

MAXIMUS INC
Form 10-Q
February 05, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2015

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)

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

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

20190
(Zip Code)

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

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 Smaller reporting company
(Do not check if smaller reporting company)

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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 February 1, 2016, there were 64,894,171 shares of the registrant's common stock (no par value) outstanding.

MAXIMUS, Inc.
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 For the Quarter Ended December 31, 2015
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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 us, 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," "will" and similar words 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 to meet performance requirements in our contracts, which might lead to contract termination and liquidated damages;
 - the effects of future legislative or government budgetary and spending changes;
 - difficulties in integrating acquired businesses;
 - the outcome of reviews or audits, which might result in financial penalties and reduce our ability to respond to invitations for new work;
 - a failure to comply with laws governing our business, which might result in the Company being subject to fines, penalties and other sanctions;
 - our failure to successfully bid for and accurately price contracts to generate our desired profit;
 - our ability to maintain relationships with key government entities from whom a substantial portion of our revenue is derived;
 - the ability of government customers to terminate contracts on short notice, with or without cause;
 - our ability to manage capital investments and start-up costs incurred before receiving related contract payments;
 - our ability to maintain technology systems and otherwise protect confidential or protected information;
 - the costs and outcome of litigation;
 - matters related to business we have disposed of or divested; and
- other factors set forth in Exhibit 99.1, under the caption "Special Considerations and Risk Factors," in our Annual Report on Form 10-K for the year ended September 30, 2015, which was filed with the Securities and Exchange Commission on November 16, 2015.

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.

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements.

MAXIMUS, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share data)

(Unaudited)

	Three Months Ended December	
	31,	
	2015	2014
Revenue	\$556,722	\$467,043
Cost of revenue	446,507	347,776
Gross profit	110,215	119,267
Selling, general and administrative expenses	64,234	51,962
Amortization of intangible assets	3,149	1,474
Acquisition-related expenses	46	600
Operating income	42,786	65,231
Interest expense	989	—
Other income, net	1,131	901
Income before income taxes	42,928	66,132
Provision for income taxes	16,046	23,782
Net income	26,882	42,350
Income attributable to noncontrolling interests	273	489
Net income attributable to MAXIMUS	\$26,609	\$41,861
Basic earnings per share attributable to MAXIMUS	\$0.40	\$0.63
Diluted earnings per share attributable to MAXIMUS	\$0.40	\$0.63
Dividends paid per share	\$0.045	\$0.045
Weighted average shares outstanding:		
Basic	65,954	65,935
Diluted	66,288	66,898

See notes to unaudited consolidated financial statements.

MAXIMUS, Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

	Three Months Ended December	
	31,	
	2015	2014
Net income	\$26,882	\$42,350
Foreign currency translation adjustments	(2,159	) (10,480
Interest rate hedge, net of income taxes of \$25 and \$—	37	—
Comprehensive income	24,760	31,870
Comprehensive income attributable to noncontrolling interests	273	489
Comprehensive income attributable to MAXIMUS	\$24,487	\$31,381
See notes to unaudited consolidated financial statements.		

MAXIMUS, Inc.
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands)

