

Morningstar[®] Document ResearchSM

FORM 10-K

MAXIMUS INC - MMS

Filed: December 15, 2008 (period: September 30, 2008)

Annual report with a comprehensive overview of the company

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

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, 2008
Commission file number: 1-12997**

MAXIMUS, INC.

(Exact name of registrant as specified in its charter)

VIRGINIA
(State or other jurisdiction of incorporation or organization)

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

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

20190
(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 NO

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 NO

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

Indicate by check mark 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.

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 Accelerated filer Non-accelerated filer Smaller reporting company

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

YES NO

The aggregate market value of outstanding voting stock held by non-affiliates of the registrant as of March 31, 2008 was \$580,269,794 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 17,655,225 shares of the registrant's Common Stock outstanding as of November 30, 2008.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2009 Annual Meeting of Shareholders to be held on March 18, 2009, 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, 2008

Table of Contents

<u>PART I</u>		3
<u>ITEM 1.</u>	<u>Business.</u>	3
<u>ITEM 1A.</u>	<u>Risk Factors.</u>	12
<u>ITEM 1B.</u>	<u>Unresolved Staff Comments.</u>	12
<u>ITEM 2.</u>	<u>Properties.</u>	12
<u>ITEM 3.</u>	<u>Legal Proceedings.</u>	12
<u>ITEM 4.</u>	<u>Submission of Matters to a Vote of Security Holders.</u>	13
<u>PART II</u>		13
<u>ITEM 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.</u>	13
<u>ITEM 6.</u>	<u>Selected Financial Data.</u>	16
<u>ITEM 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operation.</u>	18
<u>ITEM 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk.</u>	30
<u>ITEM 8.</u>	<u>Financial Statements and Supplementary Data.</u>	31
<u>ITEM 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.</u>	62
<u>ITEM 9A.</u>	<u>Controls and Procedures.</u>	62
<u>ITEM 9B.</u>	<u>Other Information.</u>	64
<u>PART III</u>		64
<u>ITEM 10.</u>	<u>Directors, Executive Officers and Corporate Governance.</u>	64
<u>ITEM 11.</u>	<u>Executive Compensation.</u>	64
<u>ITEM 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.</u>	64
<u>ITEM 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence.</u>	64
<u>ITEM 14.</u>	<u>Principal Accounting Fees and Services.</u>	64
<u>PART IV</u>		65
<u>ITEM 15.</u>	<u>Exhibits, Financial Statement Schedules.</u>	65

PART I

ITEM 1. *Business.*

General

We provide consulting services and operations program management focused in the areas of health and human services 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 technological solutions 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 core health and human services business has experienced consistent demand levels despite budgetary and fiscal challenges that many states faced during 2003. Beginning in 2004, state financial conditions returned to healthier levels from increased tax receipts. This, coupled with legislation such as the Deficit Reduction Act of 2005, the extension of State Children’s Health Insurance Program (SCHIP) and Medicare Improvements for Patients and Providers Act (MIPPA) has kept demand levels steady.

In 2008, many states experienced budgetary and fiscal challenges; however, we have not experienced any material change in demand. We believe that the need for our services is reasonably insulated since we provide state and federal clients with administrative services for critical programs including Medicaid, Medicare and SCHIP. We believe we remain well positioned to benefit from increasing demand by government clients who are dealing with increasing caseloads in government-run health and human service programs as a result of the economic downturn. Nevertheless, protracted fiscal pressures could adversely impact our business.

Fiscal 2006 and 2007 results were impacted by a \$49.4 million, and \$25.2 million loss, respectively, on the Texas Integrated Eligibility project. Up until February 2007, we served as a subcontractor to Accenture providing services to the Texas Health and Human Services Commissions’ (TX HHSC). In February 2007, we terminated our subcontract with Accenture and 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.

In December 2008, MAXIMUS, Accenture and HHSC settled all claims among the parties, both the claims in the arbitration proceeding and the contract wind down claims. In connection with that settlement, MAXIMUS agreed to pay a total of \$40.0 million and to provide services to HHSC valued at an additional \$10.0 million. The Company’s primary insurance carrier has agreed to pay \$12.5 million of the amount due from MAXIMUS. Accordingly, the Company has recorded a pre-tax charge of \$37.5 million in legal and settlement expense in the accompanying consolidated statements of operations in the fourth quarter of fiscal 2008. The corresponding accrued liability related to the settlement is included in other accrued liabilities as of September 30, 2008 in the accompanying consolidated balance sheets. The Company continues to pursue additional insurance recoveries from its excess insurance carriers; however, such recoveries are not assured.

In fiscal 2008, MAXIMUS divested five business units in order to focus on its core health and human services business portfolio to become the leading pure-play in the consulting and administration of government health and human services programs.

For the fiscal year ended September 30, 2008, we had revenue of \$745.1 million and net income of \$6.7 million. As a result of the five divestitures, financial results reflect the impact of a net loss from discontinued operations totaling \$21.6 million which includes an after-tax loss on disposal of \$5.6 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 2008, approximately 74% of our total revenue was derived from state and local government agencies, 7% from federal government agencies, 16% from foreign customers, and 3% from other sources (such as commercial customers).

[Table of Contents](#)

We believe we are well positioned to benefit from demand for consulting services and operations program management in an environment where governments are required to maintain or improve services to an increasing number of constituents in a difficult economic climate. We believe governments will continue to review current program operations and seek improved operating capability and cost savings through the use of partnering and managed services. 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 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 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 services 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:

- The requirement of state governments that are running federally-mandated and federally-funded programs to efficiently and cost-effectively meet minimum federal requirements in order to maintain federal funding levels. The expectation that state governments will experience rising demand for these federally funded programs as a result of the economic environment which is expected to drive increasing caseloads particularly in health care and employment programs.
- The requirement of state governments to implement federal initiatives such the *Deficit Reduction Act of 2005*, which reauthorizes 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 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. With rising caseloads, we believe that clients may seek additional partnering or managed services options to manage increasing demand for government funded programs.
- 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 and 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 on September 30, 2008. From time to time, we implement certain organizational or management changes that realign our internal infrastructure and enable us to better manage our business.

Operations Segment:

Our Operations Segment generated approximately 84% of our total revenue in fiscal 2008. Financial information with respect to this segment is provided in Notes 16 and 17 of our consolidated financial statements (See Item 8 below). The Operations Segment provides a variety of program management and operations support services for state, Federal, and county funded public programs, and focuses on the delivery of administrative services for government health and human services programs including Medicare, Medicaid, SCHIP, TANF and related workforce services programs, and child support enforcement programs. Our Operations Segment provides these services through the following divisions:

[Table of Contents](#)

Child Support Division. The Child Support Division provides managed services, 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 program goals, including increasing the numbers of child support cases with orders for support, as well as collections on current support due and payment on arrearages.

Federal Operations. The Federal Operations group contracts with federal agencies, to support health, human services, and justice programs. Using an experienced staff of legal and clinical professionals, we conduct health care reconsiderations (appeals) of disputed health insurance coverage denials. We provide these services 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 also designated by CMS as a QIO-like entity (Quality Improvement Organization) and provide health care quality assurance to a number of agencies. We serve as the National Quality Monitoring Contractor for the U.S. Department of Defense TRICARE program, and perform medical peer review for the Department of Veterans Affairs and the U.S. Coast Guard. Under contract with the Social Security Administration, we operate the Ticket to Work Program which provides Social Security disability beneficiaries with access to workforce services. We also provide the U.S. Department of Justice and the Drug Enforcement Administration with professional investigative and asset management services.

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 SCHIP. Under these public health programs we provide: beneficiary outreach and education, application assistance, eligibility support services, enrollment counseling, program data collection and reporting, and premium collection and processing. We deliver these services through customized automated information systems; design and development of print and web-based program educational materials; and full-service multi-contact customer service centers that include on-site multilingual assistance.

Workforce Services Division. The Workforce Services Division manages government workforce-centered service programs in the United States, Australia, United Kingdom, 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 assistance to employers in accessing tax credit benefits and advocacy services for youth and disabled persons in the United States and rehabilitation services in Australia.

Consulting Segment:

Our Consulting Segment generated approximately 16% of our total revenue in fiscal 2008. 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 management and financial consulting services for state and local clients, focusing on services that directly support health and welfare. The Segment serves to create business opportunities for our core Operations Segment while also providing the government market with a consulting option for improving program operations, performance and integrity. The Consulting Segment provides services through the following divisions:

Program Performance Division. Our Program Performance Division helps clients analyze and optimize their business operations. Our services and solutions focus on the health and human services marketplace and include the following:

- **Health and Human Services Consulting** – We offer consulting services to optimize eligibility and enrollment process and call center design. We design and implement outreach and education materials, client advocacy programs, human capital management strategies, and health and human services portals. We also provide program analytics and program quality assurance processes and practices.

[Table of Contents](#)

- Financial Services Consulting – We provide 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. We assist local governments in their efforts to recover available funding from state and federal agencies. We provide cost allocation advisory services, user fee program design and implementation and school based cost accounting.
- Environmental “Go Green” Program Services – We offer implementation and associated process reengineering for recycling and other environment programs, allowing for the effective administration and management of associated operations and funding. The division is currently implementing the Division of Recycling Integrated Information System (DORIIS) for the California Department of Conservation.

Program and Systems Integrity Services Division. We help government organizations plan and monitor large-scale program and technology systems initiatives. Our services include the following:

- Technology Support Services – We assist government agencies in planning, securing funding, procuring, and implementing information systems. We also provide the application of standards-based project management, quality assurance, and independent verification and validation services for government programs such as Medicaid, Child Welfare, Child Support Enforcement, Unemployment Compensation, Eligibility/TANF, and WIC/EBT.
- Payment Error Rate Measurement Program Services (PERM) – We offer PERM program services by providing analysis of historical data pertaining to eligibility decisions for Medicaid and SCHIP.
- Third Party Liability Services – We provide services aimed at helping state health programs avoid and recapture erroneous government health program payments to providers.
- Fraud, Waste and Abuse Services – We assist states in meeting their financial objectives through reducing healthcare payments related to fraud, waste, and abuse as well as recovering overpayments made to service providers.

Educational Services Division. Our Educational Services Division provides a unique set of innovative management tools and professional consulting services for all levels of the educational system.

- K-12 Special Education – We offer TIENET[®], a proven solution to manage instruction, assessment, intervention and special education. Our special education case management application includes electronic Individualized Educational Program (IEP) software and special education case management software to ensure compliance with federal and state laws including the No Child Left Behind Act of 2001 (NCLB). We also offer AutismPro[™], a web-based solution that uses technology and multimedia resources to drive positive outcomes for special needs students.
- Higher Education – We provide consulting services, technical support, and software tools to higher education institutions involved with federally funded research and other sponsored programs.

Enterprise Resource Planning Solutions Division. We work 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.

Competitive Advantages

We offer a private sector alternative for the administration and management of critical government-funded programs as well as offering consulting services. 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:

[Table of Contents](#)

Single-market focus. We are one of the largest publicly traded companies whose primary focus is offering a portfolio of consulting services 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 services 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 program management operations for government agencies serving millions of beneficiaries, many of which we continue to run today. 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 that supports the administration of government program. We have software products that enhance our 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.

MAXIMUS has recently completed a next generation upgrade to our MAXe⁽³⁾ product architecture in support of the administration of Medicaid programs. The new release leverages the Spring 2 Application Framework as part of a Service Oriented Architecture. MAXe⁽³⁾ now incorporates a powerful rules and workflow engine to enhance product configurability across state deployments. The architecture also enhances the user experience by taking advantage of a set of rich internet components based on Java Server Faces (JSR-127) and AJAX technologies to offer a web 2.0-style user interface. Based on the new architecture, MAXIMUS has recently deployed a new electronic benefits product and is currently working on new releases for its SCHIP and WorkQWEST products as well.

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 standards 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.

Competition

The market for providing our services to government agencies is competitive and subject to rapid change. Our Consulting Segment typically competes against large global consulting firms, as well as smaller niche players. 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 services and operations program management to government agencies. The key components of our business growth strategy include the following:

- *Continue to optimize our current operations.* Over the past two years MAXIMUS moved away from a volume-driven sales approach towards a tighter focus on risk management and project execution, resulting in improved profitability from continuing operations. We enhanced our contracts and compliance team and initiated organization-wide training requirements to facilitate project improvements and efficiencies. We 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.
- *Focus on core offerings and selectively divest non-strategic business lines.* Our fundamental strategy is to be the leading provider of health and human services offerings principally to government clients. In 2008, management increased its focus on these core competencies and divested five non-strategic business units. We believe this realignment better positions us to benefit from increasing needs for the administration of government health and human services programs as a result of the economic environment. We believe this will also drive scalable, long-term future growth. We will continue to selectively consider 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, federal agencies and increasingly, new international clients. 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, and consultants experienced in our service areas. 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 provider.
- *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.

[Table of Contents](#)

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, 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.

For the year ended September 30, 2008, we derived approximately 15% and 14% of our consolidated revenue from contracts with the state of California and Texas, respectively, 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 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:

Medicare Improvements for Patients and Providers Act (MIPPA). MIPPA was enacted in July 15, 2008 and made several changes to the Medicare program including improvements to the low-income assistance provisions of the Part D prescription drug program. We analyzed the bill and provisions for impacts on MAXIMUS business and potential opportunities arising from the bill. In particular, new funding is provided in Section 119 for an information clearing house and technical assistance and training to improve services to low-income Medicare beneficiaries.

State Children’s Health Insurance Program (SCHIP). The authorization for the SCHIP has expired and there has been well-documented debate regarding the reauthorization process, including the President’s veto of both versions passed by Congress in 2007. Without the reauthorization, SCHIP has been extended at its current levels through March 2009, at which time another reauthorization process will begin. While the nature of the next 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.

Federal Medical Assistance Percentage (FMAP). A recent Kaiser Family Foundation survey of states found that as many as two-thirds of the states are facing possible shortfalls in Medicaid funding due in large part to enrollment increases caused by the weakening economy. An FMAP increase would assist states facing funding shortfalls. Given this, FMAP increases have been included in both the House-passed Economic Stimulus bill and the Senate Economic Stimulus bill that failed. It will likely be included in a second stimulus bill planned either for the lame-duck session in late November or early in the next administration. We continue to monitor this proposed increase and its potential impact on preserving and expanding Medicaid business for MAXIMUS.

[Table of Contents](#)

President's Emergency Plan for AIDS Relief (PEPFAR). In 2003, President Bush launched the U.S. President's Emergency Plan for AIDS Relief (PEPFAR) to combat global HIV/AIDS and on May 27, 2003, President Bush signed the United States Leadership Against Global HIV/AIDS, Tuberculosis, and Malaria Act of 2003, the legislative authorization for PEPFAR into law. The bill authorized \$48 billion to combat the three diseases. On July 30, 2008, President George W. Bush signed into law H.R. 5501, the Tom Lantos and Henry J. Hyde United States Global Leadership Against HIV/AIDS, Tuberculosis, and Malaria Reauthorization Act of 2008. This legislation responds to the President's call to expand the U.S. Government's commitment to this successful program for five additional years, from 2009 through 2013. We continue to monitor the PEPFAR program and Congressional appropriations and pursue business opportunities for MAXIMUS in assisting governments in Africa to develop the capacity to address the HIV/AIDS epidemic.

