MAXIMUS INC
Form 10-K
December 13, 2007

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

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# FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF**
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2007
Commission file number: 1-12997

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# MAXIMUS, INC.

(Exact name of registrant as specified in its charter)

| **VIRGINIA** | **54-1000588** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **11419 Sunset Hills Road, Reston, Virginia** | **20190** |
| (Address of principal executive offices) | (Zip Code) |

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES o NO x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES o NO x

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 x NO o

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

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

YES o NO x

The aggregate market value of outstanding voting stock held by non-affiliates of the registrant as of March 31, 2007 was $633,077,867 based on the last reported sale price of the registrant s Common Stock on The New York Stock Exchange as of the close of business on that day.

There were 18,476,372 shares of the registrant s Common Stock outstanding as of November 30, 2007.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant s definitive Proxy Statement for its 2008 Annual Meeting of Shareholders to be held on March 18, 2008, which definitive Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the end of the registrant s fiscal year, are incorporated by reference into Part III of this Form 10-K.

**MAXIMUS, Inc.**
**Form 10-K**
**September 30, 2007**

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**PART I**

**ITEM 1.** ***Business.***

**General**

We provide consulting, systems solutions, and operations program management primarily to government. Since our inception in 1975, we have been at the forefront of innovation in meeting our mission of Helping Government Serve the People®. We use our expertise, experience and advanced information technology to make government operations more efficient and cost-effective while improving the quality of services provided to program beneficiaries. We operate primarily in the United States and have had contracts with government agencies in all 50 states, Canada, Australia, Israel and the United Kingdom.

Over the last five years, our business has experienced fluctuations in demand for certain services, primarily resulting from the budgetary and fiscal challenges that many states faced during 2002 and 2003. As a result, we experienced weakness in certain divisions. Beginning in 2004, state financial conditions returned to healthier levels from increased tax receipts. This, coupled with new legislation such as the Deficit Reduction Act and expanding demand for health and human services, has resulted in increasing opportunities and new work primarily in the areas of health and human services program management.

Fiscal 2006 and 2007 results were impacted by a $49.4 million and $25.2 million, respectively, operating loss on the Texas Integrated Eligibility project. Up until February 2007, we served as a subcontractor to Accenture as part of the Texas Access Alliance, which provides services under the Texas Health and Human Services Commissions (TX HHSC) Integrated Eligibility Program. We were awarded the five-year, $370 million subcontract in June 2005. In June 2006, we amended our subcontract with Accenture to reduce scope and realign responsibilities. In November 2006, we announced that we commenced negotiations with Accenture to further reduce our scope on the project. In December 2006, we initiated arbitration to resolve certain disputes under the subcontract and in February 2007, we terminated our subcontract with Accenture. In March 2007, the TX HHSC terminated its contract with Accenture and contracted directly with us to provide support services for its State Children s Health Insurance Program (SCHIP) and to provide enrollment broker services for its Medicaid program. We continue to provide services under these programs, but on a profitable basis. The arbitration with Accenture remains ongoing.

For the fiscal year ended September 30, 2007, we had revenue of $738.6 million and net loss of $8.3 million.

**Market Overview**

Our primary customers are state and local government agencies, but a portion of our business also comes from a variety of federal agencies and commercial customers. In fiscal 2007, approximately 75% of our total revenue was derived from state and local government agencies, 7% from federal government agencies, 13% from foreign customers, and 5% from other sources (such as commercial customers).

We believe we are well positioned to benefit from the continuing demand for consulting, systems solutions and operations program management in an environment where governments are required to maintain or improve services to an increasing number of constituents. We believe governments will continue to review current program operations and seek improved operating capability and cost savings through the use of outsourcing. For example, many states are in the process of considering changes to how they administer entitlement programs and are seeking new ways to find cost savings by implementing new systems and business process reengineering. Much of our program management and outsourcing work is related to federally mandated and federally funded programs such as Medicaid, SCHIP, and Temporary Assistance to Needy Families (TANF). As a result, we expect the underlying demand for our existing outsourcing programs to remain stable due to the fundamental need and federal mandate for governments to provide these services to beneficiaries. In addition, we believe governments will continue to upgrade technology in order to increase cost efficiency and program productivity. To achieve these results, many government agencies are engaging outsourcing business services firms, such as MAXIMUS, for help.

We deliver valued-added services to government agencies by providing consulting, systems solutions, and operations program management that help governments operate more efficiently and effectively. Demand for each of our services is contingent upon specific factors related to our vertical markets and we believe that several factors which impact government spending will drive increased demand for our services, including:

- States that are running federally-mandated and federally-funded programs must efficiently and cost-effectively meet minimum federal requirements in order to maintain federal funding levels.

- The requirement of state governments to implement federal initiatives such the *Deficit Reduction Act*, which reauthorizes Temporary Assistance for Needy Families (TANF) and touches upon a number of key health and human service issues including Medicaid program reforms and requires states to engage more TANF cases in productive activities leading to self-sufficiency.

- The desire by governments to continue to implement comprehensive solutions to drive efficiency and process improvements with the use of new technology offered by a single-source service provider that can offer long-term maintenance support.

- The need for governments to operate more programs with the same level of resources. Consequently, government clients possess the desire to outsource programs to companies that have greater flexibility in balancing resources (such as workforce) with demand.

- The impact of continued budgetary pressures on governments, including the need for the vast majority of states to maintain balanced budgets. These budgetary requirements increase the desire by governments to seek and maximize federal funding to which they are entitled.

As a result, governments seek to utilize outside companies such as MAXIMUS that possess the knowledge and resources to efficiently operate federally-funded programs, maintain minimum federal requirements in order to achieve the maximum federal funding as well as to secure additional federal dollars, in areas such as Medicaid, on their behalf.

**Our Business Segments**

The following discussion describes our business segments and each of our operating divisions within the business segments, as they existed as of September 30, 2007. From time to time, we implement certain organizational or management changes that realign our internal infrastructure and enable us to better manage our business.

**Consulting Segment:**

Our Consulting Segment generated approximately 13% of our total revenue in fiscal 2007. Financial information with respect to this segment is provided in Notes 16 and 17 of our consolidated financial statements (See Item 8 below). The Consulting Segment provides specialized financial consulting services such as assisting state and local agencies in obtaining federal funding reimbursements for their programs. The Consulting Segment also offers educational services that assist schools in obtaining federal funding reimbursements and reducing costs. These services are provided through the following divisions:

*Financial Services Division.* Our Financial Services Division provides three main services:

Assisting states in meeting their financial objectives through reducing costs related to fraud, waste, and abuse and through increasing federal funding reimbursements for health and human services expenditures. We help states and schools appropriately claim federal reimbursement and appropriately allocate costs to federal and state programs, which may lead to increased federal revenues.

Providing consulting services that help state, county, and community-based child welfare agencies comply with federal regulations and improve the outcomes for children and their families. These services include children s safety, attainment of permanent families, physical health, mental health, education of children in the child welfare system, and improving the functioning of families so that parents can care for their own children.

Assisting local governments in their efforts to appropriately recover available funding from state and federal agencies, enhance revenue, and operate efficiently. Service areas include cost allocation services, user fee efforts, management studies, and engagements which mandate specific claiming requirements.

*UNISON MAXIMUS, Inc. (Unison).* Unison, one of our subsidiaries, provides a range of management consulting services to airports and local government entities. Unison has assisted more than 80 small, medium and large hub airports by conducting various studies and providing recommendations to enhance airport operations and plan for future development. The division provides consulting services under the following major practice areas: (1) Airport Finance and Economics; (2) Airport Retail Concessions Planning and Management; and (3) Airport Planning, Programming and Implementation Oversight.

*Educational Services Division.* This division provides school districts with software to provide electronic Individualized Educational Plans and special education case management software to ensure compliance with federal and state laws, to reduce the paperwork requirements on educators, and to improve the effectiveness of their special education programs. In addition, the division offers instructional management software and consulting to schools in order for them to improve student performance and comply with the federal No Child Left Behind Act of 2001 (NCLB) requirements including reporting and data warehousing. The division also licenses specialized software systems and provides consulting services to higher education research institutions across the country to assist them in managing their research grants efficiently and effectively, enhancing their administrative effectiveness, and reducing and reallocating costs.

*Technical Services Division*. The Technical Services Division provides strategic management and information technology consulting services to state, county and local government agencies. Our experienced team of project management and information technology professionals applies industry-recognized standards and methodologies throughout the system development life cycle. The division has assisted customers in planning, procuring, and implementing information systems in multiple projects across numerous states. The division s services include operational and performance audits, organization and staffing analysis, industry best practice analysis, business process transformation, change management, and the application of information technology to improve service delivery. The division s services also include the application of standards-based project management, quality assurance, and independent verification and validation services to assist our customers in successfully managing the development, implementation and deployment of automated systems.

**Systems Segment:**

Our Systems Segment generated approximately 19% of our total revenue in fiscal 2007. Financial information with respect to this segment is provided in Notes 16 and 17 of our consolidated financial statements. The Systems Segment designs and implements our proprietary software and third party software solutions to improve the efficiency and cost-effectiveness of program administration and offers proprietary systems products in the areas of justice, education and asset solutions. These products and services are provided through the following divisions:

*Asset Solutions Division*. The Asset Solutions Division is a leading provider of software solutions that enable organizations to more effectively manage their asset infrastructure, including facilities and fleet and transit assets, as well as fuel management and distribution for fleet and transit organizations. The Asset Solutions Division serves over 600 customers including government agencies, public utilities, mass transit, educational institutions and commercial enterprises. The division offers a broad range of fleet consulting services such as competitiveness assessments, business planning, and information technology. Its software and industry expertise helps organizations streamline operations, achieve cost savings, and improve service levels. The division also assists entities in complying with the Government Accounting Standards Board reporting requirements for asset evaluation and management, and provides physical inventory control, regulatory compliance and reporting, and asset valuation services.

*Educational Systems Division.* Our Educational Systems Division provides school management services, technical support, and software tools primarily to K-12 school districts, charter schools, state departments of education, and not-for-profit organizations. The division licenses or provides hosting services using SchoolMAX® Enterprise (our proprietary student information system). SchoolMAX® Enterprise captures, retrieves, and aggregates all relevant student, family, and school information regarding enrollment, student demographics, class scheduling, grades, attendance, healthcare, discipline, special education, parental notifications, textbook management, and other critical school management functions. In addition, the division works with school districts and state governments (1) to provide state compliance reporting, (2) to help satisfy certain requirements under NCLB, and (3) to facilitate integration with decision support and other major educational systems such as student assessment, curriculum management, asset and facilities management, and food services.

*Security Solutions Division.* The Security Solutions Division leverages technology, software product solutions and systems integration to provide security solutions to federal and state customers that are fully compliant with the latest federally driven standards and policies. The division includes software developers, systems integrators, network and data security professionals, and analysts who develop methodologies and tools to support eligibility determinations. The division s ID Management and Credentialing capability includes enrolling citizens, storing and managing identity information including biometrics and security clearances, and issuing credentials. MAXIMUS creates turnkey systems that integrate physical access security systems to facilities and logical access security systems to web-enabled software applications using these credentials.

*ERP Solutions Division*. The Enterprise Resource Planning (ERP) Solutions Division works primarily with government and educational entities to implement Oracle s PeopleSoft Enterprise suite of applications, which includes Financial Management, Human Resource Management, Supply Chain Management, Budgeting, and Enterprise Performance Management systems. Recently, the division s primary focus has been on large state and local government ERP implementations including the States of Delaware, New Mexico, and Tennessee. In addition to PeopleSoft Enterprise implementations, this division conducts return-on-investment assessments for major IT projects.

*Justice Solutions Division.* The Justice Solutions Division develops, implements, and supports solutions that assist the justice community in managing operations and sharing information to support the delivery of justice and enhance public safety. Our JusticeMax™ portfolio of products and integrated Justice Solutions offer complex integrated justice initiatives that provide criminal data repositories and facilitate the exchange of critical data among agencies involved in administering the judicial process and safeguarding the public. We also provide product-centric solutions such as our CourtView® case management, JuryView™ juror management, RecordView® records management, and JailView® jail management systems that serve as the information backbone of courts and corrections organizations. From city and county to statewide and countrywide organizations, our justice solutions have been selected by entities of all sizes serving populations of 40,000 to more than 6,000,000 citizens.

**Operations Segment:**

**Our Operations Segment generated approximately 68% of our total revenue in fiscal 2007. Financial information with respect to this segment is provided in Notes 16 and 17 of our consolidated financial statements. The Operations Segment provides a variety of program management and outsourcing services for federal and state funded public programs, and focuses on the delivery of administrative services for government health and human services programs including Medicaid, SCHIP, workforce services programs, and child support enforcement programs. Our Operations Segment provides these services through the following divisions:**

Our Operations Segment generated approximately 68% of our total revenue in fiscal 2007. Financial information wit

*Child Support Division.* The Child Support Division provides outsourcing, consulting, and system support services to state and local child support programs. These services include full and specialized child support case-management services, call center operations, and program and systems consulting services. The division works with the child support agencies to optimize their ability to meet their programs goals, including maximizing collections.

*Federal Operations.* The Federal Operations group provides a variety of services to federal agencies, primarily in the health and human services arena. Our services include health dispute resolution for participants of certain government-sponsored health programs that have the right to appeal health care decisions. Using an experienced staff of legal and clinical professionals, we conduct health care reconsideration reviews on behalf of the Centers for Medicare and Medicaid Services (CMS) (for Medicare Parts A, C, and D), for the U.S. Office of Personnel Management (OPM), and for more than 30 state health regulatory agencies. We are designated by CMS as a Qualified Independent Contractor (QIC) as well as a Medicare Drug Integrity Contractor (MEDIC). We also provide health care quality review to government agencies, serving as the National Quality Monitoring Contractor for TRICARE, which is the managed healthcare program for the Department of Defense, and we also perform medical peer review for the Department of Veterans Affairs and the U.S. Coast Guard. Additionally, under contract with the Social Security Administration, we operate the agency s Ticket to Work Program, providing access to workforce services, skills assessment, job training, and placement assistance nationally for persons with disabilities.

*Health Services Division.* The Health Services Division provides a range of administrative support for publicly funded health services and health insurance programs, with a particular emphasis on eligibility and enrollment for state programs such as Medicaid Managed Care and State Children s Health Insurance Programs (SCHIP). Under these public health programs we provide: beneficiary outreach, education, and enrollment counseling; customized automated information systems; design and development of print and web-based program educational materials; full-service call center customer services such as on-site multilingual assistance; program data collection and reporting; premium collection and processing; and program eligibility determination.

*Workforce Services Division.* The Workforce Services Division manages government workforce-centered service programs in the United States, Australia, and Israel. We help disadvantaged individuals transition from government assistance programs to employment and independence by providing comprehensive services, including eligibility determination, case management, job readiness preparation and search, job development and employer outreach, job retention and career advancement, and selected educational and training services. Additionally, we offer advocacy services for youth and disabled persons in the United States and rehabilitation services in Australia, and assistance to employers in accessing tax credit benefits.

**Competitive Advantages**

We offer a private sector alternative for the administration and management of critical government-funded programs as well as offering consulting and systems solutions. Our reputation and extensive experience over the last 30 years give us a competitive advantage as governments seek out and value the level of expertise and brand recognition that MAXIMUS brings to its customers. The following is a detailed discussion of the competitive advantages that allow us to capitalize on various market opportunities:



Our Operations Segment generated approximately 68% of our total revenue in fiscal 2007. Financial information wi

*Single-market focus.* We are one of the largest publicly traded companies whose primary focus is offering a portfolio of consulting, systems solutions, and operations program management specifically to government customers. This single-market concentration allows us to fully dedicate time and resources in providing quality, customized solutions to government customers. Our extensive experience and detailed understanding of the regulation and operation of government programs allows us to apply our methodologies, skills, and solutions to new projects in a cost-effective and timely fashion. We believe our government program expertise differentiates us from other firms and non-profit organizations with limited resources and skill sets, as well as from large consulting firms that serve multiple industries but lack the focus necessary to efficiently manage the complexities of serving government agencies.

*Wide range of services.* Many customers require a broad array of service capabilities. Engagements often require creative or complex solutions that must be drawn from diverse areas of expertise within our organization. Our broad range of capabilities, as described in the Our Business Segments discussion above, enables us to better pursue new business opportunities and positions us as a single-source provider of consulting, systems solutions, and operations program management to government agencies.

*Proven track record.* Since 1975, we have successfully and profitably assisted governments by offering efficient, cost-effective solutions. We have completed hundreds of large-scale consulting, technical systems engagements, and program management operations for government agencies serving millions of beneficiaries. The successful execution of these projects has enhanced our reputation with government agencies while improving the quality of services provided to program beneficiaries. Our track record and reputation have contributed significantly to our ability to compete successfully and win new contracts.

*Expertise in competitive bidding*. Government agencies typically award contracts to third-party providers through a comprehensive, complex, and competitive bidding process. With over 30 years of experience responding to Requests for Proposals (RFPs) and executing oral presentations, we have the necessary experience to navigate these government procurement processes. The complex nature of competitive bidding creates significant barriers to entry for potential new competitors unfamiliar with the nature of government procurement. We possess the expertise and experience to assess and allocate the appropriate resources necessary for successful project completion in accordance with contractual terms. Our proposals demonstrate our ability to meet all customer requirements at a price that is both attractive to the customer and profitable to MAXIMUS. Coupled with reluctance on the part of government agencies to award contracts to unproven companies, we believe that our expertise in the competitive bidding process has contributed significantly to our success.

*Intellectual property.* We have software products that enhance our consulting, systems solutions, and operations program management offerings. Further, our ability to focus our subject matter experts to aid in the support and enhancement of our product offerings provides advantages over pure service providers dependent on third-party software.

In addition to our Justice, Transportation and Facility Asset Management and Education software product lines, we have developed an open architecture system utilizing a Java 2 Enterprise Edition ( J2EE ) framework and components. (Java and J2EE are trademarks of Sun Microsystems, Inc.) Current e-Government initiatives are mandating open architecture systems that will provide greater interoperability among agencies, systems, and programs, as well as enhanced flexibility and scalability. Our J2EE framework gives us a competitive advantage by aligning our systems and services offerings with these critical government standards**.** The J2EE framework serves as the infrastructure for several MAXIMUS product offerings, such as our SchoolMAX® and MAXChild products, as well as a logical and cost-effective migration path for current customers who use our legacy MAXSTAR® Application Builder, an automated case management software product that interfaces with government databases, tracks program participant records and cases, and supports extraction and analysis of program data. We believe we enjoy a competitive advantage in re-bid situations since we can implement a state-of-the-art open standards system at lower risk and cost to the customer.



Our Operations Segment generated approximately 68% of our total revenue in fiscal 2007. Financial information wi

Our MAXe3 proprietary system solution is an open architecture, web-based system for managing operations in enrollment and eligibility projects. MAXe3 uses an innovative task management design that is a departure from current case management designs. The task management design is more efficient and better at tracking and accountability than the older generation systems. MAXe3, which resides on an Oracle platform, is easily scalable from the smallest to the largest operations. It serves as an important and unique component for state health and human services re-engineering efforts for their eligibility and enrollment operations.

