

MAXIMUS INC  
Form 10-Q  
February 07, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

**For the quarterly period ended December 31, 2013**

**Commission File Number: 1-12997**

**MAXIMUS, INC.**

(Exact name of registrant as specified in its charter)

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

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

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

**20190**  
(Zip Code)

**(703) 251-8500**

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(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of January 31, 2014, there were 67,856,402 shares of the registrant's common stock (no par value) outstanding.

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**MAXIMUS, Inc.**

**Quarterly Report on Form 10-Q**

**For the Quarter Ended December 31, 2013**

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

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

Included in this Quarterly Report on Form 10-Q are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current expectations, estimates, forecasts and projections about our company, the industry in which we operate and other matters, as well as management's beliefs and assumptions and other statements that are not historical facts. Words such as anticipate, believe, could, expect, estimate, intend, may, opportunity, plan, potential, project, should, expressions are intended to identify forward-looking statements and convey uncertainty of future events or outcomes. These statements are not guarantees and involve risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from such forward-looking statements due to a number of factors, including without limitation,

- a failure on our part to comply with federal, state or local laws governing our business, which might result in us being subject to fines, penalties and other sanctions;
- a failure to meet performance requirements in our contracts, which might lead to contract termination and liquidated damages;
- the outcome of reviews or audits by federal, state and local governments, which might result in financial penalties and reduce our ability to respond to invitations for new work;
- the effects of future legislative or government budgetary and spending changes;
- other factors set forth in Exhibit 99.1 of our Annual Report on Form 10-K for the year ended September 30, 2013, filed with the Securities and Exchange Commission on November 19, 2013.

As a result of these and other factors, our past financial performance should not be relied on as an indication of future performance. Additionally, we caution investors not to place undue reliance on any forward-looking statements as these statements speak only as of the date when made. Except as otherwise required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether resulting from new information, future events or otherwise.

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

|   | <b>Three Months<br/>Ended December 31,</b> |             |
|---|--|-------------|
|   | <b>2013</b>                                | <b>2012</b> |
| Revenue   | \$ 406,592                                 | \$ 286,266  |
| Cost of revenue                                       | 300,676                                    | 209,736     |
| Gross profit  | 105,916                                    | 76,530      |
| Selling, general and administrative expenses          | 52,603                                     | 42,222      |
| Acquisition-related expenses                          |  | 148         |
| Legal and settlement expense                          |  | 142         |
| Operating income from continuing operations           | 53,313                                     | 34,018      |
| Interest and other income, net                        | 721  | 1,106       |
| Income from continuing operations before income taxes | 54,034                                     | 35,124      |
| Provision for income taxes                            | 20,234                                     | 13,341      |
| Income from continuing operations                     | 33,800                                     | 21,783      |
| Discontinued operations, net of income taxes:         |  |             |
| Loss from discontinued operations                     | (10)                                       | (503)       |
| Gain on disposal                                      | 69   | 36          |
| Income (loss) from discontinued operations            | 59   | (467)       |
| Net income  | \$ 33,859                                  | \$ 21,316   |
| Basic earnings (loss) per share:                      |  |             |
| Income from continuing operations                     | \$ 0.49                                    | \$ 0.32     |
| Income (loss) from discontinued operations            | 0.01                                       | (0.01)      |
| Basic earnings per share                              | \$ 0.50                                    | \$ 0.31     |
| Diluted earnings (loss) per share:                    |  |             |
| Income from continuing operations                     | \$ 0.48                                    | \$ 0.31     |
| Income (loss) from discontinued operations            | 0.01                                       |             |
| Diluted earnings per share                            | \$ 0.49                                    | \$ 0.31     |
| Dividends paid per share                              | \$ 0.045                                   | \$ 0.045    |
| Weighted average shares outstanding:                  |  |             |
| Basic   | 68,397                                     | 68,162      |

Diluted

69,762

69,752

*See accompanying notes to unaudited consolidated financial statements.*

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**MAXIMUS, Inc.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(Amounts in thousands)**

**(Unaudited)**

|  | <b>Three Months<br/>Ended December 31,</b> |         |             |        |
|--|--|---------|-------------|--------|
|  | <b>2013</b>                                |         | <b>2012</b> |        |
| Net income                               | \$   | 33,859  | \$          | 21,316 |
| Foreign currency translation adjustments |  | (3,085) |             | (603)  |
| Comprehensive income                     | \$   | 30,774  | \$          | 20,713 |

*See accompanying notes to unaudited consolidated financial statements.*

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## MAXIMUS, Inc.

## CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

|  | December 31,<br>2013<br>(unaudited) | September 30,<br>2013 |
|--|-------------------------------------|-----------------------|
| <b>ASSETS</b>  |                                     |                       |
| Current assets:  |                                     |                       |
| Cash and cash equivalents  | \$ 120,584                          | \$ 125,617            |
| Restricted cash  | 11,915                              | 12,176                |
| Accounts receivable billed, net of reserves of \$4,227 and \$3,828   | 277,603                             | 272,636               |
| Accounts receivable unbilled   | 21,596                              | 20,320                |
| Prepaid income taxes   |                                     | 358                   |
| Deferred income taxes  | 19,386                              | 26,443                |
| Prepaid expenses and other current assets  | 31,775                              | 32,049                |
| Total current assets   | 482,859                             | 489,599               |
| Property and equipment, net  | 73,333                              | 77,710                |
| Capitalized software, net  | 40,991                              | 40,456                |
| Goodwill   | 172,216                             | 171,867               |
| Intangible assets, net   | 41,017                              | 42,039                |
| Deferred contract costs, net   | 12,954                              | 14,318                |
| Deferred income taxes  | 566                                 | 1,179                 |
| Deferred compensation plan assets  | 10,901                              | 10,314                |
| Other assets, net  | 9,363                               | 10,496                |
| Total assets   | \$ 844,200                          | \$ 857,978            |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |                                     |                       |
| Current liabilities:   |                                     |                       |
| Accounts payable and accrued liabilities   | \$ 105,723                          | \$ 109,020            |
| Accrued compensation and benefits  | 52,111                              | 83,280                |
| Deferred revenue   | 54,081                              | 53,137                |
| Current portion of long-term debt  | 164                                 | 170                   |
| Income taxes payable   | 14,001                              | 8,327                 |
| Other liabilities  | 7,636                               | 8,373                 |
| Total current liabilities  | 233,716                             | 262,307               |
| Deferred revenue, less current portion   | 30,593                              | 32,953                |
| Long-term debt   | 1,229                               | 1,319                 |
| Deferred compensation plan liabilities, less current portion   | 16,562                              | 13,953                |
| Other liabilities  | 22,988                              | 17,938                |
| Total liabilities  | 305,088                             | 328,470               |
| Shareholders' equity:  |                                     |                       |
| Common stock, no par value; 100,000 shares authorized; 68,057 and 68,525 shares issued and outstanding at December 31, 2013 and September 30, 2013, at stated amount, respectively | 419,803                             | 415,271               |
| Accumulated other comprehensive income   | 4,902                               | 7,987                 |
| Retained earnings  | 114,407                             | 106,250               |
| Total shareholders' equity   | 539,112                             | 529,508               |
| Total liabilities and shareholders' equity   | \$ 844,200                          | \$ 857,978            |