	December 31, 2015 (unaudited)	September 30, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$50,958	\$74,672
Accounts receivable — billed and billable, net of reserves of \$4,555 and \$3,385	425,159	396,177
Accounts receivable — unbilled	32,799	30,929
Prepaid expenses and other current assets	49,201	60,129
Total current assets	558,117	561,907
Property and equipment, net	138,131	137,830
Capitalized software, net	30,740	32,483
Goodwill	387,118	376,302
Intangible assets, net	99,600	102,358
Deferred contract costs, net	18,123	19,126
Deferred compensation plan assets	21,187	19,310
Deferred income taxes	11,077	11,058
Other assets	11,442	11,184
Total assets	\$1,275,535	\$1,271,558
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$161,905	\$155,411
Accrued compensation and benefits	67,051	99,700
Deferred revenue	76,876	77,642
Income taxes payable	3,001	11,709
Long-term debt, current portion	340	356
Other liabilities	10,103	11,562
Total current liabilities	319,276	356,380
Deferred revenue, less current portion	50,714	52,954
Deferred income taxes	15,531	6,546
Long-term debt	244,955	210,618
Deferred compensation plan liabilities, less current portion	22,986	20,635
Other liabilities	9,331	8,726
Total liabilities	662,793	655,859
Commitments and contingencies	—	—
Shareholders' equity:		
Common stock, no par value; 100,000 shares authorized; 64,894 and 65,437 shares issued and outstanding at December 31, 2015 and September 30, 2015, at stated amount, respectively	450,572	446,132
Accumulated other comprehensive income/(loss)	(24,487	) (22,365
Retained earnings	183,063	188,611
Total MAXIMUS shareholders' equity	609,148	612,378
Noncontrolling interests	3,594	3,321
Total equity	612,742	615,699
Total liabilities and equity	\$1,275,535	\$1,271,558

See notes to unaudited consolidated financial statements.

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MAXIMUS, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	Three Months Ended December	
	31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$26,882	\$42,350
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, equipment and capitalized software	12,947	10,967
Amortization of intangible assets	3,149	1,474
Deferred income taxes	(499)	(925)
Stock compensation expense	4,332	3,966
Change in assets and liabilities:		
Accounts receivable — billed and billable	(29,747)	(4,242)
Accounts receivable — unbilled	(1,853)	(4,314)
Prepaid expenses and other current assets	5,316	(221)
Deferred contract costs	764	(3,454)
Accounts payable and accrued liabilities	8,188	13,441
Accrued compensation and benefits	(21,383)	(23,901)
Deferred revenue	(2,886)	3,610
Income taxes	(3,043)	18,836
Other assets and liabilities	(801)	(993)
Cash provided by operating activities	1,366	56,594
Cash flows from investing activities:		
Purchases of property and equipment	(9,693)	(12,754)
Capitalized software costs	(992)	(1,356)
Acquisition of businesses, net of cash acquired	(2,606)	—
Proceeds from note receivable	84	160
Cash used in investing activities	(13,207)	(13,950)
Cash flows from financing activities:		
Cash dividends paid	(2,941)	(2,962)
Repurchases of common stock	(31,138)	(32,616)
Tax withholding related to RSU vesting	(11,553)	(12,337)
Borrowings under credit facility	47,070	—
Repayment of credit facility and other long-term debt	(12,721)	(39)
Cash used in financing activities	(11,283)	(47,954)
Effect of exchange rate changes on cash and cash equivalents	(590)	(3,606)
Net decrease in cash and cash equivalents	(23,714)	(8,916)
Cash and cash equivalents, beginning of period	74,672	158,112
Cash and cash equivalents, end of period	\$50,958	\$149,196
See notes to unaudited consolidated financial statements.		

MAXIMUS, Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Amounts in thousands)

(Unaudited)

	Common Shares Outstanding	Common Stock	Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Noncontrolling Interest	Total
Balance at September 30, 2015	65,437	\$446,132	\$ (22,365)	\$188,611	\$ 3,321	\$615,699
Net income	—	—	—	26,609	273	26,882
Foreign currency translation	—	—	(2,159)	—	—	(2,159)
Interest rate hedge, net of income taxes	—	—	37	—	—	37
Cash dividends	—	—	—	(2,941)	—	(2,941)
Dividends on RSUs	—	77	—	(77)	—	—
Repurchases of common stock	(543)	—	—	(29,139)	—	(29,139)
Stock compensation expense	—	4,332	—	—	—	4,332
Tax withholding related to RSU vesting	—	31	—	—	—	31
Balance at December 31, 2015	64,894	\$450,572	\$ (24,487)	\$183,063	\$ 3,594	\$612,742
			Accumulated			
	Common Shares Outstanding	Common Stock	Other Comprehensive Income / (Loss)	Retained Earnings	Noncontrolling Interest	Total
Balance at September 30, 2014	66,613	\$429,857	\$ 230	\$125,875	\$ 223	\$556,185
Net income	—	—	—	41,861	489	42,350
Foreign currency translation	—	—	(10,480)	—	—	(10,480)
Cash dividends	—	—	—	(2,962)	—	(2,962)
Dividends on RSUs	—	99	—	(99)	—	—
Repurchases of common stock	(753)	—	—	(30,618)	—	(30,618)
Stock compensation expense	—	3,966	—	—	—	3,966
Balance at December 31, 2014	65,860	\$433,922	\$ (10,250)	\$134,057	\$ 712	\$558,441