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.

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 87% of forecasted fiscal 2009 revenue is in the form of backlog at September 30, 2008, 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, 2007 (restated) and 2008, were as follows:

	As of September 30,	
	2007 (restated)	2008
	(In millions)	
Consulting	\$ 163.1	\$ 161.4
Operations	1,036.9	1,238.6
Total	<u>\$ 1,200.0</u>	<u>\$ 1,400.0</u>

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, 2008, we had 6,206 employees, consisting of 5,619 employees in the Operations Segment, 376 employees in the Consulting Segment, and 211 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, 2008, 428 of our employees in Canada were covered under three different collective bargaining agreements, each of which has different components and requirements. There are 259 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, 158 employees are covered by a collective bargaining agreement with the BCGEU and, under the second agreement, 11 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.

Foreign Operations

We currently operate predominantly in the United States. Our revenues derived from operations in foreign countries for fiscal years 2006, 2007 and 2008 were \$76.7 million, \$88.0 million and \$121.2 million respectively. We had \$27.4 million and \$43.0 million of long-lived assets located in foreign countries at September 30, 2007 and 2008, 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. We also lease offices for management and administrative functions in connection with the performance of our services. At September 30, 2008, we leased 81 offices in the United States totaling approximately 1,114,000 square feet. In four countries outside the United States, we leased 69 offices containing approximately 301,500 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 January 2007, MAXIMUS initiated arbitration against Accenture LLP to resolve various disputes that had arisen under a subcontract between the parties 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"). Among other things, the Company asserted that Accenture had breached the subcontract resulting in damages to MAXIMUS in excess of \$100 million. Accenture denied MAXIMUS' claims and asserted a counterclaim that MAXIMUS breached the subcontract. Accenture alleged unspecified damages which it stated could be hundreds of millions of dollars. The subcontract incorporated the terms and conditions of the prime contract which contained a limitation of liability of \$250.0 million.

In February 2007, MAXIMUS terminated its subcontract with Accenture. In March 2007, HHSC announced that it was winding down its contract with Accenture. HHSC alleged a variety of damages arising from the parties' operation of the Program. Accenture indicated that its damages claim against MAXIMUS in the arbitration proceeding would include damages asserted by HHSC against Accenture.

Shortly after the wind down of the Accenture contract with HHSC, MAXIMUS 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.

In December 2008, MAXIMUS, Accenture and HHSC settled all claims among the parties, both the claims in the arbitration proceeding and the contract wind down claims. In connection with that settlement, MAXIMUS agreed to pay a total of \$40.0 million and to provide services to HHSC valued at an additional \$10.0 million. The Company's primary insurance carrier has agreed to pay \$12.5 million of the amount due from MAXIMUS. Accordingly, the Company has recorded a pre-tax charge of \$37.5 million in legal and settlement expense in the accompanying consolidated statements of operations in the fourth quarter of fiscal 2008. The corresponding accrued liability related to the settlement is included in other accrued liabilities as of September 30, 2008 in the accompanying consolidated balance sheets. The Company continues to pursue additional insurance recoveries from its excess insurance carriers; however, such recoveries are not assured.

[Table of Contents](#)

(b) 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 breach 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. 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.

(c) In 2003, MAXIMUS contracted to provide an integrated case management system and related services for a certain City. The City alleged that the Company failed to satisfy various contractual requirements, and the Company denied those allegations. In the interest of avoiding the costs, risks and distraction of litigation, the parties agreed to a mutual termination of the contract and settlement of the claims. Under the terms of the settlement, MAXIMUS paid the City \$5.0 million and forgave outstanding accounts receivable of \$2.0 million. Accordingly, the Company recorded a charge of \$7.0 million classified in discontinued operations during the year ended September 30, 2008.

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		Dividends
	High	Low	
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
Year Ended September 30, 2008:			
First Quarter	\$ 48.33	\$ 37.05	\$ 0.10
Second Quarter	38.91	33.76	0.10
Third Quarter	39.09	34.49	0.10
Fourth Quarter	38.59	32.82	0.10

As of November 14, 2008, there were 83 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 10,911 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.

[Table of Contents](#)

The following table sets forth the information required regarding repurchases of common stock that we made during the three months ended September 30, 2008 and cumulative repurchases under our share repurchase program:

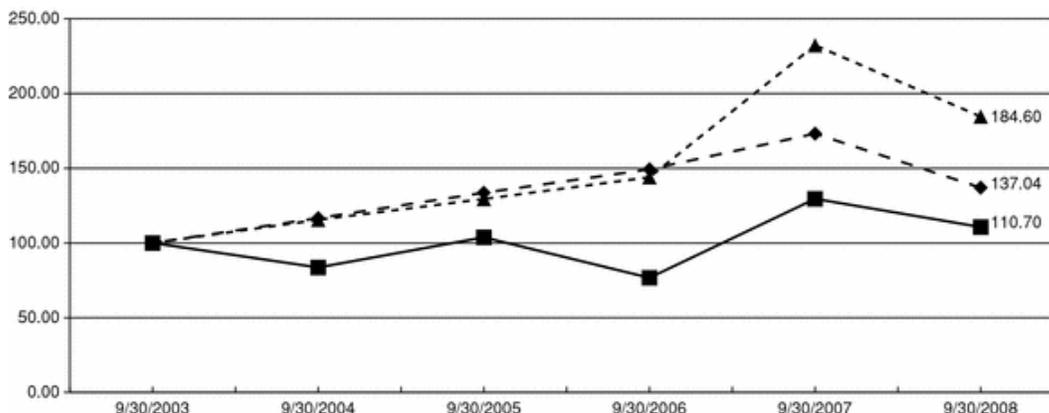
<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plan(1)</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan</u> (in thousands)
Inception through June 30, 2008	8,248,530	\$ 33.82	8,248,530	\$ 44,304
July 1, 2008 — July 31, 2008	—	—	—	\$ 95,082
August 1, 2008 — August 31, 2008	207,200	36.38	207,200	\$ 87,979
September 1, 2008 — September 30, 2008	179,400	36.47	179,400	\$ 82,047
Total — Quarter ended September 30, 2008	386,600	36.42	386,600	
Inception through September 30, 2008	8,635,130	\$ 35.14	8,635,130	

(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. Under a resolution adopted on July 22, 2008, which rescinds and supersedes the previous resolutions, the Board of Directors has authorized the repurchase, at management's discretion, of up to an aggregate of \$75.0 million of the Company's common stock. The resolution also authorized the use of option exercise proceeds for the repurchase of the Company's common stock. As of December 12, 2008, the Company has repurchased 648,490 common shares at a cost of \$20.0 million during the first quarter of fiscal 2009.

Stock Performance Graph

The following graph compares the cumulative total shareholder return on our common stock for the five-year period from September 30, 2003 to September 30, 2008, 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, 2003 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:	09/2003	09/2004	09/2005	09/2006	09/2007	09/2008
■	MAXIMUS, INC.	100.0	83.64	103.80	76.72	129.55	110.70
— — ◆	NYSE Stock Market (US Companies)	100.0	116.69	133.63	149.29	173.17	137.04
----- ▲	NYSE/AMEX/NASDAQ Stocks (SIC 8740-8749 US Comp) Management and Public Relations Services	100.0	115.52	129.47	143.99	232.29	184.60

Notes:

- A. The lines represent 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 09/30/2003.

Prepared by Zacks Investment Research, Inc. Copyright 1960-2008 CRSP Center for Research in Security Prices, Graduate School of Business, University of Chicago. Used with permission. All rights reserved.

[Table of Contents](#)

ITEM 6. Selected Financial Data.

We have derived the selected consolidated financial data presented below, as adjusted for discontinued operations, 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,				
	2004	2005	2006(1)	2007	2008(2)
(In thousands, except per share data)					
Statement of Operations Data:					
Revenue	\$ 504,192	\$ 534,701	\$ 583,571	\$ 626,231	\$ 745,133
Legal and settlement expense(3)	—	7,000	9,394	44,438	38,358
Write-off of deferred contract costs(4)	—	—	17,109	—	—
Goodwill impairment (5)	—	—	—	—	7,600
Gain on sale of building (6)	—	—	—	—	3,938
Operating income (loss) from continuing operations	50,841	36,883	(18,206)	(895)	44,075
Income (loss) from continuing operations	31,390	24,337	(6,845)	(7,172)	28,281
Income (loss) from discontinued operations	7,384	11,732	9,305	(1,083)	(21,604)
Net income (loss)	38,774	36,069	2,460	(8,255)	6,677
Basic Earnings (loss) per share:					
Income (loss) from continuing operations	\$ 1.45	\$ 1.14	\$ (0.32)	\$ (0.33)	\$ 1.48
Income (loss) from discontinued operations	\$ 0.35	\$ 0.55	\$ 0.43	\$ (0.05)	\$ (1.13)
Basic earnings (loss) per share	\$ 1.80	\$ 1.69	\$ 0.11	\$ (0.38)	\$ 0.35
Diluted Earnings (loss) per share:					
Income (loss) from continuing operations	\$ 1.43	\$ 1.12	\$ (0.32)	\$ (0.33)	\$ 1.47
Income (loss) from discontinued operations	\$ 0.33	\$ 0.55	\$ 0.43	\$ (0.05)	\$ (1.12)
Diluted earnings (loss) per share	\$ 1.76	\$ 1.67	\$ 0.11	\$ (0.38)	\$ 0.35
Weighted average shares outstanding:					
Basic	21,589	21,331	21,465	21,870	19,060
Diluted	22,014	21,653	21,821	21,870	19,305
Cash dividends per share of common stock	\$ —	\$ 0.30	\$ 0.40	\$ 0.40	\$ 0.40

	At September 30,				
	2004	2005	2006	2007	2008
(In thousands)					
Balance Sheet Data:					
Cash, cash equivalents, and marketable securities	\$ 139,254	\$ 178,363	\$ 156,860	\$ 196,682	\$ 120,628
Working capital	229,514	246,595	254,811	267,145	151,779
Total assets	464,747	534,562	558,501	564,464	458,946
Total capital lease obligations, less current portion	5,108	3,606	2,044	417	—
Total shareholders’ equity	373,548	405,954	404,899	409,400	275,706

[Table of Contents](#)

-
- (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. Shareholders’ Equity” to our consolidated financial statements.
 - (2) Effective October 1, 2007, we adopted the provisions of Financial Accounting Standards Board (“FASB”) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109*. See “Note 12. Income Taxes” to our consolidated financial statements.
 - (3) 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. Legal and Settlement Expense” to our consolidated financial statements for additional information.
 - (4) 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. Texas Integrated Eligibility Project” to our consolidated financial statements.
 - (5) During the quarter ended September 30, 2008, the Company recorded a \$7.6 million impairment charge related to the ERP division which was retained by the Company following the divestiture of the Justice Solutions, Education Systems and Asset Solutions divisions in the fourth quarter of fiscal 2008. See “Note 7. Goodwill and Intangible Assets” to our consolidated financial statements for additional information.
 - (6) During the quarter ended June 30, 2008, the Company sold a 21,000 square foot administrative building in McLean, Virginia and recognized a pre-tax gain on the sale of \$3.9 million. This gain has been classified as a gain on sale of building in the consolidated statement of operations. See “Note 23. Sale of Building” to our consolidated financial statements for additional information.
-

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," "should," and "will" and similar 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 services and operations program management focused in the areas of health and human services 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, 2008, we had revenue of \$745.1 million and net income of \$6.7 million.

We report each of our two lines of business (i.e., Consulting 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,		
	2006	2007	2008
	(dollars in thousands, except per share data)		
Revenue	\$ 583,571	\$ 626,231	\$ 745,133
Write-off of deferred contract costs	\$ 17,109	\$ —	\$ —
Gross profit	\$ 94,561	\$ 147,724	\$ 201,744
Selling, general and administrative expense	\$ 103,373	\$ 104,632	\$ 115,649
Selling, general and administrative expense as a percentage of revenue	17.7%	16.7%	15.5%
Legal and settlement expense	\$ 9,394	\$ 44,438	\$ 38,358
Goodwill impairment	\$ —	\$ —	\$ 7,600
Gain on sale of building	\$ —	\$ —	\$ 3,938
Operating income (loss) from continuing operations	\$ (18,206)	\$ (895)	\$ 44,075
Operating margin (loss) from continuing operations percentage	(3.1)%	(0.1)%	5.9%
Income (loss) from discontinued operations, net of income taxes	\$ 9,305	\$ (1,083)	\$ (21,604)
Net income (loss)	\$ 2,460	\$ (8,255)	\$ 6,677
Basic Earnings (loss) per share:			
Income (loss) from continuing operations	\$ (0.32)	\$ (0.33)	\$ 1.48
Income (loss) from discontinued operations	\$ 0.43	\$ (0.05)	\$ (1.13)
Basic earnings (loss) per share	\$ 0.11	\$ (0.38)	\$ 0.35
Diluted Earnings (loss) per share:			
Income (loss) from continuing operations	\$ (0.32)	\$ (0.33)	\$ 1.47
Income (loss) from discontinued operations	\$ 0.43	\$ (0.05)	\$ (1.12)
Diluted earnings (loss) per share	\$ 0.11	\$ (0.38)	\$ 0.35

Revenue increased 19.0% in fiscal 2008 compared to fiscal 2007. The increase in revenue is attributable to organic growth driven by new work in the Operations Segment and the transformation of the Texas contract to a direct service agreement. Revenue increased 7.3% 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 13.1% primarily driven by organic growth in the health services divisions within the Operations Segment.

Operating income from continuing operations in fiscal 2008 was \$44.1 million, compared to an operating loss of \$0.9 million in fiscal 2007. The increase in operating income from continuing operations of \$45.0 million is primarily attributable to (1) \$50.1 million of improved performance in the Operations Segment, (2) a \$6.1 million decrease in legal and settlement expense, (3) a \$3.9 million gain on sale of building, offset by (4) a \$7.6 million non-cash goodwill impairment charge related to the Company's ERP division, and (5) a \$6.3 million decrease in operating income in the Consulting Segment.

Operating loss from continuing operations in fiscal 2007 was \$0.9 million, compared to an operating loss of \$18.2 million in fiscal 2006. The decrease in operating loss from continuing operations of \$17.3 million is primarily attributable to (1) \$49.7 million of improved performance in the Operations Segment, (2) \$3.0 million of improved performance in the Consulting Segment, offset by (3) a \$35.0 million increase in legal and settlement expense driven by settlement of the District of Columbia contract investigation.

[Table of Contents](#)

The improved performance in the Operations Segment of \$49.7 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.

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 as a percentage of revenue for fiscal years 2006, 2007 and 2008 was 17.7%, 16.7%, and 15.5%, respectively.

Also included in SG&A were \$6.6 million, \$3.8 million and \$9.5 million of non-cash, equity-based compensation related to stock options and RSUs for fiscal years 2006, 2007 and 2008. During the first quarter of fiscal 2008, the Company identified an error in prior periods in recorded stock-based compensation expense related to stock options and RSUs. The error was due, in part, to how the software used by the Company applied estimated forfeiture rates to fully vested stock options and RSUs. The impact was to underestimate stock compensation expense by \$1.1 million in each of fiscal 2006 and 2007. The Company has corrected this error by recording additional stock compensation expense of \$2.2 million in the first quarter of fiscal 2008.