We also developed a Personal Health Portal for Medicaid Electronic Health Record Systems. The personal health portal is standards-based and complies with all national standard s for electronic health records and personal health record security. The portal enabled the state Medicaid agencies to engage the Medicaid Recipients in medical quality improvement initiatives and cost containment programs. The user interface and screen navigation was designed by our Center for Health Literacy to be easily understood by Medicaid populations.

*Experienced Management Team and Subject Matter Expertise.* Because we are principally focused on serving government clients, we can recruit, hire and retain skilled staff that often possesses significant government experience. We have assembled an experienced team of industry executives, former government executives, state agency officials, information technology specialists, and other professionals, many of whom have considerable experience in the public services industry. We have also developed strong relationships with experienced consultants who inform and advise us with respect to strategic marketing opportunities and legislative initiatives.

**Competition**

The market for providing our services to government agencies is competitive and subject to rapid change. Our Consulting Segment typically competes against large consulting firms such as Accenture Ltd., as well as smaller and niche players, such as Public Consulting Group. Our Systems Segment competes with a large number of competitors including Unisys Corporation, SAP America, Inc., Oracle Corporation, BearingPoint, Inc., Accenture Ltd., Deloitte & Touche LLP, Northrop Grumman Corporation, and Electronic Data Systems Corporation. Our Operations Segment, which primarily serves health and human services departments and agencies, competes for program management contracts with the government services divisions of large organizations such as Affiliated Computer Services, Inc., Electronic Data Systems Corporation, and International Business Machines Corporation, as well as more specialized private service providers and local non-profit organizations such as the United Way of America, Goodwill Industries, and Catholic Charities USA.

**Business Growth Strategy**

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

*Optimize our current operations and mitigate losses in underperforming businesses.* We realigned our business strategy away from a volume-driven sales approach towards a tighter focus on risk management and project execution, resulting in improved profitability. In addition, we enhanced our contracts and compliance team and initiated organization-wide training requirements to facilitate project improvements and efficiencies. We will also continue to evaluate new business as well as the current portfolio of projects in a manner that is more aligned with increasing our overall profitability. Along these lines, we discontinued operation of our student loan collections business and divested the Corrections Services business in October 2006. We will continue to evaluate the businesses within the organization and will act accordingly on other underperforming practice and project areas that we view as non-core or non-strategic to future growth.



Our Operations Segment generated approximately 68% of our total revenue in fiscal 2007. Financial information wi

*Focus on core offerings and selectively divest non-strategic business lines.* Our fundamental services to state and local government are principally centered on the delivery and support of health and human services programs. We view our health and human service offerings as our competencies. Management is increasing its focus on its core competencies, which reside primarily in the Operations and Consulting Segments, and will selectively pursue divestitures of non-strategic business lines.

*Pursue new business opportunities and expand customer base*. With over 30 years of business expertise in the state and local government market, we continue to be a leader in developing innovative solutions to meet the evolving needs of government agencies. We believe our capabilities and brand recognition are our most critical assets and we continue to identify, respond to and secure new business opportunities in an effort to grow our existing revenue base. We will also seek to broaden our customer base by delivering our core offerings to new clients such as new state customers and federal agencies. As a result, we have placed a considerable amount of emphasis on further developing these core practice areas and expanding our customer base by leveraging existing resources to better serve clients.

*Grow long-term, recurring revenue streams*. We seek to enter into long-term relationships with clients to meet their on-going and long-term business objectives. As a result, long-term contracts (three to five years with additional option years) are often the preferred method of delivery for customers and are mutually beneficial to them and the Company.

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

*Pursue strategic acquisitions.* We will selectively identify and pursue strategic acquisition opportunities. Acquisitions can provide us with a rapid, cost-effective method to enhance our services, obtain additional skill sets, expand our customer base, cross-sell additional services, enhance our technical capabilities, and establish or expand our geographic presence.

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

**Marketing and Sales**

We generate new business opportunities by establishing and maintaining relationships with key government officials, policy makers, and decision-makers. We have a team of business development professionals who ensure that we understand the needs, requirements, and legislative initiatives and priorities of our current and prospective customers. In conjunction with our subject matter experts and marketing consultants, our business development professionals create and identify new business opportunities and ensure that we proactively introduce our solutions and services early in the procurement cycle. We also subscribe to government procurement databases that track government bid activity and make every effort to ensure that we are on bidders lists as well as approved vendor lists for government procurement offices. We participate in professional associations of government administrators and industry seminars featuring presentations by our executives and employees. Senior executives also develop leads through on-site presentations to decision-makers.



Our Operations Segment generated approximately 68% of our total revenue in fiscal 2007. Financial inform



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Because we obtain much of our work by responding to RFPs issued by government agencies, we have developed and implemented a sophisticated RFP tracking and capture plan system which provides us critical information about the status of existing RFPs, actions to date and deliverables with respect to those RFPs.

For the year ended September 30, 2007, we derived approximately 14% of our consolidated revenue from contracts with the state of California, principally within our Operations segment.

**Legislative Initiatives**

During the last several years, federal and state legislative initiatives have created new growth opportunities and potential markets for MAXIMUS. Legislation passed in Congress has large public policy implications for state and local government and presents viable business opportunities, notably in the health and human services arena. MAXIMUS is well positioned to meet the consulting, systems and operations program management needs resulting from legislative actions and subsequent regulatory efforts. MAXIMUS is actively monitoring these initiatives in order to respond to opportunities that may develop.

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

*Deficit Reduction Act of 2005 (DRA).* Enacted in the spring of 2006, the DRA reauthorized the TANF program of 1996, and provides states with additional flexibility to make reforms to their Medicaid Programs. This legislation touches upon a number of key health and human service issues important to the MAXIMUS base business. In reauthorizing TANF, the DRA requires states to engage more TANF cases in productive activities leading to self-sufficiency. The law recalibrates a caseload reduction credit, increases childcare funding, retains maintenance of level of effort, and promotes healthy marriage and responsible fatherhood initiatives. States are also required to establish and maintain work participation and verification procedures with new penalties of one to five percent for failure to comply.

The DRA allows states to change their Medicaid benefit packages to mirror certain commercial insurance packages (termed alternative or benchmark packages) and allows states to vary the premiums and cost sharing they charge and gives them the option to require payment of alternative premiums as a condition of eligibility. The Long-Term Care Partnership under the DRA is a unique program combining private long-term care insurance and special access to Medicaid, to allow individuals to financially prepare for the possibility of nursing home care, home care, or assisted living services in the future. The DRA also discourages the transfer of assets to protect individual wealth while allowing access to public benefits. Innovative Medicaid programs may be eligible for transformation grants. Evidence of citizenship and identity requirements are also required of states by the DRA.

These provisions, and many others in the DRA, are central to the MAXIMUS health and human service experience base in our operations and consulting area. The new requirements of the TANF program will create certain new challenges for states and localities, which in turn provide opportunities for companies like MAXIMUS. Additionally, the flexibility and encouragement offered in the DRA to innovate state Medicaid programs should be a catalyst for new consulting and operations opportunities.

The authorization for the State Children s Health Insurance Program (SCHIP) has expired and there has been well-documented debate regarding the reauthorization process, including the President s recent veto of the first version passed by Congress. While the nature of the final reauthorization is not known, MAXIMUS is monitoring the implications. If additional funding is not authorized at the level States need to continue their program with current levels of eligibility, then, in fairly short order, States will need to curb their programs and potentially disenroll some current program participants. The outreach and processing of such actions would present opportunities for MAXIMUS. If SCHIP is funded at the levels needed and expanded to include express lane eligibility and other provisions to improve program access and participation, this, too, presents opportunities that we are monitoring.



Our Operations Segment generated approximately 68% of our total revenue in fiscal 2007. Financial inform15ation wit

**Backlog**

Backlog represents an estimate of the remaining future revenue from existing signed contracts and revenue from contracts that have been awarded but not yet signed. Our backlog estimate includes revenue expected under the current terms of executed contracts and revenue from contracts in which the scope and duration of the services required are not definite but estimable (such as performance-based contracts), but does not assume any contract renewals or extensions. Management estimates that approximately 83% of forecasted fiscal 2008 revenue is in the form of backlog at September 30, 2007, and will be realized as revenue in the following twelve months.

Changes in backlog result from additions to future revenue from the execution of new contracts or extension or renewal of existing contracts, reductions from fulfilling contracts, reductions from the early termination of contracts, and adjustments to estimates of previously-included contracts. Our contracts typically contain provisions permitting government customers to terminate the contract on short notice, with or without cause. We believe that period-to-period backlog comparisons are difficult and do not necessarily accurately reflect future revenue we may receive. The actual timing of revenue receipts, if any, on projects included in backlog could change for any of the aforementioned reasons. The dollar amount by segment of our backlog as of September 30, 2006 and 2007, were as follows:

| | As of September 30, | |
|---|---|---|
| | 2006 | 2007 |
| | (In millions) | |
| Consulting | $ 147.5 | $ 123.0 |
| Systems | 212.1 | 164.6 |
| Operations | 1,140.4 | 1,012.4 |
| Total | $ 1,500.0 | $ 1,300.0 |

**Seasonal Nature of Business**

We may experience seasonality in our Operations Segment in our fourth fiscal quarter as a result of tax credit work. In addition, the summer and winter holiday vacations can impact our financial results for all of our segments. Specifically, reductions in working days as a result of holidays and vacations may impact our sales and accounts receivable primarily in our first fiscal quarter.

**Employees**

As of September 30, 2007, we had 6,120 employees, consisting of 347 employees in the Consulting Segment, 560 employees in the Systems Segment, 5,018 employees in the Operations Segment and 195 corporate administrative employees. Our success depends in large part on attracting, retaining and motivating talented, innovative and experienced professionals at all levels.

As of September 30, 2007, 428 of our employees in Canada were covered under three different collective bargaining agreements, each of which has different components and requirements. There are 274 employees covered by the MAXIMUS BC Health Benefits Operations, Inc. collective bargaining agreement with the British Columbia Government and Services Employees Union ( BCGEU ). Within Themis Program Management and Consulting Limited, we have two agreements. Under the first agreement, 142 employees are covered by a collective bargaining agreement with the BCGEU and, under the second agreement, 12 employees are covered by a collective bargaining agreement with the Professional Employees Association ( PEA ). These collective bargaining agreements expire on March 31, 2010.

None of our other employees are covered under any such agreement. We consider our relations with our employees to be good.



Our Operations Segment generated approximately 68% of our total revenue in fiscal 2007. Financial information wi

**Foreign Operations**

We currently operate predominantly in the United States. Our revenues derived from operations in foreign countries for fiscal years 2005, 2006, and 2007 were $49.7 million, $76.7 million, and $88.0 million respectively. We had $26.7 million and $27.4 million of long-lived assets located in foreign countries at September 30, 2006 and 2007, respectively.

**Website Access to U.S. Securities and Exchange Commission Reports**

**Our Internet address is http://www.maximus.com and includes access to our corporate governance materials and our code of business conduct and ethics. Through our website, we make available, free of charge, access to all reports filed with the U.S. Securities and Exchange Commission (SEC) including our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K, Section 16 filings by our officers and directors, as well as amendments to these reports, as filed with or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, after we electronically file such material with, or furnish it to, the SEC. Copies of any materials we file with, or furnish to, the SEC can also be obtained free of charge through the SEC s website at http://www.sec.gov or at the SEC s Public Reference Room at 100 F St., N.E., Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.**

**ITEM 1A.** ***Risk Factors.***

Our operations are subject to many risks that could adversely affect our future financial condition and performance and, therefore, the market value of our securities. See Exhibit 99.1 of this Annual Report on Form 10-K under the caption Special Considerations and Risk Factors for information on risks and uncertainties that could affect our future financial condition and performance. The information in Exhibit 99.1 is incorporated by reference into this Item 1A.

**ITEM 1B.** ***Unresolved Staff Comments.***

None.

**ITEM 2.** ***Properties.***

We own a 60,000 square foot office building in Reston, Virginia and a 21,000 square foot office building in McLean, Virginia. We also lease offices for management and administrative functions in connection with the performance of our services. At September 30, 2007, we leased 99 offices in the United States totaling approximately 874,000 square feet. In three countries outside the United States, we leased 54 offices containing approximately 246,000 square feet. The lease terms vary from month-to-month to six-year leases and are generally at market rates.

We believe that our properties are maintained in good operating condition and are suitable and adequate for our purposes.

**ITEM 3.** ***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.

(a) In 2006, Emergis, Inc. filed a demand for arbitration against MAXIMUS and certain of its wholly-owned subsidiary companies in British Columbia, Canada. Emergis was a subcontractor to MAXIMUS BC Health, Inc. and MAXIMUS BC Health Benefit Operations, Inc. in support of their contract with the British Columbia Ministry of Health. The subcontract required Emergis to provide a system for the adjudication, processing and payment of health care claims for the Province and had a total value of approximately $32.0 million Canadian ($32.1 million U.S. as of September 30, 2007). MAXIMUS had declared Emergis in default and ultimately terminated the subcontract in September 2006. In its demand for arbitration, Emergis challenged the basis of the termination and sought payment of damages including the amounts that it would have received under the subcontract. MAXIMUS believed that termination was justified and that, in any event, damages would have been limited to the contractual limitation of liability, which was less than $2.0 million Canadian ($2.0 million U.S. as of September 30, 2007). In September 2007, the parties agreed to restructure their business relationship and settle the arbitration matter. As part of the settlement, MAXIMUS did not pay any damages.

(b) In January 2007, MAXIMUS delivered to Accenture LLP a written formal demand for arbitration to resolve disputes relating to the Company s role as a subcontractor in support of Accenture s prime contract with the Texas Health and Human Services Commission ( HHSC ) for the Integrated Eligibility and Enrollment Services program (the Program ). The Company s claims include (i) Accenture s attempt to misappropriate the Company s intellectual property, (ii) Accenture s failure to deliver required technology under the subcontract, (iii) Accenture s unilateral negotiation of issues with HHSC having a direct effect on the Company, (iv) Accenture s unfounded assertions that the Company had breached its obligations with respect to the Children s Health Insurance Program ( CHIP ) operations under the subcontract, and (v) Accenture s imposition of excessive and unsubstantiated cover costs on the Company arising out of the amendment to the subcontract entered into in June 2006. MAXIMUS seeks to recover its damages which it believes exceed $100.0 million. Accenture submitted a response disputing MAXIMUS claims and asserting a counterclaim that MAXIMUS breached the subcontract. Accenture seeks unspecified damages which it has stated could be hundreds of millions of dollars. The subcontract incorporated the terms and conditions of the prime contract which contains a limitation of liability of $250.0 million.

Also in January 2007, Accenture delivered a letter purporting to declare the Company in default of its obligations under that subcontract. The letter stated that Accenture planned to exercise step-in rights with respect to certain management and supervisory services provided by the Company for the CHIP operations. The letter also stated that Accenture intended to partially terminate the subcontract as of February 5, 2007 with respect to the Company s obligations regarding CHIP integrated eligibility services. The letter included a proposed turnover plan for transitioning the CHIP services from the Company to Accenture. Accenture has alleged that the Company owes damages relating to the CHIP operations of at least $45.0 million plus $30.0 million in indemnification for amounts that Accenture agreed to pay to HHSC.

In February 2007, MAXIMUS terminated its subcontract with Accenture. In March 2007, HHSC announced that it was winding down its contract with Accenture. In connection with that process, MAXIMUS has entered into agreements directly with HHSC to provide enrollment broker, CHIP operations and eligibility support services. The contracts for CHIP operations and eligibility support services run through December 31, 2008, and the enrollment broker contract runs through August 31, 2010.

The Company believes that its positions are meritorious and that Accenture s positions are without merit, including Accenture s unjustified issuance of a default notice with respect to the CHIP operations. During the fiscal year ended September 30, 2007, the Company recorded $10.0 million in legal costs related to the arbitration. This amount represents costs incurred to date of $7.8 million and an estimate of future probable legal costs of $2.2 million. It is reasonably possible that the estimate of future probable legal costs of $2.2 million will change due to future developments. The Company will continue to aggressively pursue its rights and remedies against Accenture to resolve the current dispute. The arbitration hearing is scheduled for the third quarter of fiscal year 2008. The Company cannot predict the outcome of the arbitration proceedings

or any settlement negotiations or the impact they may have on the Company s operating results or financial condition, and therefore no accrual for this loss contingency has been recorded on the balance sheet.

(c) In November 2007 MAXIMUS was sued by the State of Connecticut in the Superior Court in the Judicial District of Hartford. MAXIMUS had entered into a contract in 2003 with the Connecticut Department of Information Technology to update the State s criminal justice information system. The State claims that MAXIMUS breached its contract and also alleges negligence and beach of the implied warranty of fitness for a particular purpose. MAXIMUS has sued its primary subcontractor on the effort (ATS Corporation) which abandoned the project before completing its obligations. Although the State did not specify damages in its complaint, it demanded payment of alleged damages of approximately $6.2 million in a letter sent to the Company in September 2007. The Company denies that it has breached its contract with the State. During the fiscal year ended September 30, 2007, the Company recorded $0.2 million in legal costs related to this matter. The Company cannot predict the outcome of the legal proceedings or any settlement negotiations or the impact they may have on the Company s operating results or financial condition.

(d) In December 2007, the Company became aware of a lawsuit filed by Image API against the Company in the District Court of Travis County, Texas. That lawsuit has not yet been served on the Company. The plaintiff was a subcontractor to MAXIMUS under the Integrated Eligibility and Enrollment Services program (the Program ) with the Texas Health and Human Services Commission ( HHSC ). As described above, MAXIMUS was a subcontractor to Accenture under the Program until February 2007. The Company and Image API had a number of disagreements under their subcontract regarding Image API's performance and scope of responsibilities. Following the termination of the Company's subcontract with Accenture, the Company and Image API were not able to agree on the role Image API would play in support of MAXIMUS' new agreements with HHSC, and Image API terminated its services. The plaintiff has asserted a variety of claims including breach of contract, fraud, misrepresentation, business disparagement and trade secret misappropriation. MAXIMUS denies those allegations. The plaintiff claims damages due to the loss of compensation expected under its subcontract with MAXIMUS in an amount exceeding $30.0 million. The Company believes the nature and the amount of the asserted claims are without merit and intends to defend the matter vigorously. Nevertheless, the Company cannot predict the outcome of the legal proceedings or any settlement negotiations or the impact they may have on the Company s operating results or financial condition.