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*See accompanying notes to unaudited consolidated financial statements.*

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## MAXIMUS, Inc.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

|   | Three Months<br>Ended December 31, |           |
|---|------------------------------------|-----------|
|   | 2013                               | 2012      |
| <b>Cash flows from operating activities:</b>                                      |                                    |           |
| Net income  | \$ 33,859                          | \$ 21,316 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |           |
| (Income) loss from discontinued operations  | (59)                               | 467       |
| Depreciation and amortization   | 12,022                             | 9,975     |
| Deferred income taxes   | 7,659                              | (611)     |
| Stock compensation expense  | 4,081                              | 3,475     |
| Change in assets and liabilities:   |                                    |           |
| Accounts receivable billed  | (5,266)                            | (26,380)  |
| Accounts receivable unbilled  | (1,295)                            | (845)     |
| Prepaid expenses and other current assets   | 201                                | 72        |
| Deferred contract costs   | 1,354                              | (5,345)   |
| Accounts payable and accrued liabilities  | (471)                              | 10,526    |
| Accrued compensation and benefits   | (17,954)                           | (7,694)   |
| Deferred revenue  | (1,043)                            | 6,463     |
| Income taxes  | 6,072                              | (2,233)   |
| Other assets and liabilities  | 2,822                              | 933       |
| Cash provided by operating activities continuing operations                       | 41,982                             | 10,119    |
| Cash used in operating activities discontinued operations                         | (36)                               | (493)     |
| Cash provided by operating activities   | 41,946                             | 9,626     |
| <b>Cash flows from investing activities:</b>                                      |                                    |           |
| Purchases of property and equipment   | (4,440)                            | (7,087)   |
| Capitalized software costs  | (3,584)                            | (3,464)   |
| Proceeds from note receivable   | 115                                | 60        |
| Cash used in investing activities   | (7,909)                            | (10,491)  |
| <b>Cash flows from financing activities:</b>                                      |                                    |           |
| Repurchases of common stock   | (21,530)                           | (15,403)  |
| Employee tax withholding on restricted stock unit vesting                         | (12,804)                           | (6,677)   |
| Tax benefit due to option exercises and restricted stock units vesting            |                                    | 2,365     |
| Cash dividends paid   | (3,085)                            | (3,064)   |
| Stock option exercises  | 327                                | 1,752     |
| Repayment of long-term debt   | (42)                               | (44)      |
| Cash used in financing activities   | (37,134)                           | (21,071)  |
| Effect of exchange rate changes on cash and cash equivalents                      | (1,936)                            | (238)     |
| Net decrease in cash and cash equivalents   | (5,033)                            | (22,174)  |
| Cash and cash equivalents, beginning of period                                    | 125,617                            | 189,312   |

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|  |    |         |    |         |
|--|----|---------|----|---------|
| Cash and cash equivalents, end of period | \$ | 120,584 | \$ | 167,138 |
|--|----|---------|----|---------|

*See accompanying notes to unaudited consolidated financial statements.*

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**MAXIMUS, Inc.**

**Notes to Unaudited Consolidated Financial Statements**

**For the Three Months Ended December 31, 2013 and 2012**

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

**1. Organization and Basis of Presentation**

*General*

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles (GAAP) 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, 2013 are not necessarily indicative of the results that may be expected for the full fiscal year. The balance sheet at September 30, 2013 has been derived from the audited financial statements at that date but does not include all of the information and notes required by generally accepted accounting principles for complete financial statements.

The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenue and expenses. On an ongoing basis, we evaluate our estimates including those related to revenue recognition and cost estimation on certain contracts, the realizability of goodwill, and amounts related to income taxes, certain accrued liabilities and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from those estimates.

These financial statements should be read in conjunction with the consolidated audited financial statements and the notes thereto at September 30, 2013 and 2012 and for each of the three years ended September 30, 2013, included in the Company's Annual Report on Form 10-K for the year ended September 30, 2013 which was filed with the Securities and Exchange Commission on November 19, 2013. Certain comparative balances have been reclassified to conform to the current year presentation.

Table of Contents**2. Segment Information**

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

|  | 2013       | Three Months Ended December 31, |    | 2012    | % (1) |
|--|------------|---------------------------------|----|---------|-------|
|  |            | % (1)                           |    |         |       |
| <b>Revenue:</b>                                      |            |                                 |    |         |       |
| Health Services                                      | \$ 299,158 | 100%                            | \$ | 175,998 | 100%  |
| Human Services                                       | 107,434    | 100%                            |    | 110,268 | 100%  |
| Total  | 406,592    | 100%                            |    | 286,266 | 100%  |
| <b>Gross profit:</b>                                 |            |                                 |    |         |       |
| Health Services                                      | 76,818     | 25.7%                           |    | 45,259  | 25.7% |
| Human Services                                       | 29,098     | 27.1%                           |    | 31,271  | 28.4% |
| Total  | 105,916    | 26.0%                           |    | 76,530  | 26.7% |
| <b>Selling, general, and administrative expense:</b> |            |                                 |    |         |       |
| Health Services                                      | 35,265     | 11.8%                           |    | 24,633  | 14.0% |
| Human Services                                       | 17,338     | 16.1%                           |    | 17,589  | 16.0% |
| Total  | 52,603     | 12.9%                           |    | 42,222  | 14.7% |
| <b>Operating income from continuing operations:</b>  |            |                                 |    |         |       |
| Health Services                                      | 41,553     | 13.9%                           |    | 20,626  | 11.7% |
| Human Services                                       | 11,760     | 10.9%                           |    | 13,682  | 12.4% |
| Subtotal: Segment operating income                   | 53,313     | 13.1%                           |    | 34,308  | 12.0% |
| Acquisition-related expenses                         |            | NM                              |    | 148     | NM    |
| Legal and settlement expense                         |            | NM                              |    | 142     | NM    |
| Total  | \$ 53,313  | 13.1%                           | \$ | 34,018  | 11.9% |

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

**3. Earnings Per Share**

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

|                                   | Three Months Ended December 31, |           |
|-----------------------------------|---------------------------------|-----------|
|                                   | 2013                            | 2012      |
| <b>Numerator:</b>                 |                                 |           |
| Income from continuing operations | \$ 33,800                       | \$ 21,783 |

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|  |    |        |    |        |
|--|----|--------|----|--------|
| Income (loss) from discontinued operations                 |    | 59     |    | (467)  |
| Net income   | \$ | 33,859 | \$ | 21,316 |
| Denominator:   |    |        |    |        |
| Basic weighted average shares outstanding                  |    | 68,397 |    | 68,162 |
| Effect of dilutive securities:                             |    |        |    |        |
| Employee stock options and unvested restricted stock units |    | 1,365  |    | 1,590  |
| Denominator for diluted earnings per share                 |    | 69,762 |    | 69,752 |

No shares were excluded from the computation in calculating the earnings per share for the three months ended December 31, 2013 or 2012.

Table of Contents**4. Business Combinations***Health Management Limited*

On July 1, 2013 (the acquisition date), the Company acquired 100% of the share capital of Health Management Limited (HML) for total consideration of \$77.9 million (£51.1 million). The consideration was comprised of \$71.4 million (£46.9 million) in cash and 202,972 shares of MAXIMUS stock worth \$6.4 million (£4.2 million).

HML provides independent health assessments within the United Kingdom. MAXIMUS acquired HML, among other reasons, to expand the Company's independent medical assessment business and to establish a strong presence in the United Kingdom health services market. The acquired assets and business have been integrated into the Company's Health Services Segment.

The assets and liabilities of HML were recorded in the Company's financial statements at their fair values at the acquisition date as follows (in thousands):

|  | <b>Preliminary Purchase<br/>Price Accounting</b> |        |
|--|--|--------|
| Cash consideration, net of cash acquired     | \$   | 71,435 |
| Stock consideration                          |  | 6,425  |
| Purchase consideration, net of cash acquired | \$   | 77,860 |
| Accounts receivable and unbilled receivables | \$   | 7,671  |
| Other current assets                         |  | 1,382  |
| Property and equipment                       |  | 2,752  |
| Intangible assets                            |  | 20,542 |
| Total identifiable assets acquired           |  | 32,347 |
| Accounts payable and other liabilities       |  | 6,228  |
| Deferred revenue                             |  | 1,149  |
| Current income tax liability                 |  | 612    |
| Deferred tax liability                       |  | 4,814  |
| Total liabilities assumed                    |  | 12,803 |
| Net identifiable assets acquired             |  | 19,544 |
| Goodwill                                     |  | 58,316 |
| Net assets acquired                          | \$   | 77,860 |

Management is still in the process of completing certain assessments of fair value of these assets and liabilities, including the assessment of the fair value of intangible assets acquired. The excess of the acquisition date fair value of consideration over the estimated fair value of the net assets acquired will be recorded as goodwill. The Company considers the goodwill to represent benefits that are expected to be realized as a result of the business combination, including, but not limited to, the assembled workforce and the benefit of the enhanced knowledge and capabilities of HML. Goodwill is not expected to be deductible for tax purposes.

The valuation of the intangible assets acquired is summarized below (in thousands).

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|                                    | Useful life |    | Fair value |
|------------------------------------|-------------|----|------------|
| Customer relationships             | 20 years    | \$ | 19,933     |
| Technology-based intangible assets | 2 years     |    | 609        |
| Total intangible assets            |             | \$ | 20,542     |

The weighted average amortization period was 19.5 years.

*Australian business*

On January 31, 2014, the Company acquired certain businesses operated by the Corporation of the Trustees of the Roman Catholic Archdiocese of Brisbane, Australia for \$2.7 million in cash. The operations of these businesses are consistent with the services provided by MAXIMUS in Australia. The Company acquired these businesses in order to expand our operations in Australia. Management is still in the process of allocating the fair value of the consideration to the assets acquired.



Table of Contents**5. Goodwill and Intangible Assets**

The changes in goodwill for the three months ended December 31, 2013 are as follows (in thousands):

|                                  | <b>Health Services</b> |    | <b>Human Services</b> |    | <b>Total</b> |
|----------------------------------|------------------------|----|-----------------------|----|--------------|
| Balance as of September 30, 2013 | \$ 125,096             | \$ | 46,771                | \$ | 171,867      |
| Foreign currency translation     | 1,051                  |    | (702)                 |    | 349          |
| Balance as of December 31, 2013  | \$ 126,147             | \$ | 46,069                | \$ | 172,216      |

