

MAXIMUS INC
Form 10-K
November 19, 2010
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2010

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)

54-100588
(I.R.S. Employer Identification No.)

20190
(Zip Code)

Edgar Filing: MAXIMUS INC - Form 10-K

Registrant's telephone number, including area code: **(703) 251-8500**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Common Stock, no par value	Name of each exchange on which registered New York Stock Exchange
---	--

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

Edgar Filing: MAXIMUS INC - Form 10-K

The aggregate market value of outstanding voting stock held by non-affiliates of the registrant as of March 31, 2010 was \$925,056,016 based on the last reported sale price of the registrant's Common Stock on The New York Stock Exchange as of the close of business on that day.

There were 17,210,381 shares of the registrant's Common Stock outstanding as of November 1, 2010.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2011 Annual Meeting of Shareholders to be held on March 18, 2011, which definitive Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the end of the registrant's fiscal year, are incorporated by reference into Part III of this Form 10-K.

Table of Contents

MAXIMUS, Inc.

Form 10-K

September 30, 2010

Table of Contents

<u>PART I</u>		3
<u>ITEM 1.</u>	<i><u>Business</u></i>	3
<u>ITEM 1A.</u>	<i><u>Risk Factors</u></i>	11
<u>ITEM 2.</u>	<i><u>Properties</u></i>	11
<u>ITEM 3.</u>	<i><u>Legal Proceedings</u></i>	12
<u>PART II</u>		13
<u>ITEM 5.</u>	<i><u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u></i>	13
<u>ITEM 6.</u>	<i><u>Selected Financial Data</u></i>	15
<u>ITEM 7.</u>	<i><u>Management's Discussion and Analysis of Financial Condition and Results of Operation</u></i>	17
<u>ITEM 7A.</u>	<i><u>Quantitative and Qualitative Disclosures About Market Risk</u></i>	29
<u>ITEM 8.</u>	<i><u>Financial Statements and Supplementary Data</u></i>	30
<u>ITEM 9.</u>	<i><u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u></i>	59
<u>ITEM 9A.</u>	<i><u>Controls and Procedures</u></i>	59
<u>PART III</u>		61
<u>ITEM 10.</u>	<i><u>Directors, Executive Officers and Corporate Governance</u></i>	61
<u>ITEM 11.</u>	<i><u>Executive Compensation</u></i>	61
<u>ITEM 12.</u>	<i><u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u></i>	61
<u>ITEM 13.</u>	<i><u>Certain Relationships and Related Transactions, and Director Independence</u></i>	61
<u>ITEM 14.</u>	<i><u>Principal Accounting Fees and Services</u></i>	61
<u>PART IV</u>		62
<u>ITEM 15.</u>	<i><u>Exhibits, Financial Statement Schedules</u></i>	62

Table of Contents

PART I

ITEM 1. Business.

General

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

Our core health and human services business has benefited from steady demand over the last five years. We have not experienced any material adverse change in demand as a result of government budgetary pressures. We believe the critical nature of our services in helping governments provide and administer important safety net programs in the United States, such as Medicaid, welfare-to-work and CHIP, to the most vulnerable populations helps insulate our services from significant downward pressure, particularly during an economic downturn. We also administer several international government-sponsored health and human services programs, most notably welfare-to-work, to help people find employment and achieve self-sufficiency in Australia and the United Kingdom. Favorable legislation and austerity measures that seek to help governments run more efficiently and cost effectively will continue to create demand for our core services.

During fiscal 2010, the Company acquired DeltaWare, an eHealth business in Canada, and sold the non-strategic ERP business unit. In fiscal 2008, MAXIMUS acquired a workforce services business in the United Kingdom and divested five non-core business units. These transactions were designed to allow the Company to better focus on its core health and human services businesses, as well as expand our geographic presence and enhance our service offerings through complementary acquisitions. For more details on these transactions, see Note 3. Acquisition and Note 21. Discontinued Operations within Item 8 of this Form 10-K.

For the fiscal year ended September 30, 2010, we had revenue from continuing operations of \$831.7 million and net income from continuing operations of \$69.4 million.