**ITEM 4.** ***Submission of Matters to a Vote of Security Holders.***

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

## PART II

**ITEM 5.** ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

Our common stock trades on the New York Stock Exchange under the symbol MMS. The following table sets forth, for the fiscal periods indicated, the range of high and low sales prices for our common stock and the cash dividends per share declared on the common stock.

| | Price Range | | |
|---|---|---|---|
| | High | Low | Dividends |
| **Year Ended September 30, 2006:** | | | |
| First Quarter | $ 37.96 | $ 33.45 | $ 0.10 |
| Second Quarter | 39.46 | 33.89 | 0.10 |
| Third Quarter | 35.99 | 22.35 | 0.10 |
| Fourth Quarter | 30.95 | 23.15 | 0.10 |
| **Year Ended September 30, 2007:** | | | |
| First Quarter | $ 32.45 | $ 25.53 | $ 0.10 |
| Second Quarter | 35.24 | 26.65 | 0.10 |
| Third Quarter | 44.57 | 34.34 | 0.10 |
| Fourth Quarter | 45.48 | 37.37 | 0.10 |

As of November 30, 2007, there were 84 holders of record of our outstanding common stock. The number of holders of record is not representative of the number of beneficial owners due to the fact that many shares are held by depositories, brokers, or nominees. We estimate there are approximately 7,700 beneficial owners of our common stock.

We declared quarterly cash dividends on our common stock at the rate of $0.10 per share beginning with the quarter ended March 31, 2005. We expect to continue our policy of paying regular cash dividends, although there is no assurance as to future dividends. Future cash dividends, if any, will be paid at the discretion of our Board of Directors and will depend, among other things, upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and such other factors as our Board of Directors may deem relevant.

The following table sets forth the information required regarding repurchases of common stock that we made during the three months ended September 30, 2007 and cumulative repurchases under our share repurchase program:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan(1) | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan (in thousands) |
|---|---|---|---|---|
| Inception through June 30, 2007 | 4,490,073 | $ 27.72 | 4,490,073 | $ 38,814 |
| July 1, 2007 July 31, 2007 | | | | $ 39,368 |
| August 1, 2007 August 31, 2007 | | | | $ 39,667 |
| September 1, 2007 September 30, 2007 | | | | $ 39,875 |
| Total Quarter ended September 30, 2007 | | | | |
| Inception through September 30, 2007 | 4,490,073 | $ 27.72 | 4,490,073 | |

(1) Under resolutions adopted and publicly announced on May 12, 2000, July 10, 2002, and April 2, 2003, our Board of Directors has authorized the repurchase, at management s discretion, of up to an aggregate of $90.0 million of common stock under our 1997 Equity Incentive Plan. In addition, in June 2002, the Board of Directors authorized the use of option exercise proceeds for the repurchase of our common stock.

**Stock Performance Graph**

The following graph compares cumulative total shareholder return on our common stock for the five-year period from September 30, 2002 to September 30, 2007, with the cumulative total return for the NYSE Stock Market (U.S. Companies) Index and the NYSE/AMEX/NASDAQ Stocks (SIC 8740-8749 U.S. Companies) Management and Public Relations Services Index. This graph assumes the investment of $100 on September 30, 2002 in our common stock, the NYSE Stock Market (U.S. Companies) Index and the NYSE/AMEX/NASDAQ Stocks (SIC 8740-8749 U.S. Companies) Management and Public Relations Services Index and assumes dividends are reinvested.

Comparison of Five Year Cumulative Total Returns

Performance Graph for

MAXIMUS, INC.

# Legend

| Symbol | CRSP Total Returns Index for: | 09/2002 | 09/2003 | 09/2004 | 09/2005 | 09/2006 | 09/2007 |
|---|---|---|---|---|---|---|---|
| | MAXIMUS, INC. | 100.0 | 153.8 | 128.6 | 161.0 | 119.0 | 201.0 |
| | NYSE Stock Market (US Companies) | 100.0 | 121.0 | 141.2 | 161.7 | 180.6 | 209.5 |
| | NYSE/AMEX/NASDAQ Stocks (SIC 8740-8749 US Comp) Management and Public Relations Services | 100.0 | 130.8 | 146.5 | 162.6 | 181.1 | 226.5 |

Notes:

A. The lines represent monthly index levels derived from compounded daily returns that include all dividends.

B. The indexes are reweighted daily, using the market capitalization on the previous trading day.

C. If the monthly interval, based on the fiscal year-end, is not a trading day, the preceding trading day is used.

D. The index level for all series was set to $100.0 on 09/30/2002.

Prepared by CRSP (www.crs.uchicago.edu) Center for Research in Security Prices, Graduage School of Business, 14032 The University of Chicago. Used with permission. All rights reserved.

**ITEM 6.** ***Selected Financial Data.***

We have derived the selected consolidated financial data presented below from our consolidated financial statements and the related notes. The revenue and operating results related to the acquisition of companies using the purchase accounting method are included from the respective acquisition dates. The selected financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations included as Item 7 of this Annual Report on Form 10-K and with the Consolidated Financial Statements and related Notes included as Item 8 of this Annual Report on Form 10-K. The historical results set forth in this Item 6 are not necessarily indicative of the results of operations to be expected in the future.

| | Year Ended September 30, | | | | |
|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006(1) | 2007 |
| | (In thousands, except per share data) | | | | |
| **Statement of Operations Data:** | | | | | |
| Revenue | $ 558,283 | $ 603,774 | $ 647,538 | $ 700,894 | $ 738,646 |
| Legal and settlement expense(2) | | | 7,000 | 9,394 | 44,638 |
| Write-off of deferred contract costs(3) | | | | 17,109 | |
| Income (loss) from operations | 57,042 | 63,046 | 56,274 | (2,826) | (3,136) |
| Net income (loss) | 35,346 | 38,774 | 36,069 | 2,460 | (8,255) |
| **Earnings (loss) per share:** | | | | | |
| Basic | $ 1.68 | $ 1.80 | $ 1.69 | $ 0.11 | $ (0.38) |
| Diluted | $ 1.66 | $ 1.76 | $ 1.67 | $ 0.11 | $ (0.38) |
| Weighted average shares outstanding: | | | | | |
| Basic | 20,999 | 21,589 | 21,331 | 21,465 | 21,870 |
| Diluted | 21,335 | 22,014 | 21,653 | 21,821 | 21,870 |
| Cash dividends per share of common stock | | | $ 0.30 | $ 0.40 | $ 0.40 |

| | At September 30, | | | | |
|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| | (In thousands) | | | | |
| **Balance Sheet Data:** | | | | | |
| Cash, cash equivalents, and marketable securities | $ 117,512 | $ 139,254 | $ 178,363 | $ 156,860 | $ 196,682 |
| Working capital | 201,320 | 229,514 | 246,595 | 254,811 | 267,145 |
| Total assets | 415,020 | 464,747 | 534,562 | 558,501 | 564,464 |
| Total capital lease obligations, less current portion | 3,821 | 5,108 | 3,606 | 2,044 | 417 |
| Total shareholders equity | 333,277 | 373,548 | 405,954 | 404,899 | 409,400 |

(1) Effective October 1, 2005, we adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, using the modified-prospective-transition method. See Note 13 to our consolidated financial statements.

(2) Legal and settlement expense 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. See Note 21 to our consolidated financial statements for additional information.

(3) During the quarter ended June 30, 2006, we determined that the estimated undiscounted cash flows associated with the Texas Integrated Eligibility project over its remaining term were insufficient to recover the project s deferred contract costs. As a result, we recognized a non-cash impairment charge of $17.1 million to write off the full unamortized balance of the project s deferred contract costs. The write-off is included in the results of the Operations Segment. Additional information regarding the Texas Integrated Eligibility project is disclosed in Note 20 to our consolidated financial statements.

**ITEM 7.** ***Management s Discussion and Analysis of Financial Condition and Results of Operation.***

*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 the related Notes.*

**Forward-Looking Statements**

Included in this Annual Report on Form 10-K 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, shoul 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, the factors set forth in Exhibit 99.1 of this Annual Report on Form 10-K under the caption Special Considerations and Risk Factors. 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. We undertake no obligation to publicly update or revise any forward-looking statements, whether resulting from new information, future events or otherwise.

**Business Overview**

We are a leading provider of consulting, systems solutions and operations program management primarily to government. Since our inception, we have been at the forefront of innovation in meeting our mission of Helping Government Serve the People®. We use our expertise, experience and advanced information technology to make government operations more efficient while improving the quality of services provided to program beneficiaries. We operate primarily in the United States, and we have had contracts with government agencies in all 50 states, Canada, Australia, Israel and the United Kingdom. For the fiscal year ended September 30, 2007, we had revenue of $738.6 million and net loss of $8.3 million.

We report each of our three lines of business (i.e., Consulting, Systems, and Operations) as separate external reporting segments. See Note 17 to our consolidated financial statements for our unaudited quarterly segment income statement data.

**Results of Operations**

*Consolidated*

The following table sets forth, for the fiscal year ends indicated, selected statements of operations data:

| | Year ended September 30, | | |
|---|---|---|---|
| | 2005 | 2006 | 2007 |
| | (dollars in thousands, except per share data) | | |
| Revenue | $ 647,538 | $ 700,894 | $ 738,646 |
| Write-off of deferred contract costs | | $ 17,109 | |
| Gross profit | $ 179,950 | $ 136,246 | $ 177,083 |
| Legal and settlement expense | $ 7,000 | $ 9,394 | $ 44,638 |
| Operating income (loss) | $ 56,274 | $ (2,826) | $ (3,136) |
| Operating margin (loss) percentage | 8.7% | (0.4)% | (0.4)% |
| Selling, general and administrative expense | $ 116,676 | $ 129,678 | $ 135,581 |
| Selling, general and administrative expense as a percentage of revenue | 18.0% | 18.5% | 18.4% |
| Net income (loss) | $ 36,069 | $ 2,460 | $ (8,255) |
| Earnings (loss) per share: | | | |
| Basic | $ 1.69 | $ 0.11 | $ (0.38) |
| Diluted | $ 1.67 | $ 0.11 | $ (0.38) |

Revenue increased 5.4% in fiscal 2007 compared to fiscal 2006. Excluding the impact of $29.8 million of voter hardware sales and the Corrections Services business which was divested at the beginning of fiscal 2007, revenue increased 10.1% primarily driven by organic growth in the health services divisions within the Operations Segment. Revenue increased 8.2% in fiscal 2006 compared to fiscal 2005. The increase in revenue is primarily attributable to organic growth in the Operations Segment.

Operating loss in fiscal 2007 was $3.1 million, compared to an operating loss of $2.8 million in fiscal 2006. The increase in operating loss of $0.3 million is primarily attributable to (1) a $35.2 million increase in legal and settlement expense driven by settlement of the District of Columbia contract investigation, (2) a decrease in operating income of $8.1 million in the Consulting Segment, (3) an increase in operating loss of $3.8 million in the Systems Segment, offset by (4) $48.6 million of improved performance in the Operations Segment. The improved performance in the Operations Segment of $48.6 million is primarily attributable to (1) a $24.2 million smaller loss on the terminated Texas subcontract with Accenture, (2) $28.2 million of improved performance in health and human services, including profitable operations in Texas as a result of a new contract where the Company is the prime contractor, offset by (3) a $4.2 million loss on the completed Ontario Child Support systems implementation project.

Operating loss in fiscal 2006 was $2.8 million compared to operating income of $56.3 million in fiscal 2005. The decrease in operating income of $59.1 million is primarily attributable to (1) the fiscal 2006 $49.4 million loss on the Texas subcontract with Accenture, which included a $17.1 million write-off of deferred contract costs, and (2) a $12.2 million decrease in operating income in the Systems Segment.

Selling, general and administrative expense (SG&A) consists of costs related to general management, marketing and administration. These costs include salaries, benefits, bid and proposal efforts, travel, recruiting, continuing education, employee training, non-chargeable labor costs, facilities costs, printing, reproduction, communications, equipment depreciation, intangible amortization, legal expenses incurred in the ordinary course of business, and non-cash equity based compensation. SG&A increased 4.6% in fiscal 2007 compared to fiscal 2006, and decreased as a percentage of revenue to 18.4% from 18.5%. SG&A increased 11.1% in fiscal 2006 compared to fiscal 2005, and increased as a percentage of revenue to 18.5% from 18.0%. SG&A increased in fiscal 2006, compared to fiscal 2005, in part from the impact of expensing $4.4 million in stock options as a result of implementing FAS 123(R) on a prospective basis beginning October 1, 2005.

Legal and settlement expense for fiscal years 2005, 2006 and 2007 was $7.0 million, $9.4 million, and $44.6 million, respectively. Legal and settlement expense 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 following table sets forth the matters that represent legal and settlement expense (dollars in thousands):

| | Year ended September 30, | | |
|---|---|---|---|
| | 2005 | 2006 | 2007 |
| District of Columbia Contract Investigation and Related Settlement | $ | $ 500 | $ 31,980 |
| Texas Integrated Eligibility Project | | | 10,000 |
| Computer Equipment Leases Settlement | 7,000 | 8,169 | (150) |
| Ontario Child Support Project Settlement | | | 2,608 |
| Former CEO Investigation and Related Settlement | | 725 | |
| Connecticut COLLECT Project | | | 200 |
| Total | $ 7,000 | $ 9,394 | $ 44,638 |

Provision for income taxes was 365% of income before incomes taxes in fiscal 2007 (37.6% excluding the impact of portions of the District of Columbia legal and settlement expense that are not tax deductible and the establishment of a valuation allowance on certain deferred tax assets related to a foreign subsidiary s net operating losses) compared to 39% in fiscal 2006 and 39.5% in fiscal 2005.

Net loss in fiscal 2007 was $8.3 million, or $0.38 per diluted share, compared to net income of $2.5 million, or $0.11 per diluted share in fiscal 2006, and net income of $36.1 million, or $1.67 per diluted share in fiscal 2005. The above changes in net income are primarily attributable to changes in the after-tax impact of legal and settlement expense and segment results as discussed in more detail below.

*Consulting Segment*

| | Year ended September 30, (dollars in thousands) | | |
|---|---|---|---|
| | 2005 | 2006 | 2007 |
| Revenue | $ 100,359 | $ 102,842 | $ 93,707 |
| Gross profit | $ 43,924 | $ 44,127 | $ 37,296 |
| Operating income | $ 13,159 | $ 14,499 | $ 6,421 |
| Operating margin percentage | 13.1% | 14.1% | 6.9% |

The Consulting Segment is comprised of financial services (which includes child welfare, cost services, and federal healthcare reimbursement services), educational services, technical services, and Unison (airport consulting services).

Revenue decreased 8.9% in fiscal 2007 compared to fiscal 2006. Operating margin percentage decreased to 6.9% in fiscal 2007 from 14.1% in fiscal 2006. The decrease in revenue and operating margin percentage is primarily attributable to the timing and billing of work as well as the Company s transition away from contingency-based federal healthcare engagements.

Revenue increased 2.5% in fiscal 2006 compared to fiscal 2005. Operating margin percentage increased to 14.1% in fiscal 2006 from 13.1% in fiscal 2005. The increase in revenue and operating margin percentage is primarily attributable to financial services.

*Systems Segment*

| | Year ended September 30, (dollars in thousands) | | |
|---|---|---|---|
| | 2005 | 2006 | 2007 |
| Revenue | $ 134,407 | $ 127,189 | $ 141,335 |
| Gross profit | $ 48,926 | $ 38,769 | $ 37,678 |
| Operating income (loss) | $ 11,263 | $ (853) | $ (4,655) |

| | | | |
|---|---|---|---|
| Operating margin (loss) percentage | 8.4% | (0.7)% | (3.3)% |



Our Internet address is http://www.maximus.com and includes access to our corporate governance materials and o

The Systems Segment develops and implements both third party and proprietary software and solutions in five divisions: justice solutions, asset solutions, educational systems, security solutions, and enterprise resource planning ( ERP ) solutions.

Revenue increased 11.1% in fiscal 2007 compared to fiscal 2006. The increase in revenue is primarily attributable to growth in ERP solutions. Operating loss in fiscal 2007 was $4.7 million, compared to an operating loss of $0.9 million in fiscal 2006. The increase in operating loss of $3.8 million is primarily attributable to losses in educational systems and justice solutions, partially offset by margin expansion in ERP solutions.

Revenue decreased 5.4% in fiscal 2006 compared to fiscal 2005. The decrease in revenue is primarily attributable to lower revenue in ERP solutions. Operating loss was $0.9 million in fiscal 2006, compared to operating income of $11.3 million in fiscal 2005. The decrease in operating income of $12.2 million is primarily attributable to losses in ERP solutions.

*Operations Segment*

| | Year ended September 30, | | |
|---|---|---|---|
| | 2005 | 2006 | 2007 |
| | (dollars in thousands) | | |
| Revenue | $ 412,772 | $ 470,863 | $ 503,604 |
| Write-off of deferred contract costs | | $ 17,109 | |
| Gross profit | $ 87,082 | $ 53,350 | $ 102,109 |
| Operating income (loss) | $ 36,174 | $ (9,453) | $ 39,132 |
| | | | |
| Operating margin (loss) percentage | 8.8% | (2.0)% | 7.8% |

The Operations Segment includes health services, human services, and federal outsourcing and operations work.

Revenue increased 7.0% in fiscal 2007 compared to fiscal 2006. Excluding the impact of $29.8 million of voter hardware sales and the Corrections Services business which was divested at the beginning of fiscal 2007, revenue increased 14.3% primarily driven by organic growth in health services. Operating income in fiscal 2007 was $39.1 million, compared to an operating loss of $9.5 million in fiscal 2006. The increase in operating income of $48.6 million is primarily attributable to (1) a $24.2 million smaller loss on the terminated Texas subcontract with Accenture, (2) $28.2 million of improved performance in health and human services, including profitable operations in Texas as a result of a new contract where the Company is the prime contractor, offset by (3) a $4.2 million loss on the completed Ontario Child Support systems implementation project.

Revenue increased 14.1% in fiscal 2006 compared to fiscal 2005. The increase in revenue is primarily attributable to (1) an increased contribution from the British Columbia Health Operations project, which provided a full year of revenue in fiscal 2006 versus two quarters of revenue recorded in the prior year, (2) revenue growth in our federal operations group, and (3) $21.8 million of voter hardware revenue in the workforce services area. Operating loss was $9.5 million in fiscal 2006, compared to operating income of $36.2 million in fiscal 2005. The decrease in operating income of $45.7 million is primarily attributable to the $49.4 million loss on the Texas subcontract with Accenture, which included a $17.1 million write-off of deferred contract costs.

**Interest and Other Income, Net**

| | Year ended September 30, | | |
|---|---|---|---|
| | 2005 | 2006 | 2007 |
| | (dollars in thousands) | | |
| Interest and other income, net | $ 3,345 | $ 6,859 | $ 5,804 |
| Percentage of revenue | 0.5% | 1.0% | 0.8% |

The overall decrease in interest and other income in fiscal 2007 compared to fiscal 2006 is primarily attributable to non-cash foreign currency losses of $0.9 million ($0.2 million of non-cash foreign currency losses in fiscal 2007, compared to $0.7 million of non-cash foreign currency gains in fiscal 2006). The overall increase in interest and other income in fiscal 2006 compared to fiscal 2005 is primarily attributable to higher interest rates earned on our increased invested cash.

**Quarterly Results**

Set forth in Note 17 to our consolidated financial statements (Item 8 of this Annual Report on Form 10-K) is selected income statement data for the eight quarters ended September 30, 2007. We derived this information from unaudited quarterly financial statements that include, in the opinion of our management, all adjustments necessary for a fair presentation of the information for such periods. You should read this information in conjunction with the audited consolidated financial statements and notes thereto. Results of operations for any fiscal quarter are not necessarily indicative of results for any future period.