See notes to unaudited consolidated financial statements.

MAXIMUS, Inc.

Notes to Unaudited Consolidated Financial Statements

For the Three Months Ended December 31, 2015 and 2014

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

1. Organization and Basis of Presentation

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, 2015 are not necessarily indicative of the results that may be expected for the full fiscal year. The balance sheet at September 30, 2015 has been derived from the audited financial statements at that date, but does not include all of the information and notes required by GAAP for complete financial statements.

Certain reclassifications have been made from prior fiscal year to conform with current presentation. In November 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2015-17, Balance Sheet Classification of Deferred Taxes. This standard reduces the complexity of deferred taxation disclosure by showing deferred income tax balances as noncurrent. We have adopted this standard and have updated our September 30, 2015 balance sheet as if we had adopted this standard at that time. As previously disclosed, our balance sheet held \$19 million of current deferred tax assets, \$0.7 million of noncurrent deferred tax assets included in "Other Assets" and \$15.2 million of noncurrent deferred tax liabilities. These balances have been reclassified to record \$11.1 million and \$6.5 million of noncurrent deferred tax assets and liabilities, respectively.

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, 2015 and 2014 and for each of the three years ended September 30, 2015, included in our Annual Report on Form 10-K for the year ended September 30, 2015 which was filed with the Securities and Exchange Commission on November 16, 2015.

2. Segment Information

The table below provides certain financial information for each of our business segments.

(Amounts in thousands)	Three Months Ended December 31,					
	2015	% (1)	2014	% (1)		
Revenue:						
Health Services	\$291,903	100	% \$243,570	100	%	
U.S. Federal Services	145,285	100	% 107,729	100	%	
Human Services	119,534	100	% 115,744	100	%	
Total	\$556,722	100	% \$467,043	100	%	
Gross profit:						
Health Services	\$51,972	17.8	% \$59,847	24.6	%	
U.S. Federal Services	28,238	19.4	% 25,568	23.7	%	
Human Services	30,005	25.1	% 33,852	29.2	%	
Total	\$110,215	19.8	% \$119,267	25.5	%	
Selling, general and administrative expense:						
Health Services	\$25,164	8.6	% \$22,007	9.0	%	
U.S. Federal Services	17,522	12.1	% 12,250	11.4	%	
Human Services	20,898	17.5	% 17,700	15.3	%	
Other	650	NM	5	NM		
Total	\$64,234	11.5	% \$51,962	11.1	%	
Operating income:						
Health Services	\$26,808	9.2	% \$37,840	15.5	%	
U.S. Federal Services	10,716	7.4	% 13,318	12.4	%	
Human Services	9,107	7.6	% 16,152	14.0	%	
Amortization of intangible assets	(3,149	) NM	(1,474	) NM		
Acquisition-related expenses (2)	(46	) NM	(600	) NM		
Other	(650	) NM	(5	) NM		
Total	\$42,786	7.7	% \$65,231	14.0	%	

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

Acquisition-related expenses are costs directly incurred from the purchase of Assessments Australia in the first

(2) quarter of fiscal year 2016 and the purchase of Acentia in fiscal year 2015, as well as other transaction-related activity.

3. Earnings Per Share

The weighted average number of shares outstanding used to compute earnings per share was as follows: