 2007, the Company recorded \$0.2 million in legal costs related to this matter. Through December 31, 2007 the Company had incurred costs of \$0.1 million and accrued an estimate of future probable legal costs of \$0.1 million. The Company cannot predict the outcome of the legal proceedings or any settlement negotiations or the impact they may have on the Company's operating results or financial condition.

(c) In December 2007, the Company was sued by Image API in the District Court of Travis County, Texas. The plaintiff was a subcontractor to MAXIMUS under the Integrated Eligibility and Enrollment Services program (the Program) with HHSC. As described above, MAXIMUS was a subcontractor to Accenture under the Program until February 2007. The Company and Image API had a number of disagreements under their subcontract regarding Image API's performance and scope of responsibilities. Following the termination of the Company's subcontract with Accenture, the Company and Image API were not able to agree on the role Image API would play in support of MAXIMUS' new agreements with HHSC, and Image API terminated its services. The plaintiff has asserted a variety of claims including breach of contract, fraud, misrepresentation, business disparagement and trade secret misappropriation. MAXIMUS denies those allegations. The plaintiff claims damages due to the loss of compensation expected under its subcontract with MAXIMUS in an amount exceeding \$30.0 million. The Company believes the nature and the amount of the asserted claims are without merit and intends to defend the matter vigorously. Nevertheless, 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.

#### *Credit Facilities and Performance Bonds*

In June 2003, in connection with a long-term contract, the Company issued a standby letter of credit in an initial amount of up to \$20.0 million, which amount was reduced to \$10.0 million on April 1, 2005. The letter of credit, which expires on March 31, 2009, may be called by the customer in the event the Company defaults under the terms of the contract. In March 2006, in connection with another long-term contract, the Company issued a standby letter of credit in the amount of \$4.0 million. The letter of credit, which expires on September 30, 2008, may be called by the customer in the event the Company defaults under the terms of the contract. The Company also has two letters of credit in connection with insurance policies, which total approximately \$0.5 million. The letters of credit for insurance policies expire in May 2008 and automatically renew annually, thereafter. The letters of credit, as amended by the Company and its lender on December 20, 2006, contain financial covenants that establish minimum levels of tangible net worth, earnings before interest, tax, depreciation and amortization (EBITDA), cash balances and a maximum level of losses on the Texas Integrated Eligibility project. The Company was in compliance with all covenants as of December 31, 2007.



Edgar Filing: MAXIMUS INC - Form 10-Q

In January 2008, the Company entered into a \$50.0 million senior revolving credit facility with a financial institution. See Note 13. Subsequent Events for additional information.

At December 31, 2006 and 2007, the Company had performance bond commitments totaling \$96.6 million and \$87.7 million, respectively.

*Lease Obligations*

On July 15, 2003, the Company entered into a capital lease financing arrangement with a financial institution, whereby the Company acquired assets pursuant to an equipment lease agreement. Rental payments for assets leased are payable over a 60-month period at an interest rate of 4.05% commencing in January 2004. On March 29, 2004, the Company entered into a supplemental capital lease financing arrangement with the same financial institution whereby the Company acquired additional assets pursuant to an equipment lease agreement. Rental payments for assets leased under the supplemental arrangement are payable over a 57-month period at an interest rate of 3.61% commencing in April 2004. Capital lease obligations of \$2.0 million and \$1.6 million were outstanding related to these lease arrangements for new equipment at September 30, 2007 and December 31, 2007, respectively.

**6. Earnings (Loss) Per Share**

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

	<b>Three Months Ended December 31,</b>	
	<b>2006</b>	<b>2007</b>
<b>Numerator:</b>		
Net income (loss)	\$ (10,395)	\$ 10,605
<b>Denominator:</b>		
Basic weighted average shares outstanding	21,590	20,506
<b>Effect of dilutive securities:</b>		
Employee stock options and unvested restricted stock awards		348
Denominator for diluted earnings (loss) per share	21,590	20,854

In computing diluted loss per share for the three months ended December 31, 2006, employee stock options and unvested restricted stock units aggregating 206,000 were excluded from the computation of diluted loss per share as a result of their antidilutive effect.

**7. Stock Repurchase Programs**

Under resolutions adopted in May 2000, July 2002, and March 2003, the Board of Directors has authorized the repurchase, at management's discretion, of up to an aggregate of \$90.0 million of the Company's common stock. In addition, in June 2002, the Board of Directors authorized the use of option exercise proceeds for the repurchase of the Company's common stock. During the three months ended December 31, 2006, and December 31, 2007, the Company did not repurchase any shares under these authorizations. At December 31, 2007, approximately \$41.5

million remained available for future stock repurchases under these authorizations.

On July 23, 2007, the Company announced that it had retained UBS Investment Bank as a financial advisor to assist the Board of Directors in exploring strategic alternatives to enhance shareholder value, including a possible sale of the Company. On November 14, 2007, the Company announced that its Board of Directors had completed its process to explore strategic alternatives and had authorized the repurchase of up to \$150.0 million of the Company's outstanding common stock under an Accelerated Share Repurchase ( ASR ) program. After a thorough review process, the Board of Directors concluded that launching a \$150.0 million ASR program, concentrating the Company's strategic focus on core health and human services offerings and considering alternatives for certain non-core assets, provides the best opportunity to maximize shareholder value, reflecting the Company's strong financial position and future growth prospects.

In connection with the ASR program, the Company entered into an ASR agreement with UBS Investment Bank on November 15, 2007. Under the ASR agreement, the Company acquired and retired 3,758,457 shares at an initial price of \$39.91 per

share for \$150.0 million plus fees of approximately \$0.4 million. UBS will purchase an equivalent number of shares in the open market over the nine-month period ending August 15, 2008. At the completion of the ASR agreement, the Company's initial price under the ASR agreement will be adjusted up or down based on the volume-weighted average price ( VWAP ) of the stock during this period. Such adjustment may be settled in cash or stock at the Company's discretion. At December 31, 2007, the price adjustment that the Company would receive approximated \$8.3 million. The repurchase agreement caps the number of shares that could be required to be issued at 10,800,000. The forward contract for the price adjustment is accounted for as an equity instrument and changes in its fair value are not recorded during the contract period. Upon settlement, the price adjustment will be recorded as equity.

## 8. Segment Information

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

	Three Months Ended December 31,	
	2006	2007
<b>Revenue:</b>		
Consulting	\$ 24,656	\$ 22,156
Systems	34,541	33,995
Operations	101,941	145,799
Total	\$ 161,138	\$ 201,950
<b>Income (loss) from operations:</b>		
Consulting	\$ 2,815	\$ 1,151
Systems	(1,597)	(3,141)
Operations	(16,044)	18,734
Consolidating adjustments	451	(230)
Legal and settlement expense	(3,000)	
Total	\$ (17,375)	\$ 16,514

## 9. Recent Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, which is effective in fiscal years beginning after November 15, 2007, which is the Company's 2009 fiscal year. SFAS No. 157 defines fair value, establishes a market-based framework or hierarchy for measuring fair value and expands disclosures about fair value measurements. The new standard is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value, with limited exceptions. We are in the process of reviewing and evaluating SFAS No. 157, and therefore the ultimate impact of its adoption is not yet known.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115, which is effective in fiscal years beginning after November 15, 2007, which is the Company's 2009 fiscal year. SFAS No. 159 permits entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. We are in the process of reviewing and evaluating SFAS No. 159, and therefore the ultimate impact of its adoption is not yet known.

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

In December 2007, the FASB issued SFAS No. 141 (revised) ( SFAS 141(R) ), Business Combinations, which is effective for business combinations entered into in fiscal years beginning on or after December 15, 2008, which is the Company's 2010 fiscal year. Early adoption of the standard is prohibited. Under SFAS 141(R), more transactions will be recorded as business combinations, as it changes the definitions of a business, which would no longer be required to be self-sustaining or revenue generating, and a business combination, which would include combinations that occur by contract alone or due to changes in substantive participation rights, such as a lapse in minority veto rights. Certain acquired contingencies will be recorded initially at fair value on the acquisition date. After the acquisition, if new information is available, contingent liabilities will be measured at the higher of the likely amount to be paid and the acquisition-date fair value. Contingent assets will be measured subsequently at the lower of the

current estimated future amount to be realized and the acquisition-date fair value. Transaction and restructuring costs generally will be expensed as incurred. In partial acquisitions, companies generally will record 100 percent of the assets and liabilities at fair value, including goodwill. This will likely result in higher related depreciation and amortization charges in subsequent periods than under the current standard. SFAS 141(R) will only impact us if we acquire businesses subsequent to the effective date of the standard.