Our revenue and operating results are subject to significant variation from quarter to quarter depending on a number of factors, including:

- the progress of contracts;
- the revenue earned on contracts;
- the timing of revenue on license sales;
- the timing of revenue on performance-based contracts;
- the commencement and completion of contracts during any particular quarter;
- the schedule of government agencies for awarding contracts; and
- the term of each contract that we have been awarded.

Because a significant portion of our expenses are relatively fixed, successful contract performance and variation in the volume of activity as well as in the number of contracts commenced or completed during any quarter may cause significant variations in operating results from quarter to quarter. Further, we have occasionally experienced a pattern in our results of operations pursuant to which we incur greater operating expenses during the start-up and early stages of significant contracts prior to receiving related revenue. Our quarterly results may fluctuate, causing a material adverse effect on our operating results and financial condition.

**Obligations and Commitments**

The following table summarizes our contractual obligations at September 30, 2007 that require the Company to make future cash payments (in thousands):

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** | **Total** | **Less than 1 year** | **1-3 years** | **3-5 years** | **More than 5 years** |
| Capital lease obligations | $ 2,099 | $ 1,679 | $ 420 | | |
| Operating leases | 50,595 | 21,238 | 21,900 | $ 5,365 | $ 2,092 |
| Total(1) | $ 52,694 | $ 22,917 | $ 22,320 | $ 5,365 | $ 2,092 |

(1) Total contractual cash obligations exclude the potential future cash payments required in connection with potential earn-out contingent consideration associated with purchase business acquisitions.

**Liquidity and Capital Resources**

| | Year ended September 30, | |
|---|---|---|
| | 2006 | 2007 |
| | (dollars in thousands) | |
| Net cash provided by (used in): | | |
| Operating activities | $ 15,696 | $ 51,190 |
| Investing activities | (24,152) | (24,854) |
| Financing activities | (11,072) | 4,591 |
| Net increase (decrease) in cash and cash equivalents | $ (19,528) | $ 30,927 |

Cash provided by operating activities in fiscal 2007 was $51.2 million, compared to $15.7 million in fiscal 2006. Cash provided by operating activities in fiscal 2007 consisted of net loss of $8.3 million and non-cash items aggregating $11.8 million, plus cash provided by changes in assets and liabilities of $47.7 million. Non-cash items consisted of depreciation and amortization of $21.0 million and non-cash equity based compensation of $3.8 million, offset by deferred income taxes of $12.5 million and gain on sale of business of $0.5 million. Cash provided by changes in assets and liabilities reflected decreases in accounts receivable-billed of $20.4 million, accounts receivable-unbilled of $4.5 million, deferred contract costs of $3.0 million, other assets of $4.1 million, income taxes receivable of $14.5 million, and an increase in accrued compensation and benefits of $5.0 million and other liabilities of $1.8 million and accounts payable of $0.5 million, offset by an increase in prepaid expenses of $0.8 million and a decrease in deferred revenue of $5.3 million.

Cash provided by operating activities in fiscal 2006 consisted of net income of $2.5 million and non-cash items aggregating $31.9 million, less cash used by changes in assets and liabilities of $18.7 million. Non-cash items consisted of depreciation and amortization of $17.6 million and non-cash equity based compensation of $6.6 million and write-off of deferred contract costs of $17.1 million, offset by deferred income taxes of $9.4 million. Cash used by changes in assets and liabilities reflected increases in accounts receivable-billed of $28.9 million, accounts receivable-unbilled of $4.0 million, prepaid expenses of $1.1 million, deferred contract costs of $7.8 million, and a decrease in income taxes payable of $13.7 million and accrued compensation and benefits of $2.4 million and other liabilities of $1.1 million, offset by an increase in deferred revenue of $21.5 million and accounts payable of $16.3 million and a decrease in other assets of $2.5 million.

Cash used in investing activities in fiscal 2007 was $24.9 million, compared to $24.2 million in fiscal 2006. Cash used in investing activities in fiscal 2007 consisted of $4.4 in expenditures related to capitalized software and $13.4 million in purchases of property and equipment and an increase in marketable securities of $8.9 million, offset by proceeds from the sale of business of $1.8 million. Cash used in investing activities in fiscal 2006 consisted of $14.7 million in expenditures related to capitalized software and $11.5 million in purchases of property and equipment, offset by decreases in marketable securities of $1.8 million and other items of $0.2 million.

Cash provided by financing activities in fiscal 2007 was $4.6 million, compared to cash used by financing activities of $11.1 million in fiscal 2006. Cash provided by financing activities in fiscal 2007 consisted of $13.0 million of employee stock transactions and equity-based tax benefits of $2.1 million, offset by $8.8 million of dividends paid and $1.7 million of principal payments on capital leases. Cash used in financing activities in fiscal 2006 consisted of $10.1 million of common stock repurchases, $1.4 million of principal payments on capital leases and $8.6 million of dividends paid, offset by $7.7 million of employee stock transactions and equity-based tax benefits of $1.3 million.

Our working capital at September 30, 2006 and 2007 was $254.8 million and $267.1 million, respectively. At September 30, 2007, we had cash, cash equivalents, and marketable securities of $196.7 million and no debt, except for lease obligations.

On July 23, 2007, the Company announced that it had retained UBS Investment Bank as a financial advisor to assist the Board of Directors in exploring strategic alternatives to enhance shareholder value, including a possible sale of the Company. On November 14, 2007, the Company announced that its Board of Directors had completed its process to explore strategic alternatives and had authorized the repurchase of up to $150.0 million of the Company s outstanding common stock under an Accelerated Share Repurchase (ASR) program. After a thorough review process, the Board of Directors concluded that launching a $150.0 million ASR program, concentrating the Company s strategic focus on core health and human services offerings and considering alternatives for certain non-core assets, provides the best opportunity to maximize shareholder value, reflecting the Company s strong financial position and future growth prospects.

In connection with the ASR program, the Company entered into an ASR agreement with UBS Investment Bank on November 15, 2007. Under the ASR agreement, the Company acquired 3,758,457 shares (approximately 17% of the Company s outstanding shares at September 30, 2007) at an initial price of $39.91 per share on November 15, 2007. At the completion of the ASR agreement, the Company s initial price under the ASR agreement will be adjusted up or down based on the volume-weighted average price (VWAP) of the stock during this period. Such adjustment may be settled in cash or stock at the Company s discretion. The Company financed the $150.0 million ASR program with cash and cash equivalents on hand and the sale of marketable securities. The Company also announced plans to secure a $50.0 million to $75.0 million line of credit to provide additional financial flexibility.

Under resolutions adopted in May 2000, July 2002, and March 2003, the Board of Directors has authorized the repurchase, at management s discretion, of up to an aggregate of $90.0 million of our common stock. In addition, in June 2002, the Board of Directors authorized the use of option exercise proceeds for the repurchase of our common stock. During the year ended September 30, 2006, we repurchased 282,100 shares. We did not repurchase any shares during the year ended September 30, 2007. At September 30, 2007, $39.9 million remained available for future stock repurchases under this board authorized share repurchase program. The Company intends, depending on the price of the Company s stock, to resume this share repurchase program after completion of the ASR program.

Restricted cash represents amounts collected on behalf of certain customers and its use is restricted to the purposes specified under our contracts with these customers.

Under the provisions of certain long-term contracts, we may incur certain reimbursable transition period costs. During the transition period, these expenditures resulted 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 September 30, 2007, $8.1 million in net costs had been incurred and reported as deferred contract costs on our September 30, 2007 consolidated balance sheet.

In June 2003, in connection with a long-term contract, the Company issued a standby letter of credit in an initial amount of up to $20.0 million, which amount was reduced to $10.0 million on April 1, 2005. The letter of credit, which expires on March 31, 2009, may be called by the customer in the event the Company defaults under the terms of the contract. In March 2006, in connection with another long-term contract, the Company issued a standby letter of credit in the amount of $4.0 million. The letter of credit, which expires on September 30, 2008, may be called by the customer in the event the Company defaults under the terms of the contract. Both letters of credit contain financial covenants that establish minimum levels of tangible net worth, earnings before interest, tax, depreciation and amortization ( EBITDA ), cash balances and a maximum level of losses on the Texas Integrated Eligibility project. The Company was in compliance with all covenants as of September 30, 2007.

In July 2003, we entered into a capital lease financing arrangement with a financial institution whereby we acquired assets pursuant to an equipment lease agreement. Rental payments for assets leased are payable over a 60-month period at a rate of 4.05% commencing in January 2004. In March 2004, we entered into a supplemental capital lease financing arrangement with the same financial institution whereby we acquired additional assets pursuant to an equipment lease agreement. Rental payments for assets leased under the supplemental arrangement are payable over a 57-month period at a rate of 3.61% commencing in April 2004. At September 30, 2007, capital lease obligations of $2.0 million were outstanding related to these lease arrangements for equipment.

At September 30, 2006 and 2007, we classified accounts receivable of $2.7 million and $2.5 million, respectively, net of a $0.7 million and $0.6 million discount, respectively, as long-term receivables and reported them within the other assets category on our consolidated balance sheets. These receivables have extended payment terms and collection is expected to exceed one year.

On October 5, 2007, the Company s Board of Directors declared a quarterly cash dividend of $0.10 for each share of the Company s common stock outstanding. The dividend was paid on November 30, 2007 to shareholders of record on November 15, 2007. Based on the number of shares outstanding, the payment was $2.2 million.

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.

**Effects of Inflation**

As measured by revenue, approximately 15% of our business is conducted under cost-reimbursable contracts which adjust revenue to cover costs increased by inflation. Approximately 7% of the business is time-and-material contracts where labor rates are often fixed for several years. We generally have been able to price these contracts in a manner that accommodates the rates of inflation experienced in recent years. The remaining portions of our contracts are fixed price and performance based and are typically priced to account for the likely inflation from period to period to mitigate the risk of our business being adversely affected by inflation.

**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 significant 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.

We believe the following critical accounting policies affect the significant judgments and estimates used in the preparation of our consolidated financial statements:

*Revenue Recognition*. In fiscal 2007, approximately 75% of our total revenue was derived from state and local government agencies; 7% from federal government agencies; 13% from foreign customers; and 5% from other sources, such as commercial customers. Revenue is generated from contracts with various pricing arrangements, including: (1) fixed-price; (2) performance-based criteria; (3) costs incurred plus a negotiated fee ( cost-plus ); and (4) time and materials. Also, some contracts contain not-to-exceed provisions. Of the contracts with not-to-exceed provisions, to the extent we estimate we will exceed the contractual limits, we treat these contracts as fixed price. For fiscal 2007, revenue from fixed-price contracts was approximately 41% of total revenue; revenue from performance-based contracts was approximately 37% of total revenue; revenue from cost-plus contracts was approximately 15% of total revenue; and revenue from time and materials contracts was approximately 7% of total revenue. A majority of the contracts with state and local government agencies have been fixed-price and performance-based, and our contracts with the federal government generally have been cost-plus. Fixed-price and performance-based contracts generally offer higher margins but typically involve more risk than cost-plus or time and materials reimbursement contracts.

We recognize revenue on general service arrangements as work is performed and amounts are earned in accordance with the Staff Accounting Bulletin ( SAB ) No. 101, Revenue Recognition in Financial Statements, as amended by SAB No. 104, Revenue Recognition ( SAB 104 ). We consider amounts to be earned once evidence of an arrangement has been obtained, services are delivered, fees are fixed or determinable, and collectibility is reasonably assured.

We recognize revenue on fixed-priced contracts when earned, as services are provided. For certain fixed-price contracts, primarily systems design, development and implementation, we recognize revenue based on costs incurred using estimates of total expected contract revenue and costs to be incurred in accordance with the provisions of AICPA Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* ( SOP 81-1 ). The cumulative impact of any revisions in estimated revenue and costs is recognized in the period in which the facts that give rise to the revision become known. For other fixed-price contracts, revenue is recognized on a straight-line basis unless evidence suggests that revenue is earned or obligations are fulfilled in a different pattern. With fixed-price contracts, we are subject to the risk of potential cost overruns. For fixed-price contracts accounted for under SOP 81-1, provisions for estimated losses on incomplete contracts are provided in full in the period in which such losses become known. Costs related to contracts may be incurred in periods prior to recognizing revenue. These costs are generally expensed. However, certain direct and incremental set-up costs may be deferred until services are provided and revenue begins to be recognized, when such costs are recoverable from a contractual arrangement. Set-up costs are costs related to activities that enable us to provide contractual services to a client. The timing of expense recognition may result in irregular profit margins.

We recognize revenue on performance-based contracts as such revenue becomes fixed or determinable, which generally occurs when amounts are billable to customers. For certain contracts, this may result in revenue being recognized in irregular increments.

Revenue on cost-plus contracts is recognized based on costs incurred plus an estimate of the negotiated fee earned. Revenue on time and materials contracts is recognized based on hours worked and expenses incurred.

Our most significant expense is cost of revenue, which consists primarily of project-related costs such as employee salaries and benefits, subcontractors, computer equipment and travel expenses. Our management uses its judgment and experience to estimate cost of revenue expected on projects. Our management s ability to accurately predict personnel requirements, salaries and other costs as well as to effectively manage a project or achieve certain levels of performance can have a significant impact on the gross margins related to our fixed-price, performance-based and time and materials contracts. If actual costs are higher than our management s estimates, profitability may be adversely affected. Service cost variability has little impact on cost-plus arrangements because allowable costs are reimbursed by the customer.

We also license software under license agreements. Software revenue is recognized in accordance with AICPA Statement of Position 97-2, *Software Revenue Recognition* ( SOP 97-2 ), as amended by Statement of Position 98-9, *Modification of SOP 97-2, With Respect to Certain Transactions* ( SOP 98-9 ). Software license revenue is recognized when a customer enters into a non-cancelable license agreement, the software product has been delivered, there are no uncertainties surrounding product acceptance, there are no significant future performance obligations, the license fees are fixed or determinable and collection of the license fee is considered probable. Amounts received in advance of meeting these criteria are deferred and classified as deferred revenue in the accompanying consolidated balance sheets. As required by SOP 98-9, the Company determines the value of the software component of its multiple-element arrangements using the residual method as vendor specific objective evidence ( VSOE ) of fair value exists for the undelivered elements such as the support and maintenance agreements and related implementation and training services, but not for all delivered elements such as the software itself. The residual method requires revenue to be allocated to the undelivered elements based on the fair value of such elements, as indicated by VSOE. VSOE is based on the price charged when the element is sold separately. Maintenance and post-contract customer support revenue are recognized ratably over the term of the related agreements, which in most cases is one year. Revenue from software-related consulting services under time and material contracts and for training is recognized as services are performed. Revenue from other software-related contract services requiring significant modification or customization of software is recognized under the percentage-of-completion method.

Emerging Issues Task Force Issue No. 00-21 ( EITF 00-21 ), *Revenue Arrangements with Multiple Deliverables*, requires contracts with multiple deliverables to be divided into separate units of accounting if certain criteria are met. We apply the guidance therein and recognize revenue on multiple deliverables as separate units of accounting if the criteria are met.

***Impairment of Goodwill*. We adhere to the Financial Accounting Standards Board s Statements of Financial Accounting Standards No. 141, *Business Combinations* ( FAS 141 ), and No. 142, *Goodwill and Other Intangible Assets* ( FAS 142 ). Under these rules, goodwill is not amortized but is subject to annual impairment tests in accordance with FAS 141 and FAS 142. Goodwill is tested on an annual basis, or more frequently as impairment indicators arise. Annual impairment tests involve the use of estimates related to the fair market values of our reporting units with which goodwill is associated. Losses, if any, resulting from annual impairment tests will be reflected in operating income in our income statement.**

*Capitalized Software Development Costs*. Software development costs are capitalized in accordance with FAS No. 86, *Accounting for the Cost of Computer Software to be Sold, Leased, or Otherwise Marketed*. We capitalize both purchased software that is ready for resale and costs incurred internally for software development projects from the time technological feasibility is established. Capitalized software development costs are reported at the lower of unamortized cost or estimated net realizable value. Upon the general release of the software to customers, capitalized software development costs for the products are amortized over the greater of the ratio of gross revenues to expected total revenues of the product or on the straight-line method of amortization over the estimated economic life of the product, which ranges from three to five years. The establishment of technological feasibility and the ongoing assessment for recoverability of capitalized development costs require considerable judgment by management including, but not limited to, technological feasibility, anticipated future gross revenues, estimated economic life, and changes in software and hardware technologies. Any changes to these estimates could impact the amount of amortization expense and the amount recognized as capitalized software development costs in the consolidated balance sheet.

*Allowance for Doubtful Accounts*. We maintain an allowance for doubtful accounts at an amount we estimate to be sufficient to cover the risk of collecting less than full payment on our receivables. On a regular basis we re-evaluate our client receivables, especially receivables that are past due, and reassess our allowance for doubtful accounts based on specific client collection issues. If our clients were to express dissatisfaction with the services we have provided, additional allowances may be required.

*Deferred Contract Costs.* Deferred contract costs consist of contractually recoverable direct set-up costs relating to long-term service contracts in progress. These costs include direct and incremental costs incurred prior to the commencement of us providing service to enable us to provide the contracted services to our customer. Such costs are expensed over the period services are provided under the long-term service contract. We review deferred contract costs for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Our review is based on our projection of the undiscounted future operating cash flows of the related customer project. To the extent such projections indicate that future undiscounted cash flows are not sufficient to recover the carrying amount, we recognize a non-cash impairment charge to reduce the carrying amount to equal projected future discounted cash flows.

*Contingencies.* From time to time, we are involved in legal proceedings, including contract and employment claims, in the ordinary course of business. We assess the likelihood of any adverse judgments or outcomes to these contingencies as well as potential ranges of probable losses and establish reserves accordingly. The amount of reserves required may change in future periods due to new developments in each matter or changes in approach to a matter such as a change in settlement strategy.

*Legal and Settlement Expense.* Legal and settlement expense 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.



Impairment of Goodwill. We adhere to the Financial Accounting Standards Board s Statements of Financial Accou

*Stock-Based Compensation.* Effective October 1, 2005, the Company adopted the provisions of SFAS No. 123(R), *Share-Based Payment*, using the modified-prospective-transition method.

*Income taxes.* To record income tax expense, we are required to estimate our income taxes in each of the jurisdictions in which we operate. In addition, income tax expense at interim reporting dates requires us to estimate our expected effective tax rate for the entire year. This process involves estimating our actual current tax liability together with assessing temporary differences that result in deferred tax assets and liabilities and expected future tax rates. Circumstances that could cause our estimates of income tax expense to change include: the impact of information that subsequently becomes available as we prepare our tax returns; revision to tax positions taken as a result of further analysis and consultation; changes in the geographic mix of our business; the actual level of pre-tax income; changes in tax rules, regulations and rates; and changes mandated as a result of audits by taxing authorities.

We may also establish tax reserves when, despite our belief that our tax return positions are fully supportable, we believe that certain positions are subject to challenge and that we may not fully succeed. We adjust these reserves in light of changing facts, such as the progress of a tax audit, new case law, or expiration of a statute of limitations.

As of September 30, 2007, the Company had $2.5 million of total tax-effected net operating loss carryforwards, related to a subsidiary in Canada. We believe we will generate sufficient taxable income to utilize the net operating loss carryforwards within the expiration period based on an existing contract within our Canadian operations. To the extent that future taxable income from this contract is revised and it is determined that there will be insufficient taxable income generated to utilize all available net operating loss carryforwards, a valuation allowance will be recorded in the provision for income taxes in the period the determination is made, and the deferred tax assets will be reduced by this amount. As of September 30, 2007, the Company had $6.1 million of net operating loss carryforwards, related to another subsidiary in Canada, which have not been tax-effected. A full valuation allowance of $2.1 million has been established against these net operating loss carryforwards. Evaluating the net operating loss carryforwards requires us to make certain estimates, which we believe are reasonable. In the event that actual circumstances differ from management s estimates, or to the extent that these estimates are adjusted in the future, any changes to the valuation allowance could be material.

**ITEM 7A.** ***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.

**ITEM 8.** ***Financial Statements and Supplementary Data.***

The following consolidated financial statements and supplementary data are included as part of this Annual Report on Form 10-K:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at September 30, 2006 and 2007

Consolidated Statements of Operations for the years ended September 30, 2005, 2006 and 2007

Consolidated Statements of Changes in Shareholders Equity for the years ended September 30, 2005, 2006 and 2007

Consolidated Statements of Cash Flows for the years ended September 30, 2005, 2006 and 2007

Notes to Consolidated Financial Statements



Impairment of Goodwill. We adhere to the Financial Accounting Standards Board s Statements of Financial Accoun

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders of MAXIMUS, Inc.

We have audited the accompanying consolidated balance sheets of MAXIMUS, Inc. as of September 30, 2007 and 2006, and the related consolidated statements of operations, changes in shareholders equity, and cash flows for each of the three years in the period ended September 30, 2007. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of MAXIMUS, Inc. at September 30, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 30, 2007, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), MAXIMUS, Inc. s internal control over financial reporting as of September 30, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 3, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia

December 3, 2007 (except for Note 14(d), as to
which the date is December 12, 2007)



Impairment of Goodwill. We adhere to the Financial Accounting Standards Board s Statements of Financial Accoun

**MAXIMUS, Inc.**
**CONSOLIDATED BALANCE SHEETS**
**(Dollars in thousands)**

| | September 30, 2006 | September 30, 2007 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 39,545 | $ 70,472 |
| Marketable securities | 117,315 | 126,210 |
| Restricted cash | 1,512 | 325 |
| Accounts receivable billed, net | 153,399 | 132,962 |
| Accounts receivable unbilled | 47,728 | 42,200 |
| Income taxes receivable | 9,003 | |
| Deferred income taxes | 6,844 | 17,409 |
| Prepaid expenses and other current assets | 8,334 | 9,159 |
| Total current assets | 383,680 | 398,737 |
| Property and equipment, net | 33,429 | 35,901 |
| Software development costs, net | 33,925 | 29,540 |
| Deferred contract costs, net | 11,165 | 8,116 |
| Goodwill | 86,688 | 86,086 |
| Intangible assets, net | 5,720 | 3,603 |
| Other assets | 3,894 | 2,481 |
| Total assets | $ 558,501 | 564,464 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 54,484 | $ 54,425 |
| Accrued compensation and benefits | 24,426 | 29,449 |
| Current portion of deferred revenue | 46,669 | 38,545 |
| Income taxes payable | | 5,487 |
| Current portion of capital lease obligations | 1,690 | 1,627 |
| Other accrued liabilities | 1,600 | 2,059 |
| Total current liabilities | 128,869 | 131,592 |
| Capital lease obligations, less current portion | 2,044 | 417 |
| Deferred revenue, less current portion | 7,745 | 10,143 |
| Deferred income taxes | 14,944 | 12,912 |
| Total liabilities | 153,602 | 155,064 |
| Commitments and contingencies (Notes 10 and 14) | | |
| Shareholders equity: | | |
| Common stock, no par value; 60,000,000 shares authorized; 21,544,964 and 22,194,489 shares issued and outstanding at September 30, 2006 and 2007, at stated amount, respectively | 156,349 | 175,209 |
| Accumulated other comprehensive income (loss) | (916) | 1,730 |
| Retained earnings | 249,466 | 232,461 |
| Total shareholders equity | 404,899 | 409,400 |
| Total liabilities and shareholders equity | $ 558,501 | $ 564,464 |

*See notes to consolidated financial statements.*



Impairment of Goodwill. We adhere to the Financial Accounting Standards Board s Statements of Financial Accoun

**MAXIMUS, Inc.**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**(In thousands, except per share data)**

| | Year ended September 30, | | |
|---|---|---|---|
| | **2005** | **2006** | **2007** |
| Revenue | $ 647,538 | $ 700,894 | $ 738,646 |
| Cost of revenue | 467,588 | 547,539 | 561,563 |
| Write-off of deferred contract costs (Note 6) | | 17,109 | |
| Gross profit | 179,950 | 136,246 | 177,083 |
| Selling, general and administrative expenses | 116,676 | 129,678 | 135,581 |
| Legal and settlement expense (Note 21) | 7,000 | 9,394 | 44,638 |
| Income (loss) from operations | 56,274 | (2,826) | (3,136) |
| Interest and other income, net | 3,345 | 6,859 | 5,804 |
| Gain on sale of business (Note 2) | | | 451 |
| Income before income taxes | 59,619 | 4,033 | 3,119 |
| Provision for income taxes | 23,550 | 1,573 | 11,374 |
| Net income (loss) | $ 36,069 | $ 2,460 | $ (8,255) |
| | | | |
| Earnings (loss) per share: | | | |
| Basic | $ 1.69 | $ 0.11 | $ (0.38) |
| Diluted | $ 1.67 | $ 0.11 | $ (0.38) |
| | | | |
| Cash dividends per share | $ 0.30 | $ 0.40 | $ 0.40 |
| | | | |
| Weighted average shares outstanding: | | | |
| Basic | 21,331 | 21,465 | 21,870 |
| Diluted | 21,653 | 21,821 | 21,870 |

*See notes to consolidated financial statements.*



Impairment of Goodwill. We adhere to the Financial Accounting Standards Board s Statements of Financial Accoun

**MAXIMUS, Inc.**
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY**
**(In thousands)**

| | Common Shares Outstanding | Common Stock | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total Shareholders Equity |
|---|---|---|---|---|---|
| Balance at September 30, 2004 | 21,320 | $ 147,966 | $ (345) | $ 225,927 | $ 373,548 |
| Net income | | | | 36,069 | 36,069 |
| Unrealized gain on marketable securities, net of tax of $153 | | | 241 | | 241 |
| Foreign currency translation | | | (418) | | (418) |
| Comprehensive income | | | | | 35,892 |
| Employee stock transactions | 619 | 14,645 | | | 14,645 |
| Repurchases of common stock | (488) | (16,055) | | | (16,055) |
| Cash dividends | | | | (6,403) | (6,403) |
| Non-cash equity based compensation | | 1,372 | | | 1,372 |
| Tax benefit due to option exercises | | 2,955 | | | 2,955 |
| Balance at September 30, 2005 | 21,451 | 150,883 | (522) | 255,593 | 405,954 |
| Net income | | | | 2,460 | 2,460 |
| Unrealized gain on marketable securities, net of tax | | | | | |
| Foreign currency translation | | | (394) | | (394) |
| Comprehensive income | | | | | 2,066 |
| Employee stock transactions | 376 | 7,697 | | | 7,697 |
| Repurchases of common stock | (282) | (10,139) | | | (10,139) |
| Cash dividends | | | | (8,587) | (8,587) |
| Non-cash equity based compensation | | 6,577 | | | 6,577 |
| Tax benefit due to option exercises | | 1,331 | | | 1,331 |
| Balance at September 30, 2006 | 21,545 | 156,349 | (916) | 249,466 | 404,899 |
| Net loss | | | | (8,255) | (8,255) |
| Foreign currency translation | | | 2,646 | | 2,646 |
| Comprehensive loss | | | | | (5,609) |
| Employee stock transactions | 649 | 12,953 | | | 12,953 |
| Cash dividends | | | | (8,750) | (8,750) |
| Non-cash equity based compensation | | 3,829 | | | 3,829 |
| Tax benefit due to option exercises | | 2,078 | | | 2,078 |
| Balance at September 30, 2007 | 22,194 | $ 175,209 | $ 1,730 | $ 232,461 | $ 409,400 |

*See notes to consolidated financial statements.*



Impairment of Goodwill. We adhere to the Financial Accounting Standards Board s Statements of Financial Accoun

**MAXIMUS, Inc.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Dollars in thousands)**

| | Year ended September 30, | | |
|---|---|---|---|
| | **2005** | **2006** | **2007** |
| **Cash flows from operating activities:** | | | |
| Net income (loss) | $ 36,069 | $ 2,460 | $ (8,255) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 7,874 | 9,195 | 10,648 |
| Amortization | 7,271 | 8,450 | 10,322 |
| Deferred income taxes | 4,806 | (9,402) | (12,598) |
| Non-cash equity based compensation | 1,372 | 6,577 | 3,829 |
| Write-off of deferred contract costs | | 17,109 | |
| Gain on sale of business | | | (451) |
| Tax benefit due to option exercises and restricted stock units vesting | 2,955 | | |
| Changes in assets and liabilities, net of effects from acquisitions: | | | |
| Accounts receivable - billed | (12,643) | (28,922) | 20,438 |
| Accounts receivable - unbilled | (1,494) | (3,954) | 4,483 |
| Prepaid expenses and other current assets | 1,961 | (1,064) | (813) |
| Deferred contract costs | (4,954) | (7,845) | 3,049 |
| Other assets | (828) | 2,489 | 4,144 |
| Accounts payable | 10,675 | 16,332 | 434 |
| Accrued compensation and benefits | 5,604 | (2,401) | 5,023 |
| Deferred revenue | 11,703 | 21,516 | (5,321) |
| Income taxes | 4,695 | (13,699) | 14,490 |
| Other liabilities | 761 | (1,145) | 1,768 |
| Net cash provided by operating activities | 75,827 | 15,696 | 51,190 |
| **Cash flows from investing activities:** | | | |
| Acquisition of businesses, net of cash acquired | (1,946) | | |
| Proceeds from sale of business, net of transaction costs | | | 1,871 |
| Purchases of property and equipment | (13,337) | (11,467) | (13,418) |
| Capitalized software development costs | (12,655) | (14,654) | (4,412) |
| (Increase) decrease in marketable securities | (71,649) | 1,825 | (8,895) |
| Other | 442 | 144 | |
| Net cash used in investing activities | (99,145) | (24,152) | (24,854) |
| **Cash flows from financing activities:** | | | |
| Employee stock transactions | 14,645 | 7,697 | 12,953 |
| Repurchases of common stock | (16,056) | (10,139) | |
| Payments on capital lease obligations | (1,649) | (1,374) | (1,690) |
| Tax benefit due to option exercises and restricted stock units vesting | | 1,331 | 2,078 |
| Cash dividends paid | (6,403) | (8,587) | (8,750) |
| Net cash provided by (used in) financing activities | (9,463) | (11,072) | 4,591 |
| Net increase (decrease) in cash and cash equivalents | (32,781) | (19,528) | 30,927 |
| Cash and cash equivalents, beginning of period | 91,854 | 59,073 | 39,545 |
| Cash and cash equivalents, end of period | $ 59,073 | $ 39,545 | $ 70,472 |

*See notes to consolidated financial statements.*



Impairment of Goodwill. We adhere to the Financial Accounting Standards Board s Statements of Financial Accoun

**MAXIMUS, Inc.**
**Notes to Consolidated Financial Statements**
**For the years ended September 30, 2005, 2006 and 2007**

**1. Business and Summary of Significant Accounting Policies**

*(a) Description of Business*

MAXIMUS, Inc. (the Company or we ) provides consulting, systems solutions and operations program management primarily to government. The Company conducts its operations through three business segments: Consulting, Systems and Operations. The Consulting Segment provides specialized financial consulting services such as assisting states, local agencies, and schools in obtaining federal funding reimbursements for their programs, and implementing cost reductions strategies, as well as providing technical services and software products. The Systems Segment provides systems products including justice and asset software solutions as well as systems development, design and implementation to improve the efficiency and cost-effectiveness of program administration. The Operations Segment provides a variety of program management services, primarily the delivery of administrative services for government health and human service programs.

The Company operates predominantly in the United States. Revenue from foreign-based projects and offices was 8%, 11%, and 12% of total revenue for the years ended September 30, 2005, 2006 and 2007, respectively.

*(b) Principles of Consolidation*

The consolidated financial statements include the accounts of MAXIMUS, Inc. and its wholly-owned subsidiaries. In addition to the Company s wholly owned subsidiaries, the financial statements as of and for the fiscal years ended September 30, 2007, 2006 and 2005 include a majority (55%) owned international subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

***(c) Revenue Recognition***

In fiscal 2007, approximately 75% of our total revenue was derived from state and local government agencies; 7% from federal government agencies; 13% from foreign customers; and 5% from other sources, such as commercial customers. Revenue is generated from contracts with various pricing arrangements, including: (1) fixed-price; (2) performance-based criteria; (3) costs incurred plus a negotiated fee ( cost-plus ); and (4) time and materials. Also, some contracts contain not-to-exceed provisions. Of the contracts with not-to-exceed provisions, to the extent we estimate we will exceed the contractual limits, we treat these contracts as fixed price. For fiscal 2007, revenue from fixed-price contracts was approximately 41% of total revenue; revenue from performance-based contracts was approximately 37% of total revenue; revenue from cost-plus contracts was approximately 15% of total revenue; and revenue from time and materials contracts was approximately 7% of total revenue. A majority of the contracts with state and local government agencies have been fixed-price and performance-based, and our contracts with the federal government generally have been cost-plus. Fixed-price and performance-based contracts generally offer higher margins but typically involve more risk than cost-plus or time and materials reimbursement contracts.

We recognize revenue on general service arrangements as work is performed and amounts are earned in accordance with the Staff Accounting Bulletin ( SAB ) No. 101, Revenue Recognition in Financial Statements, as amended by SAB No. 104, Revenue Recognition ( SAB 104 ). We consider amounts to be earned once evidence of an arrangement has been obtained, services are delivered, fees are fixed or determinable, and collectibility is reasonably assured.

We recognize revenue on fixed-priced contracts when earned, as services are provided. For certain fixed-price contracts, primarily systems design, development and implementation, we recognize revenue based on costs incurred using estimates of total expected contract revenue and costs to be incurred in accordance with the provisions of AICPA Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* ( SOP 81-1 ). The cumulative impact of any revisions in estimated revenue and costs is recognized in the period in which the facts that give rise to the revision become known. For other fixed-price contracts, revenue is recognized on a straight-line basis unless evidence suggests that revenue is earned or obligations are fulfilled in a different pattern. With fixed-price contracts, we are subject to the risk of potential cost overruns. For fixed-price contracts accounted for under SOP 81-1, provisions for estimated losses on incomplete contracts are provided in full in the period in which such losses become known. Costs related to contracts may be incurred in periods prior to recognizing revenue. These costs are generally expensed. However, certain direct and incremental set-up costs may be deferred until services are provided and revenue begins to be recognized, when such costs are recoverable from a contractual arrangement. Set-up costs are costs related to activities that enable us to provide contractual services to a client. The timing of expense recognition may result in irregular profit margins.

We recognize revenue on performance-based contracts as such revenue becomes fixed or determinable, which generally occurs when amounts are billable to customers. For certain contracts, this may result in revenue being recognized in irregular increments.

Revenue on cost-plus contracts is recognized based on costs incurred plus an estimate of the negotiated fee earned. Revenue on time and materials contracts is recognized based on hours worked and expenses incurred.

Our most significant expense is cost of revenue, which consists primarily of project-related costs such as employee salaries and benefits, subcontractors, computer equipment and travel expenses. Our management uses its judgment and experience to estimate cost of revenue expected on projects. Our management s ability to accurately predict personnel requirements, salaries and other costs as well as to effectively manage a project or achieve certain levels of performance can have a significant impact on the gross margins related to our fixed-price, performance-based and time and materials contracts. If actual costs are higher than our management s estimates, profitability may be adversely affected. Service cost variability has little impact on cost-plus arrangements because allowable costs are reimbursed by the customer.

We also license software under license agreements. Software revenue is recognized in accordance with AICPA Statement of Position 97-2, *Software Revenue Recognition* ( SOP 97-2 ), as amended by Statement of Position 98-9, *Modification of SOP 97-2, With Respect to Certain Transactions* ( SOP 98-9 ). Software license revenue is recognized when a customer enters into a non-cancelable license agreement, the software product has been delivered, there are no uncertainties surrounding product acceptance, there are no significant future performance obligations, the license fees are fixed or determinable and collection of the license fee is considered probable. Amounts received in advance of meeting these criteria are deferred and classified as deferred revenue in the accompanying consolidated balance sheets. As required by SOP 98-9, the Company determines the value of the software component of its multiple-element arrangements using the residual method as vendor specific objective evidence ( VSOE ) of fair value exists for the undelivered elements such as the support and maintenance agreements and related implementation and training services, but not for all delivered elements such as the software itself. The residual method requires revenue to be allocated to the undelivered elements based on the fair value of such elements, as indicated by VSOE. VSOE is based on the price charged when the element is sold separately. Maintenance and post-contract customer support revenue are recognized ratably over the term of the related agreements, which in most cases is one year. Revenue from software-related consulting services under time and material contracts and for training is recognized as services are performed. Revenue from other software-related contract services requiring significant modification or customization of software is recognized under the percentage-of-completion method.

Emerging Issues Task Force Issue No. 00-21 ( EITF 00-21 ), *Revenue Arrangements with Multiple Deliverables*, requires contracts with multiple deliverables to be divided into separate units of accounting if certain criteria are met. We apply the guidance therein and recognize revenue on multiple deliverables as separate units of accounting if the criteria are met.

*(d) Cash Equivalents*

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash equivalents are valued at cost, which approximates market.

*(e) Marketable Securities*

Marketable securities are classified as available-for-sale and are recorded at fair market value with unrealized gains and losses, net of taxes, reported as a separate component of shareholders equity. Realized gains (losses) and declines in market value judged to be other than temporary, of which there were $(288,000) in 2005; $237,000 in 2006 and none in 2007, are included in other income. Interest and dividends are also included in other income. Marketable securities consist primarily of short-term auction rate bonds. At September 30, 2005, 2006, and 2007, accumulated unrealized gains (losses) on marketable securities, net of tax, included in accumulated other comprehensive income (loss), were $150,000, none, and none, respectively.

*(f) Restricted Cash*

Restricted cash represents amounts collected on behalf of certain customers and its use is restricted to the purposes specified under our contracts with these customers.