Market Overview

We expect that demand for our core health and human services offerings will continue to increase driven by new legislation, austerity measures and increasing caseloads as governments strive to deliver more services with fewer resources. New legislation such as the Affordable Care Act (ACA) in the United States and welfare reform initiatives abroad has created increased demand for our services and should continue to create increased demand for our services over the next several years. We believe that we remain well-positioned to benefit from this increasing demand

Edgar Filing: MAXIMUS INC - Form 10-K

as governments look for ways to improve overall program efficiency and achieve value for funds spent on social programs.

Demand for our services is contingent upon factors that affect government, including:

- The need for state governments, which run federally mandated and federally funded programs such as Medicaid and CHIP, to deliver efficient, cost-effective services to program beneficiaries while meeting requirements to maintain federal matching funds.
- The requirement of state governments to implement federal initiatives, such as the ACA (health care reform), which will expand health insurance coverage to millions of Americans.
- The impact of continued budgetary pressures, which compels governments to operate more programs with the same level of resources and/or implement austerity measures as a method to address rising costs associated with social benefits programs.
- The need to improve business processes, innovate, and update technology. In the United States, governments are likely to seek outside sources as they face the possibility of an increasing number of government workers eligible for retirement, coupled with the stovepipe systems and antiquated processes that cannot scale effectively to support projected caseload growth.

Table of Contents

As a result, governments utilize business process outsourcing companies, such as MAXIMUS, to help them deliver efficient, cost-effective services to beneficiaries on their behalf. MAXIMUS possesses the knowledge and resources to efficiently operate government health and human programs and maintain requirements to achieve the maximum ongoing federal funding. With the ability to tightly balance resources with demand, MAXIMUS also offer flexibility and scalability that governments do not always possess.

Health Services Market Environment

Over the past decade, health care costs have substantially risen in the United States, a trend likely to continue over the long term. U.S. health care spending, among the highest of all industrialized countries, is increasing at a rate that outpaces inflation and national income growth. Stemming these costs as well as improving quality and access to health care is a major policy priority for government.

As a result, in March 2010, Congress passed the Affordable Care Act (ACA), a comprehensive overhaul of the health insurance system in the United States that initially seeks to expand beneficiaries' access to health care, while ultimately improving quality and reducing overall costs of health care delivery. Most notably, ACA aims to expand health insurance coverage to over 30 million Americans in 2014 and beyond, primarily by expanding the Medicaid program through federal matching funds to cover more low-income individuals and families. In the interim, state fiscal realities have also prompted the expansion of Medicaid managed care to new populations including the aged, blind and disabled populations that have historically been served through fee-for-service Medicaid. Although these populations represent only 30% of the Medicaid population, they are responsible for approximately 70% of the costs. We believe we are well-positioned to benefit from the expected volume increases associated with Medicaid expansion due to our existing client base of states where we serve as the administrative enrollment vendor for 13 Medicaid managed care programs, which is 64% of the market served by third party administrators. ACA also extends CHIP through 2019, provides increased matching federal funds, and guarantees funding through 2015. We currently serve as the administrative vendor for CHIP in five states, which comprises approximately 68% of the market served by third party administrators.

The law also promotes the integration of new health insurance exchanges with existing state Medicaid and CHIP programs to provide for no wrong door of entry for program beneficiaries. A health insurance exchange is an insurance marketplace where individuals and small businesses can shop, compare and buy affordable and qualified health benefit plans. As a consequence, and in light of persistent budget pressures, state priorities now include the modernization of eligibility and enrollment processes for public health insurance programs such as Medicaid and CHIP. The goal of these modernization efforts is to improve access to health insurance for beneficiaries by simplifying and streamlining the eligibility and enrollment process, and allow for the seamless movement of subsidized populations among the various programs. We are currently supporting efforts in Colorado and New York to modernize their eligibility and enrollment processes for their subsidized health insurance programs. These programs may serve as the model as these states seek to set up their health insurance exchange to meet the ACA requirement of establishing an operational health insurance exchange by January 1, 2014. Many of the functions of a health insurance exchange are similar to the functions that we provide under Medicaid and CHIP: consumer outreach and education, eligibility and enrollment, customer contact centers, and comprehensive business process managed services to help beneficiaries navigate the new health insurance exchanges.

Other important features of ACA include funding for long-term care allowing states to offer home and community based services to elderly and disabled individuals through Medicaid rather than institutional care in nursing homes. As the population continues to age there is an increasing demand for quality and cost effective, long-term care in the least restrictive environment.

ACA also includes enhanced consumer protections for health insurance appeals. The law requires an independent, evidence-based external review process and the option for individuals to appeal coverage determinations or claims to insurance companies. This expands the requirement to ERISA plans which previously were not required to have an objective independent health appeals process. We are one of the largest providers

Edgar Filing: MAXIMUS INC - Form 10-K

of evidence-based health insurance appeals to Medicare and over 30 state agencies.

We believe the current health environment positions us to benefit from demand as governments must meet the requirements established under ACA. We believe states may be challenged to achieve these requirements and, as a result, are turning to business process outsourcers such as MAXIMUS to provide repeatable processes, proven solutions and consumer-friendly services. Overall, we expect the underlying demand for our services to increase due to the fundamental need for governments to provide these services to beneficiaries on an expanding and ongoing basis.

Table of Contents

Human Services Market Environment

The Human Services market has experienced increased demand driven by the need for governments to reduce costs and improve efficiency. The most dynamic portion of the market is in the welfare-to-work area where governments worldwide are seeking to model new welfare reforms after the Wisconsin Works (W-2) program. Since 1997, we have provided welfare-to-work services in Wisconsin when the W-2 program was launched and we continue to serve as one of its vendor agencies today. W-2 is considered to be one of the most ambitious and comprehensive welfare reform initiatives undertaken and is credited with breaking the cycle of poverty and beneficiaries remaining on welfare for life. The

Wisconsin Model also paved the way for privatization of welfare-to-work programs and demanded accountability from its vendor partners through performance-based measures and employment outcomes. This model, with which MAXIMUS has a substantial amount of knowledge and expertise, is being emulated around the world and privatized, with MAXIMUS being a leading provider.

We believe we are well positioned to compete for these global welfare-to-work opportunities because of our established presence, strong brand recognition and ability to achieve the requisite performance requirements and outcomes outlined in the new reform measures. We offer clients demonstrated results and over twenty years of proven experience in administering welfare-to-work programs. MAXIMUS provides welfare-to-work services in several states and countries. In Australia, MAXIMUS is one of the largest and highest rated welfare-to-work providers where we operate 74 sites and 40 outreach locations. We also have an established presence in the U.K.'s welfare-to-work market and presently provide employment and job training services under the UK's previous Flexible New Deal program which is planned to be consolidated into the new Work Programme. We believe reform initiatives coupled with our experience, expertise and proven solutions will continue to drive demand for our welfare-to-work services.

In 2010, the United Kingdom's coalition government unveiled an austerity program to reduce mounting debt. A key feature of the plan involves comprehensive system-wide welfare reform, which is expected to yield a total savings of approximately £18 billion each year by 2014-2015. Under the Department of Work and Pensions (DWP), the welfare system overhaul will be complemented by the new Work Programme. The new Work Programme consolidates many of the U.K.'s disparate welfare-to-work programs including the Flexible New Deal, Pathways to Work and Work Choice into a single back-to-work program. Eligible providers must bid onto the Buying Framework prior to bidding for the 11 regional lots. DWP expects to appoint between three to eight organizations to each of the 11 regional lots and use the Buying Framework to identify organizations that have the capacity and expertise to deliver not only the Work Programme, but other potential employment related support services contracts, including those that may attract European Social Fund (ESF) support.

In addition to welfare reform, we have seen an increase in initiatives to utilize private firms for children's services such as child support enforcement. MAXIMUS currently provides services to the Family Maintenance Enforcement Program in British Columbia as well as several jurisdictions throughout the United States including Shelby County, Tennessee, which was one of the largest child support privatization efforts in the United States.

As a result of measures to reduce costs and improve efficiency, coupled with our established presence, we believe we are well-positioned to benefit from an increase in demand for our core human services business across several geographies.

Our Clients

Edgar Filing: MAXIMUS INC - Form 10-K

Our primary customers are government agencies at the federal and state level and, to a lesser extent, at the county and municipal level. In the United States, while certain of our direct customers may be state governments, a significant amount of our revenue from states is ultimately provided by the federal government in the form of cost sharing arrangements with the states, such as is the case with Medicaid programs. In fiscal 2010, approximately 59% of our total revenue was derived from state and local government agencies whose programs received significant federal funding, 27% from foreign government agencies, 9% from U.S.-based federal government agencies, and 5% from other sources (such as municipal or commercial customers).

For the year ended September 30, 2010, we derived approximately 12% and 18% of our consolidated revenue from contracts with the States of California and Texas, respectively, and 16% of our consolidated revenue from the Government of Australia.

Table of Contents

We typically contract with government clients under four primary contract types including performance based, cost plus, fixed fee for service, and time and materials. For the year ended September 30, 2010, 47% of our contracts were performance based, 29% were cost plus, 21% were fixed fee for service, and 3% were time and materials.

Generally, the relationships with our clients are long-term multi-year contracts, subject to option years and periodic rebids. See below under [Backlog](#) for more details.

Our Business Segments

During the fourth quarter, the Company aligned its organization of the business to reflect its focus on the administration of government health and human services programs. As a result of this organizational realignment, the Company has reclassified its segment financial information to reflect the two new operating segments of Health Services and Human Services. The results of the segments have been reclassified for all periods shown. For more information concerning our segment presentation, including comparative revenue, gross profit, operating profit, identifiable assets and related financial information for the 2008, 2009 and 2010 fiscal years, see [Note 19. Business Segments](#) within Item 8 of this Form 10-K.

Health Services Segment

Our Health Services Segment generated 62% of our total revenue in fiscal 2010. The Health Services Segment provides a variety of business process outsourcing (BPO) and administrative support services, as well as consulting services for state, provincial, and federal government programs, such as: Medicaid, CHIP, SNAP (Supplemental Nutrition Assistance Program), Medicare and Health Insurance BC (British Columbia). The segment's services help improve the efficiency, cost effectiveness, quality and accountability of government sponsored health benefit programs. Our BPO services are centered on legislative initiatives and mandated programs such as the Affordable Care Act (Health Care Reform), Medicaid, CHIP, Medicare and Long-term Care. In this segment, our BPO and consulting services include:

- Comprehensive government health insurance program administration
- Health insurance program eligibility and enrollment services to improve access to health care for citizens and help beneficiaries make the best choice for their health insurance coverage
- Eligibility and enrollment modernization for government health benefit programs
- Consumer outreach and education to support government health insurance programs and provide multi-channel self-service options, including consumer friendly toll-free phone numbers, Websites and Web-based portals for easy enrollment
- Application assistance and enrollment counseling to beneficiaries
- Premium payment processing and administration such as invoicing and reconciliation

- Multilingual customer contact centers
- Objective, evidence-based health appeals
- Comprehensive eHealth solutions with the Medigent® product suite
- Independent medical reviews
- Health plan oversight
- Medicaid Management Information System (MMIS) planning and oversight
- Specialized program consulting services

Human Services Segment

Our Human Services Segment generated 38% of our total revenue in fiscal 2010, with over half generated outside the United States, primarily in Australia and the United Kingdom. The Human Services Segment provides a variety of administrative support and case management services for federal, national, state and county human services agencies including welfare-to-work programs, child support enforcement, higher education services and K-12 special education services. Our services include:

- Comprehensive workforce services including eligibility determination, case management, job-readiness preparation, job search and employer outreach, job retention and career advancement, and selected educational and training services to help disadvantaged individuals transition from government assistance programs to employment
- Full and specialized child support case management services, call center operations, and program and systems consulting services
- Management tools and professional consulting services for higher education institutions
- K-12 special education case management solutions

Table of Contents

- Program consulting services including independent verification and validation, cost allocation plans, and repeatable management services and other specialized consulting offerings
- Business and tax credit services for employers

Foreign Operations

The Company operates in the United States, Australia, Canada, the United Kingdom and Israel. The distribution of revenues and assets between the United States, Australia and the rest of the world are included in Note 19. Business Segments within Item 8 of this Form 10-K.

Competitive Advantages

We offer a private sector alternative for the administration and management of critical government-funded health and human services programs. Our reputation and extensive experience over the last 35 years give us a competitive advantage as governments value the level of expertise and brand recognition that MAXIMUS brings to its customers. The following are the competitive advantages that allow us to capitalize on various market opportunities:

Proven track record and exceptional brand recognition. Since 1975, we have successfully assisted governments in delivering cost-effective services to beneficiaries on government programs. We operate large-scale program management operations on behalf of government agencies, improving the quality of services provided to beneficiaries, which has further enhanced our brand recognition with government agencies.

Subject matter expertise. Our workforce includes many individuals who possess substantial subject matter expertise in areas critical to the successful design, implementation, administration, and operation of government health and human services programs. Many of our employees have worked for governments in management positions and are better able to understand and advance service capabilities that are of the most value, practical, and effective for our clients.

Intellectual property that supports the administration of government programs. We have proprietary case management solutions to support our health and human services business lines. By leveraging a common framework, MAXIMUS shortens, and sometimes eliminates, the development lifecycle to enable configuration for accelerated takeover of operations, providing clients with a significant amount of flexibility and support. By taking advantage of a large number of shared technical and business components, we reduce development costs and deliver clients increased capabilities and efficiencies related to workflow, calendaring and action plan management. As a market-share leader in CHIP and enrollment Broker, our shared core infrastructure provides price competitive advantages over other potential competitors. We have deployed these proven product solutions across several health and human services projects for clients such as Pennsylvania, New York and the United Kingdom. We have also made investments in business process modeling and monitoring tools to further enhance our operational efficiency. These assets, when combined with our subject matter expertise offer clients significant advantages over pure service providers who depend on third-party software.

Edgar Filing: MAXIMUS INC - Form 10-K

Financial strength. We maintain a strong balance sheet, generate consistent annual cash flow, and have minimal long-term debt. We possess the financial flexibility and sufficient cash on-hand to support client operations including ongoing technology investments and working capital for high-profile public health and human services programs.

Focused portfolio of services with a single-market emphasis. We are one of the largest publicly traded companies that provide a portfolio of BPO health and human services specifically to government customers. Our government program expertise differentiates us from other firms and non-profit organizations with limited resources and skill sets, as well as from large consulting firms that serve multiple industries but lack the focus necessary to manage the complexities of pursuing opportunities and serving health and human services government agencies efficiently. Our focused portfolio offers clients a continuum of service capabilities from consulting engagements to component services to full-service solutions.

Established international presence. International governments are seeking to implement austerity measures as a means to improve government-sponsored health and human services programs and contain costs. We have an established presence in Australia, Canada and the United Kingdom with a focus on delivering cost effective welfare-to-work and health insurance eligibility and enrollment services to beneficiaries on behalf of governments.

Expertise in competitive bidding. Government agencies typically award contracts through a comprehensive, complex and competitive Requests for Proposals (RFPs) and bidding process. With over 35 years of experience in responding to RFPs, we have the necessary experience to navigate government procurement processes. We possess the expertise and experience to assess and allocate the appropriate resources necessary for successful project completion in accordance with contractual terms.

Table of Contents

Competition

The market for providing our services to government agencies can be competitive and subject to rapid change. However, given the specialized nature of our services and the programs we serve, the market is difficult for new, unknown competitors. The complex nature of competitive bidding and required investment in subject-matter expertise, repeatable processes, and support infrastructure creates significant barriers to entry for potential new competitors unfamiliar with the nature of government procurement.

Our primary competitors in the Health Services Segment in the United States are ACS, a Xerox Company (ACS); EDS, an HP Company and specialized private service providers. Our primary competitors in the Human Services Segment market include Serco, Atos Origin, private services and specialized consulting companies and non-profit organizations.

