

MAXIMUS INC  
Form 10-Q  
May 09, 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 March 31, 2014**

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

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

As of April 30, 2014, there were 67,697,400 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, 2014**

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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 unless this report otherwise indicates or the context otherwise requires.*

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)

|   | Three Months<br>Ended March 31, |            | Six Months<br>Ended March 31, |            |
|---|---------------------------------|------------|-------------------------------|------------|
|   | 2014                            | 2013       | 2014                          | 2013       |
| Revenue   | \$ 439,015                      | \$ 326,351 | \$ 845,607                    | \$ 612,617 |
| Cost of revenue                                       | 318,343                         | 228,907    | 619,019                       | 438,643    |
| Gross profit  | 120,672                         | 97,444     | 226,588                       | 173,974    |
| Selling, general and administrative expenses          | 55,129                          | 46,693     | 107,732                       | 88,915     |
| Acquisition-related expenses                          |                                 | 16         |                               | 164        |
| Legal and settlement expenses                         | 600                             |            | 600                           | 142        |
| Operating income from continuing operations           | 64,943                          | 50,735     | 118,256                       | 84,753     |
| Interest and other income, net                        | 183                             | 637        | 904                           | 1,743      |
| Income from continuing operations before income taxes | 65,126                          | 51,372     | 119,160                       | 86,496     |
| Provision for income taxes                            | 23,964                          | 19,658     | 44,198                        | 32,999     |
| Income from continuing operations                     | 41,162                          | 31,714     | 74,962                        | 53,497     |
| Discontinued operations, net of income taxes:         |                                 |            |                               |            |
| Income/(loss) from discontinued operations            | 22                              | (91)       | 12                            | (594)      |
| Gain on disposal                                      | 23                              | 66         | 92                            | 102        |
| Income (loss) from discontinued operations            | 45                              | (25)       | 104                           | (492)      |
| Net income  | \$ 41,207                       | \$ 31,689  | \$ 75,066                     | \$ 53,005  |
| Basic earnings/(loss) per share:                      |                                 |            |                               |            |
| Income from continuing operations                     | \$ 0.61                         | \$ 0.47    | \$ 1.10                       | \$ 0.78    |
| Income/(loss) from discontinued operations            |                                 | (0.01)     |                               |            |
| Basic earnings per share                              | \$ 0.61                         | \$ 0.46    | \$ 1.10                       | \$ 0.78    |
| Diluted earnings/(loss) per share:                    |                                 |            |                               |            |
| Income from continuing operations                     | \$ 0.59                         | \$ 0.45    | \$ 1.08                       | \$ 0.77    |
| Income/(loss) from discontinued operations            |                                 |            |                               | (0.01)     |
| Diluted earnings per share                            | \$ 0.59                         | \$ 0.45    | \$ 1.08                       | \$ 0.76    |
| Dividends paid per share                              | \$ 0.045                        | \$ 0.045   | \$ 0.09                       | \$ 0.09    |
| Weighted average shares outstanding:                  |                                 |            |                               |            |
| Basic   | 67,884                          | 68,179     | 68,143                        | 68,171     |

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|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Diluted | 69,307 | 69,909 | 69,538 | 69,835 |
|---------|--------|--------|--------|--------|

*See 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 March 31,</b> |             | <b>Six months<br/>Ended March 31,</b> |             |
|--|---|-------------|---------------------------------------|-------------|
|  | <b>2014</b>                             | <b>2013</b> | <b>2014</b>                           | <b>2013</b> |
| Net income                               | \$ 41,207                               | \$ 31,689   | \$ 75,066                             | \$ 53,005   |
| Foreign currency translation adjustments | 1,638                                   | (965)       | (1,447)                               | (1,568)     |
| Comprehensive income                     | \$ 42,845                               | \$ 30,724   | \$ 73,619                             | \$ 51,437   |

*See notes to unaudited consolidated financial statements.*

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## MAXIMUS, Inc.

## CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

|   | March 31,<br>2014<br>(unaudited) | September 30,<br>2013 |
|---|----------------------------------|-----------------------|
| <b>ASSETS</b>   |                                  |                       |
| Current assets:   |                                  |                       |
| Cash and cash equivalents   | \$ 131,323                       | \$ 125,617            |
| Restricted cash   | 12,073                           | 12,176                |
| Accounts receivable billed, net of reserves of \$5,430 and \$3,828  | 309,784                          | 272,636               |
| Accounts receivable unbilled  | 20,303                           | 20,320                |
| Prepaid income taxes  | 75                               | 358                   |
| Deferred income taxes   | 29,928                           | 26,443                |
| Prepaid expenses and other current assets   | 31,966                           | 32,049                |
| Total current assets  | 535,452                          | 489,599               |
| Property and equipment, net   | 70,982                           | 77,710                |
| Capitalized software, net   | 41,542                           | 40,456                |
| Goodwill  | 173,191                          | 171,867               |
| Intangible assets, net  | 42,974                           | 42,039                |
| Deferred contract costs, net  | 12,321                           | 14,318                |
| Deferred income taxes   | 590                              | 1,179                 |
| Deferred compensation plan assets   | 10,977                           | 10,314                |
| Other assets, net   | 8,950                            | 10,496                |
| Total assets  | \$ 896,979                       | \$ 857,978            |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>  |                                  |                       |
| Current liabilities:  |                                  |                       |
| Accounts payable and accrued liabilities  | \$ 109,654                       | \$ 109,020            |
| Accrued compensation and benefits   | 64,651                           | 83,280                |
| Deferred revenue  | 53,042                           | 53,137                |
| Current portion of long-term debt   | 158                              | 170                   |
| Income taxes payable  | 18,379                           | 8,327                 |
| Other liabilities   | 10,115                           | 8,373                 |
| Total current liabilities   | 255,999                          | 262,307               |
| Deferred revenue, less current portion  | 27,065                           | 32,953                |
| Long-term debt  | 1,149                            | 1,319                 |
| Deferred compensation plan liabilities, less current portion  | 16,161                           | 13,953                |
| Other liabilities   | 24,969                           | 17,938                |
| Total liabilities   | 325,343                          | 328,470               |
| Shareholders' equity:   |                                  |                       |
| Common stock, no par value; 100,000 shares authorized; 67,889 and 68,525 shares issued and outstanding at March 31, 2014 and September 30, 2013, at stated amount, respectively | 425,648                          | 415,271               |
| Accumulated other comprehensive income  | 6,540                            | 7,987                 |
| Retained earnings   | 139,448                          | 106,250               |
| Total shareholders' equity  | 571,636                          | 529,508               |
| Total liabilities and shareholders' equity  | \$ 896,979                       | \$ 857,978            |





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## MAXIMUS, Inc.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

|   | Six Months<br>Ended March 31, |           |
|---|-------------------------------|-----------|
|   | 2014                          | 2013      |
| <b>Cash flows from operating activities:</b>                                      |                               |           |
| Net income  | \$ 75,066                     | \$ 53,005 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                               |           |
| (Income) loss from discontinued operations  | (104)                         | 492       |
| Depreciation and amortization   | 23,759                        | 17,934    |
| Deferred income taxes   | (1,387)                       | 6,757     |
| Non-cash equity based compensation  | 8,561                         | 7,062     |
| Change in assets and liabilities:   |                               |           |
| Accounts receivable billed  | (37,516)                      | (33,311)  |
| Accounts receivable unbilled  | (50)                          | (8,152)   |
| Prepaid expenses and other current assets   | 2,539                         | (2,521)   |
| Deferred contract costs   | 1,979                         | (1,413)   |
| Accounts payable and accrued liabilities  | 3,835                         | 8,728     |
| Accrued compensation and benefits   | (7,450)                       | (1,877)   |
| Deferred revenue  | (6,211)                       | (2,934)   |
| Income taxes  | 10,153                        | (6,561)   |
| Other assets and liabilities  | 3,390                         | 2,285     |
| Cash provided by operating activities continuing operations                       | 76,564                        | 39,494    |
| Cash used in operating activities discontinued operations                         | (104)                         | (554)     |
| Cash provided by operating activities   | 76,460                        | 38,940    |
| <b>Cash flows from investing activities:</b>                                      |                               |           |
| Purchases of property and equipment   | (9,516)                       | (13,351)  |
| Capitalized software costs  | (7,317)                       | (8,240)   |
| Proceeds from settlement of final PSI price                                       |                               | 3,380     |
| Acquisition of business, net of cash acquired                                     | (2,670)                       |           |
| Proceeds from note receivable   | 154                           | 172       |
| Proceeds from sale of discontinued operations                                     |                               |           |
| Cash used in investing activities   | (19,349)                      | (18,039)  |
| <b>Cash flows from financing activities:</b>                                      |                               |           |
| Repurchases of common stock   | (34,696)                      | (15,403)  |
| Employee tax withholding on restricted stock unit vesting                         | (12,905)                      | (6,677)   |
| Tax benefit due to option exercises and restricted stock units vesting            | 2,925                         | 4,680     |
| Cash dividends paid   | (6,138)                       | (6,131)   |
| Stock option exercises  | 518                           | 1,752     |
| Issuance of long-term debt  | 15,000                        |           |
| Repayment of long-term debt   | (15,082)                      | (87)      |
| Cash used in financing activities   | (50,378)                      | (21,866)  |
| Effect of exchange rate changes on cash and cash equivalents                      | (1,027)                       | (1,004)   |

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|  |            |            |
|--|------------|------------|
| Net increase/(decrease) in cash and cash equivalents | 5,706      | (1,969)    |
| Cash and cash equivalents, beginning of period       | 125,617    | 189,312    |
| Cash and cash equivalents, end of period             | \$ 131,323 | \$ 187,343 |

*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, 2014 and 2013**

**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 and six month periods ended March 31, 2014 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):

|  | Three Months Ended March 31, |       |            |       | Six Months Ended March 31, |       |            |       |
|--|------------------------------|-------|------------|-------|----------------------------|-------|------------|-------|
|  | 2014                         | % (1) | 2013       | % (1) | 2014                       | % (1) | 2013       | % (1) |
| <b>Revenue:</b>                                      |                              |       |            |       |                            |       |            |       |
| Health Services                                      | \$ 324,060                   | 100%  | \$ 197,948 | 100%  | \$ 623,218                 | 100%  | \$ 373,946 | 100%  |
| Human Services                                       | 114,955                      | 100%  | 128,403    | 100%  | 222,389                    | 100%  | 238,671    | 100%  |
| Total  | 439,015                      | 100%  | 326,351    | 100%  | 845,607                    | 100%  | 612,617    | 100%  |
| <b>Gross Profit:</b>                                 |                              |       |            |       |                            |       |            |       |
| Health services                                      | 85,061                       | 26.2% | 54,651     | 27.6% | 161,879                    | 26.0% | 99,910     | 26.7% |
| Human Services                                       | 35,611                       | 31.0% | 42,793     | 33.3% | 64,709                     | 29.1% | 74,064     | 31.0% |
| Total  | 120,672                      | 27.5% | 97,444     | 29.9% | 226,588                    | 26.8% | 173,974    | 28.4% |
| <b>Selling, general, and administrative expense:</b> |                              |       |            |       |                            |       |            |       |
| Health Services                                      | 36,285                       | 11.2% | 25,742     | 13.0% | 71,550                     | 11.5% | 50,375     | 13.5% |
| Human Services                                       | 18,844                       | 16.4% | 21,334     | 16.6% | 36,182                     | 16.3% | 38,923     | 16.3% |
| Corporate/Other                                      |                              | NM    | (383)      | NM    |                            | NM    | (383)      | NM    |
| Total  | 55,129                       | 12.6% | 46,693     | 14.3% | 107,732                    | 12.7% | 88,915     | 14.5% |
| <b>Operating income from continuing operations:</b>  |                              |       |            |       |                            |       |            |       |
| Health services                                      | 48,776                       | 15.1% | 28,909     | 14.6% | 90,329                     | 14.5% | 49,535     | 13.2% |
| Human Services                                       | 16,767                       | 14.6% | 21,459     | 16.7% | 28,527                     | 12.8% | 35,141     | 14.7% |
| Corporate/Other                                      |                              | NM    | 383        | NM    |                            | NM    | 383        | NM    |
| <b>Subtotal:</b>                                     |                              |       |            |       |                            |       |            |       |
| Segment Operating Income                             | 65,543                       | 14.9% | 50,751     | 15.6% | 118,856                    | 14.1% | 85,059     | 13.9% |
| Acquisition-related expenses                         |                              | NM    | 16         | NM    |                            | NM    | 164        | NM    |
| Legal and settlement expenses                        | 600                          | NM    |            | NM    | 600                        | NM    | 142        | NM    |
| Total  | \$ 64,943                    | 14.8% | \$ 50,735  | 15.5% | \$ 118,256                 | 14.0% | \$ 84,753  | 13.8% |

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

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

|  | Three Months<br>Ended March 31, |           | Six Months<br>Ended March 31, |           |
|--|---------------------------------|-----------|-------------------------------|-----------|
|  | 2014                            | 2013      | 2014                          | 2013      |
| <b>Numerator:</b>  |                                 |           |                               |           |
| Income from continuing operations                          | \$ 41,162                       | \$ 31,714 | \$ 74,962                     | \$ 53,497 |
| Income (loss) from discontinued operations                 | 45                              | (25)      | 104                           | (492)     |
| Net income   | \$ 41,207                       | \$ 31,689 | \$ 75,066                     | \$ 53,005 |
| <b>Denominator:</b>  |                                 |           |                               |           |
| Basic weighted average shares outstanding                  | 67,884                          | 68,179    | 68,143                        | 68,171    |
| <b>Effect of dilutive securities:</b>                      |                                 |           |                               |           |
| Employee stock options and unvested restricted stock units | 1,423                           | 1,730     | 1,395                         | 1,664     |
| Denominator for diluted earnings (loss) per share          | 69,307                          | 69,909    | 69,538                        | 69,835    |

No shares were excluded from the computation in calculating the earnings per share for the three or six months ended March 31, 2014 or 2013.

**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):

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|  | Purchase Price Allocation             |             |                                   |
|--|---------------------------------------|-------------|-----------------------------------|
|  | Updated through<br>September 30, 2013 | Adjustments | Updated through<br>March 31, 2014 |
| Cash consideration, net of cash acquired     | \$ 71,435                             | \$          | \$ 71,435                         |
| Stock consideration                          | 6,425                                 |             | 6,425                             |
| Purchase consideration, net of cash acquired | \$ 77,860                             | \$          | \$ 77,860                         |
| Accounts receivable and unbilled receivables | \$ 7,671                              | \$          | \$ 7,671                          |
| Other current assets                         | 1,382                                 |             | 1,382                             |
| Property and equipment                       | 2,752                                 |             | 2,752                             |
| Intangible assets                            | 20,542                                |             | 20,542                            |
| Total identifiable assets acquired           | 32,347                                |             | 32,347                            |
| Accounts payable and other liabilities       | 6,228                                 |             | 6,228                             |
| Deferred revenue                             | 1,149                                 |             | 1,149                             |
| Current income tax liability                 | 612                                   | 144         | 756                               |
| Deferred tax liability                       | 4,814                                 | (113)       | 4,701                             |
| Total liabilities assumed                    | 12,803                                | 31          | 12,834                            |
| Net identifiable assets acquired             | 19,544                                | (31)        | 19,513                            |
| Goodwill                                     | 58,316                                | 31          | 58,347                            |
| Net assets acquired                          | \$ 77,860                             | \$          | \$ 77,860                         |

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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).

|                                    | 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.