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

|                                      | <b>As of December 31, 2013</b> |                                     |                                   | <b>As of September 30, 2013</b> |                                     |                                   |
|--------------------------------------|--------------------------------|-------------------------------------|-----------------------------------|---------------------------------|-------------------------------------|-----------------------------------|
|                                      | <b>Cost</b>                    | <b>Accumulated<br/>Amortization</b> | <b>Intangible<br/>Assets, net</b> | <b>Cost</b>                     | <b>Accumulated<br/>Amortization</b> | <b>Intangible<br/>Assets, net</b> |
| Customer contracts and relationships | \$ 39,643                      | \$ 4,789                            | \$ 34,854                         | \$ 39,243                       | \$ 3,953                            | \$ 35,290                         |
| Technology-based intangible assets   | 9,457                          | 6,200                               | 3,257                             | 9,583                           | 5,974                               | 3,609                             |
| Trademarks                           | 4,398                          | 1,499                               | 2,899                             | 4,421                           | 1,303                               | 3,118                             |
| Non-compete arrangements             | 234                            | 227                                 | 7                                 | 243                             | 221                                 | 22                                |
| Total                                | \$ 53,732                      | \$ 12,715                           | \$ 41,017                         | \$ 53,490                       | \$ 11,451                           | \$ 42,039                         |

The Company's intangible assets have a weighted average remaining life of 12.6 years, comprising 14.1 years for customer contracts and relationships, 3.8 years for technology-based intangible assets, 3.7 years for the trademarks, and 0.1 years for non-compete arrangements. Amortization expense for the three months ended December 31, 2013 and 2012 was \$1.4 million and \$1.1 million, respectively. Future amortization expense is estimated as follows (in thousands):

|                                      |          |
|--------------------------------------|----------|
| Nine months ended September 30, 2014 | \$ 3,975 |
| Year ended September 30, 2015        | 5,143    |
| Year ended September 30, 2016        | 4,869    |
| Year ended September 30, 2017        | 4,470    |
| Year ended September 30, 2018        | 3,777    |

**6. Credit facilities**

On March 15, 2013, the Company entered into an unsecured five-year revolving credit agreement (the "Credit Agreement"). The Credit Agreement amends and restates the Company's existing revolving credit agreement entered into in January 2008. The Credit Agreement provides for a revolving line of credit up to \$100 million which may be used for revolving loans; swingline loans, subject to a sublimit of \$5 million; and to request letters of credit, subject to a sublimit of \$30 million. The line of credit is available for general corporate purposes, including working capital expenses, capital expenditures and acquisitions. The arrangement terminates on March 15, 2018, at which time all outstanding

borrowings must be repaid.

At December 31, 2013, the Company's only borrowings under the Credit Agreement were four letters of credit totaling \$14.7 million. Each of these letters of credit may be called by customers in the event that the Company defaults under the terms of a contract, the probability of which we believe is remote. In addition, two letters of credit totaling \$3.0 million are held with another financial institution to cover similar obligations.

The Credit Agreement requires the Company to comply with certain financial covenants and other covenants including a maximum total leverage ratio and a minimum fixed charge coverage ratio. The Company was in compliance with all covenants as of December 31, 2013. The obligations of the Company under the Credit Agreement are guaranteed by material domestic subsidiaries of the Company. The Credit Facility is currently unsecured. In the event that the Company's total leverage ratio exceeds 2.5:1.0 or the Company incurs a certain level of indebtedness outside of the Credit Agreement, the Credit Agreement will become secured by the assets of the Company and certain of its subsidiaries. At December 31, 2013, our total leverage ratio was less than 0.1:1.0.

The Credit Agreement provides for an annual commitment fee payable on funds not borrowed or utilized for letters of credit. This charge is based upon the Company's leverage and varies between 0.15% and 0.3%. Borrowings under the Credit Agreement bear interest at our choice at either (a) a Base Rate plus a margin that varies between 0.0% and 0.75% per year, (b) a Eurocurrency Rate plus an applicable margin that varies between 1.0% and 1.75% per year or (c) an Index Rate plus an applicable margin which varies between 1.0% and 1.75% per year. The Base Rate, Eurocurrency Rate and Index Rate are defined by the Credit Agreement and the applicable percentages are based upon the Company's leverage rate at the time of the borrowing. At December 31, 2013, the Company utilized the lowest available applicable margins listed above.

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In addition to this revolving credit facility, the Company has a loan agreement with the Atlantic Innovation Fund of Canada. This provided a loan of 1.8 million Canadian Dollars, the proceeds of which were required to be used for specific technology-based research and development. The loan has no interest charge. At December 31, 2013, this balance was repayable in 34 remaining quarterly installments. At December 31, 2013, \$1.4 million (1.5 million Canadian Dollars) was outstanding under this agreement.

Certain contracts require us to provide a surety bond as a guarantee of performance. At December 31, 2013 and September 30, 2012, the Company had performance bond commitments totaling \$49.0 million and \$50.8 million, respectively. These bonds are typically renewed annually and remain in place until the contractual obligations have been satisfied. Although the triggering events vary from contract to contract, in general we would only be liable for the amount of these guarantees in the event of default in our performance of our obligations under each contract, the probability of which we believe is remote.

## **7. Commitments and Contingencies**

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

In March 2009, a state Medicaid agency asserted a claim against MAXIMUS, related to a discontinued business line, in the amount of \$2.3 million in connection with a contract MAXIMUS had through February 1, 2009 to provide Medicaid administrative claiming services to school districts in the state. MAXIMUS entered into separate agreements with the school districts under which MAXIMUS helped the districts prepare and submit claims to the state Medicaid agency which, in turn, submitted claims for reimbursement to the United States Federal Government. No legal action has been initiated. The state has asserted that its agreement with MAXIMUS requires the Company to reimburse the state for the amounts owed to the Federal Government. However, the Company's agreements with the school districts require them to reimburse MAXIMUS for such payments and therefore MAXIMUS believes the school districts are responsible for any amounts disallowed by the state Medicaid agency or the Federal Government. Accordingly, the Company believes its exposure in this matter is limited to its fees associated with this work and that the school districts will be responsible for the remainder. MAXIMUS has exited the federal health care claiming business and no longer provides the services at issue in this matter.

In 2008, MAXIMUS sold the SchoolMAX student information system business line as part of the divestiture of the MAXIMUS Education Systems division. In 2012, a school district ( District ) which was a SchoolMAX client filed a formal arbitration notice alleging that MAXIMUS and the buyer failed to (i) use best practices in developing the software and (ii) deliver and test product releases as required by the contract. The District contended that those failures resulted in damages of at least \$10 million. In December 2012, the arbitration panel denied the District's claims in their entirety. Costs related to the arbitration proceeding have been included within discontinued operations. The District subsequently filed a motion to vacate the decision of the arbitration panel which was denied by the court in July 2013. The District has appealed that ruling. Separately, in late 2012, the District asserted that MAXIMUS had defrauded the District in 2007 or 2008 by misrepresenting its intentions regarding the sale of the Education Systems division. That allegation was not part of the arbitration, and no formal claim or lawsuit has been filed. The company believes it has a number of defenses to that allegation and would contest it vigorously if it were asserted.

In January 2014, MAXIMUS was named a defendant in *Norton et al. v. MAXIMUS* in the U.S. District Court for Idaho. The plaintiffs in this purported class action are current and former trainers and supervisors at the MAXIMUS Federal health care project in Boise. They allege the Company willfully misclassified them as exempt employees under the Fair Labor Standards Act and failed to pay them overtime, and they seek to establish a nationwide class covering the company's Federal health care operations. The plaintiffs allege compensatory and punitive damages of at least \$5 million. MAXIMUS denies liability and will contest the matter vigorously.



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**8. Stock Repurchase Programs**

Under a resolution adopted in November 2011, the Board of Directors authorized the repurchase, at management's discretion, of up to an aggregate of \$125.0 million of the Company's common stock. The resolution also authorized the use of option exercise proceeds for the repurchase of the Company's common stock. During the three months ended December 31, 2013 and 2012, the Company repurchased 505,738 and 499,098 common shares at a cost of \$22.5 million and \$14.6 million, respectively. The amount available for future repurchases was \$74.9 million at December 31, 2013.

The Company has acquired an additional 231,100 common shares at a cost of \$9.9 million between January 1, 2014 and February 7, 2014.

**9. Subsequent Events**

*Dividend*

On January 3, 2014, the Company's Board of Directors declared a quarterly cash dividend of \$0.045 for each share of the Company's common stock outstanding. The dividend is payable on February 28, 2014 to shareholders of record on February 14, 2014.

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**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, 2013, filed with the Securities and Exchange Commission on November 19, 2013.*

**Business Overview**

We provide business process services (BPS) to government health and human services agencies under our mission of *Helping Government Serve the People*.® Our business is focused almost exclusively on administering government-sponsored programs, such as Medicaid, CHIP, health care reform, welfare-to-work, Medicare, child support and other government programs. We are one of the largest pure-play health and human services administrative providers to governments in the United States, Australia, Canada, the United Kingdom and Saudi Arabia. We use our deep domain expertise, repeatable processes and technology solutions to help government agencies run efficient, cost-effective programs and to improve program accountability and outcomes, while enhancing the quality of services provided to program beneficiaries.

Both within the United States and internationally, governments are being challenged by factors that increase social burdens, including aging populations and demands for health care reform, offset by reduced funds with which to deal with these demands. We believe that these trends will provide a demand for services that can be met by companies such as MAXIMUS. We are also seeing increased scrutiny and heightened accountability within the markets which we serve. The Company believes that a combination of its rigorous employee training, stringent adherence to its Standards of Business Conduct and Ethics, robust financial performance and global experience gives existing and future customers the confidence that MAXIMUS can reliably operate their high-profile public health and human services programs.

**Financial overview**

The Company experienced significant growth in both revenue and operating profit for the three month period ended December 31, 2013 compared to the same period in fiscal year 2013. This principal driver of this growth is work related to the Affordable Care Act (ACA). In serving our clients, we delivered high-quality customer contact center operations and comprehensive contingency plans where technology issues in the health insurance exchanges were causing delays. The Company was also effectively able to address spikes in call volumes where consumers were unable to enroll in health plans using health insurance exchange websites.

The Company continues to see opportunities to expand further our business related to the ACA. MAXIMUS is currently providing customer contact centers for five states, the District of Columbia and the United States Federal Government. The Company anticipates that some states currently utilizing the federal marketplace may migrate to their own exchanges over the next several years. If this does occur, there will be opportunities for experienced service providers such as MAXIMUS to operate these exchanges.

The Company reported strong operating cash flows in the three month period ended December 31, 2013 driven by increased business and improved cash collections. The Company continued to invest funds in working capital as well as in repurchases of common stock. The Company

holds \$120.6 million in unrestricted cash and cash equivalents and has minimal debt.

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

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

| (dollars in thousands, except per share data)                           | Three Months Ended |            |
|---|--------------------|------------|
|   | December 31,       |            |
|   | 2013               | 2012       |
| Revenue   | \$ 406,592         | \$ 286,266 |
| Gross profit  | \$ 105,916         | \$ 76,530  |
| Gross profit percentage   | 26.0%              | 26.7%      |
| Selling, general and administrative expenses                            | \$ 52,603          | \$ 42,222  |
| Selling, general and administrative expenses as a percentage of revenue | 12.9%              | 14.7%      |
| Acquisition-related expenses  |                    | 148        |
| Legal and settlement expense  |                    | 142        |
| Operating income from continuing operations                             | \$ 53,313          | \$ 34,018  |
| Operating margin from continuing operations percentage                  | 13.1%              | 11.9%      |
| Interest and other income, net  | 721                | 1,106      |
| Income from continuing operations before income taxes                   | \$ 54,034          | \$ 35,124  |
| Provision for income taxes  | 20,234             | 13,341     |
| Effective tax rate  | 37.4%              | 38.0%      |
| Income from continuing operations, net of income taxes                  | 33,800             | 21,783     |
| Income (loss) from discontinued operations, net of income taxes         | 59                 | (467)      |
| Net income  | \$ 33,859          | \$ 21,316  |
| <b>Basic earnings (loss) per share:</b>                                 |                    |            |
| Income from continuing operations                                       | \$ 0.49            | \$ 0.32    |
| Income (loss) from discontinued operations                              | 0.01               | (0.01)     |
| Basic earnings per share  | \$ 0.50            | \$ 0.31    |
| <b>Diluted earnings (loss) per share:</b>                               |                    |            |
| Income from continuing operations                                       | \$ 0.48            | \$ 0.31    |
| Income (loss) from discontinued operations                              | 0.01               |            |
| Diluted earnings per share  | \$ 0.49            | \$ 0.31    |

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



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

We discuss constant currency revenue information to provide a framework for assessing how our business performed excluding the effect of foreign currency rate fluctuations. Constant currency revenue growth is a non-GAAP number that we believe is useful for assessing the performance of the business excluding the effects of currency fluctuations. To provide this information, revenue from foreign operations is converted into United States dollars using average exchange rates from the previous fiscal year. Constant currency revenue growth should not be considered in isolation, nor as an alternative to revenue growth. In addition, this non-GAAP financial measure, as determined and presented by us, may not be comparable to related or similarly titled measures presented by other companies.

In assessing the performance of our business, we believe that it is helpful to our investors to show organic revenue growth, which represents the increase in revenue from contracts excluding those acquired with HML. Organic growth is a non-GAAP number that we believe provides a useful basis for assessing the performance of the business excluding the results of HML. In order to calculate organic growth, we remove the revenue from HML from the three month period ended December 31, 2013. Organic growth is not meant to be used in isolation, nor as an alternative to revenue growth as a measure of performance. In addition, this non-GAAP financial measure, as determined and presented by us, may not be comparable to related or similarly titled measures presented by other companies.

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Revenue for the three month period ended December 31, 2013 increased 42.0% to \$406.6 million compared to the same period in the prior year. Most of this growth was driven by new work, particularly within the Health Services Segment, with 5.1% growth contributed from the Company's acquisition of HML in fiscal year 2013. Foreign currency fluctuations caused a decline of 1.9% in revenue. The drivers for each segment are discussed in greater detail below.

Gross profit margin for the three months ended December 31, 2013 declined slightly to 26.0% compared to 26.7% in the same period in fiscal 2013. This decline was attributable to our Human Services Segment.

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 expenses as a percentage of revenue declined during the current year to 12.9% compared to 14.7% in the same period in the prior year. The improvement as a percentage of revenue is driven by significant growth in revenue from contracts launched in late fiscal year 2013, without a corresponding increase in discretionary selling costs.

Operating income from continuing operations for the quarter ended December 31, 2013 was \$53.3 million compared to the same period in the prior year of \$34.0 million. The increase in operating income was principally driven by organic growth in our Health Services Segment, as well as the acquisition of HML.

Income from continuing operations, net of income taxes, was \$33.8 million, or \$0.48 per diluted share, for the three months ended December 31, 2013, compared with \$21.8 million, or \$0.31 per diluted share, for the same period in fiscal year 2013.

*Health Services Segment*

The Health Services Segment provides a variety of business process services for state, provincial and federal programs, such as the ACA, Medicaid, CHIP, Medicare and the Health Insurance British Columbia Program.

| (dollars in thousands)      | Three Months Ended |            |
|-----------------------------|--------------------|------------|
|                             | 2013               | 2012       |
| Revenue                     | \$ 299,158         | \$ 175,998 |
| Gross profit                | 76,818             | 45,259     |
| Operating income            | 41,553             | 20,626     |
| Gross profit percentage     | 25.7%              | 25.7%      |
| Operating margin percentage | 13.9%              | 11.7%      |

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

Revenue increased by 70.0% to \$299.2 million for the three month period ended December 31, 2013, compared to the same period in the prior year. Organic revenue growth was 61.7%. The Company's gross profit increased by 69.7% and operating income more than doubled. These increases were driven by:

- Revenues from new work and expansion on existing contracts, including those supporting the implementation and operation of the ACA;
- Increased volumes in our federal Medicare appeals business, which is reimbursed on a per-transaction basis; and
- The acquisition of HML in July 2013.

The growth generated by ACA-related work was in excess of the Company's initial expectations and was driven by increased call volumes related to the customer technology challenges that made it difficult for consumers to enroll online. We anticipate that some of this financial benefit will continue into the second quarter of our fiscal year as we will continue to provide support to some ACA clients through the open enrollment period, which is currently scheduled to end on March 31, 2014.

In addition, the Company's new work related to the ACA will also likely result in changes to the seasonal pattern of the Company's revenues and earnings, with a greater share now expected to be realized in the first half of our fiscal year, to coincide with the open enrollment period.

Table of Contents*Human Services Segment*

The Human Services Segment includes a variety of business process services, case management, job training and support services for programs such as welfare-to-work programs, child support, K-12 special education and other specialized consulting services.

| (dollars in thousands)      | Three Months Ended |                   |
|-----------------------------|--------------------|-------------------|
|                             | 2013               | December 31, 2012 |
| Revenue                     | \$ 107,434         | \$ 110,268        |
| Gross profit                | 29,098             | 31,271            |
| Operating income            | 11,760             | 13,682            |
| Gross profit percentage     | 27.1%              | 28.4%             |
| Operating margin percentage | 10.9%              | 12.4%             |

Revenues decreased by 2.6% to \$107.4 million compared to the same period in fiscal year 2013. Our results in Australia were affected by a decline in the value of the Australian Dollar and, on a constant currency basis revenue would have increased 1.7%.

During the three month period ended December 31, 2012, the Company received the benefit of performance-based payments in a domestic welfare-to-work program, which were not anticipated to continue. The absence of this accretive revenue is the principal driver of declines in the gross and operating profit for the three months ended December 31, 2013.

**Discontinued operations**

The Company continues to record small gains on the sale of Unison MAXIMUS, Inc. ( Unison ), a business that was sold in May 2008. The consideration for the sale included a promissory note that is fully reserved. Small payments continue to be received on this note but owing to uncertainties over the collectability of the full balance, the Company has only recorded a gain on sale where recovery is considered assured, which is typically when cash payments are received. The Company has recorded gains of \$0.1 million in the three month periods ended December 31, 2013 and 2012.

During November 2012, the Company incurred legal costs of approximately \$0.9 million in defending a proceeding related to a discontinued operation, as further described in Note 7 to our consolidated financial statements for the three month period ended December 31, 2013. The Company prevailed in that proceeding, but the plaintiff has appealed and the Company may continue to incur costs in defending itself due to claims arising from this, or any other, discontinued operation. Although the Company estimates and accrues anticipated costs relating to such actions, and tries to negotiate indemnifications against liabilities arising from discontinued operations where possible, the Company is unable to anticipate every potential legal claim, and might incur legal defense costs.

## Liquidity and Capital Resources

In recent years, the Company has relied upon cash flows from operations to fund operations, capital expenditures, acquisitions, share repurchases and dividends. Both domestic and overseas locations have remained self-sufficient in funding operations and capital resources. The Company expects to be able to continue to fund operations and capital expenditures from operating cash flows, but has a line of credit available under its revolving credit facility if necessary to cover short-term working capital requirements or delays in payment. In prior periods, the Company has faced short-term payment delays from customers, all of which were ultimately recovered. The Company believes its liquidity and capital resources are adequate to weather short-term payment delays. In the event of more protracted delays, the Company may be required to seek additional capital sources, amend payment terms or take other actions and extended payment delays could adversely affect the Company's cash flows, operations and profitability. However, the nature of the programs that we operate are typically considered essential and short-term government shut-downs or budget delays would not be expected to cause significant disruption to our operations.

At December 31, 2013, the Company held \$120.6 million in cash and cash equivalents. Approximately 65% of these funds are held in overseas locations, principally in Australia and Canada. If we were to transfer these funds to the United States, the Company could be required to accrue and pay additional taxes. We have no requirement to repatriate these funds as we believe we have access to sufficient funds in the United States to fund our operations, capital outlays, dividends and share repurchases. Accordingly, we do not intend to repatriate these funds held overseas and we have not attempted to quantify the charges that might arise if we were to make this transaction. The charges would vary based upon tax legislation in the United States and in the overseas jurisdictions as well as the manner and timing of these transactions.

The Company currently has no debt outstanding, with the exception of a \$1.4 million interest-free loan from the Atlantic Innovation Fund of Canada, the funds of which must be used for certain investment projects in Prince Edward Island. At December 31, 2013, the Company has access to up to \$85.3 million from a revolving credit facility in the United States. These funds are available to cover short-term cash requirements and other potential capital outlays, including share repurchases and acquisitions. Also at December 31, 2013, the Company had letters of credit totaling \$17.7 million and performance bond commitments totaling \$49.0 million. The letters of credit and performance bonds are typically renewed annually and remain in place until the contractual obligations have been satisfied. Although the triggering events vary from contract to contract, in general we would only be liable for the amount of these guarantees in the event of default of our obligations under each contract, the probability of which we believe is remote.

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Our primary source of cash is revenues received from customers. Our collection of cash is driven by billing schedules and payment terms that can vary based upon a number of factors, including contract type. Our revenue recognition may be inconsistent with our costs incurred. Where contracts have contingent revenues, based upon meeting standards of performance or levels of outcome, revenue is typically only recognized when these performance outcomes are known, which may be several months after the related costs have been incurred. The Company treats favorable cash flow terms from contracts as deferred revenue. Deferred revenue generally results from up-front reimbursement of project start-up costs or payment terms more favorable than revenue recognition. Deferred revenue from these favorable contract terms are derived from a relatively small percentage of the Company's portfolio of contracts and, therefore, should generally not be viewed as a predictor of revenue trends. In addition, where contracts require significant financial outlay, MAXIMUS will incur cash outflows for fixed assets and other related costs, which are generally recognized over the life of the arrangement. At December 31, 2013, management considered that the net book value of all capital assets, including deferred contract costs, was less than the expected future cash flows related to these assets.

*Cash Flows*

| (dollars in thousands)                                       | Three Months Ended |                      |
|--|--------------------|----------------------|
|  | 2013               | December 31,<br>2012 |
| Net cash provided by (used in):                              |                    |                      |
| Operating activities continuing operations                   | \$ 41,982          | \$ 10,119            |
| Operating activities discontinued operations                 | (36)               | (493)                |
| Investing activities   | (7,909)            | (10,491)             |
| Financing activities   | (37,134)           | (21,071)             |
| Effect of exchange rate changes on cash and cash equivalents | (1,936)            | (238)                |
| Net decrease in cash and cash equivalents                    | \$ (5,033)         | \$ (22,174)          |

Cash flows provided by operating activities from continuing operations for the quarter ended December 31, 2013 were \$42.0 million, compared with \$10.1 million in the same quarter in fiscal year 2013. The Company received the benefits of increased earnings and improved cash collections, offset by cash consumed for receivables tied to revenue growth and the payment of annual bonuses.

Cash used in investing activities from continuing operations for the three months ended December 31, 2013 was \$7.9 million, compared to \$10.5 million for the same period in fiscal year 2013. During fiscal year 2013, the Company incurred in excess of \$60 million of capital assets, including capitalized internal-use software, much of which was for the benefit of new or expanding contracts. Capital expenditure in fiscal year 2014 is anticipated to be lower as many of these projects, particularly those related to the ACA, have now commenced.

Cash used in financing activities from continuing operations for the three months ended December 31, 2013 was \$37.1 million, compared to \$21.1 million for the same period in fiscal year 2013. During the first quarter, the Company paid \$12.8 million in employee taxation related to the vesting of restricted stock units in September 2013, compared with \$6.7 million in the same period in fiscal 2013. The increase is driven by increases in the Company's share price. In addition, the Company also used \$21.5 million in repurchases of common stock, compared with \$15.4 million in the same period in fiscal 2013.

The Company's cash balance decreased by \$1.9 million in the current period owing to foreign exchange rate fluctuations, most notably the decline in value of the Australian Dollar against the United States Dollar.

