

MAXIMUS INC
Form 10-Q
May 10, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2011

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)

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

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

20190
(Zip Code)

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(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
(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 April 30, 2011, there were 17,351,859 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 March 31, 2011

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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.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements.****MAXIMUS, Inc.****CONSOLIDATED BALANCE SHEETS****(In thousands, except share amounts)**

| | March 31, 2011 (unaudited) | September 30, 2010 |
|--|---|-------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 183,155 | \$ 155,321 |
| Restricted cash | 4,930 | 4,182 |
| Accounts receivable billed, net of reserves of \$2,961 and \$1,845 | 138,153 | 136,260 |
| Accounts receivable unbilled | 15,228 | 17,245 |
| Income taxes receivable | 14,919 | 4,149 |
| Deferred income taxes | 16,074 | 13,290 |
| Prepaid expenses and other current assets | 24,386 | 25,702 |
| Total current assets | 396,845 | 356,149 |
| Property and equipment, at cost | 120,694 | 115,740 |
| Less accumulated depreciation and amortization | (71,335) | (66,867) |
| Property and equipment, net | 49,359 | 48,873 |
| Capitalized software | 38,418 | 35,648 |
| Less accumulated amortization | (11,438) | (10,933) |
| Capitalized software, net | 26,980 | 24,715 |
| Deferred contract costs, net | 7,991 | 6,708 |
| Goodwill | 72,832 | 71,251 |
| Intangible assets, net | 6,963 | 7,778 |
| Deferred income taxes | 453 | 1,844 |
| Deferred compensation plan assets | 9,176 | 8,317 |
| Other assets, net | 2,019 | 2,106 |
| Total assets | \$ 572,618 | \$ 527,741 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 62,206 | \$ 49,200 |
| Accrued compensation and benefits | 36,288 | 40,807 |
| Deferred revenue | 47,112 | 58,070 |
| Acquisition-related contingent consideration | 1,028 | 923 |
| Income taxes payable | 7,835 | 7,120 |
| Other accrued liabilities | 6,817 | 7,934 |
| Liabilities of discontinued operations | | 634 |
| Total current liabilities | 161,286 | 164,688 |
| Deferred revenue, less current portion | 4,854 | 4,083 |

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| | | |
|---|------------|------------|
| Long-term debt | 1,802 | 1,411 |
| Acquisition-related contingent consideration, less current portion | 2,360 | 2,138 |
| Income taxes payable, less current portion | 1,851 | 1,793 |
| Deferred income tax liability | 7,332 | 4,946 |
| Deferred compensation plan liabilities | 10,543 | 9,893 |
| Total liabilities | 190,028 | 188,952 |
| Shareholders' equity: | | |
| Common stock, no par value; 60,000,000 shares authorized; 27,776,260 and 27,487,725 shares issued and 17,325,097 and 17,174,141 shares outstanding at March 31, 2011 and September 30, 2010, at stated amount, respectively | 367,739 | 352,696 |
| Treasury stock, at cost; 10,451,163 and 10,313,584 shares at March 31, 2011 and September 30, 2010, respectively | (367,822) | (359,366) |
| Accumulated other comprehensive income | 20,918 | 14,530 |
| Retained earnings | 361,755 | 330,929 |
| Total shareholders' equity | 382,590 | 338,789 |
| Total liabilities and shareholders' equity | \$ 572,618 | \$ 527,741 |

See notes to unaudited consolidated financial statements.

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MAXIMUS, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---------------------------------|------------|-------------------------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenue | \$ 227,116 | \$ 204,386 | \$ 441,230 | \$ 407,706 |
| Cost of revenue | 164,050 | 153,835 | 322,205 | 304,980 |
| Gross profit | 63,066 | 50,551 | 119,025 | 102,726 |
| Selling, general and administrative expenses | 33,572 | 28,787 | 62,239 | 56,216 |
| Legal and settlement expense (recovery), net | | (6,037) | | (5,351) |
| Operating income from continuing operations | 29,494 | 27,801 | 56,786 | 51,861 |
| Interest and other income, net | 919 | 186 | 1,410 | 285 |
| Income from continuing operations before income taxes | 30,413 | 27,987 | 58,196 | 52,146 |
| Provision for income taxes | 11,375 | 9,996 | 21,571 | 19,555 |
| Income from continuing operations | 19,038 | 17,991 | 36,625 | 32,591 |
| Discontinued operations, net of income taxes: | | | | |
| Income (loss) from discontinued operations | (265) | 752 | (265) | (1,220) |
| Loss on disposal | (554) | | (659) | |
| Income (loss) from discontinued operations | (819) | 752 | (924) | (1,220) |
| Net income | \$ 18,219 | \$ 18,743 | \$ 35,701 | \$ 31,371 |
| Basic earnings (loss) per share: | | | | |
| Income from continuing operations | \$ 1.11 | \$ 1.03 | \$ 2.13 | \$ 1.86 |
| Income (loss) from discontinued operations | (0.05) | 0.05 | (0.05) | (0.07) |
| Basic earnings per share | \$ 1.06 | \$ 1.08 | \$ 2.08 | \$ 1.79 |
| Diluted earnings (loss) per share: | | | | |
| Income from continuing operations | \$ 1.07 | \$ 1.00 | \$ 2.06 | \$ 1.81 |
| Income (loss) from discontinued operations | (0.05) | 0.04 | (0.05) | (0.07) |
| Diluted earnings per share | \$ 1.02 | \$ 1.04 | \$ 2.01 | \$ 1.74 |
| Dividends paid per share | \$ 0.15 | \$ 0.12 | \$ 0.27 | \$ 0.24 |
| Weighted average shares outstanding: | | | | |
| Basic | 17,211 | 17,408 | 17,196 | 17,503 |
| Diluted | 17,787 | 17,980 | 17,750 | 18,012 |

See notes to unaudited consolidated financial statements.

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MAXIMUS, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

| | Six Months Ended March 31, | |
|---|-------------------------------|-----------|
| | 2011 | 2010 |
| Cash flows from operating activities: | | |
| Net income | \$ 35,701 | \$ 31,371 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Loss from discontinued operations | 924 | 1,220 |
| Depreciation and amortization | 10,783 | 9,018 |
| Deferred income taxes | 1,146 | (155) |
| Deferred interest income on note receivable | | 179 |
| Non-cash equity based compensation | 4,495 | 3,953 |
| Change in assets and liabilities: | | |
| Accounts receivable billed | (1,596) | 4,777 |
| Accounts receivable unbilled | 2,021 | (4,430) |
| Prepaid expenses and other current assets | 1,669 | (414) |
| Deferred contract costs | (1,229) | 966 |
| Other assets | (1,246) | (287) |
| Accounts payable | 12,287 | 1,806 |
| Accrued compensation and benefits | (6,567) | 2,917 |
| Deferred revenue | (11,296) | 14,126 |
| Income taxes | (10,334) | 3,768 |
| Other liabilities | (372) | 1,945 |
| Cash provided by operating activities continuing operations | 36,386 | 70,760 |
| Cash used in operating activities discontinued operations | (951) | (1,005) |
| Cash provided by operating activities | 35,435 | 69,755 |
| Cash flows from investing activities: | | |
| Acquisition of businesses, net of cash acquired | | (10,673) |
| Purchases of property and equipment | (6,464) | (6,031) |
| Capitalized software costs | (3,872) | (4,325) |
| Proceeds from note receivable | | 390 |
| Cash used in investing activities continuing operations | (10,336) | (20,639) |
| Cash used in investing activities discontinued operations | | |
| Cash used in investing activities | (10,336) | (20,639) |
| Cash flows from financing activities: | | |
| Employee stock transactions | 8,013 | 1,615 |
| Repurchases of common stock | (8,459) | (14,511) |
| Tax benefit due to option exercises and restricted stock units vesting | 3,818 | 1,110 |
| Issuance of long-term debt | 300 | |
| Repayment of long-term debt | | (7) |
| Cash dividends paid | (4,643) | (4,201) |
| Cash used in financing activities continuing operations | (971) | (15,994) |
| Cash used in financing activities discontinued operations | | |
| Cash used in financing activities | (971) | (15,994) |

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| | | |
|--|------------|------------|
| Effect of exchange rate changes on cash and cash equivalents | 3,706 | 425 |
| Net increase in cash and cash equivalents | 27,834 | 33,547 |
| Cash and cash equivalents, beginning of period | 155,321 | 87,815 |
| Cash and cash equivalents, end of period | \$ 183,155 | \$ 121,362 |

See notes to unaudited consolidated financial statements.

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MAXIMUS, Inc.

Notes to Unaudited Consolidated Financial Statements

For the Three and Six Months Ended March 31, 2011 and 2010

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 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 and six months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the full fiscal year. The balance sheet at September 30, 2010 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.

These financial statements should be read in conjunction with the consolidated audited financial statements and the notes thereto at September 30, 2010 and 2009 and for each of the three years ended September 30, 2010, included in the Company's Annual Report on Form 10-K for the year ended September 30, 2010 filed with the Securities and Exchange Commission on November 19, 2010.

2. Recent Accounting Pronouncements

In September 2009, the FASB issued revised guidance for accounting for contracts that contain more than one contract element. The revised guidance establishes a selling price hierarchy for determining the selling price of each contract element. The guidance also expands the required disclosures. The Company adopted this guidance for all multiple-element arrangements entered into or significantly modified after October 1, 2010. The effect of this new guidance was not significant.

3. Goodwill and Intangible Assets

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The changes in goodwill for the six months ended March 31, 2011 are as follows (in thousands):

| | Health Services | Human Services | Total |
|----------------------------------|-----------------|----------------|-----------|
| Balance as of September 30, 2010 | \$ 43,270 | \$ 27,981 | \$ 71,251 |
| Foreign currency translation | 441 | 1,140 | 1,581 |
| Balance as of March 31, 2011 | \$ 43,711 | \$ 29,121 | \$ 72,832 |

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

| | As of March 31, 2011 | | | As of September 30, 2010 | | |
|--------------------------------------|----------------------|-----------------------------|---------------------------|--------------------------|-----------------------------|---------------------------|
| | Cost | Accumulated Amortization | Intangible Assets, net | Cost | Accumulated Amortization | Intangible Assets, net |
| Technology-based intangible assets | \$ 7,380 | \$ 3,906 | \$ 3,474 | \$ 7,160 | \$ 3,654 | \$ 3,506 |
| Customer contracts and relationships | 9,427 | 6,705 | 2,722 | 8,989 | 5,504 | 3,485 |
| Non-compete arrangements | 257 | 73 | 184 | 243 | 39 | 204 |
| Trademark | 658 | 75 | 583 | 622 | 39 | 583 |
| Total | \$ 17,722 | \$ 10,759 | \$ 6,963 | \$ 17,014 | \$ 9,236 | \$ 7,778 |

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The intangible assets include \$3.4 million of fully amortized technology-based assets still in use by the Company. Excluding these assets, the Company's intangible assets have a weighted average remaining life of 6.4 years, comprising 7.4 years for technology-based intangible assets, 4.9 years for customer contracts and relationships, 2.9 years for non-compete arrangements and 8.9 years for the trademark. Amortization expense for the three and six months ended March 31, 2011 was \$0.6 million and \$1.2 million, respectively. Future amortization expense is estimated as follows (in thousands):

| | | |
|-------------------------------------|----|-------|
| Six months ended September 30, 2011 | \$ | 1,215 |
| Year ended September 30, 2012 | | 1,187 |
| Year ended September 30, 2013 | | 1,087 |
| Year ended September 30, 2014 | | 724 |
| Year ended September 30, 2015 | | 717 |
| Thereafter | | 2,033 |
| Total | \$ | 6,963 |

4. Fair Value Measurements

The Company is required to disclose the fair value of all assets and liabilities subject to fair value measurement and the nature of the valuation techniques, including their classification within the fair value hierarchy, utilized by the Company in performing these measurements.

The FASB provides a fair value framework which requires the categorization of assets and liabilities into three levels based upon the assumptions (or inputs) used to price the assets or liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment. The three levels are defined as follows:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

The Company's financial assets subject to fair value measurements and the necessary disclosures are as follows (in thousands):

| Description | Fair Value as of March 31, 2011 | Fair Value Measurements as of March 31, 2011 Using Fair Value Hierarchy | | |
|---|---------------------------------------|--|----------|------------|
| | | Level 1 | Level 2 | Level 3 |
| Current portion of acquisition-related contingent consideration | \$ (1,028) | \$ | \$ | \$ (1,028) |
| Acquisition-related contingent consideration, less current portion | (2,360) | | | (2,360) |
| Deferred compensation plan liabilities | (10,543) | | (10,543) | |

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The Company's deferred compensation plan liabilities are valued using a market approach, utilizing the value of the underlying investments to identify the fair value. Changes in deferred compensation plan liabilities are recorded in the income statement within Interest and other income, net.

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The Company's only acquisition-related contingent consideration liability was incurred with the acquisition of DeltaWare Systems, Inc. (DeltaWare) in February 2010. The fair value of the acquisition-related contingent consideration liability was based on a probability-weighted approach derived from management's own estimates of profitability and sales targets. During the six months ended March 31, 2011, management's estimates of DeltaWare's future profitability have been revised, with the result that an additional charge was recognized in the period. Foreign currency translation adjustments were recorded as a component of other comprehensive income.

The effect on the financial statements is summarized below (in thousands):

| | Acquisition-related contingent consideration | | | Total |
|------------------------------------|--|-------------------|----|-------|
| | Current portion | Long-term portion | | |
| Balance as of September 30, 2010 | \$ 923 | \$ 2,138 | \$ | 3,061 |
| Additional estimated consideration | 50 | 100 | | 150 |
| Foreign currency translation | 55 | 122 | | 177 |
| Balance as of March 31, 2011 | \$ 1,028 | \$ 2,360 | \$ | 3,388 |

5. Commitments and Contingencies

Litigation

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

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 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 healthcare claiming business and no longer provides the services at issue in this matter.

In August 2010, the Company received a draft audit report prepared on behalf of one of its former SchoolMAX customers. The SchoolMAX business line was sold as part of the divestiture of the MAXIMUS Education Systems division in 2008. The draft audit report recommends a refund of approximately \$11.6 million primarily arising out of the alleged failure of MAXIMUS and the buyer of the division to observe the most favored customer pricing term of the contract. MAXIMUS believes the audit report is incorrect and that no amounts are owed as a refund. In February 2011, the client sent a letter to MAXIMUS and the buyer of the business initiating the dispute resolution process under the contract. The client reiterated some of the audit issues previously identified and also raised a number of issues pertaining to services and products delivered under the contract. The client alleges total damages in excess of \$30 million. MAXIMUS and the buyer plan to contest all of the client's claims. The Company also believes that it is entitled to indemnification from the buyer of the business for claims pertaining to services

and deliverables.

Credit Facilities and Performance Bonds

The Company's Revolving Credit Agreement provides for a senior secured revolving credit facility, with SunTrust Bank as administrative agent, issuing bank and swingline lender, and a syndicate of other lenders (the Credit Facility). The Credit Facility provides for a \$35.0 million revolving line of credit commitment, which may be used (i) for revolving loans, (ii) for swingline loans, subject to a sublimit of \$5.0 million and (iii) to request the issuance of letters of credit on the Company's behalf, subject to a sublimit of \$25.0 million. The Company may request an increase in the commitment under the Credit Facility, such that the aggregate commitments under the Credit Facility shall at no time exceed \$75.0 million. The credit available under the Credit Facility may be used, among other purposes, to refinance the Company's current indebtedness, to repurchase shares of the Company's capital stock and to finance the ongoing working capital, capital expenditure and general corporate needs of the Company. The Credit Facility matures on January 25, 2013, at which time all outstanding borrowings must be repaid and all outstanding letters of credit must have been terminated or cash collateralized. At March 31, 2011, letters of credit totaling \$11.3 million were outstanding under the Credit Facility.

Subject to applicable conditions, the Company may elect interest rates on its revolving borrowings calculated by reference to (i) the prime lending rate as announced by SunTrust Bank (or, if higher, the federal funds effective rate plus 0.50% or the one-month adjusted LIBOR) (a Base Rate Borrowing), or (ii) the reserve adjusted rate per annum equal to the offered rate for deposits in U.S. dollars for a one (1), two (2), three (3) or six (6) month period in the London Inter-Bank Market (a LIBOR Borrowing), and, in each case, plus an applicable margin that is determined by reference to the Company's then-current leverage ratio. For swingline borrowings, the Company will pay interest at the rate of interest for a one (1) month LIBOR Borrowing, plus the applicable margin, or at a rate to be separately agreed upon by the Company and the administrative agent.

The Credit Facility provides for the payment of specified fees and expenses, including commitment and letter of credit fees, and contains customary financial and other covenants that require the maintenance of certain ratios including a maximum leverage ratio and a minimum fixed charge coverage ratio. The Company was in compliance with all covenants in the Credit Facility as of March 31, 2011. The Company's obligations under the Credit Facility are guaranteed by certain of the Company's direct and indirect subsidiaries (collectively, the Guarantors) and are secured by substantially all of MAXIMUS and the Guarantors' present and future tangible and intangible assets, including the capital stock of subsidiaries and other investment property.

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The Company also has a loan agreement with the Atlantic Innovation Fund of Canada. This provides for a loan of up to 1.8 million Canadian Dollars, which must be used for specific technology-based research and development. The loan has no interest charge and is repayable in installments between 2012 and 2022. At March 31, 2011, \$1.8 million (1.8 million Canadian Dollars) was outstanding under this agreement.

Certain contracts require us to provide a surety bond as a guarantee of performance. At March 31, 2011 and September 30, 2010, the Company had performance bond commitments totaling \$25.7 million and \$33.5 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.

Loss contract

During the three and six month periods ended March 31, 2011, the Company recorded a charge of \$4.2 million and \$7.3 million, respectively, on a fixed price contract. The Company has recorded a liability of \$4.8 million related to the anticipated loss to be recorded on this contract. The revenue and profitability on this contract are based upon estimated costs to complete the project. The contract is expected to be completed during the 2012 fiscal year.

6. Legal and Settlement Expense (Recovery), Net

Legal and settlement expense (recovery), net consists of costs, net of reimbursed insurance claims, related to significant legal settlements and non-routine legal matters, including future probable legal costs estimated to be incurred in connection with those matters. Legal expenses incurred in the ordinary course of business are included in selling, general and administrative expense. The incremental costs of acquisitions, including legal fees, brokerage fees and valuation reports, are also included in this balance. The following table sets forth the matters that represent legal and settlement expense (recovery), net:

| (in thousands) | Three months Ended March 31, | | Six months Ended March 31, | |
|---|---------------------------------|------------|-------------------------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| Insurance Recovery | \$ | \$ (7,500) | \$ | \$ (7,500) |
| Acquisition expenses related to DeltaWare | | 254 | | 254 |
| Other | | 1,209 | | 1,895 |
| Total | \$ | \$ (6,037) | \$ | \$ (5,351) |

The insurance recovery in the three and six month periods ended March 31, 2010 relate to an arbitration settlement in fiscal 2008.

7. Earnings Per Share

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

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|--|---------------------------------|-----------|-------------------------------|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| Numerator: | | | | |
| Income from continuing operations | \$ 19,038 | \$ 17,991 | \$ 36,625 | \$ 32,591 |
| Income (loss) from discontinued operations | (819) | 752 | (924) | (1,220) |
| Net income | \$ 18,219 | \$ 18,743 | \$ 35,701 | \$ 31,371 |
| Denominator: | | | | |
| Basic weighted average shares outstanding | 17,211 | 17,408 | 17,196 | 17,503 |
| Effect of dilutive securities: | | | | |
| Employee stock options and unvested restricted stock units | 576 | 572 | 554 | 509 |
| Denominator for diluted earnings (loss) per share | 17,787 | 17,980 | 17,750 | 18,012 |

The calculation of dilutive securities did not exclude any of the Company's vesting or exercisable stock options in any of the periods shown.

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Under resolutions adopted in July 2008 and September 2010, the Board of Directors has authorized the repurchase, at management's discretion, of up to an aggregate of \$175.0 million of the Company's common stock. The resolutions also authorize the use of option exercise proceeds for the repurchase of the Company's common stock. During the six months ended March 31, 2011 and 2010, the Company repurchased 137,579 and 306,841 common shares at a cost of \$8.5 million and \$14.5 million, respectively. At March 31, 2011, \$122.2 million remained available for future stock repurchases.

9. Comprehensive Income

Comprehensive income includes net income, plus changes in cumulative foreign currency translation adjustments. The components of comprehensive income for the three and six months ended March 31, 2011 and 2010 are as follows:

| (in thousands) | Three months Ended March 31, | | Six months Ended March 31, | |
|--|---------------------------------|-----------|-------------------------------|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| Net income | \$ 18,219 | \$ 18,743 | \$ 35,701 | \$ 31,371 |
| Foreign currency translation adjustments | 2,459 | 1,656 | 6,388 | 2,739 |
| Comprehensive income | \$ 20,678 | \$ 20,399 | \$ 42,089 | \$ 34,110 |

10. Segment Information

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

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|--|------------------------------|-------|----------------------------|-------|
| | 2011 | % (1) | 2010 | % (1) |
| Revenue: | | | | |
| Health Services | \$ 137,779 | 100% | \$ 127,279 | 100% |
| Human Services | 89,337 | 100% | 77,107 | 100% |
| Total | \$ 227,116 | 100% | \$ 204,386 | 100% |
| Gross Profit: | | | | |
| Health services | \$ 38,320 | 28% | \$ 28,932 | 23% |
| Human Services | 24,746 | 28% | 21,619 | 28% |
| Total | \$ 63,066 | 28% | \$ 50,551 | 25% |
| Selling, general, and administrative expense: | | | | |
| Health Services | \$ 18,968 | 14% | \$ 16,209 | 13% |

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| | | | | | | | | |
|-----------------|-----------|-----|-----------|-----|-----------|-----|-----------|-----|
| Human Services | 14,623 | 16% | 12,582 | 16% | 27,802 | 16% | 24,468 | 16% |
| Corporate/Other | (19) | NM | (4) | NM | 15 | NM | 137 | NM |
| Total | \$ 33,572 | 15% | \$ 28,787 | 14% | \$ 62,239 | 14% | \$ 56,216 | 14% |

Operating income from continuing operations:

| | | | | | | | | |
|--|-----------|-----|-----------|-----|-----------|-----|-----------|-----|
| Health services | \$ 19,352 | 14% | \$ 12,723 | 10% | \$ 38,175 | 14% | \$ 30,231 | 12% |
| Human Services | 10,123 | 11% | 9,037 | 12% | 18,626 | 11% | 16,416 | 11% |
| Corporate/Other | 19 | NM | 4 | NM | (15) | NM | (137) | NM |
| Subtotal: Segment Operating Income | 29,494 | 13% | 21,764 | 11% | 56,786 | 13% | 46,510 | 11% |
| Legal and settlement recovery (expense), net | | NM | 6,037 | NM | | NM | 5,351 | NM |
| Total | \$ 29,494 | 13% | \$ 27,801 | 14% | \$ 56,786 | 13% | \$ 51,861 | 13% |

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

Table of Contents**11. Discontinued Operations**

On September 30, 2010, the Company sold its ERP business for \$5.6 million, net of transaction costs of \$0.7 million, and recognized a pre-tax loss on sale of less than \$0.1 million. The Company had previously recognized a loss on sale of \$1.3 million during the fourth quarter of fiscal 2009. At completion of the sale, the buyer agreed to pay \$1.7 million with the balance payable following completion of certain procedures, including the preparation of a final balance sheet and working capital adjustment. During the quarter ended March 31, 2011, the buyer has informed us that they dispute the valuation of certain assets transferred at the time of sale and are withholding payment of the remaining balance until these matters are resolved. The Company established a reserve of \$1.0 million during the quarter ended March 31, 2011 pending resolution of this matter.

The following table summarizes the operating results of the discontinued operations included in the Consolidated Statements of Operations (in thousands). During the sale negotiations for the ERP business in 2010, a contract previously included within discontinued operations was not transferred and, accordingly, is now included in continuing operations for all periods shown. Accordingly, the results for discontinued operations differ from those disclosed at March 31, 2010.

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---|-------------|---------------------------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenue | \$ | \$ 5,954 | \$ | \$ 12,925 |
| Income (loss) from discontinued operations | \$ (430) | \$ 1,385 | \$ (430) | \$ (1,952) |
| Provision for (benefit from) income taxes | (165) | 633 | (165) | (732) |
| Income (loss) from discontinued operations | \$ (265) | \$ 752 | \$ (265) | \$ (1,220) |
| Loss on disposal | \$ (916) | \$ | \$ (1,089) | \$ |
| Benefit from income taxes | (362) | \$ | (430) | \$ |
| Loss on disposal | \$ (554) | \$ | \$ (659) | \$ |
| Income (loss) from discontinued operations | \$ (819) | \$ 752 | \$ (924) | \$ (1,220) |

12. Subsequent Events*Dividend*

On April 8, 2011, the Company's Board of Directors declared a quarterly cash dividend of \$0.15 for each share of the Company's common stock outstanding. The dividend is payable on May 31, 2011, to shareholders of record on May 13, 2011.

On May 5, 2011, the Company's Board of Directors declared a two-for-one stock split in the form of a dividend of one share for each outstanding share. The dividend is payable on June 30, 2011, to shareholders of record on June 15, 2011. On the same date, the Company's Board of Directors declared a cash dividend of \$0.09 for each share of the Company's common stock outstanding. This dividend is payable on August 31,

2011 to shareholders of record on August 15, 2011.

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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, 2010, filed with the Securities and Exchange Commission on November 19, 2010.

Forward Looking Statements

From time to time, we may make forward-looking statements that are not historical facts, including statements about our confidence and strategies and our expectations about revenue, results of operations, profitability, current and future contracts, market opportunities, market demand or acceptance of our products and services. Any statements contained in this Quarterly Report on Form 10-Q that are not statements of historical fact may be forward-looking statements. The words could, estimate, future, intend, may, opportunity, potential, project, anticipates, plans, expect and similar expressions are intended to identify forward-looking statements. These statements may involve risks and uncertainties that could cause our actual results to differ materially from those indicated by such forward-looking statements. These risks are detailed in Exhibit 99.1 to our Annual Report on Form 10-K for the year ended September 30, 2010 and incorporated herein by reference.

Business Overview

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

The Company is managed through two segments, Health Services and Human Services. The Health Services segment provides a variety of business process outsourcing and administrative support services, as well as consulting services for state, provincial and federal programs, such as Medicaid, CHIP, Medicare and the British Columbia Health Insurance Program. The Human Services segment includes a variety of business process outsourcing, case management, job training and support services for programs such as welfare-to-work programs, child support enforcement, K-12 special education and other specialized consulting services.

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 March 31, | | Six Months Ended March 31, | |
|--|---------------------------------|------------|-------------------------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenue | \$ 227,116 | \$ 204,386 | \$ 441,230 | \$ 407,706 |
| Gross profit | 63,066 | 50,551 | 119,025 | 102,726 |
| Selling, general and administrative expenses | 33,572 | 28,787 | 62,239 | 56,216 |
| Selling, general and administrative expense as a percentage of revenue | 14.8% | 14.1% | 14.1% | 13.8% |
| Operating income from continuing operations excluding legal and settlement expense | 29,494 | 21,764 | 56,786 | 46,510 |
| Legal and settlement expense (recovery), net | | (6,037) | | (5,351) |
| Operating income from continuing operations | 29,494 | 27,801 | 56,786 | 51,861 |
| Operating margin from continuing operations percentage | 13.0% | 13.6% | 12.9% | 12.7% |
| Interest and other income, net | 919 | 186 | 1,410 | 285 |
| Income from continuing operations before income taxes | 30,413 | 27,987 | 58,196 | 52,146 |
| Provision for income taxes | 11,375 | 9,996 | 21,571 | 19,555 |
| Tax rate | 37.4% | 35.7% | 37.1% | 37.5% |
| Income from continuing operations, net of income taxes | \$ 19,038 | \$ 17,991 | \$ 36,625 | \$ 32,591 |
| Income (loss) from discontinued operations, net of income taxes | (819) | 752 | (924) | (1,220) |
| Net income | \$ 18,219 | \$ 18,743 | \$ 35,701 | \$ 31,371 |
| Basic earnings (loss) per share: | | | | |
| Income from continuing operations | \$ 1.11 | \$ 1.03 | \$ 2.13 | \$ 1.86 |
| Income (loss) from discontinued operations | (0.05) | 0.05 | (0.05) | (0.07) |
| Basic earnings per share | \$ 1.06 | \$ 1.08 | \$ 2.08 | \$ 1.79 |
| Diluted earnings (loss) per share: | | | | |
| Income from continuing operations | \$ 1.07 | \$ 1.00 | \$ 2.06 | \$ 1.81 |
| Income (loss) from discontinued operations | (0.05) | 0.04 | (0.05) | (0.07) |
| Diluted earnings per share | \$ 1.02 | \$ 1.04 | \$ 2.01 | \$ 1.74 |

We discuss constant currency revenue information to provide a framework for assessing how our business performed excluding the effect of foreign currency rate fluctuations. To provide this information, revenue from foreign operations is converted into United States Dollars using average exchange rates from the previous fiscal period. Constant currency revenue information is a non-GAAP presentation of our numbers. We believe that constant currency growth provides a useful basis for assessing the Company's performance. The presentation of these non-GAAP numbers is not meant to be considered in isolation, or as an alternative to revenue growth as a measure of performance.

We discuss operating income from continuing operations excluding legal and settlement expense. Legal and settlement expense, which is defined below, is broken out on the face of our financial statements as we believe that the exclusion of these costs and insurance recoveries from operating income provides a useful basis for assessing the Company's performance. Operating income from continuing operations excluding legal and settlement expense is a non-GAAP presentation of our numbers. The presentation of these non-GAAP numbers is not meant to be considered in isolation, or as an alternative to operating income as a measure of performance.

Revenue increased 11.1%, or 8.4% on a constant currency basis, for the three months ended March 31, 2011, compared to the same period in fiscal 2010. Revenue increased 8.2%, or 6.0% on a constant currency basis, for the six months ended March 31, 2011,

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compared to the same period in fiscal 2010. This growth was driven by organic growth in both our Human Services and Health Services segments and across all geographies. The results of the Company's segments are considered in more detail below.

Selling, general and administrative expense (SG&A) consists of costs related to general management, marketing and administration. These costs include salaries, benefits, bid and proposal efforts, travel, recruiting, continuing education, employee training, non-chargeable labor costs, facilities costs, printing, reproduction, communications, equipment depreciation, intangible amortization and legal expenses incurred in the ordinary course of business. SG&A as a percentage of revenue has increased moderately in the three and six month periods ended March 31, 2011 compared with the comparative periods in fiscal 2010. The Company routinely experiences fluctuations between its SG&A and its gross profit margin and believes operating margin is a more appropriate metric for measuring performance.

Legal and settlement expense (recovery), net consists of costs, net of reimbursed insurance claims, related to significant legal settlements and non-routine legal matters, including future probable legal costs estimated to be incurred in connection with those matters. Legal expenses incurred in the ordinary course of business are included in selling, general and administrative expense. The incremental costs of acquisitions, including legal fees, brokerage fees and valuation reports, are also included in this balance. No legal and settlement costs have been incurred in either the three months or six months ended March 31, 2011. The prior periods included an insurance recovery of \$7.5 million related to an arbitration settlement from fiscal year 2008.

Operating income from continuing operations for the three months ended March 31, 2011 increased 6.1% to \$29.5 million compared with the same period in the prior year and increased 35.5% excluding the effect of legal and settlement expense. Operating income from continuing operations for the six months ended March 31, 2011 increased 9.5% to \$56.8 million compared with the same period in the prior year and increased 22.1% excluding the effect of legal and settlement expense. These increases in operating income in both Health and Human Services Segments are discussed in greater detail below.

Interest and other income, net includes interest earned on cash and cash equivalents and on a note received by the Company for the disposal of a business in fiscal 2008, offset by charges related to the deferred compensation plan and acquisition-related contingent consideration related to DeltaWare. The balance also includes foreign exchange gains and losses, which are typically immaterial. Interest and other income, net has increased from \$0.2 million to \$0.9 million for the three months ended March 31, 2011, compared with the same period in the prior year, and from \$0.3 million to \$1.4 million for the six months ended March 31, 2011, compared to the same period in the prior year. The increase is caused by increased cash balances and higher yields on investments, as well as the recovery of \$0.3 million and \$0.5 million for the three and six months ended March 31, 2011 related to a note received on the sale of a business in fiscal 2008. At the time of sale, the gain on sale was deferred and income is recognized as cash is received.

The provision for income taxes in the three months ended March 31, 2011 was \$11.4 million, reflecting an effective tax rate of 37.4%. The comparative charge in the prior year was \$10.0 million, an effective rate of 35.7%. The tax rate for the three months ended March 31, 2010 was affected by a revision to the Company's full year budget in that year as businesses in overseas jurisdictions with lower tax rates than those in the United States were anticipated to provide a greater share of the Company's income. The comparative tax rates for the six month periods ended March 31, 2011 and 2010 were 37.1% and 37.5% respectively. The decline for the current period is caused by the increase in overseas-sourced income in the current year.

Income from continuing operations, net of income taxes, was \$19.0 million, or \$1.07 per diluted share, for the three months ended March 31, 2011, compared with \$18.0 million, or \$1.00 per diluted share, for the same period in fiscal year 2010. For the six month periods ended March 31, 2011 and 2010, income from continuing operations, net of income taxes was \$36.6 million and \$32.6 million, or \$2.06 and \$1.81 per

diluted share, respectively. Operating income increased in 2011, offset by a pre-tax insurance recovery of \$7.5 million in 2010, which did not reoccur in 2011.

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Health Services Segment

| (dollars in thousands) | Three Months Ended March 31, | | Six Months Ended March 31, | |
|-----------------------------|---------------------------------|------------|-------------------------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenue | \$ 137,779 | \$ 127,279 | \$ 267,790 | \$ 257,919 |
| Gross profit | 38,320 | 28,932 | 72,597 | 61,842 |
| Operating income | 19,352 | 12,723 | 38,175 | 30,231 |
| Operating margin percentage | 14.0% | 10.0% | 14.3% | 11.7% |

Revenue increased by 8.2%, or 7.7% on a constant currency basis, for the three months ended March 31, 2011, compared to the same period in fiscal year 2010. Revenue increased by 3.8%, or 3.4% on a constant currency basis, for the six months ended March 31, 2011, compared to the same period in fiscal year 2010. Operating margin also improved in the three and six month periods ended March 31, 2011, compared to the same periods in fiscal year 2010. The improvement in revenue and operating margin were driven principally by organic growth; a spike in accretive, transaction-based work within our health appeals business and favorable timing on certain contracts.

Human Services Segment

| (dollars in thousands) | Three Months Ended March 31, | | Six Months Ended March 31, | |
|-----------------------------|---------------------------------|-----------|-------------------------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenue | \$ 89,337 | \$ 77,107 | \$ 173,440 | \$ 149,787 |
| Gross profit | 24,746 | 21,619 | 46,428 | 40,884 |
| Operating income | 10,123 | 9,037 | 18,626 | 16,416 |
| Operating margin percentage | 11.3% | 11.7% | 10.7% | 11.0% |

Revenue increased by 15.9%, or 9.6% on a constant currency basis, for the three months ended March 31, 2011, compared to the same period in fiscal year 2010. Revenue increased by 15.8%, or 10.5% on a constant currency basis, for the six months ended March 31, 2011, compared to the same period in fiscal year 2010. Revenue growth was driven by our international welfare-to-work businesses in Australia and the United Kingdom. Margins were relatively consistent year-over-year. However, 2011 margins were dampened by cost growth on a single fixed-price contract. Charges of \$4.2 million and \$7.3 million were recorded against this contract during the three and six months ended March 31, 2011, respectively. Revenue and profitability on this contract are based upon estimated costs to complete the project. The contract is anticipated to be completed during the 2012 fiscal year.

Discontinued operations

On September 30, 2010, the Company sold its ERP business for \$5.6 million, net of transaction costs of \$0.7 million, and recognized a pre-tax loss on sale of less than \$0.1 million. The Company had previously recognized a loss on sale of \$1.3 million during the fourth quarter of fiscal

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2009. At completion of the sale, the buyer agreed to pay \$1.7 million with the balance payable following completion of certain procedures, including the preparation of a final balance sheet and working capital adjustment. During the quarter ended March 31, 2011, the buyer has informed us that they dispute the valuation of certain assets transferred at the time of sale and are withholding payment of the remaining balance until these matters are resolved. The Company established a reserve of \$1.0 million during the quarter ended March 31, 2011 pending resolution of this matter.

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The following table summarizes the operating results of the discontinued operations included in the Consolidated Statements of Operations (in thousands). During the sale negotiations for the ERP business in 2010, a contract previously included within discontinued operations was not transferred and, accordingly, is now included in continuing operations for all periods shown. Accordingly, the results for discontinued operations differ from those disclosed at March 31, 2010.

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---------------------------------|----------|-------------------------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenue | \$ | \$ 5,954 | \$ | \$ 12,925 |
| Income (loss) from discontinued operations | \$ (430) | \$ 1,385 | \$ (430) | \$ (1,952) |
| Provision for (benefit from) income taxes | (165) | 633 | (165) | (732) |
| Income (loss) from discontinued operations | \$ (265) | \$ 752 | \$ (265) | \$ (1,220) |
| Loss on disposal | \$ (916) | \$ | \$ (1,089) | \$ |
| Benefit from income taxes | (362) | | (430) | |
| Loss on disposal | \$ (554) | \$ | \$ (659) | \$ |
| Income (loss) from discontinued operations | \$ (819) | \$ 752 | \$ (924) | \$ (1,220) |

Liquidity and Capital Resources*Current Economic Environment*

Within the United States, the current economic environment facing state and local governments continues to be challenging. Over the past few years, states have faced declining tax revenues, with increasing demand for critical services from the most vulnerable members of society. At the same time, states are generally required to balance their budgets each year. Certain states may delay payments to vendors as a result of budgetary constraints. In prior periods, the Company has faced short-term payment delays from state customers, all of which were ultimately recovered. The Company believes its liquidity and capital positions are adequate to weather short-term payment delays. In the event of more protracted delays, the Company may be required to seek additional capital sources, amend payment terms or take other actions. Extended payment delays could adversely affect the Company's cash flows, operations and profitability.

The Company believes that demand for its services in its core areas of health and human services will remain strong, driven by the need for governments to fulfill federal mandates and do more with less.

The situation for international governments is also challenging, with each of the areas in which MAXIMUS operates experiencing unique local issues in addition to general global economic factors.

Cash Flows

| (dollars in thousands) | Six Months Ended | |
|--|------------------|-------------------|
| | 2011 | March 31, 2010 |
| Net cash provided by (used in): | | |
| Operating activities continuing operations | \$ 36,386 | \$ 70,760 |
| Operating activities discontinued operations | (951) | (1,005) |
| Investing activities continuing operations | (10,336) | (20,639) |
| Financing activities continuing operations | (971) | (15,994) |
| Effect of exchange rate changes on cash and cash equivalents | 3,706 | 425 |
| Net increase in cash and cash equivalents | \$ 27,834 | \$ 33,547 |

Cash provided by operating activities from continuing operations for the six months ended March 31, 2011 was \$36.4 million, compared with \$70.7 million in the same period in fiscal year 2010. In the current period, an additional \$15.5 million of payments related to income taxes has been made compared to the comparative period in fiscal 2010. This is primarily driven by changes in the scheduling of the Company's income tax payments. A decline in net operating cash flows of \$13.4 million in the United Kingdom business was caused by the deferred revenue, or up-front payments, on a contract with the UK government received in the prior year but utilized in the current period. Fiscal year 2010 cash flows also received the benefit of a one-time \$7.5 million insurance recovery. The Company's operating cash flows may fluctuate between quarters owing to the receipt of significant collections and the payment of suppliers.

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Cash used in operating activities from discontinued operations for the six months ended March 31, 2011 was \$1.0 million, consistent with the same period in fiscal year 2010. During the six month period ended March 31, 2011, the principal cash outflow related to the settlement of accounts payable and payroll liabilities which had not been transferred to the acquirer on the sale of the business, as well as certain additional liabilities identified after the acquisition. In the comparative period in fiscal year 2010, the business was recording losses, including a charge related to the termination of a contract, resulting in cash outflows.

Cash used in investing activities from continuing operations for the six months ended March 31, 2011 was \$10.3 million, compared to \$20.6 million for the same period in fiscal year 2010. The principal driver of the change was the acquisition of DeltaWare Systems, Inc. (DeltaWare) for \$10.7 million during the prior year.

Cash used in financing activities from continuing operations for the six months ended March 31, 2011 was \$1.0 million, compared to \$16.0 million for the same period in fiscal year 2010. This change is driven by: (1) an increase of \$6.4 million of funds received from employee stock transactions, particularly proceeds from stock option exercises; (2) an increase of \$2.7 million of tax benefits from the Company's restricted stock units, reflecting the increased share price over that of RSU issuance; (3) a decline of \$6.0 million of repurchases of common stock; and (4) \$0.3 million of long-term debt obtained through our interest-free loan in Canada. These benefits were offset by a \$0.4 million increase in our dividend payment, reflecting the increase in payments from twelve cents to fifteen cents per share.

The Company's cash balance was increased by \$3.7 million in the six-month period ended March 31, 2011 owing to foreign exchange rate fluctuations. The principal driver of this change was the strengthening 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, or as an alternative to net income as an indicator of performance, or as an alternative to cash flows from operating activities as a measure of liquidity. We calculate free cash flow from continuing operations as follows:

| (dollars in thousands) | Six Months Ended | |
|---|------------------|----------------|
| | 2011 | March 31, 2010 |
| Cash provided by operating activities - continuing operations | \$ 36,386 | \$ 70,760 |
| Purchases of property and equipment | (6,464) | (6,031) |
| Capitalized software costs | (3,872) | (4,325) |
| Free cash flow from continuing operations | \$ 26,050 | \$ 60,404 |

Repurchases of the Company's common stock

Under resolutions adopted in July 2008 and September 2010, the Board of Directors has authorized the repurchase, at management's discretion, of up to an aggregate of \$175.0 million of the Company's common stock. The resolutions also authorize the use of option exercise proceeds for the repurchase of the Company's common stock. During the six months ended March 31, 2011 and 2010, the Company repurchased 137,579 and 306,841 common shares at a cost of \$8.5 million and \$14.5 million, respectively. At March 31, 2011, \$122.2 million remained available for

future stock repurchases.

Credit arrangements

The Company's Revolving Credit Agreement provides for a senior secured revolving credit facility, with SunTrust Bank as administrative agent, issuing bank and swingline lender, and a syndicate of other lenders (the Credit Facility). The Credit Facility matures on January 25, 2013, at which time all outstanding borrowings must be repaid and all outstanding letters of credit must have been terminated or cash collateralized. At March 31, 2011, there were no outstanding borrowings under the Credit Facility and letters of credit totaling \$11.3 million were outstanding. The Company was in compliance with all covenants required by the Credit Facility.

The Company also has a loan agreement with the Atlantic Innovation Fund of Canada. This provides for a loan of up to 1.8 million Canadian Dollars, which must be used for specific technology-based research and development. The loan has no interest charge and is repayable in installments between 2012 and 2022. At March 31, 2011, \$1.8 million (1.8 million Canadian Dollars) was outstanding under this agreement.

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Certain contracts require us to provide a surety bond as a guarantee of performance. At March 31, 2011 and September 30, 2010, the Company had performance bond commitments totaling \$25.7 million and \$33.5 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.

Other

Our working capital at March 31, 2011 and September 30, 2010, calculated as the difference between current assets and current liabilities, was \$235.6 million and \$191.5 million, respectively. At March 31, 2011, we had cash and cash equivalents of \$183.2 million and debt of \$1.8 million. Management believes this liquidity and financial position, along with the revolving credit facility discussed above, provides sufficient liquidity to continue any contemplated stock repurchase program (depending on the price of the Company's common stock), to pursue selective acquisitions, and to consider the continuation of dividends on a quarterly basis. Restricted cash represents amounts held as security deposits on properties in overseas locations.

Under the provisions of certain contracts, we may receive funds on an accelerated basis that are treated as deferred revenue. The Company's current contract within the United Kingdom, under the Flexible New Deal was established in this manner with significant cash funds in excess of revenues during fiscal 2010 and revenues in excess of cash receipts in fiscal 2011. This contract will terminate during the third quarter of the current fiscal year and the replacement contracts will not provide the same level of up-front cash benefit and will provide most payments on a contingent basis, which may take up to two years to be realized. This is expected to have an adverse effect of between \$4 million and \$6 million in cash flows in fiscal 2012, which management estimates will be recouped in fiscal 2013. The Company believes it has sufficient liquidity to manage these cash flows.

Under the provisions of certain long-term contracts, we may incur certain reimbursable transition period costs. During the transition period, these expenditures result in the use of our cash and in our entering into lease financing arrangements for a portion of the costs. Reimbursement of these costs may occur in the set-up phase or over the contract operating period. Related revenue may also be deferred during the set-up phase. As of March 31, 2011, \$8.0 million in net costs had been incurred and reported as deferred contract costs on our consolidated balance sheet.

On April 8, 2011, the Company's Board of Directors declared a quarterly cash dividend of \$0.15 for each share of the Company's common stock outstanding. The dividend is payable on May 31, 2011, to shareholders of record on May 13, 2011. On May 5, 2011, the Company's Board of Directors declared a two-for-one stock split in the form of a dividend of one share for each outstanding share. The dividend is payable on June 30, 2011, to shareholders of record on June 15, 2011. On the same date, the Company's Board of Directors declared a cash dividend of \$0.09 for each share of the Company's common stock outstanding. This dividend is payable on August 31, 2011 to shareholders of record on August 15, 2011.

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

Critical Accounting Policies and Estimates

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

We believe that we do not have material off-balance-sheet risk or exposure to liabilities that are not recorded or disclosed in our financial statements. While we have significant operating lease commitments for office space, these 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 six months ended March 31, 2011, 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, 2010.

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Recent Accounting Pronouncements

In September 2009, the FASB issued revised guidance for accounting for contracts that contain more than one contract element. The revised guidance establishes a selling price hierarchy for determining the selling price of each contract element. The guidance also expands the required disclosures. The Company adopted this guidance for all multiple-element arrangements entered into or significantly modified after October 1, 2010. The effect of this new guidance was not significant.

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, 2010.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation of our internal control that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. *Legal Proceedings.*

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

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 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 healthcare claiming business and no longer provides the services at issue in this matter.

In August 2010, the Company received a draft audit report prepared on behalf of one of its former SchoolMAX customers. The SchoolMAX business line was sold as part of the divestiture of the MAXIMUS Education Systems division in 2008. The draft audit report recommends a refund of approximately \$11.6 million primarily arising out of the alleged failure of MAXIMUS and the buyer of the division to observe the most favored customer pricing term of the contract. MAXIMUS believes the audit report is incorrect and that no amounts are owed as a refund. In February 2011, the client sent a letter to MAXIMUS and the buyer of the business initiating the dispute resolution process under the contract. The client reiterated some of the audit issues previously identified and also raised a number of issues pertaining to services and products delivered under the contract. The client alleges total damages in excess of \$30 million. MAXIMUS and the buyer plan to contest all of the client's claims. The Company also believes that it is entitled to indemnification from the buyer of the business for claims pertaining to services and deliverables.

Table of Contents**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, 2010 should be considered. The risks included in the Form 10-K could materially and adversely affect our business, financial condition and results of operations. There have been no material changes to the factors discussed in our Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(c) The following table sets forth the information required regarding repurchases of common stock that we made during the three months ended March 31, 2011:

| Period | | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans (1) | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan (in thousands) |
|--------------|---------------|---|------------------------------------|---|---|
| Jan. 1, 2011 | Jan. 31, 2011 | 1,426 | \$ 62.50 | 1,426 | \$ 118,718 |
| Feb. 1, 2011 | Feb. 28, 2011 | | | | \$ 120,739 |
| Mar. 1, 2011 | Mar. 31, 2011 | | | | \$ 122,218 |
| Total | | 1,426 | \$ 62.50 | 1,426 | |

(1) Under resolutions adopted in July 2008 and September 2010, the Board of Directors has authorized the repurchase, at management's discretion, of up to an aggregate of \$175.0 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: May 9, 2011

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

| Exhibit No. | Description |
|--------------------|--|
| 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 quarter ended March 31, 2011 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Cash Flows and (iv) Notes to Unaudited Consolidated Financial Statements |

* Submitted electronically herewith