*Centacare*

On January 31, 2014, the Company acquired certain businesses trading as Centacare for \$2.7 million (3.1 million Australian Dollars) 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.

Of the purchase price, MAXIMUS allocated \$3.2 million to intangible assets, representing customer relationships, and \$0.5 million to deferred revenue. The intangible assets will be amortized over the anticipated lives of the customer relationships, which are approximately four years.

The businesses acquired with Centacare were immediately integrated into the existing MAXIMUS business. Accordingly, we are unable to accurately estimate the revenue from this acquisition. However, we believe the acquired revenue from this acquisition would not be material.

**5. Goodwill and Intangible Assets**

The changes in goodwill for the six months ended March 31, 2014 are as follows (in thousands):

|   | Health Services | Human Services | Total      |
|---|-----------------|----------------|------------|
| Balance as of September 30, 2013            | \$ 125,096      | \$ 46,771      | \$ 171,867 |
| Changes to allocation of HML purchase price | 31              |                | 31         |



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|                              |    |         |    |        |    |         |
|------------------------------|----|---------|----|--------|----|---------|
| Foreign currency translation |    | 1,393   |    | (100)  |    | 1,293   |
| Balance as of March 31, 2014 | \$ | 126,520 | \$ | 46,671 | \$ | 173,191 |

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

|                                      | As of March 31, 2014 |                          |                        | As of September 30, 2013 |                          |                        |
|--------------------------------------|----------------------|--------------------------|------------------------|--------------------------|--------------------------|------------------------|
|                                      | Cost                 | Accumulated Amortization | Intangible Assets, net | Cost                     | Accumulated Amortization | Intangible Assets, net |
| Customer contracts and relationships | \$ 43,130            | \$ 5,766                 | \$ 37,364              | \$ 39,243                | \$ 3,953                 | \$ 35,290              |
| Technology based intangible assets   | 9,343                | 6,415                    | 2,928                  | 9,583                    | 5,974                    | 3,609                  |
| Trademarks and trade names           | 4,378                | 1,696                    | 2,682                  | 4,421                    | 1,303                    | 3,118                  |
| Non-compete arrangements             |                      |                          |                        | 243                      | 221                      | 22                     |
| Total                                | \$ 56,851            | \$ 13,877                | \$ 42,974              | \$ 53,490                | \$ 11,451                | \$ 42,039              |

The Company's intangible assets have a weighted average remaining life of 11.9 years, comprising 13.2 years for customer contracts and relationships, 3.6 years for technology-based intangible assets and 3.4 years for the trademarks and trade names. Amortization expense for the six months ended March 31, 2014 and 2013 was \$2.8 million and \$2.3 million, respectively. Estimated future amortization expense is as follows (in thousands):

|                                     |          |
|-------------------------------------|----------|
| Six months ended September 30, 2014 | \$ 3,046 |
| Year ended September 30, 2015       | 5,968    |
| Year ended September 30, 2016       | 5,692    |
| Year ended September 30, 2017       | 5,293    |
| Year ended September 30, 2018       | 4,052    |
| Year ended September 30, 2019       | 3,070    |

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**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 that 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 March 31, 2014, the Company's only borrowings under the Credit Agreement were four letters of credit totaling \$6.7 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. During the three month period ended March 31, 2014, the Company borrowed \$15 million, which was repaid within the period.

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 March 31, 2014. 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, as defined in the credit agreement, exceeds 2.5 to 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 March 31, 2014, our total leverage ratio was less than 0.1 to 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 March 31, 2014, the Company utilized the lowest available applicable margins listed above.

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 March 31, 2014, \$1.3 million (1.4 million Canadian Dollars) was outstanding under this agreement, which is repayable in 33 remaining quarterly installments.

Certain contracts require us to provide a surety bond as a guarantee of performance. At March 31, 2014 and September 30, 2013, the Company had performance bond commitments totaling \$50.5 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.

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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 has since reclassified the trainers as non-exempt employees and is seeking an expedited resolution of their wage claims. MAXIMUS denies liability as to the supervisors and will contest the matter vigorously. As of March 31, 2014, the Company has reserved \$0.6 million to cover the estimated legal costs of defending this lawsuit, in addition to estimated liabilities to employees.

## **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 six months ended March 31, 2014 and 2013, the Company repurchased 807,138 and 499,098 common shares at a cost of \$35.5 million and \$14.6 million, respectively. The amount available for future repurchases was \$62.1 million at March 31, 2014.

The Company has acquired an additional 241,500 shares at a cost of \$10.3 million between April 1, 2014 and May 9, 2014.

## **9. Subsequent Events**

### *Dividend*

On April 4, 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 May 30, 2014 to shareholders of record on May 15, 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*.<sup>®</sup> 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 continue to 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 and six month periods ended March 31, 2014 compared to the same periods in fiscal year 2013. The principal driver of this growth was work in our Health Services segment 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 and Medicaid-related initiatives. 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 six month period ended March 31, 2014 driven by increased business. The Company continued to invest funds in working capital as well as in repurchases of common stock. At March 31, 2014, the Company held \$131.3 million in

unrestricted cash and cash equivalents and had 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<br>Ended March 31, |            | Six Months<br>Ended March 31, |            |
|--|---------------------------------|------------|-------------------------------|------------|
|  | 2014                            | 2013       | 2014                          | 2013       |
| Revenue  | \$ 439,015                      | \$ 326,351 | \$ 845,607                    | \$ 612,617 |
| Gross profit   | \$ 120,672                      | \$ 97,444  | \$ 226,588                    | \$ 173,974 |
| Gross profit percentage  | 27.5%                           | 29.9%      | 26.8%                         | 28.4%      |
| Selling, general and administrative expenses                           | \$ 55,129                       | \$ 46,693  | \$ 107,732                    | \$ 88,915  |
| Selling, general and administrative expense as a percentage of revenue | 12.6%                           | 14.3%      | 12.7%                         | 14.5%      |
| Acquisition-related expenses   |                                 | 16         |                               | 164        |
| Legal and settlement expenses  | 600                             |            | 600                           | 142        |
| Operating income from continuing operations                            | \$ 64,943                       | \$ 50,735  | \$ 118,256                    | \$ 84,753  |
| Operating margin from continuing operations percentage                 | 14.8%                           | 15.5%      | 14.0%                         | 13.8%      |
| Interest and other income, net   | 183                             | 637        | 904                           | 1,743      |
| Income from continuing operations before income taxes                  | 65,126                          | 51,372     | 119,160                       | 86,496     |
| Provision for income taxes   | 23,964                          | 19,658     | 44,198                        | 32,999     |
| Tax rate   | 36.8%                           | 38.3%      | 37.1%                         | 38.2%      |
| Income from continuing operations, net of income taxes                 | \$ 41,162                       | \$ 31,714  | \$ 74,962                     | \$ 53,497  |
| Income (loss) from discontinued operations, net of income taxes        | \$ 45                           | \$ (25)    | \$ 104                        | \$ (492)   |
| Net income   | \$ 41,207                       | \$ 31,689  | \$ 75,066                     | \$ 53,005  |
| <b>Basic earnings (loss) per share:</b>                                |                                 |            |                               |            |
| Income from continuing operations                                      | \$ 0.61                         | \$ 0.47    | \$ 1.10                       | \$ 0.78    |
| Income (loss) from discontinued operations                             |                                 | (0.01)     |                               |            |
| Basic earnings per share   | \$ 0.61                         | \$ 0.46    | \$ 1.10                       | \$ 0.78    |
| <b>Diluted earnings (loss) per share:</b>                              |                                 |            |                               |            |
| Income from continuing operations                                      | \$ 0.59                         | \$ 0.45    | \$ 1.08                       | \$ 0.77    |
| Income (loss) from discontinued operations                             |                                 |            |                               | (0.01)     |
| Diluted earnings per share   | \$ 0.59                         | \$ 0.45    | \$ 1.08                       | \$ 0.76    |



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

The results for the three and six month periods ended March 31, 2013 were affected by a one-time benefit from the termination of a system-integration contract acquired with Policy Studies Inc. (PSI). This termination resulted in one-time, non-cash benefits to revenue and pre-tax profit of \$16.0 million and \$10.9 million, respectively. Although contract terminations for convenience do occur within our business, they are infrequent. In addition, this termination was unusual due to the significant effect of the transaction, which is highly unlikely to be repeated, as it involved deferred revenue from the PSI acquisition and did not reflect the underlying business operations of the Company. Accordingly, we discuss below the results of the business both including and excluding the effect of this contract termination. We believe the presentation of revenue, profit, profit margins and earnings per share excluding the effect of this contract termination provide a useful basis for assessing the Company's performance compared to prior periods or our competitors. However, these numbers are non-GAAP numbers and are not meant to be considered in isolation or as alternatives to their GAAP equivalents as measures of performance. A reconciliation between the Company's results and those results excluding the effect of this terminated contract is shown below:

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| (dollars in thousands)                                    | Three Months<br>Ended March 31,<br>2013 |          | Six Months Ended<br>March 31, 2013 |          |
|---|---|----------|------------------------------------|----------|
| Revenue   | \$                                      | 326,351  | \$                                 | 612,617  |
| Less revenue from terminated contract                     |   | (16,035) |                                    | (16,035) |
| Revenue excluding terminated contract                     | \$                                      | 310,316  | \$                                 | 596,582  |
| Gross profit  | \$                                      | 97,444   | \$                                 | 173,974  |
| Less gross profit from terminated contract                |   | (10,900) |                                    | (10,900) |
| Gross profit excluding terminated contract                | \$                                      | 86,544   | \$                                 | 163,074  |
| Operating income  | \$                                      | 50,735   | \$                                 | 84,753   |
| Less operating income from terminated contract            |   | (10,900) |                                    | (10,900) |
| Operating income excluding terminated contract            |   | 39,835   |                                    | 73,853   |
| Gross profit margin excluding terminated contract         |   | 27.9%    |                                    | 27.3%    |
| Operating margin percentage excluding terminated contract |   | 12.8%    |                                    | 12.4%    |

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 exchange rates from the comparative period in the prior 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 in business combinations within the last twelve months. 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 acquisitions. In order to calculate organic growth, we remove the revenue from HML from the three and six month periods ended March 31, 2014. 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. In January 2014, the Company acquired additional business in Australia, which would typically be excluded from our organic growth calculation. However, as the contracts acquired with the acquisition were immediately integrated into existing, identical contracts held by MAXIMUS, we are unable to accurately estimate the revenue from this acquisition. However, we believe the acquired revenue from this acquisition would not be material to the business or to the analyses shown below.

Revenue growth for the three and six months ended March 31, 2014 is summarized below:

| (dollars in thousands)  | Three Months<br>Ended March 31 |          | Six Months<br>Ended March 31 |               |
|---|--------------------------------|----------|------------------------------|---------------|
| Revenue for fiscal year 2013, respective periods                                | \$                             | 326,351  | \$                           | 612,617       |
| Revenue from terminated contract  |                                | (16,035) | (5)%                         | (16,035) (3)% |
| Revenue for fiscal year 2013, respective periods, excluding terminated contract | \$                             | 310,316  | \$                           | 596,582       |

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|  |            |     |            |     |
|--|------------|-----|------------|-----|
| Organic growth                                   | 112,654    | 35% | 218,453    | 36% |
| Acquired growth                                  | 16,045     | 5%  | 30,572     | 5%  |
| Revenue for fiscal year 2014, respective periods | \$ 439,015 | 35% | \$ 845,607 | 38% |

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Revenue increased 35% and 38% for the three and six month periods ended March 31, 2014, compared to their respective comparative periods. This growth was principally driven by organic growth in the Health Services Segment. The Company also received the benefit of the acquisition of HML, which increased revenue by approximately 5% compared to prior year, offset by the effect of the terminated contract. On a constant currency basis, overall revenue growth would have been 37% and 40% for the three and six month periods ended March 31, 2014, respectively. A decline in the value of the Australian Dollar was responsible for much of the shortfall in revenue.

Gross profit margin declined from 29.9% to 27.5% for the three month period ended March 31, 2014 and declined from 28.4% to 26.8% for the six month period ended March 31, 2014, compared to the same periods in fiscal year 2013. The principal cause of this decline is the termination of the contract noted above.

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 declined in the quarter ended March 31, 2014, compared with the same period in the prior year. This decline was driven by the significant increase in revenue in fiscal year 2014.

Operating income for the three and six month periods ended March 31, 2014 increased 28% to \$64.9 million and 40% to \$118.3 million, compared with the comparative periods in fiscal year 2013. If the effect of the contract termination noted above is excluded, operating income growth would have been 63% and 60%, respectively. This growth was driven by organic growth and the acquisition of HML.

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 year 2008. The balance also includes immaterial foreign exchange gains and losses and the noncontrolling interest of our operations. Almost all of the income recorded represents income from interest on cash accounts in overseas jurisdictions. The declines recorded reflect the use of overseas cash balances in July 2013 to acquire HML.

The provision for income taxes in the three and six months ended March 31, 2014 was \$24.0 million and \$44.2 million, respectively, reflecting effective tax rates of 36.8% and 37.1%, respectively. The tax rates are lower than the comparative periods as the Company received the benefit of certain tax credits in this period totaling approximately \$0.7 million.

Income from continuing operations, net of income taxes, was \$41.2 million, or \$0.59 per diluted share, for the three months ended March 31, 2013, compared with \$31.7 million, or \$0.45 per diluted share, for the same period in fiscal year 2013. For the six month periods ended March 31, 2014 and 2013, income from continuing operations, net of income taxes, was \$75.0 million and \$53.5 million, or \$1.08 and \$0.77 per diluted share, respectively. For the periods ending March 31, 2013, net income and diluted earnings per share included the one-time benefits of \$6.5 million and \$0.09, respectively, from the contract termination noted above.

*Health Services*

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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<br>Ended March 31, |            | Six Months<br>Ended March 31, |            |
|-----------------------------|---------------------------------|------------|-------------------------------|------------|
|                             | 2014                            | 2013       | 2014                          | 2013       |
| Revenue                     | \$ 324,060                      | \$ 197,948 | \$ 623,218                    | \$ 373,946 |
| Gross profit                | 85,061                          | 54,651     | 161,879                       | 99,910     |
| Operating income            | 48,776                          | 28,909     | 90,329                        | 49,535     |
| Gross profit percentage     | 26.2%                           | 27.6%      | 26.0%                         | 26.7%      |
| Operating margin percentage | 15.1%                           | 14.6%      | 14.5%                         | 13.2%      |

Revenue increased by 64% and 67% for the three and six month periods ended March 31, 2014, compared with the comparative periods in fiscal year 2013. Organic revenue provided the majority of this growth, being 56% and 58% of the increase, respectively, with the balance made up of HML revenues. Increases in revenue were driven by:

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- Revenues from new work and expansion of existing contracts, including those related to the implementation and support of the ACA;
- Increased volumes in our appeals and assessments businesses, which is reimbursed on a per-transaction basis; and
- The acquisition of HML in July 2013.