Business Growth Strategy

Our goal is to enable future growth by remaining a leading provider of operations program management and consulting services to government agencies. The key components of our business growth strategy include the following:

- *Pursue new domestic and international business opportunities and expand our customer base.* With over 30 years of business expertise in the government market, we continue to be a leader in developing innovative solutions to meet the evolving needs of government agencies. We seek to grow our domestic and international base business by leveraging our existing core capabilities and pursuing opportunities with new and current clients.
- *Grow long-term, recurring revenue streams.* We seek to enter into long-term relationships with clients to meet their ongoing and long-term business objectives. As a result, long-term contracts (three to five years with additional option years) are often the preferred method of delivery for customers and are also beneficial to the Company.
- *Pursue strategic acquisitions.* We will selectively identify and pursue strategic acquisitions. Acquisitions can provide us with a rapid, cost-effective method to enhance our services, obtain additional skill sets, expand our customer base, cross-sell additional services, enhance our technical capabilities, and establish or expand our geographic presence.
- *Continue to optimize our current operations and drive innovation and quality to customers.* MAXIMUS continues to seek efficiencies and optimize operations in order to achieve sustainable, profitable growth. We will continue to drive improved business process managed services to clients to improve cost effectiveness, program efficiency and overall program scalability as governments deal with rising demand and increasing caseloads.

Edgar Filing: MAXIMUS INC - Form 10-K

- *Recruit and retain highly skilled professionals.* We continually strive to recruit motivated individuals including top managers from larger organizations, former government officials, and consultants experienced in our service areas. We believe we can continue to attract and retain experienced personnel by capitalizing on our single-market focus and our reputation as a premier government services provider.

- *Focus on core health and human services business lines.* We have focused our core business offerings around delivering business process managed services to government health and human services agencies. Our sharpened focus and established presence positions us to benefit from Health Care Reform in the United States and Welfare Reform initiatives abroad.

See Exhibit 99.1 of this Annual Report on Form 10-K under the caption *Special Considerations and Risk Factors* for information on risks and uncertainties that could affect our business growth strategy.

Table of Contents

Marketing and Sales

We generate new business opportunities by establishing and maintaining relationships with key government officials, policy makers and decision makers to understand the evolving needs of government agencies as they seek to optimize their programs. We have a team of business development professionals who ensure that we understand the needs, requirements, legislative initiatives, and priorities of our current and prospective customers. In conjunction with our subject matter experts and marketing consultants, our business development professionals create and identify new business opportunities and ensure that we proactively introduce our solutions and services early in the procurement cycle. As part of the procurement, we respond to competitive requests for bids through the government procurement process.

Legislative Initiatives

MAXIMUS actively monitors legislative initiatives and responds to opportunities as they develop. Over the past several years, legislative initiatives created new growth opportunities and potential markets for MAXIMUS. Legislation passed in the United States and in the United Kingdom have large public policy implications for all levels of government and present viable business opportunities in the health and human services arena. MAXIMUS is well-positioned to meet the operations program management and consulting needs resulting from legislative actions and subsequent regulatory and program implementation efforts.

Some recent legislative initiatives that have created new growth opportunities for us in the government market include the following:

Affordable Care Act. In March 2010, the United States enacted comprehensive health care reform, known as the Affordable Care Act (ACA). This new law expands access to health coverage to more than 30 million Americans, protects consumer rights, controls health care costs, and improves the overall health care delivery system over the course of the next four years and beyond. Many components of the ACA will require states to pass legislation and create program regulations. The law presents several business opportunities for MAXIMUS to offer our expertise in the administration of public programs, including:

- Establishment of Exchanges, insurance marketplaces where individuals and small businesses can buy affordable and qualified health benefit plans.
- Expansion of Medicaid where states will receive federal matching funds to cover more low-income individuals and families.
- Extension of CHIP through 2019 and the extension of funding through 2015, which is two additional years beyond the Children's Health Insurance Program Reauthorization Act (CHIPRA) of 2009.
- Modernization of eligibility and enrollment processes for public health insurance programs.
- Development of consumer-friendly education and outreach materials, including easy-to-use Websites, so beneficiaries with varying literacy levels can compare options and select the appropriate health insurance coverage.

Edgar Filing: MAXIMUS INC - Form 10-K

- Funding for long-term care allowing states to offer home and community based services to elderly and disabled individuals through Medicaid rather than institutional care in nursing homes.
- Creation of Pre-Existing Condition Insurance Plans (PCIP) to provide health coverage to individuals, who have been denied health insurance by private insurance companies because of a pre-existing condition, through high risk pools.
- Consumer protection through an external review process and the option for individuals to appeal coverage determinations or claims to insurance companies.
- Implementation of eHealth requirements for a secure, confidential and electronic exchange of health information.

Education, Jobs and Medical Assistance Act. Signed into law in August 2010, this act extends the 6.2% increase in the Federal Medical Assistance Percentage (FMAP) set by the American Recovery and Reinvestment Act (ARRA) through June 30, 2011. The passage of this bill has both preserved and expanded Medicaid potential business for MAXIMUS.

Children's Health Insurance Program Reauthorization Act (CHIPRA). CHIPRA was signed into law on February 2, 2009, extending the previous SCHIP program. As part of the Affordable Care Act of 2010 (ACA), CHIP has been extended through 2019 and funding has been extended through 2015, which is two additional years beyond the original CHIPRA Act. By expanding state options to find and enroll eligible children through express lane eligibility and auto enrollment, CHIPRA has presented MAXIMUS with an opportunity to expand our partnerships with states for the administration of CHIP programs.

Table of Contents

Work Programme in the United Kingdom. The Work Programme, part of the new Coalition government's austerity and debt reduction measures, is a new government-sponsored welfare-to-work model that consolidates several existing employment programs into a single comprehensive back-to-work program in an effort to achieve higher quality, longer-term and sustainable employment outcomes for job seekers in the United Kingdom. MAXIMUS previously performed work under the Flexible New Deal. In 2010, the Department of Work and Pensions notified all FND vendors and vendors under several other welfare-to-work programs that all current contracts will expire on June 30, 2011 and that vendors may bid for a spot on a contract vehicle called the Buying Framework for the new Work Programme. Vendors who successfully bid to be a qualified vendor on the Buying Framework will then be eligible to bid for the estimated 11 regions throughout the United Kingdom, where it is expected that these 11 regions will be served by three to eight vendor organizations in each region.

American Recovery and Reinvestment Act of 2009 (ARRA). ARRA provides states with opportunities to accelerate the adoption of health information technology under the Health Information Technology for Economic and Clinical Health (HITECH) provisions. ARRA also contains an expansion of HIPAA (Health Information Portability and Accountability Act) rules beyond covered entities to include business associates of covered entities. These provisions provide MAXIMUS with business opportunities in the health information technology and eHealth market.

Deficit Reduction Act of 2005 (DRA). Enacted in the spring of 2006, the DRA reauthorized the TANF program of 1996 through 2010. On September 30, 2010, a TANF block grant was signed as part of a continuing resolution that extends government funding of programs through December 3, 2010. The DRA includes a number of key health and human service issues important to the MAXIMUS core health and human service businesses in the United States. The DRA requires states to engage more TANF cases in productive activities to find employment in order to achieve self-sufficiency, as well as establish and maintain work participation rates and verification procedures. The DRA also provides states with additional flexibility to make reforms to their Medicaid programs.

Backlog

At September 30, 2010, we estimated that we had approximately \$2.1 billion of revenue in backlog. Backlog represents an estimate of the remaining future revenue from existing signed contracts and revenue from contracts that have been awarded, but not yet signed. Our backlog estimate includes revenue expected under the current terms of executed contracts and revenue from contracts in which the scope and duration of the services required are not definite but estimable (such as performance-based contracts), but does not assume any contract renewals.

Increases in backlog result from the awarding of new contracts or the extension or renewal of existing contracts and option periods. Reductions come from fulfilling contracts and early termination of contracts. Increases and decreases can follow from changes in estimates.

Our contracts typically contain provisions permitting government customers to terminate the contract on short notice, with or without cause. The backlog associated with our performance-based contracts are generally estimates based upon management experience of case loads and similar transaction volume from which actual results may vary.

We believe that period-to-period backlog comparisons are difficult and do not necessarily accurately reflect future revenue we may receive. The actual timing of revenue receipts, if any, on projects included in backlog could change for any of the aforementioned reasons. The dollar amount by segment of our backlog as of September 30, 2009 and 2010, were as follows:

		As of September 30,	
		2009	2010
		(In millions)	
Health Services	\$	1,050	