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

#### **10. Texas Integrated Eligibility Project**

During the three months ended December 31, 2006, the Texas Integrated Eligibility project adversely impacted our results by \$27.0 million, which included a pre-tax operating loss of \$11.9 million; a provision of \$12.1 million for outstanding receivables; and a provision of \$3.0 million for future probable legal expenses related to the ongoing arbitration process with Accenture. Under that project, we served as a subcontractor to Accenture as part of the Texas Access Alliance which provided services under the Texas Health and Human Services Commissions Integrated Eligibility Program. We were awarded the five-year, \$370 million subcontract in June 2005. That subcontract has since been terminated, and we have entered into contracts directly with the State. See Note 5. Commitments and Contingencies above and Special Considerations and Risk Factors in Exhibit 99.1 for additional information.

#### **11. Legal and Settlement Expense**

Legal and settlement expense consists of costs, net of reimbursed insurance claims, related to significant legal settlements and non-routine legal matters, including future probable legal costs estimated to be incurred in connection with those matters. Legal expenses incurred in the ordinary course of business are included in selling, general and administrative expense. During the quarter ended December 31, 2006, the Company recorded a provision of \$3.0 million for future probable legal costs in connection with its formal demand for arbitration to resolve disputes relating to the Company's role as a subcontractor to Accenture on the Texas Integrated Eligibility project. No additional costs related to future probable legal expenses were accrued during the quarter ended December 31, 2007.

#### **12. Sales of Business**

On October 5, 2006, the Company sold its Corrections Services business for proceeds of \$2.2 million, net of transaction costs of \$0.8 million, and recognized a pre-tax gain on the sale of \$0.7 million. During the fiscal year ended September 30, 2006, this business had revenue of \$9.1 million and generated an operating loss of approximately \$0.6 million.

### 13. Subsequent Events

On January 14, 2008, the Company's Board of Directors declared a quarterly cash dividend of \$0.10 for each share of the Company's common stock outstanding. The dividend is payable on February 29, 2008, to shareholders of record on February 15, 2008.

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 \$50.0 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.

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%) (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 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.

The Credit Facility 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'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.



**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, 2007, filed with the Securities and Exchange Commission on December 13, 2007.*

**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 this Quarterly Report on Form 10-Q and incorporated herein by reference.

**Business Overview**

We are a leading provider of consulting, systems solutions and operations program management primarily to government. Since our inception, we have been at the forefront of innovation in meeting our mission of Helping Government Serve the People®. We use our expertise, experience and advanced information technology to make government operations more efficient while improving the quality of services provided to program beneficiaries. We operate primarily in the United States, and we have had contracts with government agencies in all 50 states, Canada, Australia, Israel, and the United Kingdom. For the fiscal year ended September 30, 2007, we had revenue of \$738.6 million and net loss of \$8.3 million. For the three months ended December 31, 2007, we had revenue of \$202.0 million and net income of \$10.6 million.

**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,	
	2006	2007
Revenue	\$ 161,138	\$ 201,950
Gross profit	\$ 20,278	\$ 52,767
Legal and settlement expense	\$ 3,000	
Income (loss) from operations	\$ (17,375)	\$ 16,514
Operating margin (loss) percentage	(10.8)%	8.2%
Selling, general and administrative expense	\$ 34,653	\$ 36,253
Selling, general and administrative expense as a percentage of revenue	21.5%	18.0%
Net income (loss)	\$ (10,395)	\$ 10,605
<b>Earnings (loss) per share:</b>		
Basic	\$ (0.48)	\$ 0.52
Diluted	\$ (0.48)	\$ 0.51

Revenue for the three months ended December 31, 2007 was \$202.0 million, compared to \$161.1 million for the same period in fiscal 2007. The increase in revenue is attributable to organic growth driven by new work in the Operations Segment. Income from operations for the three months ended December 31, 2007 was \$16.5 million, compared to a loss from operations of \$17.4 million for the same period in fiscal 2007. The increase in income from operations is driven by improvements in the Operations Segment related to the optimization of the business portfolio; new awards; and the resolution of certain legacy contracts, including the transformation of the Texas contract to a direct service agreement.

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, 2007 was 18.0 %, compared to 21.5% for the same period in fiscal 2007. In the first quarter of fiscal 2007, SG&A as a percentage of revenue was impacted by the reductions in revenue of approximately \$15.7 million in the quarter as a result of provisions recorded on the Texas Integrated Eligibility and Ontario Child Support systems implementation projects.

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

Also included in SG&A were \$3.6 million and \$1.0 million of non-cash, equity-based compensation related to stock options and RSUs for the three months ended December 31, 2007 and 2006, respectively. During the three months ended December 31, 2007 the Company identified an error in prior periods in recorded stock-based compensation expense related to stock options and RSUs. The error was due, in part, to how the software used by the Company applied estimated forfeiture rates to fully vested stock options and RSUs. The impact was an underestimated stock compensation expense by \$1.1 million in each of fiscal 2006 and 2007. The Company has corrected this error by recording additional stock compensation expense of \$2.2 million for a total non-cash equity based expense in the first quarter of fiscal 2008 of \$3.6 million.

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

Provision for income taxes for the three months ended December 31, 2007 was 41.1% of income before income taxes, compared to (35.9)% of loss before income taxes for the first quarter of fiscal 2007. During the three months ended December 31, 2006, our historical effective income tax rate was impacted by approximately 4 percentage points as a result of recording a \$0.7 million valuation allowance on certain deferred tax assets. At September 30, 2006, the Company recorded deferred tax assets related to a foreign subsidiary's net operating losses that were considered realizable at that time. As a result of events occurring during the first fiscal quarter of 2007 impacting the subsidiary's operating results for that period, the need for a valuation allowance was re-evaluated. It was determined that it was no longer more-likely-than-not that these net operating losses would be realized, and consequently, the Company recorded the valuation allowance. The fiscal 2008 first quarter includes discrete items related to the adoption of FIN 48.

Net income for the three months ended December 31, 2007 was \$10.6 million, or \$0.51 per diluted share, compared with a net loss of \$10.4 million, or \$0.48 per diluted share, for the same period in fiscal 2007. The increase in net income of \$21.0 million is primarily attributable to the aforementioned reasons listed above that also increased the Company's operating income.

### *Consulting Segment*

(dollars in thousands)	Three months ended December 31,	
	2006	2007
Revenue	\$ 24,656	\$ 22,156
Gross profit	10,907	8,488
Operating income	2,815	1,151
Operating margin percentage	11.4%	5.2%

The Consulting Segment is comprised of financial services (which include child welfare, cost services, educational services and revenue services), technical services, and Unison (airport consulting services). Revenue decreased 10.1% for the three months ended December 31, 2007, compared to the same period in fiscal 2007. Operating margin percentage decreased to 5.2% for the three months ended December 31, 2007 from 11.4% in the same period in fiscal 2007. The decrease in revenue and operating margin percentage compared to the same period last year is primarily attributable to the financial services division due to the shift away from contingent-based federal healthcare claiming work and incurring additional project costs to develop new market areas.

### *Systems Segment*

(dollars in thousands)	Three months ended December 31,	
	2006	2007
Revenue	\$ 34,541	\$ 33,995
Gross profit	8,551	8,937
Operating income (loss)	(1,597)	(3,141)
Operating margin (loss) percentage	(4.6)%	(9.2)%

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

The Systems Segment develops and implements both third party and proprietary software in five divisions: justice solutions, asset solutions, educational systems, security solutions, and enterprise resource planning (ERP) solutions. Revenue decreased 1.6% for the three months ended December 31, 2007, compared to the same period in fiscal 2007. The decrease in revenue is primarily due to lower license revenue as compared to the same period in fiscal 2007. Loss from operations for the three months ended December 31, 2007 increased by \$1.5 million compared to the same period in fiscal 2007. The increase in loss from operations of \$1.5 million is primarily attributable to lower license revenue, investments in software development, and higher than anticipated installation costs in certain contracts in the educational systems and justice solutions divisions.

*Operations Segment*

(dollars in thousands)	Three months ended December 31,	
	2006	2007
Revenue	\$ 101,941	\$ 145,799
Gross profit	820	35,342
Operating income (loss)	(16,044)	18,734
Operating margin (loss) percentage	(15.7)%	12.8%

The Operations Segment includes health services, human services, and federal outsourcing and operations work. Revenue increased 43.0% for the three months ended December 31, 2007, compared to the same period in fiscal 2007. Income from operations for the three months ended December 31, 2007 was \$18.7 million, compared to a loss from operations of \$16.0 million for the same period in fiscal 2007. The increase in income from operations is driven by improvements related to the optimization of the business portfolio; new awards; and the resolution of certain legacy contracts, including the transformation of the Texas contract to a direct service agreement.

**Interest and Other Income, Net**

(dollars in thousands)	Three months ended December 31,	
	2006	2007
Interest and other income, net	\$ 477	\$ 1,501
Percentage of revenue	0.3%	0.7%

Interest and other income for the three months ended December 31, 2007 was \$1.5 million, compared to \$0.5 million for the same period in fiscal 2007. The increase in interest and other income of \$1.0 million is primarily attributable to a weakening of the Canadian dollar which resulted in \$0.8 million of unrealized, non-cash foreign currency losses on loans to our Canadian subsidiaries for the three months ended December 31, 2006, compared to \$0.2 million of unrealized, non-cash foreign currency gains for the three months ended December 31, 2007.

**Liquidity and Capital Resources**

(dollars in thousands)	Three months ended December 31,	
	2006	2007
Net cash provided by (used in):		
Operating activities	\$ 7,626	\$ 20,789
Investing activities	(24,547)	122,077
Financing activities	(660)	(151,059)
Net decrease in cash and cash equivalents	\$ (17,581)	\$ (8,193)

Cash provided by operating activities for the three months ended December 31, 2007 was \$20.8 million, compared to \$7.6 million for the same period in fiscal 2007. Cash provided by operating activities for the three months ended December 31, 2007 consisted of net income of \$10.6 million and non-cash items aggregating \$12.8 million, plus cash provided by decreases in deferred contract costs of \$0.4 million and other assets of \$0.1 million, offset by cash used in working capital changes of \$3.1 million. Non-cash items consisted of depreciation and amortization of \$5.0 million, non-cash equity based compensation of \$3.6 million and deferred income taxes of \$4.2 million. Cash used in working capital changes reflected decreases in accounts payable of \$2.0 million, accrued compensation and benefits of \$3.7 million, deferred revenue of \$1.0 million, income tax payable of \$3.1 million and other liabilities of \$0.9 million, and an increase in accounts receivable-unbilled of \$7.6 million, offset by decreases in accounts receivable-billed of \$13.7 million and prepaid expenses and other current assets of \$1.5 million.

Cash provided by operating activities for the three months ended December 31, 2006 was \$7.6 million and consisted of net loss of \$10.4 million and non-cash items aggregating \$0.3 million, plus cash provided by working capital changes of \$14.2 million, plus cash provided by decreases in deferred contract costs of \$1.4 million and other assets of \$2.1 million. Non-cash items consisted of depreciation and amortization of \$5.1 million and non-cash equity based compensation of \$1.0 million, offset by deferred income taxes of \$5.1 million and gain on sale of business of \$0.7 million. Cash provided by working capital changes reflected decreases in accounts receivable-billed of \$26.5 million and accounts receivable-unbilled of \$6.7 million, and an increase in other liabilities of \$0.8 million, offset by decreases in accounts payable of \$9.6 million, accrued compensation and benefits of \$2.3 million, deferred revenue of \$5.7 million and income taxes of \$2.0 million, and an increase in prepaid expenses of \$0.2 million.

Cash provided by investing activities for the three months ended December 31, 2007 was \$122.1 million, compared to \$24.5 million of cash used in investing activities for the same period in fiscal 2007. Cash provided by investing activities for the three months ended December 31, 2007 consisted of net maturities of marketable securities of \$126.2 million, offset by purchases of property and equipment of \$2.5 million and expenditures for capitalized software costs of \$1.6 million. Cash used in investing activities for the three months ended December 31, 2006 was \$24.5 million and consisted of purchases of marketable securities (net) of \$24.5 million, purchases of property and equipment of \$1.9 million, expenditures for capitalized software costs of \$0.3 million, offset by proceeds from the sale of business of \$2.2 million.

Cash used in financing activities for the three months ended December 31, 2007 was \$151.1 million, compared to \$0.7 million for the same period in fiscal 2007. Cash used in financing activities for the three months ended December 31, 2007 consisted of repurchase of shares under the Accelerated Share Repurchase program plus related fees of \$150.4 million, dividends paid of \$2.2 million and principal payments on capital leases of \$0.4 million, offset by the exercise of employee stock options of \$1.7 million and equity-based tax benefits of \$0.3 million. Cash used in financing activities for the three months ended December 31, 2006 consisted of dividends paid of \$2.2 million and principal payments on capital leases of \$0.4 million, offset by the exercise of employee stock options of \$1.5 million and equity-based tax benefits of \$0.4 million.





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

Under resolutions adopted in May 2000, July 2002, and March 2003, the Board of Directors authorized the repurchase, at management's discretion, of up to an aggregate of \$90.0 million of the Company's common stock. Also, in June 2002, the Board of Directors authorized the use of option exercise proceeds for the repurchase of the Company's common stock. In addition, in November 2007, the Board of Directors authorized \$150.0 million for an Accelerated Share Repurchase (ASR) program. In November 2007, the company repurchased \$150.0 million of the Company's common stock under the ASR program. At December 31, 2007, approximately \$41.5 million remained available for future stock repurchases under the previous authorizations.

Our working capital at December 31, 2007 was \$130.6 million. At December 31, 2007, we had cash, cash equivalents, and marketable securities of \$62.3 million and no debt, except for lease obligations. Management believes this liquidity and financial position, along with the revolving credit facility discussed below, provides sufficient liquidity to continue any contemplated stock repurchase program (depending on the price of the Company's common stock), to pursue selective acquisitions, and to consider the continuation of dividends on a quarterly basis. Restricted cash 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 resulted 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, 2007, \$7.7 million in net costs had been incurred and reported as deferred contract costs on our December 31, 2007 consolidated balance sheet.

In June 2003, in connection with a long-term contract, the Company issued a standby letter of credit in an initial amount of up to \$20.0 million, which amount was reduced to \$10.0 million on April 1, 2005. The letter of credit, which expires on March 31, 2009, may be called by the customer in the event the Company defaults under the terms of the contract. In March 2006, in connection with another long-term contract, the Company issued a standby letter of credit in the amount of \$4.0 million. The letter of credit, which expires on September 30, 2008, may be called by the customer in the event the Company defaults under the terms of the contract. The Company also has two letters of credit in connection with insurance policies, which total approximately \$0.5 million. The letters of credit for insurance policies expire in May 2008 and automatically renew annually, thereafter. The letters of credit, as amended by the Company and its lender on December 20, 2006, contain financial covenants that establish minimum levels of tangible net worth, earnings before interest, tax, depreciation and amortization (EBITDA), cash balances and a maximum level of losses on the Texas Integrated Eligibility project. The Company was in compliance with all covenants as of December 31, 2007.

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 \$50.0 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.

In July 2003, we entered into a capital lease financing arrangement with a financial institution whereby we acquired assets pursuant to an equipment lease agreement. Rental payments for assets leased are payable over a 60-month period at an interest rate of 4.05% commencing in January 2004. In March 2004, we entered into a supplemental capital lease financing arrangement with the same financial institution whereby we acquired additional assets pursuant to an equipment lease agreement. Rental payments for assets leased under the supplemental arrangement are payable over a 57-month period at an interest rate of 3.61% commencing in April 2004. At December 31, 2007, capital lease obligations of \$1.6 million were outstanding related to these lease arrangements for new equipment.

At December 31, 2007, we classified accounts receivable of \$1.8 million, net of a \$0.6 million discount, as long-term receivables and reported them within the other assets category on our consolidated balance sheet. These receivables had extended payment terms and collection was expected to exceed one year.

On January 14, 2008, the Company's Board of Directors declared a quarterly cash dividend of \$0.10 for each share of the Company's common stock outstanding. The dividend is payable on February 29, 2008, to shareholders of record on February 15, 2008.

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

### **Critical Accounting Policies and Estimates**

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

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

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

*Revenue Recognition.* In fiscal 2007, approximately 75% of our total revenue was derived from state and local government agencies; 7% from federal government agencies; 13% from foreign customers; and 5% from other sources, such as commercial customers. Revenue is generated from contracts with various pricing arrangements, including: (1) fixed-price; (2) performance-based criteria; (3) costs incurred plus a negotiated fee (cost-plus); and (4) time and materials. Also, some contracts contain not-to-exceed provisions. Of the contracts with not-to-exceed provisions, to the extent we estimate we will exceed the contractual limits, we treat these contracts as fixed price. For fiscal 2007, revenue from fixed-price contracts was approximately 41% of total revenue; revenue from performance-based contracts was approximately 37% of total revenue; revenue from cost-plus contracts was approximately 15% of total revenue; and revenue from time and materials contracts was approximately 7% of total revenue. A majority of the contracts with state and local government agencies have been fixed-price and performance-based, and our contracts with the federal government generally have been cost-plus. Fixed-price and performance-based contracts generally offer higher margins but typically involve more risk than cost-plus or time and materials reimbursement contracts.