We anticipate that increased demand for ACA and Medicaid-related services will continue throughout fiscal year 2014 with additional supplemental work to support both programs. We anticipate that volumes within our appeals and assessments businesses will continue to remain strong as new appeals and assessments work offsets a slow-down, expected in fiscal year 2015, in Medicare appeals volumes due to changes in the Recovery Audit Contractor (RAC) program. Future demand may fluctuate either up or down on a seasonal basis or in future enrollment years.

Gross profit margins for the three and six months ended March 31, 2014 were slightly lower than those in the same periods in fiscal year 2013. Gross profit margins remain consistent with prior periods and Company expectations; although short-term fluctuations may be driven by the timing of change orders, open enrollments and the contract lifecycle, these changes are not expected to be significant. Operating profit margin has improved compared to fiscal year 2013, driven by the significant increase in business.

*Human Services*

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<br>Ended March 31, |            | Six Months<br>Ended March 31, |            |
|-----------------------------|---------------------------------|------------|-------------------------------|------------|
|                             | 2014                            | 2013       | 2014                          | 2013       |
| Revenue                     | \$ 114,955                      | \$ 128,403 | \$ 222,389                    | \$ 238,671 |
| Gross profit                | 35,611                          | 42,793     | 64,709                        | 74,064     |
| Operating income            | 16,767                          | 21,459     | 28,527                        | 35,141     |
| Gross profit percentage     | 31.0%                           | 33.3%      | 29.1%                         | 31.0%      |
| Operating margin percentage | 14.6%                           | 16.7%      | 12.8%                         | 14.7%      |

The results in fiscal year 2013 were significantly affected by the terminated contract, the effects of which are summarized below:

| (dollars in thousands) | Three Months<br>Ended March 31,<br>2013 | Six Months Ended<br>March 31, 2013 |
|------------------------|---|------------------------------------|
| Revenue                | \$ 128,403                              | \$ 238,671                         |

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|  |    |          |    |          |
|--|----|----------|----|----------|
| Less revenue from terminated contract                        |    | (16,035) |    | (16,035) |
| Revenue excluding terminated contract                        | \$ | 112,368  | \$ | 222,636  |
| Gross profit   | \$ | 42,793   | \$ | 74,064   |
| Less gross profit from terminated contract                   |    | (10,900) |    | (10,900) |
| Gross profit excluding terminated contract                   |    | 31,893   |    | 63,164   |
| Operating income   | \$ | 21,459   | \$ | 35,141   |
| Less operating income from terminated contract               |    | (10,900) |    | (10,900) |
| Operating income excluding terminated contract               | \$ | 10,559   | \$ | 24,241   |
| Gross profit margin percentage excluding terminated contract |    | 28.4%    |    | 28.4%    |
| Operating margin percentage excluding terminated contract    |    | 9.4%     |    | 10.9%    |

Revenues decreased 10% and 7% for the three and six month periods ended March 31, 2014, compared to the comparative periods in fiscal 2013. Excluding the effects of the terminated contract, revenues increased 2% and remained consistent over the same periods. On a constant currency basis and excluding the terminated contract, revenues would have increased 7% and 4% for the three and six month periods, respectively.

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Gross and operating profit margins have declined year-over-year, driven by the terminated contract. Excluding this effect, profit margins have increased, driven by expected increases for the quarter in international business and short-term consulting contracts.

In future quarters, we anticipate additional growth from the expansion of our contracts in Australia, where MAXIMUS has been awarded a greater allocation of work based upon past performance. Much of this work is expected to commence in the final quarter of fiscal year 2014.

**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 \$0.2 million in the six month periods ended March 31, 2014 and 2013.

**Liquidity and Capital Resources**

At March 31, 2014, the Company held \$131.3 million in cash and cash equivalents. Approximately 65% of these funds are held in overseas locations in which we do business, principally Australia, Canada and the United Kingdom. If we were to transfer these funds to the United States, the Company would be required to accrue and pay additional taxes. We do not intend to repatriate these funds and, accordingly, we have not attempted to quantify the charges which might arise if we were to make this transaction. The charges would vary based upon tax legislation in the United States and the other overseas jurisdictions, as well as the manner and timing in which MAXIMUS would make these transactions.

Owing to restrictions in transferring funds to the United States, domestic cash flows are required to cover dividend payments and share repurchases. In addition, the acquisition of PSI was funded with domestic cash and we would expect any other acquisitions taking place in the United States would be funded in a similar manner. Payments from our customers are our principal source of cash inflows, which are affected by billing schedules, payment terms and delays in payments. Delays in payments most often occur at the beginning of contractual arrangements or may be driven by difficulties with state and local budgets. Although the Company has experienced such delays from customers, most funds are ultimately recovered in full. The Company may also experience cash outflows from contracts at their inception, as start-up costs are incurred prior to revenues being billable, and, where contracts are performance-based, a project may experience initial cash outflows until outcome-based payments are received. To provide against such outflows, the Company utilizes a credit facility with up to \$100 million of borrowing capacity. During the three month period ended March 31, 2014, the Company borrowed \$15 million to cover short-term cash requirements. This balance was repaid within the quarter and no such borrowings were outstanding at March 31, 2014. The only indebtedness under this credit facility at March 31, 2014 relates to four letters of credit totaling \$6.7 million. In addition, the Company has two letters of credit totaling \$3.0 million outstanding with another financial institution.