To supplement our statements of cash flows presented on a GAAP basis, we use the non-GAAP measure of free cash flows from continuing operations to analyze the funds generated from operations. We believe free cash flow from continuing operations is a useful basis for comparing our performance with our competitors. The presentation of non-GAAP free cash flows from continuing operations is not meant to be considered in isolation, nor as an alternative to net income as an indicator of performance, nor as an alternative to cash flows from operating activities as a measure of liquidity. In addition, this non-GAAP financial measure, as determined and presented by us, may not be comparable to other related or similarly titled measures used by other companies. We calculate free cash flow from continuing operations as follows:

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| (dollars in thousands)                                      | Three Months Ended |                   |
|---|--------------------|-------------------|
|   | 2013               | December 31, 2012 |
| Cash provided by operating activities continuing operations | \$ 41,982          | \$ 10,119         |
| Purchases of property and equipment                         | (4,440)            | (7,087)           |
| Capitalized software costs                                  | (3,584)            | (3,464)           |
| Free cash flow from continuing operations                   | \$ 33,958          | \$ (432)          |

*Repurchases of the Company's common stock*

The Company has repurchased 505,738 and 499,098 common shares at a cost of \$22.5 million and \$14.6 million during the three month periods ended December 31, 2013 and 2012, respectively. At December 31, 2013, \$74.9 million remains available for share repurchases under a board approved plan.

*Dividend*

On January 3, 2014, the Company's Board of Directors declared a quarterly cash dividend of \$0.045 for each share of the Company's common stock outstanding. The dividend is payable on February 28, 2014 to shareholders of record on February 14, 2014.

**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 other long-lived assets, and amounts related to contingencies and income tax liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from those estimates.

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

During the three months ended December 31, 2013, there were no significant changes to the critical accounting policies we disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the



year ended September 30, 2013.

**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.

There have been no material changes in the information presented in Item 7A of our Annual Report on Form 10-K for the year ended September 30, 2013.

**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 time periods specified by the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

(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.

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**PART II. OTHER INFORMATION**

**ITEM 1. Legal Proceedings.**

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

In March 2009, a state Medicaid agency asserted a claim against MAXIMUS, related to a discontinued business line, in the amount of \$2.3 million in connection with a contract MAXIMUS had through February 1, 2009 to provide Medicaid administrative claiming services to school districts in the state. MAXIMUS entered into separate agreements with the school districts under which MAXIMUS helped the districts prepare and submit claims to the state Medicaid agency which, in turn, submitted claims for reimbursement to the United States Federal Government. No legal action has been initiated. The state has asserted that its agreement with MAXIMUS requires the Company to reimburse the state for the amounts owed to the Federal Government. However, the Company's agreements with the school districts require them to reimburse MAXIMUS for such payments and therefore MAXIMUS believes the school districts are responsible for any amounts disallowed by the state Medicaid agency or the Federal Government. Accordingly, the Company believes its exposure in this matter is limited to its fees associated with this work and that the school districts will be responsible for the remainder. MAXIMUS has exited the federal health care claiming business and no longer provides the services at issue in this matter.

In 2008, MAXIMUS sold the SchoolMAX student information system business line as part of the divestiture of the MAXIMUS Education Systems division. In 2012, a school district ( District ) which was a SchoolMAX client filed a formal arbitration notice alleging that MAXIMUS and the buyer failed to (i) use best practices in developing the software and (ii) deliver and test product releases as required by the contract. The District contended that those failures resulted in damages of at least \$10 million. In December 2012, the arbitration panel denied the District's claims in their entirety. Costs related to the arbitration proceeding have been included within discontinued operations. The District subsequently filed a motion to vacate the decision of the arbitration panel which was denied by the court in July 2013. The District has appealed that ruling. Separately, in late 2012, the District asserted that MAXIMUS had defrauded the District in 2007 or 2008 by misrepresenting its intentions regarding the sale of the Education Systems division. That allegation was not part of the arbitration, and no formal claim or lawsuit has been filed. The company believes it has a number of defenses to that allegation and would contest it vigorously if it were asserted.

In January 2014, MAXIMUS was named a defendant in *Norton et al. v. MAXIMUS* in the U.S. District Court for Idaho. The plaintiffs in this purported class action are current and former trainers and supervisors at the MAXIMUS Federal health care project in Boise. They allege the Company willfully misclassified them as exempt employees under the Fair Labor Standards Act and failed to pay them overtime, and they seek to establish a nationwide class covering the company's Federal health care operations. The plaintiffs allege compensatory and punitive damages of at least \$5 million. MAXIMUS denies liability and will contest the matter vigorously.

**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, 2013 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 for the year ended September 30, 2013.



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**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, 2013:

| Period       |               | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price Paid<br>per Share | Total Number of<br>Shares Purchased as<br>Part of Publicly<br>Announced Plans (1) | Approximate Dollar<br>Value of Shares that<br>May Yet Be<br>Purchased<br>Under the Plan<br>(in thousands) |
|--------------|---------------|---|------------------------------------|---|---|
| Oct. 1, 2013 | Oct. 31, 2013 |   | \$                                 |   | \$ 97,175   |
| Nov. 1, 2013 | Nov. 30, 2013 | 208,702                                   | 45.05                              | 208,702   | \$ 87,881   |
| Dec. 1, 2013 | Dec. 31, 2013 | 297,036                                   | 44.02                              | 297,036   | \$ 74,916   |
| <b>Total</b> |               | <b>505,738</b>                            | <b>\$ 44.44</b>                    | <b>505,738</b>  |   |

(1) Under a resolution adopted on November 8, 2011, the Board of Directors authorized the repurchase, at management's discretion, of up to an aggregate of \$125.0 million of the Company's common stock. The resolution also authorized the use of option exercise proceeds for the repurchase of the Company's common stock.

**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.

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**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, 2014

By:

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

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**EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 10.1*              | Extension of Employment Agreement of Richard A. Montoni, dated October 7, 2013 , filed as an exhibit to the Company s Current Report on Form 8-K (File No. 1-12997) on October 7, 2013 and incorporated herein by reference.   |
| 31.1               | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 31.2               | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 32.1               | Section 906 Principal Executive Officer Certification.   |
| 32.2               | Section 906 Principal Financial Officer Certification.   |
| 101                | The following materials from the MAXIMUS, Inc. Quarterly Report on Form 10-Q for the year ended December 31, 2013 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements. Filed electronically herewith. |

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\* Denotes management contract or compensation plan.