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

We recognize revenue on fixed-priced contracts when earned, as services are provided. For certain fixed-price contracts, primarily systems design, development and implementation, we recognize revenue based on costs incurred using estimates of total expected contract revenue and costs to be incurred in accordance with the provisions of AICPA Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts ( SOP 81-1 ). The cumulative impact of any revisions in estimated revenue and costs is recognized in the period in which the facts that give rise to the revision become known. For other fixed-price contracts, revenue is recognized on a straight-line basis unless evidence suggests that revenue is earned or obligations are fulfilled in a different pattern. With fixed-price contracts, we are subject to the risk of potential cost overruns. For fixed-price contracts accounted for under SOP 81-1, provisions for estimated losses on incomplete contracts are provided in full in the period in which such losses become known. Costs related to contracts may be incurred in periods prior to recognizing revenue. These costs are generally expensed. However, certain direct and incremental set-up costs may be deferred until services are provided and revenue begins to be recognized, when such costs are recoverable from a contractual arrangement. Set-up costs are costs related to

activities that enable us to provide contractual services to a client. The timing of expense recognition may result in irregular profit margins.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We have deferred tax assets due to net operating loss carryforwards in our Canadian subsidiaries, the utilization of which is not assured and is dependent on generating sufficient taxable income in the future. These net operating loss carryforwards may be used to offset taxable income in

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

future periods, reducing the amount of taxes we might otherwise be required to pay. A valuation allowance is recognized if, based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax asset will not be realized. In the event that actual circumstances differ from management's estimates, or to the extent that these estimates are adjusted in the future, any changes to the valuation allowance could be material.

Effective October 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109, ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income tax positions. FIN 48 provides that the financial statement effects of an income tax position can only be recognized when, based on the technical merits, it is more-likely-than-not that the position will be sustained upon examination. The cumulative effect of applying the provisions of FIN 48 was a \$0.3 million decrease to the beginning balance of retained earnings in our consolidated balance sheet.



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

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

**Item 4. Controls and Procedures.**

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Control over Financial Reporting

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.

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

(a) In January 2007, MAXIMUS delivered to Accenture LLP a written formal demand for arbitration to resolve disputes relating to the Company's role as a subcontractor in support of Accenture's prime contract with the Texas Health and Human Services Commission ( HHSC ) for the Integrated Eligibility and Enrollment Services program (the Program ). The Company's claims include (i) Accenture's attempt to misappropriate the Company's intellectual property, (ii) Accenture's failure to deliver required technology under the subcontract, (iii) Accenture's unilateral negotiation of issues with HHSC having a direct effect on the Company, (iv) Accenture's unfounded assertions that the Company had breached its obligations with respect to the Children's Health Insurance Program ( CHIP ) operations under the subcontract, and (v) Accenture's imposition of excessive and unsubstantiated cover costs on the Company arising out of the amendment to the subcontract entered into in June 2006. MAXIMUS seeks to recover its damages which it believes exceed \$100.0 million. Accenture submitted a response disputing MAXIMUS' claims and asserting a counterclaim that MAXIMUS breached the subcontract. Accenture seeks unspecified damages which it has stated could be hundreds of millions of dollars. The subcontract incorporated the terms and conditions of the prime contract which contains a limitation of liability of \$250.0 million.

Also in January 2007, Accenture delivered a letter purporting to declare the Company in default of its obligations under that subcontract. The letter stated that Accenture planned to exercise step-in rights with respect to certain management and supervisory services provided by the Company for the CHIP operations. The letter also stated that Accenture intended to partially terminate the subcontract as of February 5, 2007 with respect to the Company's obligations regarding CHIP integrated eligibility services. The letter included a proposed turnover plan for transitioning the CHIP services from the Company to Accenture. Accenture has alleged that the Company owes damages relating to the CHIP operations of at least \$45.0 million plus \$30.0 million in indemnification for amounts that Accenture agreed to pay to HHSC.

In February 2007, MAXIMUS terminated its subcontract with Accenture. In March 2007, HHSC announced that it was winding down its contract with Accenture. In connection with that process, MAXIMUS has entered into agreements directly with HHSC to provide enrollment broker, CHIP operations and eligibility support services. The contracts for CHIP operations and eligibility support services run through December 31, 2008, and the enrollment broker contract runs through August 31, 2010.

The Company believes that its positions are meritorious and that Accenture's positions are without merit, including Accenture's unjustified issuance of a default notice with respect to the CHIP operations. During the fiscal year ended September 30, 2007, the Company recorded \$10.0 million in legal costs related to the arbitration. This amount represents costs incurred through December 31, 2007 of \$9.0 million and an estimate of future probable legal costs of \$1.0 million. It is reasonably possible that the estimate of future probable legal costs of \$1.0 million will change due to future developments. The Company will continue to aggressively pursue its rights and remedies against Accenture to resolve the current dispute. The arbitration hearing has been postponed and a new schedule has not yet been established, but it will not likely occur this fiscal year. The Company cannot predict the outcome of the arbitration proceedings or any settlement negotiations or the impact they may have on the Company's operating results or financial condition, and therefore no accrual for this loss contingency has been recorded on the balance sheet.

(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 has breached its contract with the State. During the fiscal year ended September 30, 2007, the Company recorded \$0.2 million in legal costs related to this matter. Through December 31, 2007 the Company had incurred costs of \$0.1 million and accrued an estimate of future probable legal costs of \$0.1 million. The Company cannot predict the outcome of the legal proceedings or any settlement negotiations or the impact they may have on the Company's operating results or financial condition.

(c) In December 2007, the Company was sued by Image API in the District Court of Travis County, Texas. The plaintiff was a subcontractor to MAXIMUS under the Integrated Eligibility and Enrollment Services program (the Program) with HHSC. As described above, MAXIMUS was a subcontractor to Accenture under the Program until February 2007. The Company and Image API had a number of disagreements under their subcontract regarding Image API's performance and scope of responsibilities. Following the termination of the Company's subcontract with Accenture, the Company and Image API were not able to agree on the role Image API would play in support of MAXIMUS' new agreements with HHSC, and Image API terminated its services. The plaintiff has asserted a variety of claims including breach of contract, fraud, misrepresentation, business disparagement and trade secret misappropriation. MAXIMUS denies those allegations. The plaintiff claims damages due to the loss of compensation expected under its subcontract with MAXIMUS in an amount exceeding \$30.0 million. The Company believes the nature and the amount of the asserted claims are without merit and intends to defend the matter vigorously. Nevertheless, 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.

#### **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, 2007 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.**

(c) The following table sets forth the information required regarding repurchases of common stock that we made during the three months ended December 31, 2007:

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, 2007	Oct. 31, 2007				\$ 40,166
Nov. 1, 2007	Nov. 30, 2007	3,758,457	\$ 39.91	3,758,457	\$ 40,921
Dec. 1, 2007	Dec. 31, 2007				\$ 41,530
Total		3,758,457	\$ 39.91	3,758,457	

(1) Under resolutions adopted and publicly announced on May 12, 2000, July 10, 2002, and April 2, 2003, our Board of Directors has authorized the repurchase, at management's discretion, of up to an aggregate of \$90.0 million of common stock under our 1997 Equity Incentive Plan. In addition, in June 2002, the Board of Directors authorized the use of option exercise proceeds for the repurchase of our common stock. Under resolutions adopted and publicly announced on November 14, 2007, our Board of Directors authorized the repurchase of up to \$150.0 million of our common stock under an Accelerated Share Repurchase (ASR) program. Under the ASR agreement with UBS Investment Bank, we acquired 3,758,457 shares of our common stock on November 15, 2007.

**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.



**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 7, 2008

By:

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







**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
3.1	Amended and Restated Bylaws of the Company.
10.1	Purchase Agreement between the Company and UBS AG, London Branch, dated November 15, 2007, incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on November 20, 2007.
10.2	Amended and Restated Income Continuity Program, incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on November 27, 2007.
10.3	First Amendment to the 1997 Equity Incentive Plan, as amended through March 22, 2006, incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on November 27, 2007.
10.4	Deferred Compensation Plan, as amended, incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on November 27, 2007.
10.5	First Amendment to the Executive Employment, Non-Compete and Confidentiality Agreement by and between the Company and Richard A. Montoni, incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed on November 27, 2007.
10.6	Executive Employment, Non-Compete and Confidentiality Agreement by and between the Company and Bruce Caswell, incorporated by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K filed on November 27, 2007.
10.7	First Amendment to the Executive Employment, Non-Compete and Confidentiality Agreement by and between the Company and Bruce Caswell, incorporated by reference to Exhibit 10.6 of the Company's Current Report on Form 8-K filed on November 27, 2007.
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.