In general, although some overseas locations have required initial investment, the Company has been able to utilize cash flows from operations to fund working capital and capital expenditure requirements in all locations in which it has operated and the Company continues to expect that this will be the case. The Company has one overseas loan: an interest-free loan from the Atlantic Innovation Fund of Canada, which must be used for specific purposes.



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At March 31, 2014, the Company was in compliance with all debt covenants.

*Cash Flows*

| (dollars in thousands)                                       | Six Months Ended |                   |
|--|------------------|-------------------|
|  | 2014             | March 31,<br>2013 |
| Net cash provided by (used in):                              |                  |                   |
| Operating activities continuing operations                   | \$ 76,564        | \$ 39,494         |
| Operating activities discontinued operations                 | (104)            | (554)             |
| Investing activities continuing operations                   | (19,349)         | (18,039)          |
| Financing activities continuing operations                   | (50,378)         | (21,866)          |
| Effect of exchange rate changes on cash and cash equivalents | (1,027)          | (1,004)           |
| Net increase (decrease) in cash and cash equivalents         | \$ 5,706         | \$ (1,969)        |

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Cash provided by operating activities from continuing operations for the six months ended March 31, 2014 was \$76.6 million, compared with \$39.5 million in the same period in fiscal year 2013. This increase is driven by the Company's increased profitability.

Cash used in investing activities from continuing operations for the six months ended March 31, 2014 was \$19.3 million, compared to \$18.0 million for the same period in fiscal year 2013. Investment in property and equipment and capitalized software has declined by approximately \$4.8 million year-over-year, reflecting the significant investment which occurred in fiscal year 2013 to address many project start-ups in fiscal year 2014. This decline was offset by a payment of \$2.7 million in fiscal year 2014 related to the Company's acquisition of Centacare's business and the receipt of \$3.4 million in fiscal 2013 related to the final settlement of the acquisition price of PSI.

Cash used in financing activities from continuing operations for the six months ended March 31, 2014 was \$50.4 million, compared to \$21.9 million for the same period in fiscal year 2013. The principal driver of the increase was an increase of \$19.3 million for share repurchases of common stock.

The Company's cash balance decreased by \$1.0 million in the six-month period ended March 31, 2014 owing to foreign exchange rate fluctuations. The principal driver of this change was the weakening of the Canadian 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 flow 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 |                |
|---|------------------|----------------|
|   | 2014             | March 31, 2013 |
| Cash provided by operating activities – continuing operations | \$ 76,564        | \$ 39,494      |
| Purchases of property and equipment                           | (9,516)          | (13,351)       |
| Capitalized software costs                                    | (7,317)          | (8,240)        |
| Free cash flow from continuing operations                     | \$ 59,731        | \$ 17,903      |

*Repurchases of the Company's common stock*

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 six months ended March 31, 2014 and 2013, the Company repurchased 807,138 and 499,098 common shares at a cost of \$35.5 million and \$14.6 million, respectively. The amount available for future repurchases was \$62.1 million at March 31, 2014.

*Letters of Credit and Performance Bonds*

Certain contracts require us to provide a letter of credit or a surety bond as a guarantee of performance. At March 31, 2014, the Company had letters of credit totaling \$9.7 million and performance bond commitments totaling \$50.5 million. These 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 in our performance of our obligations under each contract, the probability of which we believe is remote.

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*Dividend*

On April 4, 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 May 30, 2014 to shareholders of record on May 15, 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 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, 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 March 31, 2014, 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 has since reclassified the trainers as non-exempt employees and is seeking an expedited resolution of their wage claims. MAXIMUS denies liability as to the supervisors and will contest the matter vigorously. As of March 31, 2014, the Company has reserved \$0.6 million to cover the estimated legal costs of defending this lawsuit, in addition to estimated liabilities to employees.

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, 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.

**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, 2014:

| 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) |
|--------------|---------------|---|------------------------------------|---|---|
| Jan. 1, 2014 | Jan. 31, 2014 | 214,200                                   | \$ 43.07                           | 214,200   | \$ 65,800   |
| Feb. 1, 2014 | Feb. 28, 2014 | 25,300                                    | 41.37                              | 25,300  | \$ 64,835   |
| Mar. 1, 2014 | Mar. 31, 2014 | 61,900                                    | 43.81                              | 61,900  | \$ 62,123   |
| Total        |               | 301,400                                   | \$ 43.08                           | 301,400   |   |

(1) Under a resolution adopted and publicly announced in November 2011, the Board of Directors has 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: May 9, 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*              | Letter agreement between Richard A. Montoni and MAXIMUS, Inc. dated March 4, 2014, filed as an exhibit to the Current Report on Form 8-K (File No. 1-12997) on March 4, 2014 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 March 31, 2014 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.