*(g) Accounts Receivable and Allowance for Doubtful Accounts*

Accounts receivable are recorded at their face amount less an allowance for doubtful accounts. We maintain an allowance for doubtful accounts at an amount we estimate to be sufficient to cover the risk of collecting less than full payment on our receivables. On a regular basis we re-evaluate our client receivables, especially receivables that are past due, and reassess our allowance for doubtful accounts based on specific client collection issues.

*(h) Property and Equipment*

Property and equipment is stated at cost and depreciated using the straight-line method based on estimated useful lives not to exceed 39.5 years for the Company s buildings and between three and seven years for office furniture and equipment. Leasehold improvements are amortized over their useful life or the remaining term of the lease, whichever is shorter. Direct costs of time and material incurred for the development of application software for internal use are capitalized as property and equipment. These costs are depreciated using the straight-line method over the estimated useful life of the software, ranging from three to seven years.

*(i) Software Development Costs*

Software development costs are capitalized in accordance with FAS No. 86, *Accounting for the Cost of Computer Software to be Sold, Leased, or Otherwise Marketed*. The Company capitalizes both purchased software that is ready for resale and costs incurred internally for software development projects from the time technological feasibility is established. Capitalized software development costs are reported at the lower of unamortized cost or estimated net realizable value. Upon the general release of the software to customers, capitalized software development costs for the products are amortized over the greater of the ratio of gross revenues to expected total revenues of the product or on the straight-line method of amortization over the estimated economic life of the product, which ranges from three to five years.

*(j) Deferred Contract Costs*

Deferred contract costs consist of contractually recoverable direct set-up costs relating to long-term service contracts in progress. These costs include direct and incremental costs incurred prior to the commencement of us providing service to enable us to provide the contracted services to our customer. Such costs are expensed over the period services are provided under the long-term service contract. We review deferred contract costs for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Our review is based on our projection of the undiscounted future operating cash flows of the related customer project. To the extent such projections indicate that future undiscounted cash flows are not sufficient to recover the carrying amount, we recognize a non-cash impairment charge to reduce the carrying amount to equal projected future discounted cash flows.

***(k) Goodwill and Intangible Assets***

The Company applies Statements of Financial Accounting Standards No. 141, *Business Combinations* ( FAS 141 ), and No. 142, *Goodwill and Other Intangible Assets* ( FAS 142 ). Under these rules, goodwill is not amortized but is subject to annual impairment tests in accordance with FAS 142. Annually, the Company performs a fair value analysis of its reporting units using valuation techniques prescribed in FAS 142. Based on the analysis performed as of June 30, 2007, the Company determined that there had been no impairment of goodwill.

Intangible assets from acquisitions, which consist primarily of customer contracts and relationships, technology-based intangibles and non-competition agreements, are amortized over five to ten years, based on their estimated useful lives.

*(l) Long-Lived Assets (excluding Goodwill)*

The Company follows the provisions of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ( FAS 144 ). FAS 144 requires that long-lived assets be reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss is recognized if the sum of the long-term undiscounted cash flows is less than the carrying amount of the long-lived assets being evaluated. Any write-downs are treated as permanent reductions in the carrying amount of the assets. The Company believes that the carrying values of its assets as of September 30, 2007 are fully realizable.

*(m) Income Taxes*

Deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted rates expected to be in effect during the year in which the differences reverse. The effect on deferred tax assets and liabilities due to a change in tax rates is recognized in income tax expense in the period that includes the enactment date. A tax benefit or expense is recognized for the net change in the deferred tax asset or liability during the year and the current tax liability for the year. As of September 30, 2007, the Company had $2.5 million of total tax-effected net operating loss carryforwards, related to a subsidiary in Canada. We believe we will generate sufficient taxable income to utilize the net operating loss carryforwards within the expiration period based on an existing contract within our Canadian operations. To the extent that future taxable income from this contract is revised and it is determined that there will be insufficient taxable income generated to utilize all available net operating loss carryforwards, a valuation allowance will be recorded in the provision for income taxes in the period the determination is made, and the deferred tax assets will be reduced by this amount. As of September 30, 2007, the Company had $6.1 million of net operating loss carryforwards, related to another subsidiary in Canada, which have not been tax-effected. A full valuation allowance of $2.1 million has been established against these net operating loss carryforwards. Evaluating the net operating loss carryforwards requires us to make certain estimates, which we believe are reasonable. In the event that actual circumstances differ from management s estimates, or to the extent that these estimates are adjusted in the future, any changes to the valuation allowance could be material.

***(n) Comprehensive Income (Loss)***

Comprehensive income (loss) includes changes in the balances of the items that are reported directly as separate components of shareholder s equity. Comprehensive income (loss) includes net income plus changes in the net unrealized gain (loss) on investments, net of taxes, and changes in cumulative foreign currency translation adjustments.

***(o) Foreign Currency***

The assets and liabilities of foreign operations are translated into U.S. dollars at current exchange rates and revenue and expenses are translated at average exchange rates for the period. The resulting cumulative translation adjustment is included in accumulated other comprehensive income (loss) on the consolidated balance sheet. At September 30, 2005, 2006, and 2007, accumulated foreign currency gains (losses) included in accumulated other comprehensive income (loss) were ($673,000), ($1,067,000) and $1,579,000, respectively. Foreign currency transaction gains (losses), including foreign currency gains (losses) on short-term loans with our foreign subsidiaries, are included in other income and were $396,000, $741,000 and $(194,000) for the years ended September 30, 2005, 2006 and 2007, respectively.

*(p) Earnings per Share*

FAS 128, *Earnings Per Share*, requires dual presentation of basic and diluted earnings per share on the face of the Consolidated Statements of Operations. Basic earnings per share exclude dilution and are computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted earnings per share include the incremental effect of stock options and restricted stock units calculated using the treasury stock method.

*(q) Fair Value of Financial Instruments*

The Company considers the recorded value of its financial assets and liabilities, which consist primarily of cash and cash equivalents, marketable securities, accounts receivable and accounts payable, to approximate the fair value of the respective assets and liabilities at September 30, 2006 and 2007.

*(r) Stock-Based Compensation*

Effective October 1, 2005, the Company adopted the provisions of SFAS No. 123(R), *Share-Based Payment*, using the modified-prospective-transition method.

*(s) Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates used by the Company include estimates of profits or loss on contracts in process, estimates of collectibility of receivables, evaluation of asset impairment and accrual of estimated liabilities.

*(t) Legal and Settlement Expense*

Legal and settlement expense 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.

*(u) Reclassifications*

Certain prior year amounts have been reclassified to conform to the fiscal year 2007 presentation.

*(v) Contingencies*

From time to time, we are involved in legal proceedings, including contract and employment claims, in the ordinary course of business. We assess the likelihood of any adverse judgments or outcomes to these contingencies as well as potential ranges of probable losses and establish reserves accordingly. The amount of reserves required may change in future periods due to new developments in each matter or changes in approach to a matter such as a change in settlement strategy.

**2. Sale of Business**

On October 5, 2006, the Company sold its Corrections Services business for proceeds of $1.9 million, net of transaction costs of $0.8 million, and recognized a pre-tax gain on the sale of $0.5 million. During the fiscal year ended September 30, 2006, this business had revenue of $9.1 million and generated an operating loss of approximately $0.6 million.

**3. Contract Receivables and Deferred Revenue**

Uncompleted contracts consist of the following components (in thousands):

| | Accounts receivable - unbilled | Deferred revenue |
|---|---|---|
| September 30, 2006: | | |
| Revenue | $ 878,030 | $ 654,145 |
| Billings | 830,302 | 708,559 |
| Total | $ 47,728 | $ 54,414 |
| September 30, 2007: | | |
| Revenue | $ 687,519 | $ 575,854 |
| Billings | 645,319 | 624,542 |
| Total | $ 42,200 | $ 48,688 |

Unbilled accounts receivable and deferred revenue relate primarily to contracts wherein the timing of billings to customers varies based on individual contracts and often differs from the period of revenue recognition. At September 30, 2006 and 2007, there was $7.0 million and $3.0

million, respectively, billed but not paid by customers pursuant to contractual retainage provisions. Such balances are included in billed accounts receivable in the accompanying consolidated balance sheets.

At September 30, 2006 and 2007, $2.7 million and $2.5 million of billed long-term contract receivables, net of reserves of $0.7 million and $0.6 million, respectively, are included in other assets.

In evaluating the net realizable value of accounts receivable, the Company considers such factors as current economic trends, customer credit-worthiness, and changes in the customer payment terms and collection trends. Changes in the assumptions used in analyzing a specific account receivable may result in a reserve being recognized in the period in which the change occurs.

Changes in the reserves against billed accounts receivable were as follows (in thousands):

| | Year ended September 30, | | |
|---|---|---|---|
| | 2005 | 2006 | 2007 |
| Balance at beginning of year | $ 6,551 | $ 7,158 | $ 6,528 |
| Additions to cost and expense | 4,253 | 4,775 | 27,255 |
| Deductions | (3,646) | (5,405) | (3,257) |
| Balance at end of year | $ 7,158 | $ 6,528 | $ 30,526 |

**4. Property and Equipment**

Property and equipment, at cost, consist of the following (in thousands):

| | As of September 30, | |
|---|---|---|
| | 2006 | 2007 |
| Land | $ 2,462 | $ 2,462 |
| Building and improvements | 12,239 | 12,788 |
| Office furniture and equipment | 51,780 | 63,448 |
| Leasehold improvements | 4,597 | 5,125 |
| | 71,078 | 83,823 |
| Less: Accumulated depreciation and amortization | (37,649) | (47,922) |
| Total property and equipment, net | $ 33,429 | $ 35,901 |

**5. Software Development Costs**

Software development costs consist of the following (in thousands):

| | As of September 30, | |
|---|---|---|
| | 2006 | 2007 |
| Capitalized software development costs | $ 57,260 | $ 61,459 |
| Less: Accumulated amortization | (23,335) | (31,919) |
| Total Software development costs, net | $ 33,925 | $ 29,540 |

Capitalized software amortization expense for the years ended September 30, 2005, 2006 and 2007 was $5.2 million, $6.5 million, and $8.6 million, respectively.

**6. Deferred Contract Costs**

Deferred contract costs consist of contractually recoverable direct set-up costs relating to long-term service contracts in progress. These costs include direct and incremental costs incurred prior to the commencement of us providing contracted services to our customers totaling $26.3 million and $28.6 million at September 30, 2006 and 2007, respectively, of which $7.6 million is leased equipment at September 30, 2006 and 2007. Deferred contract costs are expensed ratably as services are provided under the contracts. For the fiscal years ended September 30, 2006 and 2007, accumulated amortization of deferred contract costs was $15.2 million and $20.5 million, of which $4.2 million and $5.7 million, respectively, is the accumulated amortization of capital lease assets included in deferred costs.

During the fiscal year ended September 30, 2006, the Company determined that the estimated undiscounted cash flows associated with the Texas Integrated Eligibility project over its remaining term were insufficient to recover the project s deferred contract costs. As a result, the Company recognized a non-cash impairment charge of $17.1 million to write off the full unamortized balance of the project s deferred contract costs. The write-off is included in the results of the Operations Segment. Additional information regarding the Texas Integrated Eligibility project is disclosed in Note 20.

**7. Goodwill and Intangible Assets**

Changes in goodwill for the years ended September 30, 2006 and 2007 are as follows (in thousands):

| | Consulting | Systems | Operations | Total |
|---|---|---|---|---|
| Balance as of September 30, 2005 | $6,825 | $45,196 | $34,811 | $86,832 |
| Goodwill allocation adjustment | 4,077 | (3,042) | (1,035) | |
| Goodwill activity during year | | | (144) | (144) |
| Balance as of September 30, 2006 | 10,902 | 42,154 | 33,632 | 86,688 |
| Goodwill activity during year | | | (602) | (602) |
| Balance as of September 30, 2007 | $10,902 | $42,154 | $33,030 | $86,086 |

**During the year ended September 30, 2007, the Company sold its Corrections Services business and allocated $0.6 million of goodwill to the sale transaction.**

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

| | As of September 30, 2006 | | | As of September 30, 2007 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated Amortization | Intangible Assets, net | Cost | Accumulated Amortization | Intangible Assets, net |
| Non-competition agreements | $ 3,475 | $ 3,288 | $ 187 | $ 3,275 | $ 3,257 | $ 18 |
| Technology-based intangibles | 4,870 | 2,532 | 2,338 | 4,870 | 3,421 | 1,449 |
| Customer contracts and relationships | 7,475 | 4,280 | 3,195 | 6,475 | 4,339 | 2,136 |
| Total | $ 15,820 | $ 10,100 | $ 5,720 | $ 14,620 | $ 11,017 | $ 3,603 |

Intangible assets from acquisitions are amortized over a period of five to ten years. The weighted-average amortization periods for non-competition agreements, technology-based intangibles, and customer contracts and relationships are approximately six years, five years, and seven years, respectively. The weighted-average amortization period for total intangible assets is approximately six years. The estimated amortization expense for the years ending September 30, 2008, 2009, 2010, 2011, and 2012 is $1.5 million, $1.1 million, $0.4 million, $0.4 million, and $0.2 million, respectively. During fiscal 2007, the Company disposed of $0.4 million of intangible assets (net of accumulated amortization of $0.8 million) related to the sale of its Corrections Services business.

**8. Earnings (Loss) Per Share**

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

| | Year ended September 30, | | |
|---|---|---|---|
| | 2005 | 2006 | 2007 |
| Numerator: | | | |
| Net income (loss) | $ 36,069 | $ 2,460 | $ (8,255) |
| | | | |
| Denominator: | | | |
| Weighted average shares outstanding | 21,331 | 21,465 | 21,870 |
| Effect of dilutive securities: | | | |
| Employee stock options and unvested restricted stock awards | 322 | 356 | |
| Denominator for diluted earnings per share | 21,653 | 21,821 | 21,870 |

In computing diluted loss per share for the year ended September 30, 2007, employee stock options and unvested restricted stock units aggregating 336,000 were excluded from the computation of diluted loss per share as a result of their antidilutive effect.

**9. Credit Facilities**

In June 2003, in connection with a long-term contract, the Company issued a standby letter of credit in an initial amount of up to $20.0 million, which amount was reduced to $10.0 million on April 1, 2005. The letter of credit, which expires on March 31, 2009, may be called by the customer in the event the Company defaults under the terms of the contract. In March 2006, in connection with another long-term contract, the Company issued a standby letter of credit in the amount of $4.0 million. The letter of credit, which expires on September 30, 2008, may be called by the customer in the event the Company defaults under the terms of the contract. Both letters of credit contain financial covenants that establish minimum levels of tangible net worth, earnings before interest, tax, depreciation and amortization ( EBITDA ), cash balances and a maximum level of losses on the Texas Integrated Eligibility project. The Company was in compliance with all covenants as of September 30, 2007.

**10. Leases**

The Company leases office space under various operating leases which typically contain clauses permitting cancellation upon certain conditions, including the early termination, non-renewal or material alteration of the related customer contract. The terms of these leases typically provide for certain minimum payments as well as increases in lease payments based upon the operating cost of the facility and the consumer price index. Rent expense for the years ended September 30, 2005, 2006, and 2007 was $23.1 million, $23.3 million, and $21.8 million, respectively.

On July 15, 2003, the Company entered into a capital lease financing arrangement with a financial institution, whereby the Company acquired assets pursuant to an equipment lease agreement. Rental payments for assets leased are payable over a 60-month period at a rate of 4.05% commencing in January 2004. On March 29, 2004, the Company entered into a supplemental capital lease financing arrangement with the same financial institution whereby the Company acquired additional assets pursuant to an equipment lease agreement. Rental payments for assets leased under the supplemental arrangement are payable over a 57-month period at a rate of 3.61% commencing in April 2004. At September 30, 2007, capital lease obligations of $2.0 million were outstanding related to these lease arrangements for equipment.

Minimum future payments under leases in effect as of September 30, 2007 are as follows (in thousands):

| | Capital Leases | Operating Leases |
|---|---|---|
| Year ended September 30, | | |
| 2008 | $ 1,679 | $ 21,238 |
| 2009 | 420 | 14,475 |
| 2010 | | 7,425 |
| 2011 | | 3,101 |
| 2012 | | 2,264 |
| Thereafter | | 2,092 |
| Total minimum lease payments | 2,099 | $ 50,595 |
| Amount representing interest | (55) | |
| Present value of minimum lease payments | 2,044 | |
| Current portion | (1,627) | |
| Long-term portion | $ 417 | |

**11. Employee Benefit Plans and Deferred Compensation**

The Company has 401(k) plans and other defined contribution plans for the benefit of all employees who meet certain eligibility requirements. The plans provide for Company match, specified Company contributions, and/or discretionary Company contributions. During the years ended September 30, 2005, 2006, and 2007, the Company contributed $3.6 million, $3.4 million, and $3.2 million to the plans, respectively.

**12. Income Taxes**

The Company s provision for income taxes is as follows (in thousands):

| | Year ended September 30, | | |
|---|---|---|---|
| | 2005 | 2006 | 2007 |
| Current provision: | | | |
| Federal | $ 14,630 | $ 7,783 | $ 17,875 |
| State and local | 3,250 | 1,992 | 4,171 |
| Foreign | 864 | 1,200 | 1,926 |
| Total current provision | 18,744 | 10,975 | 23,972 |
| Deferred tax expense (benefit): | | | |
| Federal | 5,136 | (6,450) | (10,994) |
| State and local | 1,091 | (1,384) | (2,337) |
| Foreign | (1,421) | (1,568) | 733 |
| Total deferred tax expense (benefit) | 4,806 | (9,402) | (12,598) |
| Income tax expense | $ 23,550 | $ 1,573 | $ 11,374 |

The provision for income taxes differs from that which would have resulted from the use of the federal statutory income tax rate as follows (in thousands):

| | Year ended September 30, | | |
|---|---|---|---|
| | 2005 | 2006 | 2007 |
| Federal income tax provision at statutory rate of 35% | $ 20,867 | $ 1,411 | $ 1,092 |
| District of Columbia settlement | | | 7,641 |
| Valuation allowance on net operating loss carryforwards | | | 2,069 |
| Permanent items | 594 | 645 | 594 |
| Municipal interest | (749) | (1,532) | (1,833) |
| State income taxes, net of federal benefit | 2,802 | 292 | 1,125 |
| Reserve for state income tax audits | 373 | 974 | 646 |
| Other | (337) | (217) | 40 |
| Provision for income taxes | $ 23,550 | $ 1,573 | $ 11,374 |

The significant items comprising the Company s deferred tax assets and liabilities as of September 30, 2006 and 2007 are as follows (in thousands):

| | As of September 30, | |
|---|---|---|
| | 2006 | 2007 |
| Deferred tax assets - current: | | |
| Costs deductible in future periods | $ 6,677 | $ 18,197 |
| Deferred revenue | 16,811 | 13,867 |
| Total deferred tax assets - current | 23,488 | 32,064 |
| Deferred tax liabilities - current: | | |
| Accounts receivable - unbilled | 16,644 | 14,655 |
| Net deferred tax asset (liability) - current | $ 6,844 | $ 17,409 |
| | | |
| Deferred tax assets (liabilities) - non-current: | | |
| Non-cash equity compensation | $ 2,222 | $ 2,050 |
| Net operating loss carryforwards | 3,246 | 4,594 |
| Valuation allowance on net operating loss carryforwards | | (2,069) |
| Amortization of goodwill | (6,763) | (9,424) |
| Depreciation | (1,772) | (2,180) |
| Capitalized software | (11,480) | (6,680) |
| Deferred contract costs | (397) | 797 |
| Net deferred tax liability - non-current | $ (14,944) | $ (12,912) |

We do not provide for U.S. income taxes on the undistributed earnings of our foreign subsidiaries, as we consider these to be permanently reinvested in the operations of such subsidiaries. If some of these earnings were distributed, some countries may impose withholding taxes; in addition, as foreign taxes have been previously paid on these earnings, we would expect to be entitled to a U.S. foreign tax credit that would reduce the U.S. taxes owed on such distributions. As such, it is not practical to determine the net amount of the related unrecognized U.S. deferred tax liability.

As of September 30, 2007, the Company had $2.5 million of total tax-effected net operating loss carryforwards, related to a subsidiary in Canada. These net operating loss carryforwards begin to expire at the end of fiscal 2014 through fiscal 2016. We believe we will generate sufficient taxable income to utilize the net operating loss carryforwards within the expiration period based on an existing contract within our Canadian operations. To the extent that future taxable income from this contract is revised and it is determined that there will be insufficient taxable income generated to utilize all available net operating loss carryforwards, a valuation allowance will be recorded in the provision for income taxes in the period the determination is made, and the deferred tax assets will be reduced by this amount. As of September 30, 2007, the Company had $6.1 million of net operating loss carryforwards, related to another subsidiary in Canada, which have not been tax-effected. A full valuation allowance of $2.1 million has been established against these net operating loss carryforwards. These net operating loss carryforwards begin to expire at the end of fiscal 2013 through fiscal 2017.

Cash paid for income taxes during the years ended September 30, 2005, 2006, and 2007 was $9.4 million, $22.0 million, and $10.3 million, respectively.

Approximately 90% of the Company s total goodwill is expected to be deductible for income tax purposes.

**13. Shareholders Equity**

*Stock-Based Compensation*

The Company s Board of Directors established stock option plans during 1997 pursuant to which the Company may grant non-qualified stock options to officers, employees and directors of the Company. Such plans also provide for stock awards and direct purchases of the Company s common stock. At September 30, 2007, the Board of Directors had reserved 8.1 million shares of common stock for issuance under the Company s stock plans. At September 30, 2007, 1.9 million shares remained available for grants under the Company s stock plans.

Stock options are granted at exercise prices equal to the fair market value of the Company s common stock at the date of grant. Stock options generally vest ratably over a period of four years, and beginning in fiscal 2005, expire six years after date of grant. Options issued prior to fiscal 2005 expire ten years after date of grant. For the fiscal years ended September 30, 2006 and 2007, compensation expense related to stock options was $4.4 million and $0.8 million, respectively.

The Company also issues Restricted Stock Units (RSUs) to officers, employees and directors of the Company under its 1997 Equity Incentive Plan ( Plan ). Generally, these RSUs vest ratably over six years with full vesting upon the sixth anniversary of the date of grant, provided, however, that the vesting will accelerate if the Company meets certain earnings targets determined by the Board of Directors. The fair value of the RSUs, based on the Company s stock price at the grant date, is expensed over the vesting period. For the fiscal years ended September 30, 2005, 2006 and 2007, compensation expense recognized related to RSUs was $1.4 million, $2.1 million and $3.1 million, respectively.

Prior to October 1, 2005, the Company accounted for its stock-based compensation plans using the intrinsic value method in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations, as permitted by Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation. Effective October 1, 2005, the Company adopted the provisions of SFAS No. 123(R), Share-Based Payment, using the modified-prospective-transition method.

Under the modified-prospective-transition method, compensation cost recognized in the fiscal year ended September 30, 2006, included (i) compensation cost for all stock-based payments granted prior to but not yet vested as of October 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (ii) compensation cost for all share-based payments granted subsequent to October 1, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). Results for prior periods have not been restated.

Stock-based compensation cost is recognized in selling, general and administrative expense and, under the fair value provisions of SFAS No. 123(R), was $3.8 million for the fiscal year ended September 30, 2007. The total income tax benefit recognized in the income statement for share-based compensation arrangements was $2.1 million for the fiscal year ended September 30, 2007.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value provisions of SFAS No. 123 to stock-based compensation for the periods prior to adoption of SFAS No. 123(R) (in thousands, except per share data):

| | Year ended September 30, 2005 |
|---|---|
| Net income, as reported | $ 36,069 |
| Add: Stock-based compensation expense included in reported net income, net of taxes | 830 |
| Deduct: Stock compensation expense determined under fair value based method for all awards, net of taxes | (4,226) |
| Net income, as adjusted | $ 32,673 |
| | |
| Earnings per share: | |
| Basic - as reported | $ 1.69 |
| Basic - as adjusted | $ 1.53 |
| | |
| Diluted - as reported | $ 1.67 |
| Diluted - as adjusted | $ 1.51 |

The weighted average fair value of stock options was estimated at the date of the grant using the Black-Scholes option pricing method with the following assumptions for the fiscal years ended September 30, 2005, 2006 and 2007:

| | 2005 | 2006 | 2007 |
|---|---|---|---|
| Dividend yield | 0.7% | 1.4% | 1.5% |
| Risk-free interest rate | 4.0% | 4.6% | 4.5% |
| Expected volatility | 46% | 37% | 37% |
| Expected life of option term (in years) | 5.1 | 5.1 | 4.3 |
| Weighted average fair value at grant date | $ 13.48 | $ 11.58 | $ 8.71 |

The dividend yield is based on historical experiences and expected future changes. The risk-free interest rate is derived from the U.S. Treasury yields in effect at the time of grant. Expected volatilities are based on the historical volatility of our common stock. The expected life of the option is derived from historical data pertaining to option exercises and employee terminations.

A summary of the Company s stock option activity for the fiscal years ended September 30, 2005, 2006 and 2007, is as follows:

| | Options | Weighted Average Exercise Price |
|---|---|---|
| Outstanding at September 30, 2004 | 2,551,114 | $ 27.76 |
| Granted | 521,012 | 31.87 |
| Exercised | (514,184) | 25.50 |
| Forfeited or expired | (260,581) | 32.61 |
| Outstanding at September 30, 2005 | 2,297,361 | 28.65 |
| Granted | 557,101 | 33.12 |
| Exercised | (300,314) | 24.09 |
| Forfeited or expired | (512,419) | 33.19 |
| Outstanding at September 30, 2006 | 2,041,729 | 29.39 |
| Granted | 20,000 | 27.27 |
| Exercised | (560,417) | 23.76 |
| Forfeited or expired | (62,930) | 32.10 |
| Outstanding at September 30, 2007 | 1,438,382 | 31.44 |
| | | |
| Exercisable at September 30, 2007 | 926,866 | $ 30.79 |

The intrinsic value of exercisable stock options at September 30, 2007, was $11.9 million with a weighted average remaining life of 4.7 years. The total intrinsic value of stock options exercised during the fiscal years ended September 30, 2007 and September 30, 2006 was $7.3 million and $3.3 million, respectively. The weighted average grant date fair value of stock options granted during the fiscal years ended September 30, 2007 and September 30, 2006 was $8.71 and $11.58, respectively. The total fair value of stock options which vested during the fiscal years ended September 30, 2007 and September 30, 2006 was $2.4 million and $3.3 million, respectively.

The following table provides certain information with respect to stock options outstanding at September 30, 2007:

| Range of Exercise Prices | Stock Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Life |
|---|---|---|---|
| $ 12.31 - $20.96 | 86,945 | $ 20.56 | 3.2 |
| $ 21.00 - $33.55 | 662,639 | 28.41 | 4.8 |
| $ 33.75 - $46.03 | 688,798 | 35.71 | 4.7 |
| | 1,438,382 | 31.44 | 4.7 |

The following table provides certain information with respect to stock options exercisable at September 30, 2007:

| Range of Exercise Prices | Stock Options Exercisable | Weighted Average Exercise Price |
|---|---|---|
| $ 12.31 - $20.96 | 86,945 | $ 20.56 |
| $ 21.00 - $33.55 | 415,514 | 27.84 |
| $ 33.75 - $46.03 | 424,407 | 35.78 |
| | 926,866 | 30.79 |

A summary of the Company s RSU activity for the fiscal years ended September 30, 2005, 2006 and 2007, is as follows:

| | Shares | Fair Market Value |
|---|---|---|
| Non-vested shares outstanding at September 30, 2004 | 186,088 | $ 31.44 |
| Granted | 112,550 | 32.40 |
| Vested | (43,147) | 35.34 |
| Forfeited or expired | (27,248) | 32.05 |
| Non-vested shares outstanding at September 30, 2005 | 228,243 | 32.69 |
| Granted | 258,843 | 34.17 |
| Vested | (47,442) | 28.67 |
| Forfeited or expired | (74,432) | 32.90 |
| Non-vested shares outstanding at September 30, 2006 | 365,212 | 33.26 |
| Granted | 129,017 | 34.09 |
| Vested | (88,906) | 40.20 |
| Forfeited or expired | (21,832) | 33.10 |
| Non-vested shares outstanding at September 30, 2007 | 383,491 | $ 33.09 |

As of September 30, 2007, the total remaining unrecognized compensation cost related to unvested stock options and RSUs was $3.5 million and $7.4 million, respectively.

Prior to the adoption of SFAS No. 123(R), the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the consolidated statement of cash flows. SFAS No. 123(R) requires the cash flows resulting from the tax benefits generated from tax deductions in excess of the compensation costs recognized for those options (excess tax benefits) to be classified as financing cash flows.

*Employee Stock Purchase Plan*

The Company previously offered an employee stock purchase plan (ESPP) that allowed eligible employees to purchase shares of the Company s common stock each quarter at 95% of the market value on the last day of the quarter. The ESPP was not considered compensatory under the provisions of SFAS No. 123(R) and therefore no portion of the costs related to ESPP purchases were included in the Company s stock-based compensation expense. During fiscal 2005, 2006, and 2007, respectively, the Company issued 76,900, 36,971, and 6,838 shares of common stock pursuant to this plan at an average price of $25.80, $28.13, and $29.24 per share. The ESPP was terminated in fiscal 2007 and the last purchase under the plan was made in January 2007 for the fiscal quarter ending December 31, 2006.

*Stock Repurchase Program*

Under resolutions adopted in May 2000, July 2002, and March 2003, the Board of Directors has authorized the repurchase, at management s discretion, of up to an aggregate of $90.0 million of the Company s common stock. In addition, in June 2002, the Board of Directors authorized the use of option exercise proceeds for the repurchase of the Company s common stock. During the year ended September 30, 2006, the Company repurchased 282,100 shares. During the year ended September 30, 2007, the Company did not repurchase any shares. At September 30, 2007, approximately $39.9 million remained available for future stock repurchases under the program. See Note 19. Subsequent Events below for information related to the $150.0 million Accelerated Share Repurchase program (ASR) announced by the Company on November 14, 2007.

**14. 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.

(a) In 2006, Emergis, Inc. filed a demand for arbitration against MAXIMUS and certain of its wholly-owned subsidiary companies in British Columbia, Canada. Emergis was a subcontractor to MAXIMUS BC Health, Inc. and MAXIMUS BC Health Benefit Operations, Inc. in support of their contract with the British Columbia Ministry of Health. The subcontract required Emergis to provide a system for the adjudication, processing and payment of health care claims for the Province and had a total value of approximately $32.0 million Canadian ($32.1 million U.S. as of September 30, 2007). MAXIMUS had declared Emergis in default and ultimately terminated the subcontract in September 2006. In its demand for arbitration, Emergis challenged the basis of the termination and sought payment of damages including the amounts that it would have received under the subcontract. MAXIMUS believed that termination was justified and that, in any event, damages would have been limited to the contractual limitation of liability, which was less than $2.0 million Canadian ($2.0 million U.S. as of September 30, 2007). In September 2007, the parties agreed to restructure their business relationship and settle the arbitration matter. As part of the settlement, MAXIMUS did not pay any damages.

(b) In January 2007, MAXIMUS delivered to Accenture LLP a written formal demand for arbitration to resolve disputes relating to the Company s role as a subcontractor in support of Accenture s prime contract with the Texas Health and Human Services Commission ( HHSC ) for the Integrated Eligibility and Enrollment Services program (the Program ). The Company s claims include (i) Accenture s attempt to misappropriate the Company s intellectual property, (ii) Accenture s failure to deliver required technology under the subcontract, (iii) Accenture s unilateral negotiation of issues with HHSC having a direct effect on the Company, (iv) Accenture s unfounded assertions that the Company had breached its obligations with respect to the Children s Health Insurance Program ( CHIP ) operations under the subcontract, and (v) Accenture s imposition of excessive and unsubstantiated cover costs on the Company arising out of the amendment to the subcontract entered into in June 2006. MAXIMUS seeks to recover its damages which it believes exceed $100.0 million. Accenture submitted a response disputing MAXIMUS claims and asserting a counterclaim that MAXIMUS breached the subcontract. Accenture seeks unspecified damages which it has stated could be hundreds of millions of dollars. The subcontract incorporated the terms and conditions of the prime contract which contains a limitation of liability of $250.0 million.

Also in January 2007, Accenture delivered a letter purporting to declare the Company in default of its obligations under that subcontract. The letter stated that Accenture planned to exercise step-in rights with respect to certain management and supervisory services provided by the Company for the CHIP operations. The letter also stated that Accenture intended to partially terminate the subcontract as of February 5, 2007 with respect to the Company s obligations regarding CHIP integrated eligibility services. The letter included a proposed turnover plan for transitioning the CHIP services from the Company to Accenture. Accenture has alleged that the Company owes damages relating to the CHIP operations of at least $45.0 million plus $30.0 million in indemnification for amounts that Accenture agreed to pay to HHSC.

In February 2007, MAXIMUS terminated its subcontract with Accenture. In March 2007, HHSC announced that it was winding down its contract with Accenture. In connection with that process, MAXIMUS has entered into agreements directly with HHSC to provide enrollment broker, CHIP operations and eligibility support services. The contracts for CHIP operations and eligibility support services run through December 31, 2008, and the enrollment broker contract runs through August 31, 2010.

The Company believes that its positions are meritorious and that Accenture s positions are without merit, including Accenture s unjustified issuance of a default notice with respect to the CHIP operations. During the fiscal year ended September 30, 2007, the Company recorded $10.0 million in legal costs related to the arbitration. This amount represents costs incurred to date of $7.8 million and an estimate of future probable legal costs of $2.2 million. It is reasonably possible that the estimate of future probable legal costs of $2.2 million will change due to future developments. The Company will continue to aggressively pursue its rights and remedies against Accenture to resolve the current dispute. The arbitration hearing is scheduled for the third quarter of fiscal year 2008. The Company cannot predict the outcome of the arbitration proceedings

or any settlement negotiations or the impact they may have on the Company s operating results or financial condition, and therefore no accrual for this loss contingency has been recorded on the balance sheet.

(c) In November 2007 MAXIMUS was sued by the State of Connecticut in the Superior Court in the Judicial District of Hartford. MAXIMUS had entered into a contract in 2003 with the Connecticut Department of Information Technology to update the State s criminal justice information system. The State claims that MAXIMUS breached its contract and also alleges negligence and beach of the implied warranty of fitness for a particular purpose. MAXIMUS has sued its primary subcontractor on the effort (ATS Corporation) which abandoned the project before completing its obligations. Although the State did not specify damages in its complaint, it demanded payment of alleged damages of approximately $6.2 million in a letter sent to the Company in September 2007. The Company denies that it has breached its contract with the State. During the fiscal year ended September 30, 2007, the Company recorded $0.2 million in legal costs related to this matter. The Company cannot predict the outcome of the legal proceedings or any settlement negotiations or the impact they may have on the Company s operating results or financial condition.

(d) In December 2007, the Company became aware of a lawsuit filed by Image API against the Company in the District Court of Travis County, Texas. That lawsuit has not yet been served on the Company. The plaintiff was a subcontractor to MAXIMUS under the Integrated Eligibility and Enrollment Services program (the Program ) with the Texas Health and Human Services Commission ( HHSC ). As described above, MAXIMUS was a subcontractor to Accenture under the Program until February 2007. The Company and Image API had a number of disagreements under their subcontract regarding Image API's performance and scope of responsibilities. Following the termination of the Company's subcontract with Accenture, the Company and Image API were not able to agree on the role Image API would play in support of MAXIMUS' new agreements with HHSC, and Image API terminated its services. The plaintiff has asserted a variety of claims including breach of contract, fraud, misrepresentation, business disparagement and trade secret misappropriation. MAXIMUS denies those allegations. The plaintiff claims damages due to the loss of compensation expected under its subcontract with MAXIMUS in an amount exceeding $30.0 million. The Company believes the nature and the amount of the asserted claims are without merit and intends to defend the matter vigorously. Nevertheless, the Company cannot predict the outcome of the legal proceedings or any settlement negotiations or the impact they may have on the Company s operating results or financial condition.

*Employment Agreements*

The Company has employment agreements with three of its executives and other employees with terms of the employment obligations ending between fiscal 2008 and fiscal 2010.

**15. Concentrations of Credit Risk and Major Customers**

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of accounts receivable, billed and unbilled, on uncompleted contracts. To date, these financial instruments have been derived from contract revenue earned primarily from federal, state and local government agencies located in the United States.

For the years ended September 30, 2005, 2006, and 2007, the Company derived approximately 16%, 14%, and 14%, respectively, of its consolidated revenue from contracts with the state of California, principally within our Operations Segment.

**16. Business Segments**

The following table provides certain financial information for each business segment (in thousands).

| | 2005 | 2006 | 2007 |
|---|---|---|---|
| Revenue: | | | |
| Consulting | $ 100,359 | $ 102,842 | $ 93,707 |
| Systems | 134,407 | 127,189 | 141,335 |
| Operations | 412,772 | 470,863 | 503,604 |
| Total | $ 647,538 | $ 700,894 | $ 738,646 |
| | | | |
| Income (loss) from operations: | | | |
| Consulting | $ 13,159 | $ 14,499 | $ 6,421 |
| Systems | 11,263 | (853) | (4,655) |
| Operations | 36,174 | (9,453) | 39,132 |
| Consolidating adjustments | 2,678 | 2,375 | 604 |
| Legal and settlement expense | (7,000) | (9,394) | (44,638) |
| Total | $ 56,274 | $ (2,826) | $ (3,136) |
| | | | |
| Identifiable assets: | | | |
| Consulting | $ 53,891 | $ 59,295 | $ 54,796 |
| Systems | 134,101 | 144,511 | 113,216 |
| Operations | 146,904 | 160,946 | 183,552 |
| Corporate | 199,666 | 193,749 | 212,900 |
| Total | $ 534,562 | $ 558,501 | $ 564,464 |
| | | | |
| Depreciation and amortization: | | | |
| Consulting | $ 1,552 | $ 1,511 | $ 1,397 |
| Systems | 6,821 | 6,923 | 9,019 |
| Operations | 4,948 | 7,623 | 8,779 |
| Corporate | 1,824 | 1,588 | 1,775 |
| Total | $ 15,145 | $ 17,645 | $ 20,970 |

Revenue from foreign operations was $49.7 million, $76.7 million, and $88.0 million for fiscal years 2005, 2006, and 2007, respectively. Total assets of foreign operations were $48.0 million and $62.5 million at September 30, 2006 and 2007, respectively.

The loss from operations in the Operations segment for the 2006 fiscal year of $9.5 million includes a non-cash impairment charge of $17.1 million to write off the full unamortized balance of the Texas Integrated Eligibility project s deferred contract costs.

**17. Quarterly Information (Unaudited)**

Set forth below are selected quarterly income statement data for the fiscal years ended September 30, 2006 and 2007. The Company derived this information from unaudited quarterly financial statements that include, in the opinion of Company s management, all adjustments necessary for a fair presentation of the information for such periods. Results of operations for any fiscal quarter are not necessarily indicative of results for any future period.

| | Quarter Ended | | | |
|---|---|---|---|---|
| | Dec. 31, 2005 | March 31, 2006 | June 30, 2006 | Sept. 30, 2006 |
| | (In thousands, except per share data) | | | |
| **Fiscal Year 2006** | | | | |
| Revenue: | | | | |
| Consulting | $ 23,635 | $ 26,368 | $ 26,714 | $ 26,125 |
| Systems | 36,290 | 32,229 | 28,686 | 29,984 |
| Operations | 102,801 | 121,176 | 131,196 | 115,690 |
| Total revenue | 162,726 | 179,773 | 186,596 | 171,799 |
| | | | | |
| Gross profit | 44,746 | 45,332 | 10,542 | 35,626 |
| | | | | |
| Selling, general and administrative expenses | 31,564 | 30,886 | 32,275 | 34,953 |
| | | | | |
| Income (loss) from operations: | | | | |
| Consulting | 2,536 | 2,976 | 3,818 | 5,169 |
| Systems | 3,887 | 278 | (3,010) | (2,008) |
| Operations | 6,068 | 10,544 | (23,121) | (2,944) |
| Consolidating adjustments | 691 | 648 | 580 | 456 |
| Legal and settlement expense | (500) | (725) | (9,078) | 909 |
| Total income (loss) from operations | 12,682 | 13,721 | (30,811) | 1,582 |
| | | | | |
| Net income (loss) | 8,906 | 8,870 | (17,309) | 1,993 |
| | | | | |
| Earnings per share: | | | | |
| Basic | $ 0.42 | $ 0.41 | $ (0.81) | $ 0.09 |
| Diluted | $ 0.41 | $ 0.41 | $ (0.81) | $ 0.09 |

| | Quarter Ended | | | |
|---|---|---|---|---|
| | Dec. 31, 2006 | March 31, 2007 | June 30, 2007 | Sept. 30, 2007 |
| | (In thousands, except per share data) | | | |
| **Fiscal Year 2007** | | | | |
| Revenue: | | | | |
| Consulting | $ 24,656 | $ 23,224 | $ 23,285 | $ 22,542 |
| Systems | 34,541 | 35,412 | 33,957 | 37,425 |
| Operations | 101,941 | 120,441 | 139,315 | 141,907 |
| Total revenue | 161,138 | 179,077 | 196,557 | 201,874 |
| Gross profit | 20,278 | 42,875 | 58,431 | 55,499 |
| Selling, general and administrative expenses | 34,653 | 34,451 | 35,350 | 31,127 |
| Income (loss) from operations: | | | | |
| Consulting | 2,815 | 1,032 | 2,020 | 554 |
| Systems | (1,597) | 93 | (3,617) | 466 |
| Operations | (16,044) | 7,058 | 24,570 | 23,548 |
| Consolidating adjustments | 451 | 241 | 108 | (196) |
| Legal and settlement expense | (3,000) | (6,104) | (33,010) | (2,524) |
| Total income (loss) from operations | (17,375) | 2,320 | (9,929) | 21,848 |
| Net income (loss) | (10,395) | 2,362 | (14,391) | 14,169 |
| Earnings per share: | | | | |
| Basic | $ (0.48) | $ 0.11 | $ (0.65) | $ 0.64 |
| Diluted | $ (0.48) | $ 0.11 | $ (0.65) | $ 0.63 |

**18. Recent Accounting Pronouncements**

In July 2006, the Financial Accounting Standards Board issued Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes which is effective in fiscal years beginning after December 15, 2006, which is the Company s 2008 fiscal year. The purpose of FIN 48 is to clarify and set forth consistent rules for accounting for uncertain tax positions in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. The cumulative effect of initially applying the provisions of this interpretation are required to be reported separately as an adjustment to the opening balance of retained earnings in the year of adoption. While we are in the process of reviewing and evaluating FIN 48, and therefore the ultimate impact of its adoption is not yet known, we do not believe that FIN 48 will have a material impact on our financial statements.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, which is effective in fiscal years beginning after November 15, 2007, which is the Company s 2009 fiscal year. SFAS No. 157 defines fair value, establishes a market-based framework or hierarchy for measuring fair value and expands disclosures about fair value measurements. The new standard is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value, with limited exceptions. We are in the process of reviewing and evaluating SFAS No. 159, and therefore the ultimate impact of its adoption is not yet known.

In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115, which is effective in fiscal years beginning after November 15, 2007, which is the Company s 2009 fiscal year. SFAS No. 159 permits entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. We are in the process of reviewing and evaluating SFAS No. 159, and therefore the ultimate impact of its adoption is not yet known.

**19. Subsequent Events**

On October 5, 2007, the Company s Board of Directors declared a quarterly cash dividend of $0.10 for each share of the Company s common stock outstanding. The dividend was paid on November 30, 2007, to shareholders of record on November 15, 2007. Based on the number of shares outstanding, the payment was $2.2 million.

On July 23, 2007, the Company announced that it had retained UBS Investment Bank as a financial advisor to assist the Board of Directors in exploring strategic alternatives to enhance shareholder value, including a possible sale of the Company. On November 14, 2007, the Company announced that its Board of Directors had completed its process to explore strategic alternatives and had authorized the repurchase of up to $150.0 million of the Company s outstanding common stock under an Accelerated Share Repurchase (ASR) program. After a thorough review process, the Board of Directors concluded that launching a $150.0 million ASR program, concentrating the Company s strategic focus on core health and human services offerings and considering alternatives for certain non-core assets, provides the best opportunity to maximize shareholder value, reflecting the Company s strong financial position and future growth prospects.

In connection with the ASR program, the Company entered into an ASR agreement with UBS Investment Bank on November 15, 2007. Under the ASR agreement, the Company acquired 3,758,457 shares (approximately 17% of the Company s outstanding shares at September 30, 2007) at an initial price of $39.91 per share on November 15, 2007. At the completion of the ASR agreement, the Company s initial price under the ASR agreement will be adjusted up or down based on the volume-weighted average price (VWAP) of the stock during this period. Such adjustment may be settled in cash or stock at the Company s discretion. The Company financed the $150.0 million ASR program with cash and cash equivalents on hand and the sale of marketable securities. The Company also announced plans to secure a $50.0 million to $75.0 million line of credit to provide additional financial flexibility.

**20. Texas Integrated Eligibility Project**

Our fiscal 2006 and 2007 results were respectively impacted by a $49.4 million and $25.2 million operating loss on the Texas Integrated Eligibility project. Up until February 2007, we served as a subcontractor to Accenture as part of the Texas Access Alliance, which provides services under the Texas Health and Human Services Commissions (TX HHSC) Integrated Eligibility Program. We were awarded the five-year, $370 million subcontract in June 2005. In June 2006, we amended our subcontract with Accenture to reduce scope and realign responsibilities. In November 2006, we announced that we commenced negotiations with Accenture to further reduce our scope on the project. In December 2006, we initiated arbitration to resolve certain disputes under the subcontract and in February 2007, we terminated our subcontract with Accenture. In March 2007, the TX HHSC terminated its contract with Accenture and contracted directly with us to provide support services for its State Children s Health Insurance Program (SCHIP) and to provide enrollment broker services for its Medicaid program. We continue to provide services under these programs, but on a profitable basis. The arbitration with Accenture remains ongoing. See Note 14. Commitments and Contingencies above for additional information.

**21. Legal and Settlement Expense**

Legal and settlement expense 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 following table sets forth the matters that represent legal and settlement expense (dollars in thousands):

| | Year ended September 30, | | |
|---|---|---|---|
| | 2005 | 2006 | 2007 |
| District of Columbia Contract Investigation and Related Settlement | $ | $ 500 | $ 31,980 |
| Texas Integrated Eligibility Project | | | 10,000 |
| Computer Equipment Leases Settlement | 7,000 | 8,169 | (150) |
| Ontario Child Support Project Settlement | | | 2,608 |
| Former CEO Investigation and Related Settlement | | 725 | |
| Connecticut COLLECT Project | | | 200 |
| Total | $ 7,000 | $ 9,394 | $ 44,638 |

See Note 14. Commitments and Contingencies above for additional information.

**ITEM 9.** ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

None.

**ITEM 9A.** ***Controls and Procedures.***

*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 Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act )) as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are 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.

*Management s Report on Internal Control Over Financial Reporting*. Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of published financial statements in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of September 30, 2007. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework*. Based on our assessment, we believe that as of September 30, 2007, our internal control over financial reporting was effective based on criteria set forth by COSO in *Internal Control Integrated Framework*.

The attestation report concerning the effectiveness of our internal control over financial reporting as of September 30, 2007, issued by Ernst & Young LLP, the independent registered public accounting firm who also audited our consolidated financial statements is included following this Item 9A.

*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 fourth fiscal quarter of 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**The Board of Directors and Shareholders of MAXIMUS, Inc.**

We have audited MAXIMUS, Inc. s internal control over financial reporting as of September 30, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). MAXIMUS, Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, MAXIMUS, Inc. maintained, in all material respects, effective internal control over financial reporting as of September 30, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated financial statements of MAXIMUS, Inc., as of September 30, 2007 and our report dated December 3, 2007 (except for Note 14(d), as to which the date is December 12, 2007) expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia

December 3, 2007

**ITEM 9B.** ***Other Information.***

*Certifications.* Our principal executive officer and principal financial officer file the certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 regarding the quality of our public disclosure as Exhibits 31.1 and 31.2 to this Annual Report on Form 10-K. In addition, our principal executive officer annually certifies to the New York Stock Exchange that he is not aware of any violation by MAXIMUS of the New York Stock Exchange s corporate governance listing standards. This certification was submitted, without qualification, as required after the 2007 annual meeting of MAXIMUS shareholders.

**PART III**

The information required by Items 10, 11, 12, 13 and 14 of Part III of Form 10-K has been omitted in reliance on General Instruction G(3) to Form 10-K and is incorporated herein by reference to the Company s Proxy Statement relating to its Annual Meeting of Shareholders scheduled for March 18, 2008 (the Proxy Statement ) to be filed with the SEC, except as otherwise indicated below:

**ITEM 10.** ***Directors and Executive Officers of the Registrant.***

The information required by this Item is incorporated by reference to the Proxy Statement.

**ITEM 11.** ***Executive Compensation.***

The information required by this Item is incorporated by reference to the Proxy Statement.

**ITEM 12.** ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***

Except for the information disclosed in this Item below, the information required by this Item is incorporated by reference to the Proxy Statement.

***Securities Authorized for Issuance Under Equity Compensation Plans***

The following table provides information as of September 30, 2007 with respect to shares of our common stock that may be issued under our existing equity compensation plans:

| | Number of securities to be issued upon exercise of outstanding options, warrants and rights | | Weighted average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (1) |
|---|---|---|---|---|
| Equity compensation plans/arrangements approved by the shareholders (2) | 1,437,976 | $ | 31.44 | 1,876,418 |
| Equity compensation plans/arrangements not approved by the shareholders | 406(3) | $ | 12.31 | |
| Total | 1,438,382 | $ | 31.44 | 1,876,418 |

(1) In addition to being available for future issuance upon exercise of options that may be granted after September 30, 2007, all shares under the 1997 Equity Incentive Plan may be issued in the form of restricted stock, performance shares, stock appreciation rights, stock units, or other stock-based awards.

(2) Includes the 1997 Equity Incentive Plan, the 1997 Employee Stock Purchase Plan and the 1997 Director Stock Option Plan.

(3) Represents options assumed in connection with our acquisition of Carrera Consulting Group ( Carrera ) in August 1998. The exercise price of these options is $12.31 per share. All of these options are fully vested and expire in May 2008.

**ITEM 13.** ***Certain Relationships and Related Transactions.***

The information required by this Item is incorporated by reference to the Proxy Statement.

**ITEM 14.** ***Principal Accounting Fees and Services.***

The information required by this Item is incorporated by reference to the Proxy Statement.

**PART IV**

**ITEM 15.** ***Exhibits, Financial Statement Schedules.***

| | | |
|---|---|---|
| (a) | 1. | Financial Statements.<br>The consolidated financial statements are listed under Item 8 of this Annual Report on Form 10-K. |
| | 2. | Financial Statement Schedules.<br>None. Financial statement schedules are either not required under the related instructions or are inapplicable and therefore have been omitted. |
| | 3. | Exhibits.<br>The Exhibits filed as part of this Annual Report on Form 10-K are listed on the Exhibit Index immediately preceding such Exhibits, which Exhibit Index is incorporated herein by reference. |
| (b) | | Exhibits see Item 15(a)(3) above. |
| (c) | | Financial Statement Schedules see Item 15(a)(2) above. |

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized on the 5th day of December 2007.

MAXIMUS, Inc.

By: /s/ RICHARD A. MONTONI
Richard A. Montoni
*Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ RICHARD A. MONTONI<br>Richard A. Montoni | President, Chief Executive Officer and Director (principal executive officer) | December 5, 2007 |
| /s/ DAVID N. WALKER<br>David N. Walker | Chief Financial Officer and Treasurer (principal financial and accounting officer) | December 5, 2007 |
| /s/ PETER B. POND<br>Peter B. Pond | Chairman of the Board of Directors | December 5, 2007 |
| /s/ RUSSELL A. BELIVEAU<br>Russell A. Beliveau | Director | December 5, 2007 |
| /s/ JOHN J. HALEY<br>John J. Haley | Director | December 5, 2007 |
| /s/ PAUL R. LEDERER<br>Paul R. Lederer | Director | December 5, 2007 |
| /s/ RAYMOND B. RUDDY<br>Raymond B. Ruddy | Director | December 5, 2007 |
| /s/ MARILYN R. SEYMANN<br>Marilyn R. Seymann | Director | December 5, 2007 |
| /s/ JAMES R. THOMPSON, JR.<br>James R. Thompson, Jr. | Director | December 5, 2007 |
| /s/ WELLINGTON E. WEBB<br>Wellington E. Webb | Director | December 5, 2007 |

**EXHIBIT INDEX**

| Exhibit Number | |
|---|---|
| 3.1 | Amended and Restated Articles of Incorporation of the Company, as amended. (1) |
| 3.2 | Amended and Restated By-laws of the Company. (2) |
| 4.1 | Specimen Common Stock Certificate. (2) |
| 10.1 | 1997 Equity Incentive Plan, as amended. (3)* |
| 10.2 | 1997 Director Stock Option Plan, as amended. (4)* |
| 10.3 | 1997 Employee Stock Purchase Plan, as amended. (5)* |
| 10.4 | Executive Employment, Non-Compete and Confidentiality Agreement by and between the Company and Richard A. Montoni. (6)* |
| 10.5 | Form of Indemnification Agreement by and between the Company and each of the directors of the Company. (7)* |
| 10.6 | Income Continuity Program. (8) |
| 10.7 | 1997 Equity Incentive Plan - Restricted Stock Units - Terms and Conditions. (9) |
| 10.8 | 1997 Equity Incentive Plan - Non-Qualified Stock Option - Terms and Conditions. (9) |
| 10.9 | Settlement Agreement dated July 20, 2007 among the United States of America, acting through the United States Department of Justice and on behalf of the Office of Inspector General of the Department of Health and Human Services, relator Benjamin Turner, and the Company. (10) |
| 10.10 | Corporate Integrity Agreement dated July 20, 2007 between the Company on behalf of the MAXIMUS Consulting Segment and the Office of Inspector General of the United States Department of Health and Human Services. (10) |
| 10.11 | Deferred Prosecution Agreement dated July 23, 2007 between the Company and the United States Attorney s Office for the District of Columbia. (10) |
| 10.12 | Purchase Agreement between MAXIMUS, Inc. and UBS AG, London Branch, dated November 15, 2007. (11) |
| 21.1 | Subsidiaries of the Company. Filed herewith. |
| 23.1 | Consent of Independent Registered Public Accounting Firm. Filed herewith. |
| 31.1 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith. |
| 31.2 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith. |
| 32.1 | Section 906 Principal Executive Officer Certification. Furnished herewith. |
| 32.2 | Section 906 Principal Financial Officer Certification. Furnished herewith. |
| 99.1 | Special Considerations and Risk Factors. Filed herewith. |

* Denotes management contract or compensation plan.

(1) Filed as an exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2000 (File No. 1-12997) on August 14, 2000 and incorporated herein by reference.

(2) Filed as an exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 1997 (File No. 1-12997) on August 14, 1997 and incorporated herein by reference. Amendment to Amended and Restated By-laws of the Company filed as an exhibit to the Company s Current Report on Form 8-K (File No. 1-12997) on December 6, 2007 and incorporated herein by reference.

(3) Filed as an exhibit to the Company s Registration Statement on Form S-8 (File No. 333-136400) on August 8, 2006 and incorporated herein by reference.

(4) Filed as an exhibit to the Company s Annual Report on Form 10-K for the year ended September 30, 1997 (File No. 1-12997) on December 22, 1997 and incorporated herein by reference.

(5) Filed as an exhibit to the Company s Registration Statement on Form S-8 (File No. 333-122711) on February 10, 2005 and incorporated herein by reference.

(6) Filed as an exhibit to the Company s Current Report on Form 8-K (File No. 1-12997) on April 26, 2006 and incorporated herein by reference.

(7) Filed as an exhibit to the Company s Registration Statement on Form S-1 (File No. 333-21611) on February 12, 1997 and incorporated herein by reference.

(8) Filed as an exhibit to the Company s Current Report on Form 8-K (File No. 1-12997) on March 27, 2006 and incorporated herein by reference.

(9) Filed as an exhibit to the Company s Current Report on Form 8-K (File No. 1-12997) on June 23, 2006 and incorporated herein by reference.

(10) Filed as an exhibit to the Company s Current Report on Form 8-K (File No. 1-12997) on July 25, 2007 and incorporated herein by reference.

(11) Filed as an exhibit to the Company s Current Report on Form 8-K (File No. 1-12997) on November 20, 2007 and incorporated herein by reference.