Legal and settlement expense for fiscal years 2006, 2007 and 2008 was \$9.4 million, \$44.4 million, and \$38.4 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,		
	2006	2007	2008
District of Columbia Contract Investigation and Related Settlement	\$ 500	\$ 31,980	\$ (19)
Accenture Arbitration and Related Settlement	—	10,000	38,377
Computer Equipment Leases Settlement	8,169	(150)	—
Ontario Child Support Project Settlement	—	2,608	—
Other	725	—	—
Total	\$ 9,394	\$ 44,438	\$ 38,358

Provisions (benefit) for income taxes was (39.7)% and 39.2% of income (loss) from continuing operations in fiscal 2006 and 2008, respectively.

Provision for income taxes for fiscal 2007 was \$12.1 million which consisted of:

- a \$9.3 million tax benefit related to legal and settlement expenses of \$44.4 million (portions of the settlement expense related to the District of Columbia matter are not tax deductible),
- a \$0.7 million valuation allowance on certain deferred tax assets related to a foreign subsidiary's net operating losses, and
- a \$20.7 million tax provision at 42.0% on income from continuing operations of \$49.3 million (income from continuing operations of \$4.9 million plus legal and settlement expenses of \$44.4 million).

[Table of Contents](#)

Income from continuing operations, net of income taxes was \$28.3 million, or \$1.47 per diluted share, compared to a loss from continuing operations, net of income taxes of \$7.2 million, or \$0.33 per diluted share in fiscal 2007, and a loss from continuing operations, net of income taxes of \$6.8 million, or \$0.32 per diluted share in fiscal 2006. The above changes 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,		
	2006	2007	2008
	(dollars in thousands)		
Revenue	\$ 112,199	\$ 118,745	\$ 115,907
Gross profit	41,140	44,838	38,436
Operating income	4,705	7,748	1,425
Operating margin percentage	4.2%	6.5%	1.2%

The Consulting Segment includes program performance services, program and systems integrity services, educational services, and enterprise resource planning (ERP) solutions.

Revenue decreased 2.4% in fiscal 2008 compared to fiscal 2007. Operating income in fiscal 2008 was \$1.4 million, compared to \$7.7 million in fiscal 2007. The decrease in operating income of \$6.3 million is primarily attributable to (1) a \$2.7 million provision related to a fixed price ERP contract, (2) a \$2.3 million charge related to a legacy federal claiming project which may be recovered pending the outcome of the client's recovery appeal and (3) the shift away from contingent-based federal claiming work and incurring additional project costs to develop new market areas, such as Medicaid fraud, waste and abuse.

Revenue increased 5.8% in fiscal 2007 compared to fiscal 2006. Operating income in fiscal 2007 was \$7.7 million, compared to \$4.7 million in fiscal 2006. The increase in operating income of \$3.0 million is primarily attributable to growth and margin expansion in the ERP division offset by the shift away from contingent-based federal claiming work.

Operations Segment

	Year ended September 30,		
	2006	2007	2008
	(dollars in thousands)		
Revenue	\$ 471,372	\$ 507,486	\$ 629,226
Write-off of deferred contract costs	17,109	—	—
Gross profit	53,421	102,886	163,308
Operating income (loss)	(14,089)	35,615	85,693
Operating margin (loss) percentage	(3.0)%	7.0%	13.6%

The Operations Segment includes health services, workforce services, child support, and federal managed services and operations work.

Revenue increased 24.0% in fiscal 2008 compared to fiscal 2007. The increase in revenue is primarily driven by new and expanding domestic and international work in our human and health services operations and the transformation of the Texas contract to a direct service agreement. Operating income in fiscal 2008 was \$85.7 million, compared to \$35.6 million in fiscal 2007. The increase in operating income of \$50.1 million is driven by improvements related to the optimization of the business portfolio; new awards; and the resolution of certain legacy contracts, including transformation of the Texas contract to a direct service agreement.

Revenue increased 7.7% 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 14.9% primarily driven by organic growth in health services. Operating income in fiscal 2007 was \$35.6 million, compared to an operating loss of \$14.1 million in fiscal 2006. The increase in operating income of \$49.7 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.

Interest and Other Income, Net

	Year ended September 30,		
	2006	2007	2008
	(dollars in thousands)		
Interest and other income, net	\$ 6,859	\$ 5,804	\$ 2,423
Percentage of revenue	1.2%	0.9%	0.3%

Interest and other income was \$2.4 million in fiscal 2008, compared to \$5.8 million in fiscal 2007. The decrease in interest and other income of \$3.4 million is primarily attributable to a \$4.0 million reduction in interest income related to the \$150.0 million Accelerated Share Repurchase that was completed during the first quarter of fiscal 2008, which reduced cash balances.

Interest and other income was \$5.8 million in fiscal 2007, compared to \$6.9 million in fiscal 2006. The decrease in interest and other income of \$1.1 million 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).

Discontinued Operations

On April 30, 2008, the Company sold its Security Solutions division for cash proceeds of \$4.6 million, net of transaction costs of \$0.4 million, and recognized a pre-tax gain on the sale of \$2.9 million. The financial position, results of operations, and cash flows of this business are reported as discontinued operations and all prior periods have been reclassified to conform to the current period's presentation. The Security Solutions division was previously reported as part of the Company's Systems Segment.

On May 2, 2008, the Company sold its Unison MAXIMUS, Inc. subsidiary for proceeds of \$6.5 million. The sale transaction is structured as a sale of stock to the current management team of the subsidiary. The sale price of \$6.5 million consists of \$0.1 million in cash and \$6.4 million in the form of a promissory note secured by (1) a security interest in all of the assets of the former subsidiary; (2) a pledge of shares by the buyer; and (3) a personal guaranty by members of the current management team who are shareholders of the buyer. In accordance with Topic 5-U of SEC Staff Accounting Bulletin No. 81, "Gain Recognition on the Sale of a Business or Operating Assets to a Highly Leveraged Entity," the Company has deferred recognition of a pre-tax gain on the sale of \$3.9 million, and interest income on the promissory note, until realization is more fully assured. The financial position, results of operations, and cash flows of this business are reported as discontinued operations and all prior periods have been reclassified to conform to the current period's presentation. Unison MAXIMUS, Inc. was previously reported as part of the Company's Consulting Segment.

On September 30, 2008, the Company sold its Justice Solutions, Education Systems, and Asset Solutions divisions, which were previously reported as part of its Systems Segment. Total consideration for the transaction was \$40.0 million, including a \$35.0 million cash payment received at closing and a \$5.0 million holdback for one year from closing, subject to a purchase price adjustment and any claims based on representations and warranties. The Company deferred recognition of the holdback and, net of transaction costs of \$2.0 million, recognized a pre-tax loss on the sale of \$12.2 million. Beginning in the fourth quarter of fiscal 2008, the Company classified the results of operations of these divisions as discontinued operations and incorporated the Enterprise Resource Planning (ERP) Solutions division into the Consulting Segment. The financial position, results of operations, and cash flows of these businesses are reported as discontinued operations and all prior periods have been reclassified to conform to the current period's presentation.

[Table of Contents](#)

The following table summarizes the operating results of the discontinued operations included in the Consolidated Statements of Operations (in thousands):

	Year Ended September 30,		
	2006	2007	2008
Revenue	\$ 117,323	\$ 112,415	\$ 85,532
Income (loss) from operations before income taxes	\$ 15,380	\$ (1,791)	\$ (26,379)
Provision (benefit) for income taxes	6,075	(708)	(10,410)
Income (loss) from discontinued operations	\$ 9,305	\$ (1,083)	\$ (15,969)
Loss on disposal before income taxes	\$ —	\$ —	\$ (9,314)
Benefit for income taxes	—	—	(3,679)
Loss on disposal	\$ —	\$ —	\$ (5,635)
Income (loss) from discontinued operations	\$ 9,305	\$ (1,083)	\$ (21,604)

Quarterly Results

Set forth in “Note 17. Quarterly Information (unaudited)” 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, 2008. 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, 2008 that require the Company to make future cash payments (in thousands):

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Capital lease obligations	\$ 420	\$ 420	\$ —	\$ —	\$ —
Operating leases	61,618	23,433	24,719	10,046	3,420
Total(1)	\$ 62,038	\$ 23,853	\$ 24,719	\$ 10,046	\$ 3,420

- (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.
- (2) Due to the uncertainty with respect to the timing of future cash flows associated with the Company's unrecognized income tax benefits at September 30, 2008, we are unable to reasonably estimate settlements with taxing authorities. The above Contractual Obligations table does not reflect unrecognized income tax benefits of approximately \$2.0 million, of which approximately \$0.1 million is related interest expense for fiscal 2008. See Note 12 of the Consolidated Financial Statements for a further discussion on income taxes.

Liquidity and Capital Resources

	Year ended September 30,	
	2007	2008
	(dollars in thousands)	
Net cash provided by (used in):		
Operating activities	\$ 51,190	\$ 56,573
Investing activities	(24,854)	148,460
Financing activities	4,591	(154,877)
Net increase (decrease) in cash and cash equivalents	\$ 30,927	\$ 50,156

Cash provided by operating activities in fiscal 2008 was \$56.6 million, compared to \$51.2 million in fiscal 2007. Cash provided by operating activities in fiscal 2008 consisted of net income of \$6.7 million, cash provided by discontinued operations of \$4.9 million, and non-cash items aggregating \$18.2 million, plus cash provided by changes in assets and liabilities of \$26.8 million. Non-cash items consisted of loss from discontinued operations of \$21.6 million, depreciation and amortization of \$12.6 million, goodwill impairment of \$7.6 million, deferred interest income on note receivable of \$0.1 million and non-cash equity based compensation of \$9.1 million, offset by deferred income taxes of \$28.9 million and gain on sale of building of \$3.9 million. Cash provided by changes in assets and liabilities reflected increases in accounts receivable-billed of \$16.0 million, accounts receivable-unbilled of \$10.9 million, due from insurance carrier of \$12.5 million, prepaid expenses of \$1.2 million, other assets of \$0.2 million, accounts payable of \$3.0 million, accrued compensation and benefits of \$2.1 million, deferred revenue of \$1.0 million, income taxes payable of \$11.2 million and other liabilities of \$47.5 million, offset by decreases in deferred contract costs of \$2.8 million.

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, cash provided by discontinued operations of \$24.5 million, and non-cash items aggregating \$4.4 million, plus cash provided by changes in assets and liabilities of \$30.6 million. Non-cash items consisted of loss from discontinued operations of \$1.1 million, depreciation and amortization of \$12.3 million and non-cash equity based compensation of \$4.0 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 increases in accounts receivable-billed of \$2.0 million, prepaid expenses of \$0.2 million, accounts payable of \$1.7 million, accrued compensation and benefits of \$4.1 million, deferred revenue of \$2.2 million, income taxes payable of \$14.5 million and other liabilities of \$1.1 million, offset by a decrease in accounts receivable-unbilled of \$1.8 million, deferred contract costs of \$3.0 million and other assets of \$4.4 million.

[Table of Contents](#)

Cash provided by investing activities in fiscal 2008 was \$148.5 million, compared to \$24.9 million used in fiscal 2007. Cash used in investing activities in fiscal 2008 consisted of \$5.1 million in expenditures related to capitalized software and \$10.3 million in purchases of property and equipment, an acquisition of business, net of cash acquired of \$3.1 million and cash used in discontinued operations of \$3.0 million, offset by a decrease in note receivable of \$0.2 million, decrease in marketable securities of \$126.2 million, proceeds from sales of discontinued operations, net of transaction costs of \$37.7 million and proceeds from the sale of building, net of transaction costs of \$5.9 million. Cash used in investing activities in fiscal 2007 was \$24.9 million, compared to \$24.2 million used in fiscal 2006. Cash used in investing activities in fiscal 2007 consisted of \$2.4 million in expenditures related to capitalized software, \$12.4 million in purchases of property and equipment, an increase in marketable securities of \$8.9 million and cash used in discontinued operations of \$3.1 million, offset by proceeds from the sale of business of \$1.9 million.

Cash used in financing activities in fiscal 2008 was \$154.9 million, compared to cash provided by financing activities of \$4.6 million in fiscal 2007. Cash used in financing activities in fiscal 2008 consisted of repurchases of common stock of \$164.5 million, \$7.8 million of dividends paid and \$1.6 million of principal payments on capital leases, offset by \$4.4 million of employee stock transactions, price adjustment under Accelerated Share Repurchase agreement of \$13.9 million and equity-based tax benefits of \$0.7 million. Cash provided by financing activities in fiscal 2007 was \$4.6 million, compared to \$11.1 million used 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.

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 and retired 3,758,457 shares at an initial price of \$39.91 per share for \$150.0 million plus fees of approximately \$0.4 million. UBS purchased an equivalent number of shares in the open market over the nine-month period ending August 15, 2008. Pursuant to the ASR agreement, at its completion the Company's initial price under the ASR agreement was adjusted down based on the volume-weighted average price ("VWAP") of the Company's stock during this period. Such adjustment could be settled in cash or stock at the Company's discretion. On July 11, 2008, UBS Investment Bank completed the purchase of shares in the open market, and the Company elected to receive the price adjustment of \$13.9 million in cash. In the fourth quarter of fiscal 2008, this receipt of cash was recorded as a decrease to treasury stock in the full amount of \$13.9 million.

Under a resolution adopted in July 2008, the Board of Directors has authorized the repurchase, at management's discretion, of up to an aggregate of \$75.0 million of the Company's common stock. The resolution also authorized the use of option exercise proceeds for the repurchase of the Company's common stock.

Our working capital at September 30, 2007 and 2008 was \$267.1 million and \$151.8 million, respectively. At September 30, 2008, we had cash, cash equivalents, and marketable securities of \$120.6 million and no debt, except for lease obligations. Management believes this liquidity and financial position, along with the revolving credit facility discussed below, provides sufficient liquidity to continue any contemplated stock repurchase program (depending on the price of the Company's common stock), to pursue selective acquisitions, and to consider the continuation of dividends on a quarterly basis. Restricted cash represents amounts collected on behalf of certain customers and its use is restricted to the purposes specified under our contracts with these customers.

[Table of Contents](#)

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, 2008, \$5.3 million in net costs had been incurred and reported as deferred contract costs on our 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. The Company also has two letters of credit in connection with insurance policies, which total approximately \$0.4 million. The letters of credit for insurance policies expire in May 2009 and automatically renew annually, thereafter.

On January 25, 2008, the Company entered into a Revolving Credit Agreement providing for a senior secured revolving credit facility, with SunTrust Bank as administrative agent, issuing bank and swingline lender, and a syndicate of other lenders (the "Credit Facility"). The Credit Facility provides for a \$50.0 million revolving line of credit commitment, which may be used (i) for revolving loans, (ii) for swingline loans, subject to a sublimit of \$5.0 million, and (iii) to request the issuance of letters of credit on the Company's behalf, subject to a sublimit of \$25.0 million. The Company may request an increase in the commitment under the Credit Facility, such that the aggregate commitments under the Credit Facility shall at no time exceed \$75.0 million. On June 30, 2008, SunTrust Bank's commitment automatically stepped down from \$50.0 million to \$35.0 million in accordance with the terms of the Credit Facility. The credit available under the Credit Facility may be used, among other purposes, to refinance the Company's current indebtedness, to repurchase shares of the Company's capital stock and to finance the ongoing working capital, capital expenditure, and general corporate needs of the Company. At September 30, 2008, letters of credit totaling \$10.4 million are outstanding under the Credit Facility.

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, 2008, capital lease obligations of \$0.4 million were outstanding related to these lease arrangements for new equipment.

At September 30, 2007 and 2008, we classified accounts receivable of \$2.5 million and \$2.2 million, respectively, net of a \$0.6 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 had extended payment terms and collection was expected to exceed one year.

On October 3, 2008, 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 28, 2008 to shareholders of record on November 14, 2008. Based on the number of shares outstanding, the payment was \$1.8 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 28% of our business is conducted under cost-reimbursable contracts which adjust revenue to cover costs increased by inflation. Approximately 3% 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 2008, approximately 74% of our total revenue was derived from state and local government agencies; 7% from federal government agencies; 16% from foreign customers; and 3% 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 2008, revenue from fixed-price contracts was approximately 33% of total revenue; revenue from performance-based contracts was approximately 36% of total revenue; revenue from cost-plus contracts was approximately 28% of total revenue; and revenue from time and materials contracts was approximately 3% 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.

[Table of Contents](#)

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.

[Table of Contents](#)

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* and are reported in discontinued operations. 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. The Company also capitalizes software development costs in accordance with AICPA Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* ("SOP 98-1") which are reported in continuing operations. Direct costs of time and material incurred for the development of application software for internal use are capitalized and amortized using the straight-line method over the estimated useful life of the software, ranging from three to seven years.

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.

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.

[Table of Contents](#)

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.

Effective October 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 109," ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income tax positions. FIN 48 provides that the financial statement effects of an income tax position can only be recognized when, based on the technical merits, it is "more-likely-than-not" that the position will be sustained upon examination. The cumulative effect of applying the provisions of FIN 48 was a \$0.3 million decrease to the beginning balance of retained earnings in our consolidated balance sheet.

As of September 30, 2008, the Company had \$0.5 million of deferred tax assets related to net operating loss carryforwards in 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 this Canadian operation. 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, 2008, the Company had \$5.3 million of net operating loss carryforwards related to another subsidiary in Canada. A full valuation allowance of \$1.8 million has been established against the related deferred tax asset. 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.

[Table of Contents](#)

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, 2007 and 2008](#)

[Consolidated Statements of Operations for the years ended September 30, 2006, 2007 and 2008](#)

[Consolidated Statements of Changes in Shareholders' Equity for the years ended September 30, 2006, 2007 and 2008](#)

[Consolidated Statements of Cash Flows for the years ended September 30, 2006, 2007 and 2008](#)

[Notes to Consolidated Financial Statements](#)

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, 2008 and 2007, 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, 2008. 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, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 30, 2008, 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, 2008, 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 10, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
December 10, 2008 (except for Note 14 (a) as to
which the date is December 12, 2008)

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

	September 30,	
	2007	2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 70,472	\$ 120,628
Marketable securities	126,210	—
Restricted cash	325	329
Accounts receivable — billed, net	111,210	128,819
Accounts receivable — unbilled	19,782	30,695
Current portion of note receivable	—	746
Deferred income taxes	17,409	21,901
Due from insurance carrier	—	12,500
Prepaid expenses and other current assets	8,087	9,276
Current assets of discontinued operations	45,242	193
Total current assets	<u>398,737</u>	<u>325,087</u>
Property and equipment, net	34,329	33,994
Capitalized software, net	10,830	14,125
Deferred contract costs, net	8,116	5,324
Goodwill	60,476	60,659
Intangible assets, net	2,476	3,699
Note receivable	—	1,337
Deferred income taxes	—	10,933
Other assets	2,366	3,788
Noncurrent assets of discontinued operations	47,134	—
Total assets	<u>\$ 564,464</u>	<u>\$ 458,946</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 45,711	\$ 48,950
Accrued compensation and benefits	24,569	26,684
Current portion of deferred revenue	16,845	19,676
Current portion of income taxes payable	5,487	12,662
Current portion of capital lease obligations	1,627	417
Other accrued liabilities	1,387	53,891
Current liabilities of discontinued operations	35,966	11,028
Total current liabilities	<u>131,592</u>	<u>173,308</u>
Capital lease obligations, less current portion	417	—
Deferred revenue, less current portion	10,143	8,315
Income taxes payable, less current portion	—	1,617
Deferred income taxes	12,912	—
Total liabilities	<u>155,064</u>	<u>183,240</u>
Commitments and contingencies (Notes 10 and 14)		
Shareholders' equity:		
Common stock, no par value; 60,000,000 shares authorized; 22,194,489 and 18,302,368 shares issued and outstanding at September 30, 2007 and 2008, at stated amount, respectively	299,846	328,323
Treasury stock, at cost; 4,490,073 and 8,635,130 shares at September 30, 2007 and 2008, respectively	(124,637)	(289,103)
Accumulated other comprehensive income	1,730	5,536
Retained earnings	232,461	230,950
Total shareholders' equity	<u>409,400</u>	<u>275,706</u>
Total liabilities and shareholders' equity	<u>\$ 564,464</u>	<u>\$ 458,946</u>

See notes to consolidated financial statements.

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

	Year ended September 30,		
	2006	2007	2008
Revenue	\$ 583,571	\$ 626,231	\$ 745,133
Cost of revenue	471,901	478,507	543,389
Write-off of deferred contract costs (Note 6)	17,109	—	—
Gross profit	94,561	147,724	201,744
Selling, general and administrative expenses	103,373	104,632	115,649
Gain on sale of building	—	—	3,938
Gain on sale of Corrections Services business	—	451	—
Legal and settlement expense (Note 21)	9,394	44,438	38,358
Goodwill impairment	—	—	7,600
Operating income (loss) from continuing operations	(18,206)	(895)	44,075
Interest and other income, net	6,859	5,804	2,423
Income (loss) from continuing operations before income taxes	(11,347)	4,909	46,498
Provision (benefit) for income taxes	(4,502)	12,081	18,217
Income (loss) from continuing operations	(6,845)	(7,172)	28,281
Discontinued operations, net of income taxes:			
Income (loss) from discontinued operations	9,305	(1,083)	(15,969)
Loss on disposal	—	—	(5,635)
Income (loss) from discontinued operations	9,305	(1,083)	(21,604)
Net income (loss)	<u>\$ 2,460</u>	<u>\$ (8,255)</u>	<u>\$ 6,677</u>
Basic earnings (loss) per share:			
Income (loss) from continuing operations	\$ (0.32)	\$ (0.33)	\$ 1.48
Income (loss) from discontinued operations	0.43	(0.05)	(1.13)
Basic earnings (loss) per share	<u>\$ 0.11</u>	<u>\$ (0.38)</u>	<u>\$ 0.35</u>
Diluted earnings (loss) per share:			
Income (loss) from continuing operations	\$ (0.32)	\$ (0.33)	\$ 1.47
Income (loss) from discontinued operations	0.43	(0.05)	(1.12)
Diluted earnings (loss) per share	<u>\$ 0.11</u>	<u>\$ (0.38)</u>	<u>\$ 0.35</u>
Dividends per share	<u>\$ 0.40</u>	<u>\$ 0.40</u>	<u>\$ 0.40</u>
Weighted average shares outstanding:			
Basic	21,465	21,870	19,060
Diluted	<u>21,821</u>	<u>21,870</u>	<u>19,305</u>

See notes to consolidated financial statements.

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

	Common Shares Outstanding	Common Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance at September 30, 2005	21,451	\$ 265,381	\$ (522)	\$ 255,593	\$ (114,498)	\$ 405,954
Net income	—	—	—	2,460	—	2,460
Unrealized gain on marketable securities, net of tax of	—	—	—	—	—	—
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	280,986	(916)	249,466	(124,637)	404,899
Net loss	—	—	—	(8,255)	—	(8,255)
Unrealized gain on marketable securities, net of tax	—	—	—	—	—	—
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, as previously reported	22,194	299,846	1,730	232,461	(124,637)	409,400
Cumulative impact of the adoption of FIN 48	—	—	—	(390)	—	(390)
Balance at September 30, 2007, adjusted	22,194	299,846	1,730	232,071	(124,637)	409,010
Net income	—	—	—	6,677	—	6,677
Foreign currency translation	—	—	3,806	—	—	3,806
Comprehensive income	—	—	—	—	—	10,483
Employee stock transactions	253	4,422	—	—	—	4,422
Cash dividends	—	—	—	(7,798)	—	(7,798)
Repurchases of common stock	(4,145)	—	—	—	(164,466)	(164,466)
Price adjustment under Accelerated Share Repurchase agreement	—	13,903	—	—	—	13,903
Non-cash equity based compensation	—	9,463	—	—	—	9,463
Tax benefit due to option exercises	—	689	—	—	—	689
Balance at September 30, 2008	18,302	\$ 328,323	\$ 5,536	\$ 230,950	\$ (289,103)	\$ 275,706

See notes to consolidated financial statements.

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

	Year ended September 30,		
	2006	2007	2008
Cash flows from operating activities:			
Net income (loss)	\$ 2,460	\$ (8,255)	\$ 6,677
Adjustments to reconcile net income to net cash provided by operating activities:			
(Income) loss from discontinued operations	(9,305)	1,083	21,604
Depreciation	8,173	9,889	9,132
Amortization	2,882	2,450	3,396
Impairment of goodwill	—	—	7,600
Deferred income taxes	(9,402)	(12,598)	(28,851)
Gain on sale of Corrections Services business	—	(451)	—
Gain on sale of building	—	—	(3,938)
Deferred interest income on note receivable	—	—	147
Write-off of deferred contract costs	17,109	—	—
Non-cash equity based compensation	6,012	3,962	9,123
Changes in assets and liabilities, net of effects from divestitures:			
Accounts receivable - billed	(8,066)	(2,039)	(16,000)
Accounts receivable - unbilled	(3,018)	1,750	(10,913)
Due from insurance carrier	—	—	(12,500)
Prepaid expenses and other current assets	(1,064)	(216)	(1,173)
Deferred contract costs	(7,845)	3,049	2,792
Other assets	2,361	4,375	(227)
Accounts payable	12,087	1,694	3,014
Accrued compensation and benefits	(1,403)	4,085	2,115
Deferred revenue	3,532	2,254	1,003
Income taxes	(13,699)	14,490	11,223
Other liabilities	(1,177)	1,167	47,499
Cash provided by (used in) operating activities - continuing operations	(363)	26,689	51,723
Cash provided by operating activities - discontinued operations	16,059	24,501	4,850
Cash provided by operating activities	15,696	51,190	56,573
Cash flows from investing activities:			
Proceeds from sales of discontinued operations, net of transaction costs	—	—	37,678
Proceeds from sale of Corrections Services business, net of transaction costs	—	1,871	—
Proceeds from sale of building, net of transaction costs	—	—	5,929
Acquisition of business, net of cash acquired	—	—	(3,150)
Decrease in note receivable	—	—	237
Purchases of property and equipment	(11,059)	(12,390)	(10,318)
Capitalized software costs	(5,742)	(2,350)	(5,131)
(Increase) decrease in marketable securities	1,825	(8,895)	126,210
Other	144	—	—
Cash provided by (used in) investing activities - continuing operations	(14,832)	(21,764)	151,455
Cash used in investing activities - discontinued operations	(9,320)	(3,090)	(2,995)
Cash provided by (used in) investing activities	(24,152)	(24,854)	148,460
Cash flows from financing activities:			
Employee stock transactions	7,697	12,953	4,422
Repurchases of common stock	(10,139)	—	(164,466)
Price adjustment under Accelerated Share Repurchase agreement	—	—	13,903
Payments on capital lease obligations	(1,374)	(1,690)	(1,627)
Tax benefit due to option exercises and restricted stock units vesting	1,331	2,078	689
Cash dividends paid	(8,587)	(8,750)	(7,798)
Cash provided by (used in) financing activities - continuing operations	(11,072)	4,591	(154,877)
Cash provided by financing activities - discontinued operations	—	—	—
Cash provided by (used in) financing activities	(11,072)	4,591	(154,877)
Net increase (decrease) in cash and cash equivalents	(19,528)	30,927	50,156
Cash and cash equivalents, beginning of period	59,073	39,545	70,472
Cash and cash equivalents, end of period	\$ 39,545	\$ 70,472	\$ 120,628

See notes to consolidated financial statements.

MAXIMUS, Inc.
Notes to Consolidated Financial Statements
For the years ended September 30, 2006, 2007 and 2008

1. Business and Summary of Significant Accounting Policies

(a) Description of Business

MAXIMUS, Inc. (the “Company” or “we”) provides consulting and operations program management primarily to government. The Company conducts its operations through two business segments: Consulting 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 Operations Segment provides a variety of program management services, primarily the delivery of administrative services for government health and human service programs.

Other than disclosed in Note 2, the Notes to Consolidated Financial Statements reflect operating results from continuing operations.

The Company operates predominantly in the United States. Revenue from foreign-based projects and offices was 13%, 14%, and 16% of total revenue for the years ended September 30, 2006, 2007 and 2008, 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, 2006, 2007 and 2008 include a majority (55%) owned international subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

(c) Revenue Recognition

In fiscal 2008, approximately 74% of our total revenue was derived from state and local government agencies; 7% from federal government agencies; 16% from foreign customers; and 3% 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 2008, revenue from fixed-price contracts was approximately 33% of total revenue; revenue from performance-based contracts was approximately 36% of total revenue; revenue from cost-plus contracts was approximately 28% of total revenue; and revenue from time and materials contracts was approximately 3% 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.

[Table of Contents](#)

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.

[Table of Contents](#)

(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 \$237,000 in 2006 and none in 2007 and 2008, 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, 2006, 2007, and 2008, accumulated unrealized gains (losses) on marketable securities, net of tax, included in accumulated other comprehensive income (loss), were none.

(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.

(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* and are reported in discontinued operations. 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. The Company also capitalizes software development costs in accordance with AICPA Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* ("SOP 98-1") which are reported in continuing operations. Direct costs of time and material incurred for the development of application software for internal use are capitalized and amortized using the straight-line method over the estimated useful life of the software, ranging from three to seven 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.

[Table of Contents](#)

(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 as of July 1st of each year. Based on the analysis performed as of July 1, 2008, the Company determined that there had been no impairment of goodwill. Subsequent to the analysis performed as of July 1, 2008, the Company recorded a \$7.6 million goodwill impairment charge related to the ERP division which was retained by the Company following the divestiture of three Systems businesses in the fourth quarter of fiscal 2008. See “Note 7. Goodwill and Intangible Assets” below for more information.

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 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 and a determination is made that the fair value of the asset is less than its book value. 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, 2008 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, 2008, the Company had \$0.5 million of deferred tax assets related to net operating loss carryforwards in 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 this Canadian operation. 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, 2008, the Company had \$5.3 million of net operating loss carryforwards related to another subsidiary in Canada. A full valuation allowance of \$1.8 million has been established against the related deferred tax asset. Evaluating the net operating loss carryforwards requires us to make certain estimates, which we believe are reasonable.

Effective October 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board (“FASB”) Interpretation No. 48, “Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 109,” (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income tax positions. FIN 48 provides that the financial statement effects of an income tax position can only be recognized when, based on the technical merits, it is “more-likely-than-not” that the position will be sustained upon examination. As a result of the adoption of FIN 48, the Company recognized an increase in the liability for unrecognized tax benefits of \$0.3 million, which was accounted for as a decrease in the October 1, 2007 balance of retained earnings on our consolidated balance sheet.

(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.

[Table of Contents](#)

(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. For the years ended September 30, 2006, 2007, and 2008, accumulated foreign currency gains (losses) included in accumulated other comprehensive income (loss) were (\$394,000), \$2,646,000 and \$3,806,000, respectively. Included within accumulated other comprehensive income in fiscal 2008 is a credit of \$5.6 million representing the cumulative effect of translating goodwill and intangible assets related to certain 2002 acquisitions to current foreign exchange rates. 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 \$741,000, \$(194,000) and \$157,000 for the years ended September 30, 2006, 2007 and 2008, 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, 2007 and 2008.

(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 financial results have been reclassified to conform to the current year presentation. Such reclassifications include the qualification of our Security Solutions division, Unison MAXIMUS, Inc. and Justice Solutions, Education Systems and Asset Solutions divisions as discontinued operations under FASB Statement No. 144. We reclassified our consolidated balance sheet as of September 30, 2007 to show the assets and liabilities of these qualifying divisions as discontinued operations. We also reclassified our consolidated statements of operations and statements of cash flows for the years ended September 30, 2007 and 2006 to show the results of those qualifying divisions as discontinued operations.

(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. Discontinued Operations

On April 30, 2008, the Company sold its Security Solutions division for cash proceeds of \$4.6 million, net of transaction costs of \$0.4 million, and recognized a pre-tax gain on the sale of \$2.9 million. The financial position, results of operations, and cash flows of this business are reported as discontinued operations and all prior periods have been reclassified to conform to the current period's presentation. The Security Solutions division was previously reported as part of the Company's Systems Segment.

On May 2, 2008, the Company sold its Unison MAXIMUS, Inc. subsidiary for proceeds of \$6.5 million. The sale transaction is structured as a sale of stock to the current management team of the subsidiary. The sale price of \$6.5 million consists of \$0.1 million in cash and \$6.4 million in the form of a promissory note secured by (1) a security interest in all of the assets of the former subsidiary; (2) a pledge of shares by the buyer; and (3) a personal guaranty by members of the current management team who are shareholders of the buyer. In accordance with Topic 5-U of SEC Staff Accounting Bulletin No. 81, "Gain Recognition on the Sale of a Business or Operating Assets to a Highly Leveraged Entity," the Company has deferred recognition of a pre-tax gain on the sale of \$3.9 million, and interest income on the promissory note, until realization is more fully assured. The deferred gain of \$3.9 million is reflected as a deduction from the note receivable on the consolidated balance sheet as of September 30, 2008. The financial position, results of operations, and cash flows of this business are reported as discontinued operations and all prior periods have been reclassified to conform to the current period's presentation. Unison MAXIMUS, Inc. was previously reported as part of the Company's Consulting Segment.

On September 30, 2008, the Company sold its Justice Solutions, Education Systems, and Asset Solutions divisions, which were previously reported as part of its Systems Segment. Total consideration for the transaction was \$40.0 million, including a \$35.0 million cash payment received at closing and a \$5.0 million holdback for one year from closing, subject to a purchase price adjustment and any claims based on representations and warranties. The Company deferred recognition of the holdback and, net of transaction costs of \$2.0 million, recognized a pre-tax loss on the sale of \$12.2 million. Beginning in the fourth quarter of fiscal 2008, the Company classified the results of operations of these divisions as discontinued operations and incorporated the Enterprise Resource Planning (ERP) Solutions division into the Consulting Segment. The financial position, results of operations, and cash flows of these businesses are reported as discontinued operations and all prior periods have been reclassified to conform to the current period's presentation.

The following table summarizes the operating results of the discontinued operations included in the Consolidated Statements of Operations (in thousands):

	Year Ended September 30,		
	2006	2007	2008
Revenue	\$ 117,323	\$ 112,415	\$ 85,532
Income (loss) from operations before income taxes	\$ 15,380	\$ (1,791)	\$ (26,379)
Provision (benefit) for income taxes	6,075	(708)	(10,410)
Income (loss) from discontinued operations	<u>\$ 9,305</u>	<u>\$ (1,083)</u>	<u>\$ (15,969)</u>
Loss on disposal before income taxes	\$ —	\$ —	\$ (9,314)
Benefit for income taxes	—	—	(3,679)
Loss on disposal	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (5,635)</u>
Income (loss) from discontinued operations	<u>\$ 9,305</u>	<u>\$ (1,083)</u>	<u>\$ (21,604)</u>

[Table of Contents](#)

The following table summarizes the carrying values of the assets and liabilities associated with discontinued operations included in the Consolidated Balance Sheets (in thousands):

	As of September 30, 2007	As of September 30, 2008
Accounts receivable – billed	\$ 21,752	\$ 192
Accounts receivable – unbilled	22,418	—
Prepaid expenses and other current assets	1,072	1
Current assets of discontinued operations	\$ 45,242	\$ 193
Property and equipment, net	\$ 1,573	\$ —
Capitalized software, net	18,710	—
Goodwill	25,610	—
Intangible assets, net	1,127	—
Other assets, net	114	—
Noncurrent assets of discontinued operations	\$ 47,134	\$ —
Accounts payable	\$ 8,714	\$ 10,303
Accrued compensation and benefits	4,880	725
Current portion of deferred revenue	21,699	—
Other accrued liabilities	673	—
Current liabilities of discontinued operations	\$ 35,966	\$ 11,028

3. Contract Receivables and Deferred Revenue

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

	Accounts receivable - unbilled	Deferred revenue
September 30, 2007:		
Revenue	\$ 665,100	\$ 575,854
Billings	645,318	602,842
Total	<u>\$ 19,782</u>	<u>\$ 26,988</u>
September 30, 2008:		
Revenue	\$ 834,687	\$ 763,453
Billings	803,992	791,444
Total	<u>\$ 30,695</u>	<u>\$ 27,991</u>

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, 2007 and 2008, there was \$3.0 million and \$2.8 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, 2007 and 2008, \$2.5 million and \$2.2 million of billed long-term contract receivables, net of reserves of \$0.6 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.

[Table of Contents](#)

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

	Year ended September 30,		
	2006	2007	2008
Balance at beginning of year	\$ 6,663	\$ 5,836	\$ 28,579
Additions to cost and expense	3,318	25,573	6,992
Deductions	(4,145)	(2,830)	(30,059)
Balance at end of year	\$ 5,836	\$ 28,579	\$ 5,512

Deductions from reserves against billed accounts receivable in fiscal year 2008 of \$30.1 million include \$21.9 million related to the write-off of a fully-reserved account receivable due from Accenture. The write-off of the fully-reserved account receivable due from Accenture arose from the related settlement with Accenture in the fourth quarter of fiscal 2008.

4. Property and Equipment

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

	As of September 30,	
	2007	2008
Land	\$ 2,462	\$ 1,800
Building and improvements	12,788	11,041
Office furniture and equipment	53,081	63,460
Leasehold improvements	4,868	4,931
	73,199	81,232
Less: Accumulated depreciation and amortization	(38,870)	(47,238)
Total property and equipment, net	\$ 34,329	\$ 33,994

5. Software Development Costs

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

	As of September 30,	
	2007	2008
Capitalized software development costs	\$ 14,848	\$ 19,979
Less: Accumulated amortization	(4,018)	(5,854)
Total Software development costs, net	\$ 10,830	\$ 14,125

Capitalized software amortization expense for the years ended September 30, 2006, 2007 and 2008 was \$1.4 million, \$1.2 million, and \$1.8 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 \$28.6 million and \$30.9 million at September 30, 2007 and 2008, respectively, of which \$7.6 million is leased equipment at September 30, 2007 and 2008. Deferred contract costs are expensed ratably as services are provided under the contracts. For the fiscal years ended September 30, 2007 and 2008, accumulated amortization of deferred contract costs was \$20.5 million and \$25.6 million, of which \$5.7 million and \$7.2 million, respectively, is the accumulated amortization of capital lease assets included in deferred costs.

[Table of Contents](#)

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. Texas Integrated Eligibility Project."

7. Goodwill and Intangible Assets

Changes in goodwill for the years ended September 30, 2007 and 2008 are as follows (in thousands):

	<u>Consulting</u>	<u>Operations</u>	<u>Total</u>
Balance as of September 30, 2006	\$ 27,446	\$ 33,632	\$ 61,078
Goodwill activity during year related to divestiture	—	(602)	(602)
Balance as of September 30, 2007	27,446	33,030	60,476
Goodwill activity during year related to acquisition	—	4,260	4,260
Goodwill impairment	(7,600)	—	(7,600)
Foreign currency translation	—	3,523	3,523
Balance as of September 30, 2008	<u>\$ 19,846</u>	<u>\$ 40,813</u>	<u>\$ 60,659</u>

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. During the year ended September 30, 2008, the Company sold its Unison MAXIMUS, Inc. subsidiary, Security Solutions division and Justice Solutions, Education Systems, and Asset Solutions divisions and allocated \$25.6 million of goodwill to these business units which were reported as discontinued operations. The goodwill allocated to these business units is reclassified to noncurrent assets of discontinued operations on the consolidated balance sheet as of September 30, 2007. In the fourth quarter of fiscal 2008, the Company recorded a \$7.6 million impairment charge related to the ERP division which was retained by the Company following the divestiture of the Justice Solutions, Education Systems and Asset Solutions divisions.

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

	<u>As of September 30, 2007</u>			<u>As of September 30, 2008</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Intangible Assets, net</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Intangible Assets, net</u>
Non-competition agreements	\$ 2,075	\$ 2,057	\$ 18	\$ 1,882	\$ 1,844	\$ 38
Technology-based intangibles	3,370	2,300	1,070	3,370	2,909	461
Customer contracts and relationships	4,700	3,312	1,388	7,077	3,877	3,200
Total	<u>\$ 10,145</u>	<u>\$ 7,669</u>	<u>\$ 2,476</u>	<u>\$ 12,329</u>	<u>\$ 8,630</u>	<u>\$ 3,699</u>

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 five years, five years, and ten 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, 2009, 2010, 2011, 2012, and 2013 is \$1.1 million, \$0.7 million, \$0.5 million, none and none, 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,		
	2006	2007	2008
Numerator:			
Income (loss) from continuing operations	\$ (6,845)	\$ (7,172)	\$ 28,281
Income (loss) from discontinued operations	9,305	(1,083)	(21,604)
Net income (loss)	<u>\$ 2,460</u>	<u>\$ (8,255)</u>	<u>\$ 6,677</u>
Denominator:			
Weighted average shares outstanding	21,465	21,870	19,060
Effect of dilutive securities:			
Employee stock options and unvested restricted stock awards	356	—	245
Denominator for diluted earnings per share	<u>21,821</u>	<u>21,870</u>	<u>19,305</u>

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. The Company also has two letters of credit in connection with insurance policies, which total approximately \$0.4 million. The letters of credit for insurance policies expire in May 2009 and automatically renew annually, thereafter.

On January 25, 2008, the Company entered into a Revolving Credit Agreement providing for a senior secured revolving credit facility, with SunTrust Bank as administrative agent, issuing bank and swingline lender, and a syndicate of other lenders (the "Credit Facility"). The Credit Facility provides for a \$50.0 million revolving line of credit commitment, which may be used (i) for revolving loans, (ii) for swingline loans, subject to a sublimit of \$5.0 million, and (iii) to request the issuance of letters of credit on the Company's behalf, subject to a sublimit of \$25.0 million. The Company may request an increase in the commitment under the Credit Facility, such that the aggregate commitments under the Credit Facility shall at no time exceed \$75.0 million. On June 30, 2008, SunTrust Bank's commitment automatically stepped down from \$50.0 million to \$35.0 million in accordance with the terms of the Credit Facility. The credit available under the Credit Facility may be used, among other purposes, to refinance the Company's current indebtedness, to repurchase shares of the Company's capital stock and to finance the ongoing working capital, capital expenditure, and general corporate needs of the Company. At September 30, 2008, letters of credit totaling \$10.4 million are outstanding under the Credit Facility.

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

The Credit Facility matures on January 25, 2013, at which time all outstanding borrowings must be repaid and all outstanding letters of credit must have been terminated or cash collateralized.

[Table of Contents](#)

The Credit Facility, as amended by the Company and its lender on December 12, 2008, provides for the payment of specified fees and expenses, including an up-front fee and commitment and letter of credit fees, and contains customary financial and other covenants that require the maintenance of certain ratios including a maximum leverage ratio and a minimum fixed charge coverage ratio. The Company was in compliance with all covenants in the amended Credit Facility as of September 30, 2008. The Company's obligations under the Credit Facility are guaranteed by certain of the Company's direct and indirect subsidiaries (collectively, the "Guarantors") and are secured by substantially all of MAXIMUS' and the Guarantors' present and future tangible and intangible assets, including the capital stock of subsidiaries and other investment property.

At September 30, 2007 and 2008, the Company had performance bond commitments totaling \$87.7 million and \$83.4 million, respectively.

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, 2006, 2007, and 2008 was \$20.8 million, \$21.0 million, and \$19.5 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, 2008, capital lease obligations of \$0.4 million were outstanding related to these lease arrangements for equipment.

Minimum future payments under leases in effect as of September 30, 2008 are as follows (in thousands):

	Capital Leases	Operating Leases	Sub-lease Income	Total Operating Leases
Year ended September 30,				
2009	\$ 420	\$ 23,656	\$ (223)	\$ 23,433
2010	—	15,145	—	15,145
2011	—	9,574	—	9,574
2012	—	7,380	—	7,380
2013	—	2,666	—	2,666
Thereafter	—	3,420	—	3,420
Total minimum lease payments	420	\$ 61,841	\$ (223)	\$ 61,618
Amount representing interest	(3)			
Present value of minimum lease payments	417			
Current portion	(417)			
Long-term portion	\$ —			

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, 2006, 2007, and 2008, the Company contributed \$3.4 million, \$3.2 million, and \$3.9 million to the plans, respectively.

12. Income Taxes

Effective October 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board (“FASB”) Interpretation No. 48, “Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 109,” (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income tax positions. FIN 48 provides that the financial statement effects of an income tax position can only be recognized when, based on the technical merits, it is “more-likely-than-not” that the position will be sustained upon examination. The cumulative effect of applying the provisions of FIN 48 was required to be reported as an adjustment to the opening balance of retained earnings in the period of adoption.

Upon adoption of FIN 48, the Company accounted for the change in reserve for uncertain tax positions as a \$0.3 million decrease to the beginning balance of retained earnings in our consolidated balance sheet. The Company’s net unrecognized tax benefits totaled \$2.0 million at October 1, 2007 and remains \$2.0 million at September 30, 2008. The total amount of unrecognized tax benefits that, if recognized, would affect the annual effective income tax rate is \$2.0 million at September 30, 2008.

It is reasonably possible that the total amount of unrecognized tax benefits could decrease by as much as \$0.4 million within the next twelve months as a result of settlement of audit issues, expiration of statute of limitations and/or payment of uncertain tax liabilities, which could have an impact on the effective tax rate. The anticipated reversals are related to state tax items, none of which individually are significant.

FIN 48 requires uncertain tax positions to be recognized and presented on a gross basis (i.e., without regard to likely offsets for deferred tax assets, deductions, and/or credits that would result from payment of uncertain tax amounts). The reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows (in thousands):

Balance at October 1, 2007	\$ 2,400
Additions based on tax positions related to the current year	100
Additions for tax positions of prior years	—
Reductions for tax positions of prior years	(100)
Lapse of statute of limitations	(100)
Settlements	—
Balance at September 30, 2008	<u>\$ 2,300</u>

On a net basis, the balance at September 30, 2007 is \$2.0 million (including related interest amounts) after offsetting deferred tax assets, competent authority benefits, deductions, and/or credits on the Company’s tax returns, and it remains at \$2.0 million at September 30, 2008.

The Company files income tax returns in the United States Federal jurisdiction and in various state and foreign jurisdictions. The Company is no longer subject to US Federal income tax examinations for years before 2004 and is no longer subject to state and local, or foreign income tax examinations by tax authorities for years before 2003.

The Company has elected to report interest and penalties as a component of income tax expense. In the fiscal year ending September 30, 2008, the Company recognized interest expense relating to unrecognized tax benefits of less than \$0.1 million. The net FIN 48 liability balance at September 30, 2008 of \$2.0 million includes approximately \$0.3 million of interest and penalties.

[Table of Contents](#)

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

	Year ended September 30,		
	2006	2007	2008
Current provision:			
Federal	\$ 1,708	\$ 18,582	\$ 38,788
State and local	1,992	4,171	5,461
Foreign	1,200	1,926	2,819
Total current provision	4,900	24,679	47,068
Deferred tax expense (benefit):			
Federal	(6,451)	(10,994)	(25,573)
State and local	(1,383)	(2,337)	(4,633)
Foreign	(1,568)	733	1,355
Total deferred tax expense (benefit)	(9,402)	(12,598)	(28,851)
Income tax (benefit) expense	\$ (4,502)	\$ 12,081	\$ 18,217

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,		
	2006	2007	2008
Federal income tax provision at statutory rate of 35%	\$ (3,971)	\$ 1,718	\$ 16,274
District of Columbia settlement	—	7,641	—
Valuation allowance on net operating loss carryforwards	—	2,069	—
Permanent items	645	594	886
Municipal interest	(1,532)	(1,833)	(264)
State income taxes, net of federal benefit	(404)	1,206	2,129
Reserve for state income tax audits	974	646	—
Other	(214)	40	(808)
(Benefit) Provision for income taxes	\$ (4,502)	\$ 12,081	\$ 18,217

The significant items comprising the Company's deferred tax assets and liabilities as of September 30, 2007 and 2008 are as follows (in thousands):

	As of September 30,	
	2007	2008
Deferred tax assets - current:		
Costs deductible in future periods	\$ 18,197	\$ 25,258
Deferred revenue	13,867	6,910
Total deferred tax assets - current	32,064	32,168
Deferred tax liabilities - current:		
Accounts receivable - unbilled	14,655	10,267
Net deferred tax asset (liability) - current	\$ 17,409	\$ 21,901
Deferred tax assets (liabilities) - non-current:		
Non-cash equity compensation	\$ 2,050	\$ 3,813
Costs deductible in future periods	—	3,800
Net operating loss carryforwards	4,594	2,291
Valuation allowance on net operating loss carryforwards	(2,069)	(1,404)
Amortization of goodwill	(9,424)	3,666
Depreciation	(2,180)	(1,185)
Capitalized software	(6,680)	(354)
Deferred contract costs	797	1,398
Other	—	(1,092)
Net deferred tax asset (liability) - non-current	\$ (12,912)	\$ 10,933

[Table of Contents](#)

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, 2008, the Company had \$0.5 million of deferred tax assets related to net operating loss carryforwards in 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 this Canadian operation. 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, 2008, the Company had \$5.3 million of net operating loss carryforwards related to another subsidiary in Canada. A full valuation allowance of \$1.8 million has been established against the related deferred tax asset. 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, 2006, 2007, and 2008 was \$22.0 million, \$10.3 million, and \$23.8 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, 2008, the Board of Directors had reserved 8.0 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, 2007 and 2008, compensation expense related to stock options was \$0.8 million and \$2.7 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, 2006, 2007 and 2008, compensation expense recognized related to RSUs was \$2.1 million, \$3.1 million and \$6.8 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.

[Table of Contents](#)

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 \$6.6 million, \$3.8 million and \$9.5 million for the fiscal years ended September 30, 2006, 2007 and 2008, respectively. During the first quarter of fiscal 2008, the Company identified an error in prior periods in recorded stock-based compensation expense related to stock options and RSUs. The error was due, in part, to how the software used by the Company applied estimated forfeiture rates to fully vested stock options and RSUs. The impact was to underestimate stock compensation expense by \$1.1 million in each of fiscal 2006 and 2007. The Company has corrected this error by recording additional stock compensation expense of \$2.2 million in the first quarter of fiscal 2008. The total income tax benefit recognized in the income statement for share-based compensation arrangements was \$2.6 million, \$2.1 million and \$0.7 million for the fiscal years ended September 30, 2006, 2007 and 2008, respectively.

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, 2006, 2007 and 2008:

	2006	2007	2008
Dividend yield	1.4%	1.5%	0.9%
Risk-free interest rate	4.6%	4.5%	4.1%
Expected volatility	37%	37%	33%
Expected life of option term (in years)	5.1	4.3	4.3
Weighted average fair value at grant date	\$ 11.58	\$ 8.71	\$ 14.12

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. The Company has transitioned away from stock options to restricted stock units.

A summary of the Company's stock option activity for the fiscal years ended September 30, 2006, 2007 and 2008, is as follows:

	Options	Weighted Average Exercise Price
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
Granted	20,000	46.20
Exercised	(194,209)	38.39
Forfeited or expired	(115,681)	35.00
Outstanding at September 30, 2008	1,148,492	30.24
Exercisable at September 30, 2008	877,954	\$ 30.21

[Table of Contents](#)

The intrinsic value of exercisable stock options at September 30, 2008, was \$4.8 million with a weighted average remaining life of 3.9 years. The total intrinsic value of stock options exercised during the fiscal years ended September 30, 2008 and September 30, 2007 was \$2.0 million and \$7.3 million, respectively. The weighted average grant date fair value of stock options granted during the fiscal years ended September 30, 2008 and September 30, 2007 was \$14.12 and \$8.71, respectively. The total fair value of stock options which vested during the fiscal years ended September 30, 2008 and September 30, 2007 was \$3.3 million and \$8.9 million, respectively.

The following table provides certain information with respect to stock options outstanding at September 30, 2008:

Range of Exercise Prices	Stock Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life
\$ 1.47 - \$20.96	71,338	\$ 20.60	2.23
\$ 20.97 - \$33.55	511,300	28.49	3.83
\$ 33.56 - \$50.00	565,854	35.80	4.13
	<u>1,148,492</u>	30.24	4.13

The following table provides certain information with respect to stock options exercisable at September 30, 2008:

Range of Exercise Prices	Stock Options Exercisable	Weighted Average Exercise Price
\$ 1.47 - \$20.96	71,338	\$ 20.60
\$ 20.97 - \$33.55	359,550	28.49
\$ 33.56 - \$50.00	447,066	35.80
	<u>877,954</u>	30.21

A summary of the Company's RSU activity for the fiscal years ended September 30, 2006, 2007 and 2008, is as follows:

	Shares	Fair Market Value
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
Granted	274,800	36.56
Vested	(95,240)	37.04
Forfeited or expired	(74,523)	34.00
Non-vested shares outstanding at September 30, 2008	488,528	\$ 33.80

[Table of Contents](#)

As of September 30, 2008, the total remaining unrecognized compensation cost related to unvested stock options and RSUs was \$2.3 million and \$11.6 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.

[Table of Contents](#)

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 2006, 2007, and 2008, respectively, the Company issued 36,971, 6,838, and zero shares of common stock pursuant to this plan at an average price of \$28.13, \$29.24, and zero 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

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 and retired 3,758,457 shares at an initial price of \$39.91 per share for \$150.0 million plus fees of approximately \$0.4 million. UBS purchased an equivalent number of shares in the open market over the nine-month period ending August 15, 2008. Pursuant to the ASR agreement, at its completion the Company's initial price under the ASR agreement was adjusted down based on the volume-weighted average price ("VWAP") of the Company's stock during this period. Such adjustment could be settled in cash or stock at the Company's discretion. On July 11, 2008, UBS Investment Bank completed the purchase of shares in the open market, and the Company elected to receive the price adjustment of \$13.9 million in cash. In the fourth quarter of fiscal 2008, this receipt of cash was recorded as a decrease to treasury stock in the full amount of \$13.9 million.

Under a resolution adopted in July 2008, the Board of Directors has authorized the repurchase, at management's discretion, of up to an aggregate of \$75.0 million of the Company's common stock. The resolution also authorized the use of option exercise proceeds for the repurchase of the Company's common stock. At September 30, 2008, \$82.0 million remained available for future stock repurchases under the resolution. As of December 12, 2008, the Company has repurchased 648,490 common shares at a cost of \$20.0 million during the first quarter of fiscal 2009.

The company repurchased 282,100 common shares at a cost of \$10.1 million, zero common shares at a cost of zero and 4,145,057 common shares at a cost of \$164.5 million in 2006, 2007 and 2008, respectively.

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 January 2007, MAXIMUS initiated arbitration against Accenture LLP to resolve various disputes that had arisen under a subcontract between the parties 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"). Among other things, the Company asserted that Accenture had breached the subcontract resulting in damages to MAXIMUS in excess of \$100 million.

[Table of Contents](#)

Accenture denied MAXIMUS' claims and asserted a counterclaim that MAXIMUS breached the subcontract. Accenture alleged unspecified damages which it stated could be hundreds of millions of dollars. The subcontract incorporated the terms and conditions of the prime contract which contained a limitation of liability of \$250.0 million.

In February 2007, MAXIMUS terminated its subcontract with Accenture. In March 2007, HHSC announced that it was winding down its contract with Accenture. HHSC alleged a variety of damages arising from the parties' operation of the Program. Accenture indicated that its damages claim against MAXIMUS in the arbitration proceeding would include damages asserted by HHSC against Accenture.

Shortly after the wind down of the Accenture contract with HHSC, MAXIMUS 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.

In December 2008, MAXIMUS, Accenture and HHSC settled all claims among the parties, both the claims in the arbitration proceeding and the contract wind down claims. In connection with that settlement, MAXIMUS agreed to pay a total of \$40.0 million and to provide services to HHSC valued at an additional \$10.0 million. The Company's primary insurance carrier has agreed to pay \$12.5 million of the amount due from MAXIMUS. Accordingly, the Company has recorded a pre-tax charge of \$37.5 million in legal and settlement expense in the accompanying consolidated statements of operations in the fourth quarter of fiscal 2008. The corresponding accrued liability related to the settlement is included in other accrued liabilities as of September 30, 2008 in the accompanying consolidated balance sheets. The Company continues to pursue additional insurance recoveries from its excess insurance carriers; however, such recoveries are not assured.

(b) 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 breach 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. 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.

(c) In 2003, MAXIMUS contracted to provide an integrated case management system and related services for a certain City. The City alleged that the Company failed to satisfy various contractual requirements, and the Company denied those allegations. In the interest of avoiding the costs, risks and distraction of litigation, the parties agreed to a mutual termination of the contract and settlement of the claims. Under the terms of the settlement, MAXIMUS paid the City \$5.0 million and forgave outstanding accounts receivable of \$2.0 million. Accordingly, the Company recorded a charge of \$7.0 million classified in discontinued operations during the year ended September 30, 2008.

Employment Agreements

The Company has an employment agreement with its chief executive officer with a term ending in 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. 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, 2006, 2007, and 2008, the Company derived approximately 17%, 17%, and 15%, respectively, of its consolidated revenue from contracts with the state of California, principally within our Operations Segment.

[Table of Contents](#)

For the years ended September 30, 2006, 2007 and 2008, the Company derived approximately 6%, 9% and 14%, respectively, of its consolidated revenue from contracts with the state of Texas, principally within our Operations Segment.

16. Business Segments

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Revenue:			
Operations	\$ 471,372	\$ 507,486	\$ 629,226
Consulting	112,199	118,745	115,907
Total	<u>\$ 583,571</u>	<u>\$ 626,231</u>	<u>\$ 745,133</u>
Gross Profit:			
Operations	\$ 53,421	\$ 102,886	\$ 163,308
Consulting	41,140	44,838	38,436
Total	<u>\$ 94,561</u>	<u>\$ 147,724</u>	<u>\$ 201,744</u>
Selling, General and Administrative expense:			
Operations	\$ 67,510	\$ 67,271	\$ 77,615
Consulting	36,435	37,090	37,011
Corporate / Other	(572)	271	1,023
Total	<u>\$ 103,373</u>	<u>\$ 104,632</u>	<u>\$ 115,649</u>
Operating income (loss) from continuing operations (before income taxes):			
Operations	\$ (14,089)	\$ 35,615	\$ 85,693
Consulting	4,705	7,748	1,425
Consolidating adjustments	572	(271)	(1,023)
Gain on sale of Corrections Services business	—	451	—
Gain on sale of building	—	—	3,938
Legal and settlement expense	(9,394)	(44,438)	(38,358)
Goodwill impairment	—	—	(7,600)
Total	<u>\$ (18,206)</u>	<u>\$ (895)</u>	<u>\$ 44,075</u>
Identifiable assets:			
Operations	\$ 160,946	\$ 183,552	\$ 222,706
Consulting	83,402	77,536	69,423
Corporate / Other	314,153	303,376	166,817
Total	<u>\$ 558,501</u>	<u>\$ 564,464</u>	<u>\$ 458,946</u>
Depreciation and amortization:			
Operations	\$ 7,623	\$ 8,779	\$ 9,678
Consulting	1,844	1,785	1,279
Corporate / Other	1,588	1,775	1,571
Total	<u>\$ 11,055</u>	<u>\$ 12,339</u>	<u>\$ 12,528</u>

Revenue from foreign operations was \$76.7 million, \$88.0 million, and \$121.2 million for fiscal years 2006, 2007, and 2008, respectively. Total assets of foreign operations were \$62.5 million and \$79.9 million at September 30, 2007 and 2008, respectively.

[Table of Contents](#)

The loss from operations in the Operations segment for the 2006 fiscal year of \$14.1 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, 2007 and 2008. 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, 2006	March 31, 2007	June 30, 2007	Sept. 30, 2007
(In thousands, except per share data)				
Fiscal Year 2007				
Revenue:				
Operations	\$ 102,830	\$ 121,391	\$ 140,277	\$ 142,988
Consulting	28,891	29,436	29,694	30,724
Total revenue	<u>131,721</u>	<u>150,827</u>	<u>169,971</u>	<u>173,712</u>
Gross profit	12,901	34,888	52,427	47,508
Selling, general and administrative expenses	27,483	26,891	27,025	23,233
Operating income (loss) from continuing operations:				
Operations	(16,943)	6,345	23,447	22,766
Consulting	2,218	1,538	2,079	1,913
Consolidating adjustments	143	114	(124)	(404)
Gain (gain adjustment) on sale of Corrections Services business	684	—	(233)	—
Legal and settlement expense	(3,000)	(6,104)	(33,010)	(2,324)
Operating income (loss) from continuing operations	<u>(16,898)</u>	<u>1,893</u>	<u>(7,841)</u>	<u>21,951</u>
Income (loss) from discontinued operations, net of income taxes	125	258	(1,404)	(62)
Net income (loss)	<u>\$ (10,395)</u>	<u>\$ 2,362</u>	<u>\$ (14,391)</u>	<u>\$ 14,169</u>
Basic earnings (loss) per share:				
Income (loss) from continuing operations	\$ (0.49)	\$ 0.10	\$ (0.59)	\$ 0.64
Income (loss) from discontinued operations	0.01	0.01	(0.06)	—
Basic earnings (loss) per share	<u>\$ (0.48)</u>	<u>\$ 0.11</u>	<u>\$ (0.65)</u>	<u>\$ 0.64</u>
Diluted earnings (loss) per share:				
Income (loss) from continuing operations	\$ (0.49)	\$ 0.10	\$ (0.59)	\$ 0.63
Income (loss) from discontinued operations	0.01	0.01	(0.06)	—
Diluted earnings (loss) per share	<u>\$ (0.48)</u>	<u>\$ 0.11</u>	<u>\$ (0.65)</u>	<u>\$ 0.63</u>

	Quarter Ended			
	Dec. 31, 2007	March 31, 2008	June 30, 2008	Sept. 30, 2008
(In thousands, except per share data)				
Fiscal Year 2008				
Revenue:				
Operations	\$ 146,807	\$ 160,982	\$ 157,917	\$ 163,520
Consulting	30,282	28,629	31,447	25,549
Total revenue	<u>177,089</u>	<u>189,611</u>	<u>189,364</u>	<u>189,069</u>
Gross profit	46,284	51,863	52,788	50,809
Selling, general and administrative expenses	27,038	28,762	28,949	30,900
Operating income (loss) from continuing operations:				
Operations	17,826	22,848	22,845	22,174
Consulting	1,779	496	1,262	(2,112)
Consolidating adjustments	(359)	(243)	(268)	(153)
Gain on sale of building	—	—	3,938	—
Goodwill impairment	—	—	—	7,600
Legal and settlement expense	—	(931)	(700)	(36,727)
Operating income (loss) from continuing operations	<u>19,246</u>	<u>22,170</u>	<u>27,077</u>	<u>(24,418)</u>
Discontinued operations, net of income taxes				
Loss from discontinued operations	(1,663)	(3,862)	(7,617)	(2,827)
Gain (loss) on disposal	—	—	1,726	(7,361)
Loss from discontinued operations	<u>(1,663)</u>	<u>(3,862)</u>	<u>(5,891)</u>	<u>(10,188)</u>
Net income (loss)	\$ 10,605	\$ 9,627	\$ 11,405	\$ (24,960)
Basic earnings (loss) per share:				
Income (loss) from continuing operations	\$ 0.60	\$ 0.73	\$ 0.93	\$ (0.80)
Loss from discontinued operations	(0.08)	(0.21)	(0.32)	(0.55)
Basic earnings (loss) per share	<u>\$ 0.52</u>	<u>\$ 0.52</u>	<u>\$ 0.61</u>	<u>\$ (1.35)</u>
Diluted earnings (loss) per share:				
Income (loss) from continuing operations	\$ 0.59	\$ 0.72	\$ 0.92	\$ (0.80)
Loss from discontinued operations	(0.08)	(0.21)	(0.31)	(0.55)
Diluted earnings (loss) per share	<u>\$ 0.51</u>	<u>\$ 0.51</u>	<u>\$ 0.61</u>	<u>\$ (1.35)</u>

18. Recent Accounting Pronouncements

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. 157, 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.

[Table of Contents](#)

In December 2007, the FASB issued SFAS No. 141 (revised) (“SFAS 141(R)”), “Business Combinations,” which is effective for business combinations entered into in fiscal years beginning on or after December 15, 2008, which is the Company’s 2010 fiscal year. Early adoption of the standard is prohibited. Under SFAS 141(R), more transactions will be recorded as business combinations, as it changes the definitions of a business, which would no longer be required to be self-sustaining or revenue generating, and a business combination, which would include combinations that occur by contract alone or due to changes in substantive participation rights, such as a lapse in minority veto rights. Certain acquired contingencies will be recorded initially at fair value on the acquisition date. After the acquisition, if new information is available, contingent liabilities will be measured at the higher of the likely amount to be paid and the acquisition-date fair value. Contingent assets will be measured subsequently at the lower of the current estimated future amount to be realized and the acquisition-date fair value. Transaction and restructuring costs generally will be expensed as incurred. In partial acquisitions, companies generally will record 100 percent of the assets and liabilities at fair value, including goodwill. This will likely result in higher related depreciation and amortization charges in subsequent periods than under the current standard. SFAS 141(R) will only impact us if we acquire businesses subsequent to the effective date of the standard.

Concurrent with the issuance of SFAS 141(R), the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements,” which is effective for fiscal years beginning on or after December 15, 2008, which is the Company’s 2010 fiscal year. Early adoption of the standard is prohibited. This statement will be applied prospectively as of October 1, 2009 except for the presentation and disclosure requirements. The standard changes the accounting and reporting for minority interests and requires the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent’s equity. It also requires that the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income. We are in the process of reviewing and evaluating SFAS No. 160, and therefore the ultimate impact of its adoption is not yet known.

19. Business Combinations

In fiscal 2008, the Company acquired the business described below in a business combination accounted for as a purchase. The accompanying consolidated financial statements include the results of operations of the acquired business since the date of the acquisition.

On August 1, 2008, the Company acquired 100% of the shares of Westcountry Training and Consultancy Service (“WTCS”) Limited, a privately-owned employment and training company in the United Kingdom that specializes in helping people who are disadvantaged in the labor market gain employment. The purchase price for the shares is £3.0 million (approximately \$6.0 million U.S.). Per the terms of the share purchase agreement, additional consideration of approximately £0.5 million (approximately \$1.0 million U.S.) may be paid based on the achievement of certain future performance objectives. The total purchase cost, including transactions costs of \$0.4 million, was \$6.4 million. In conjunction with the purchase, the Company recorded goodwill of \$4.3 million and intangible assets, primarily customer contracts and relationships, of \$1.1 million, and other net assets of \$1.0 million which have been assigned to the Operations Segment. The primary reason for acquiring WTCS was to establish a presence in the United Kingdom market from which to expand the Company’s workforce services business. The purchase price allocation is not finalized and is subject to the final working capital adjustments, which are currently not expected to be material. Unaudited pro forma results of operations are not provided because the historical operating results were not significant and pro forma results would not be significantly different from reported results for the periods presented.

20. Texas Integrated Eligibility Project

Our fiscal 2007 results were respectively impacted by a \$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 January 2007, 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. 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,		
	2006	2007	2008
District of Columbia Contract Investigation and Related Settlement	\$ 500	\$ 31,980	\$ (19)
Accenture Arbitration and Related Settlement	—	10,000	38,377
Computer Equipment Leases Settlement	8,169	(150)	—
Ontario Child Support Project Settlement	—	2,608	—
Other	725	—	—
Total	\$ 9,394	\$ 44,438	\$ 38,358

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

22. Sale of Corrections Services 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.

23. Sale of Building

During the quarter ended June 30, 2008, the Company sold a 21,000 square foot administrative office building in McLean, Virginia for proceeds of \$5.9 million, net of transactions costs of \$0.2 million, and recognized a pre-tax gain on the sale of \$3.9 million. This gain has been classified as gain on sale of building in the consolidated statement of operations.

24. Subsequent Events

Dividend

On October 3, 2008, 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 28, 2008 to shareholders of record on November 14, 2008. Based on the number of shares outstanding, the payment was \$1.8 million.

Stock Repurchases

As of December 12, 2008, the Company has repurchased 648,490 common shares at a cost of \$20.0 million during the first quarter of fiscal 2009.

Arbitration and Contract Wind Down Settlement

In December 2008, MAXIMUS, Accenture and HHSC settled all claims among the parties, both the claims in the arbitration proceeding and the contract wind down claims. In connection with that settlement, MAXIMUS agreed to pay a total of \$40.0 million and to provide services to HHSC valued at an additional \$10.0 million. The Company's primary insurance carrier has agreed to pay \$12.5 million of the amount due from MAXIMUS. Accordingly, the Company has recorded a pre-tax charge of \$37.5 million in legal and settlement expense in the accompanying consolidated statements of operations in the fourth quarter of fiscal 2008. The corresponding accrued liability related to the settlement is included in other accrued liabilities as of September 30, 2008 in the accompanying consolidated balance sheets. The Company continues to pursue additional insurance recoveries from its excess insurance carriers; however, such recoveries are not assured.

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, 2008. 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, 2008, 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, 2008, 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 2008 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, 2008, 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, 2008, 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, 2008 and our report dated December 10, 2008 (except for Note 14(a) as to which the date is December 12, 2008) expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
December 10, 2008

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 2008 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, 2009 (the "Proxy Statement") to be filed with the SEC, except as otherwise indicated below:

ITEM 10. Directors, Executive Officers and Corporate Governance.

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, 2008 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)	1,148,492	\$ 31.88	1,697,299
Total	1,148,492	\$ 31.88	1,697,299

(1) In addition to being available for future issuance upon exercise of options that may be granted after September 30, 2008, 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.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence.

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.
The consolidated financial statements are listed under Item 8 of this Annual Report on Form 10-K.
- 2. Financial Statement Schedules.
None. Financial statement schedules are either not required under the related instructions or are inapplicable and therefore have been omitted.
- 3. Exhibits.
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 8th day of December 2008.

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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ RICHARD A. MONTONI</u> Richard A. Montoni	President, Chief Executive Officer and Director (principal executive officer)	December 8, 2008
<u>/s/ DAVID N. WALKER</u> David N. Walker	Chief Financial Officer and Treasurer (principal financial and accounting officer)	December 8, 2008
<u>/s/ PETER B. POND</u> Peter B. Pond	Chairman of the Board of Directors	December 8, 2008
<u>/s/ RUSSELL A. BELIVEAU</u> Russell A. Beliveau	Director	December 8, 2008
<u>/s/ JOHN J. HALEY</u> John J. Haley	Director	December 8, 2008
<u>/s/ PAUL R. LEDERER</u> Paul R. Lederer	Director	December 8, 2008
<u>/s/ RAYMOND B. RUDDY</u> Raymond B. Ruddy	Director	December 8, 2008
<u>/s/ MARILYN R. SEYMANN</u> Marilyn R. Seymann	Director	December 8, 2008
<u>/s/ JAMES R. THOMPSON, JR.</u> James R. Thompson, Jr.	Director	December 8, 2008
<u>/s/ WELLINGTON E. WEBB</u> Wellington E. Webb	Director	December 8, 2008

EXHIBIT INDEX

Exhibit Number	
3.1	Amended and Restated Articles of Incorporation of the Company, as amended. (1)
3.2	Amendment to the Amended and Restated Bylaws of the Company. (2)
4.1	Specimen Common Stock Certificate. (3)
10.1	1997 Equity Incentive Plan, as amended. (4)*
10.2	First Amendment to the 1997 Equity Incentive Plan, as amended. (5)*
10.3	1997 Director Stock Option Plan, as amended. (6)*
10.4	1997 Employee Stock Purchase Plan, as amended. (7)*
10.5	Executive Employment, Non-Compete and Confidentiality Agreement by and between the Company and Richard A. Montoni. (8)*
10.6	First Amendment to the Executive Employment, Non-Compete and Confidentiality Agreement by and between the Company and Richard A. Montoni. (5)*
10.7	Executive Employment, Non-Compete and Confidentiality Agreement by and between the Company and Bruce Caswell. (5)*
10.8	First Amendment to the Executive Employment, Non-Compete and Confidentiality Agreement by and between the Company and Bruce Caswell. (5)*
10.9	Form of Indemnification Agreement by and between the Company and each of the directors of the Company. (9)*
10.10	Amended and Restated Income Continuity Program. (5)*
10.11	Deferred Compensation Plan, as amended. (5)*
10.12	1997 Equity Incentive Plan - Restricted Stock Units - Terms and Conditions. (10)
10.13	1997 Equity Incentive Plan - Non-Qualified Stock Option - Terms and Conditions. (10)
10.14	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. (11)
10.15	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. (11)
10.16	Deferred Prosecution Agreement dated July 23, 2007 between the Company and the United States Attorney's Office for the District of Columbia. (11)
10.17	Purchase Agreement between MAXIMUS, Inc. and UBS AG, London Branch, dated November 15, 2007. (12)
10.18	Revolving Credit Agreement, dated January 25, 2008, by and among MAXIMUS, Inc., as borrower, SunTrust Bank as administrative agent, issuing bank and swingline lender and the other lender parties thereto. (13)
10.19	Security Agreement, dated January 25, 2008, among MAXIMUS, Inc. and certain subsidiaries of MAXIMUS, Inc., in favor of SunTrust Bank. (13)
10.20	Pledge Agreement, dated January 25, 2008, by and among MAXIMUS, Inc. and certain subsidiaries of MAXIMUS, Inc., in favor of SunTrust Bank. (13)
21.1	Subsidiaries of the Company. Filed herewith.

[Table of Contents](#)

- 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 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 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.
- (4) 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.
- (5) Filed as an exhibit to the Company's Current Report on Form 8-K (File No. 1-12997) on November 27, 2007 and incorporated herein by reference.
- (6) 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.
- (7) 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.
- (8) 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.
- (9) 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.

MAXIMUS, Inc.
List of Subsidiaries
As of September 30, 2008

Name*	Jurisdiction of Incorporation/Organization
MAXNetwork Pty Limited	Australia
ACN 083 406 795 Pty Limited	Australia
MAXIMUS Brazil, Ltda.	Brazil
MAXIMUS Canada, Inc.	Canada
Israel Workforce Solutions Ltd(1)	Israel
MAXIMUS Properties LLC	Virginia
MAXIMUS International, LLC	Virginia
MAXIMUS Federal Services, Inc.	Virginia
MAXIMUS Consulting Services, Inc.	Virginia
MAXIMUS Health Services, Inc.	Indiana
MAXIMUS Human Services, Inc.	Virginia
MAXIMUS ERP Solutions, LLC	Virginia

All subsidiaries are 100% owned by MAXIMUS, unless otherwise noted.

(1) — Owned 55% by MAXIMUS

* This list identifies all subsidiaries that are directly owned by MAXIMUS at the “first tier” of its corporate structure. The names of all of the subsidiaries of these “first tier” subsidiaries have been omitted from this list because, considered in the aggregate, they would not constitute a significant subsidiary under Securities and Exchange Commission Regulation S-X, Rule 1-02(w).

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statements (Form S-8, Nos. 333-88012, 333-41871, 333-62380, 333-75263 and 333-136400) pertaining to the 1997 Equity Incentive Plan of MAXIMUS, Inc.,
- (2) Registration Statements (Form S-8, Nos. 333-41867 and 333-122711) pertaining to the 1997 Employee Stock Purchase Plan of MAXIMUS, Inc.,
- (3) Registration Statement (Form S-3, No. 333-75265) pertaining to the resale of stock in connection with the acquisition of Control Software, Inc., and
- (4) Registration Statement (Form S-8, No. 333-41869) pertaining to the 1997 Director Stock Option Plan of MAXIMUS, Inc.,

of our report dated December 10, 2008 (except for Note 14 (a), as to which the date is December 12, 2008), with respect to the consolidated financial statements of MAXIMUS Inc., and our report dated December 10, 2008 with respect to the effectiveness of internal control over financial reporting of MAXIMUS, Inc., included in the Annual Report (Form 10-K) for the year ended September 30, 2008.

/s/ Ernst & Young LLP

McLean, Virginia
December 12, 2008

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Richard A. Montoni, certify that:

1. I have reviewed the Annual Report on Form 10-K of MAXIMUS, Inc. for the fiscal year ended September 30, 2008;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: December 8, 2008

/s/ RICHARD A. MONTONI

Richard A. Montoni
Chief Executive Officer

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, David N. Walker, certify that:

1. I have reviewed the Annual Report on Form 10-K of MAXIMUS, Inc. for the fiscal year ended September 30, 2008;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: December 8, 2008

/s/ DAVID N. WALKER

David N. Walker
Chief Financial Officer

Section 906 CEO Certification

I, Richard A. Montoni, Chief Executive Officer of MAXIMUS, Inc. (“the Company”), do hereby certify, under the standards set forth in and solely for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Annual Report on Form 10-K of the Company for the fiscal year ended September 30, 2008 (the “Annual Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m or 78o(d)) and
2. The information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: December 8, 2008

/s/ RICHARD A. MONTONI

Richard A. Montoni

Chief Executive Officer

Section 906 CFO Certification

I, David N. Walker, Chief Financial Officer of MAXIMUS, Inc. (“the Company”), do hereby certify, under the standards set forth in and solely for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Annual Report on Form 10-K of the Company for the fiscal year ended September 30, 2008 (the “Annual Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m or 78o(d)) and
2. The information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: December 8, 2008

/s/ DAVID N. WALKER

David N. Walker

Chief Financial Officer

Special Considerations and Risk Factors

From time to time, we may make forward-looking public statements, such as statements concerning our then-expected future revenue or earnings or concerning projected plans, performance or contract procurement, as well as other estimates relating to future operations. Forward-looking statements may be in reports filed under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), in press releases or in informal statements made with the approval of an authorized executive officer. The words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “believe,” “could,” “intend,” “may,” “opportunity,” “plan,” “potential” or similar terms and expressions are intended to identify “forward-looking statements” within the meaning of Section 21E of the Exchange Act and Section 27A of the Securities Act of 1933, as amended, as enacted by the Private Securities Litigation Reform Act of 1995.

We wish to caution you not to place undue reliance on these forward-looking statements that speak only as of the date on which they are made. In addition, we wish to advise you that the factors listed below, as well as other factors we have not currently identified, could affect our financial or other performance and could cause our actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods or events in any current statement.

We will not undertake and we specifically decline any obligation to publicly release revisions to these forward-looking statements to reflect either a circumstance after the date of the statements or the occurrence of events that may cause us to re-evaluate our forward-looking statements.

In connection with the “safe harbor” provisions of the Private Securities Litigation Reform Act, we are hereby filing the following cautionary statements identifying important factors that could cause our actual results to differ materially from those projected in forward-looking statements made by us or on our behalf:

We may be subject to fines, penalties and other sanctions if we fail to comply with federal, state and local laws governing our business.

Our business lines operate within a variety of complex regulatory schemes, including but not limited to the Federal Acquisition Regulation (FAR), Cost Accounting Standards, the Truth in Negotiations Act, the Fair Debt Collection Practices Act (and analogous state laws), as well as the regulations governing Medicaid and Medicare. If a government audit uncovers improper or illegal activities by us or we otherwise determine that these activities have occurred, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeitures of profits, suspension of payments, fines and suspension or disqualification from doing business with the government. Any adverse determination could adversely impact our ability to bid in response to requests for proposals (“RFPs”) in one or more jurisdictions. Further, as a government contractor subject to the types of regulatory schemes described above, we are subject to an increased risk of investigations, criminal prosecution, civil fraud, whistleblower lawsuits and other legal actions and liabilities to which private sector companies are not, the result of which could have a material adverse effect on our operations.

In July 2007, the Company entered into a settlement agreement with the United States Department of Justice pertaining to an investigation of the Company’s compliance with the federal laws governing Medicaid claims in connection with the Company’s preparation and submission of Medicaid reimbursement claims on behalf of the District of Columbia. As part of the settlement the Company paid the government \$30.5 million. The Company also entered into a Corporate Integrity Agreement and a Deferred Prosecution Agreement. Those agreements contain a variety of oversight, compliance, audit and reporting requirements. If the Company fails to comply with those agreements it could be subject to criminal prosecution and suspension or debarment from performing government contracts, the result of which could have a material adverse effect on our operations, financial condition and ability to compete for future projects.

If we fail to satisfy our contractual obligations or meet performance standards, our contracts may be terminated and we may incur significant costs or liabilities, including liquidated damages and penalties, which could adversely impact our operating results, financial condition and our ability to compete for future contracts.

Our contracts may be terminated for our failure to satisfy our contractual obligations or to meet performance standards and often require us to indemnify customers. In addition, some of our contracts contain substantial liquidated damages provisions and financial penalties related to performance failures. Although we have liability insurance, the policy coverage and limits may not be adequate to provide protection against all potential liabilities. Further, for certain contracts, we have posted significant performance bonds or issued letters of credit to secure our indemnification and other obligations. If a claim is made against a performance bond or letter of credit, we would be required to reimburse the issuer for the amount of the claim. Consequently, as a result of the above matters, we may incur significant costs or liabilities, including penalties, which could adversely impact our operating results, financial condition and our ability to compete for future contracts.

We are subject to review and audit by federal, state and local governments at their sole discretion and, if any improprieties are found, we may be required to refund revenue we have received, or forego anticipated revenue, which could have a material adverse impact on our revenues and our ability to bid in response to RFPs.

As a provider of services to government agencies, we are subject to periodic audits and other reviews by federal, state and local governments of our costs and performance, accounting and general business practices relating to our contracts with those government agencies. As part of that process, the government agency reviews our performance on the contract, our pricing practices, our cost structure and our compliance with applicable laws, regulations and standards. Based on the results of these audits, government agencies may demand refunds or adjust our contract-related costs and fees, including internal costs and expense allocation. Although adjustments arising from government audits and reviews have not had a material adverse effect on our results of operations in the past, there can be no assurance that future audits and reviews would not have such effects.

We may face liabilities arising from divested businesses.

During 2008 we divested our Security Solutions, Unison, Education Systems, Justice Solutions and Asset Solutions businesses. The transaction documents for those divestitures contain a variety of representations, warranties, indemnification obligations and, in some instances, price adjustment provisions. We could face indemnification claims and liabilities from alleged breaches of representations or warranties, or we could face adverse price adjustments. In addition, the majority of our customer contracts require customer consent to assign those contracts to a third party. Although we are cooperating with the buyers of those businesses to obtain all customer consents, a customer could refuse to consent to an assignment and seek to hold us liable for performance problems or other contractual obligations.

If we fail to accurately estimate the factors upon which we base our contract pricing, we may generate less profit than expected or incur losses on those contracts.

We derived approximately 33% of our fiscal 2008 revenue from fixed-price contracts and approximately 36% of our fiscal 2008 revenue from performance-based contracts. For fixed-price contracts, we receive our fee based on services provided. Those services might include operating a Medicaid enrollment center pursuant to specified standards, designing and implementing computer systems or applications, or delivering a planning document under a consulting arrangement. For performance-based contracts, we receive our fee on a per-transaction basis. These contracts include, for example, child support enforcement contracts, in which we often receive a fee based on the amount of child support collected. To earn a profit on these contracts, we must accurately estimate costs involved and assess the probability of completing individual transactions within the contracted time period. If our estimates prove to be inaccurate, we may not achieve the level of profit we expected or we may incur a net loss on a contract. Although we believe that we have recorded adequate provisions in our financial statements for losses on our fixed-price and cost-plus contracts, as required under U.S. generally accepted accounting principles, we cannot assure you that our contract loss provisions will be adequate to cover all actual future losses.

Adverse judgments or settlements in legal disputes could harm our financial condition and operating results.

We are subject to a variety of litigation or other claims and suits that arise from time to time in the ordinary course of our business such as contract and employment claims and lawsuits involving compliance with laws governing debt collections and child support enforcement. Adverse judgments or settlements in some or all of these legal disputes may result in significant monetary damages or injunctive relief against us. In addition, the litigation and other claims described in our periodic report are subject to inherent uncertainties and management's view of these matters may change in the future. Those uncertainties include, but are not limited to, costs of litigation, unpredictable court or jury decisions, and the differing laws and attitudes regarding damage awards among the states and countries in which we operate.

We may incur significant costs before receiving related contract payments that could result in increasing the use of cash and accounts receivable.

When we are awarded a contract, we may incur significant expenses before we receive contract payments, if any. These expenses may include leasing office space, purchasing office equipment and hiring personnel. In other situations, contract terms provide for billing upon achievement of specified project milestones. As a result, in these situations, we are required to expend significant sums of money before receiving related contract payments. In addition, payments due to us from government agencies may be delayed due to billing cycles or as a result of failures to approve governmental budgets in a timely manner. These factors could impact us by increasing the use of cash and accounts receivable. Moreover, these impacts could be exacerbated if we fail to either invoice the government agency or collect our fee in a timely manner.

We obtain most of our business through competitive bidding in response to government RFPs. We may not be awarded contracts through this process on the same level in the future as in the past, and contracts we are awarded may not be profitable.

Substantially all of our customers are government agencies. To market our services to government customers, we are often required to respond to government RFPs which may result in contract awards on a competitive basis. To do so effectively, we must estimate accurately our cost structure for servicing a proposed contract, the time required to establish operations and likely terms of the proposals submitted by competitors. We must also assemble and submit a large volume of information within an RFP's rigid timetable. Our ability to respond successfully to RFPs will greatly impact our business. There is no assurance that we will continue to obtain contracts in response to government RFPs and our proposals may not result in profitable contracts. In addition, competitors may protest contracts awarded to us through the RFP process which may cause the award to be delayed or overturned or may require the customer to reinitiate the RFP process.

Government entities have in the past and may in the future terminate their contracts with us earlier than we expect, which may result in revenue shortfalls.

Many of our government contracts contain base periods of one or more years, as well as option periods covering more than half of the contract's potential duration. Government agencies do not have to exercise these option periods, and they may elect not to exercise them for budgetary, performance, or any other reason. Our contracts also typically contain provisions permitting a government customer to terminate the contract on short notice, with or without cause. Termination without cause provisions generally allow the government to terminate a contract at any time, and enable us to recover only our costs incurred or committed, and settlement expenses and profit, if any, on the work completed prior to termination. The unexpected termination of significant contracts could result in significant revenue shortfalls. If revenue shortfalls occur and are not offset by corresponding reductions in expenses, our business could be adversely affected. We cannot anticipate if, when or to what extent a customer might terminate its contracts with us.

If we are unable to manage our growth, our profitability will be adversely affected.

Sustaining our growth places significant demands on our management as well as on our administrative, operational and financial resources. For us to continue to manage our growth, we must continue to improve our operational, financial and management information systems and expand, motivate and manage our workforce. If our growth comes at the expense of providing quality service and generating reasonable profits, our ability to successfully bid for contracts and our profitability will be adversely affected.

We rely on key contracts with state and local governments for a significant portion of our revenue. A substantial reduction in those contracts would materially adversely affect our operating results.

In fiscal 2008, approximately 74% of our total revenue was derived from contracts with state and local government agencies. Any significant disruption or deterioration in our relationship with state and local governments and a corresponding reduction in these contracts would significantly reduce our revenues and could substantially harm our business.

Government unions may oppose outsourcing of government programs to outside vendors such as us, which could limit our market opportunities and could impact us adversely. In addition, our unionized workers could disrupt our operations.

Our success depends in part on our ability to win profitable contracts to administer and manage health and human services programs traditionally administered by government employees. Many government employees, however, belong to labor unions with considerable financial resources and lobbying networks. Unions have in the past applied, and are likely to continue to apply, political pressure on legislators and other officials seeking to outsource government programs. Union opposition to these programs may result in fewer opportunities for us to service government agencies and/or longer and more complex procurements.

We do operate outsourcing programs using unionized employees in Canada. We have experienced opposition from the union which does not favor the outsourcing of government programs. As a result, we have received negative press coverage as the union continues to oppose our program operations. Such press coverage and union opposition may have an adverse effect on the willingness of government agencies to outsource such projects as well as certain contracts that are operated within a unionized environment. Our unionized workers could also declare a strike which could adversely affect our performance and financial results.

We may be precluded from bidding and performing certain work due to other work we currently perform.

Various laws and regulations prohibit companies from performing work for government agencies that might be viewed as an actual or apparent conflict of interest. These laws may limit our ability to pursue and perform certain types of work. For example, some of our Consulting Segment divisions assist government agencies in developing RFPs for various government programs. In those situations, the divisions involved in operating such programs would likely be precluded from bidding on those RFPs. Similarly, rules governing the independence of enrollment brokers could prevent us from providing services to other organizations such as health plans.

We may lose executive officers and senior managers on whom we rely to generate business and execute projects successfully.

The ability of our executive officers and our senior managers to generate business and execute projects successfully is important to our success. While we have employment agreements with some of our executive officers, those agreements do not prevent them from terminating their employment with us. The loss of an executive officer or senior manager could impair our ability to secure and manage engagements, which could harm our business, prospects, financial condition and results of operations.

Inaccurate, misleading or negative media coverage could adversely affect our reputation and our ability to bid for government contracts.

Because of the public nature of many of our business lines, the media frequently focus their attention on our contracts with government agencies. If the media coverage is negative, it could influence government officials to slow the pace of outsourcing government services, which could reduce the number of RFPs. The media also focus their attention on the activities of political consultants engaged by us, and we may be tainted by adverse media coverage about their activities, even when those activities are unrelated to our business. Moreover, inaccurate, misleading or negative media coverage about us could harm our reputation and, accordingly, our ability to bid for and win government contracts.

We may be unable to attract and retain sufficient qualified personnel to sustain our business.

Our delivery of services is labor-intensive. When we are awarded a government contract, we must quickly hire project leaders and case management personnel. The additional staff also creates a concurrent demand for increased administrative personnel. Our success requires that we attract, develop, motivate and retain:

- experienced and innovative executive officers;
- senior managers who have successfully managed or designed government services programs; and
- information technology professionals who have designed or implemented complex information technology projects.

Innovative, experienced and technically proficient individuals are in great demand and are likely to remain a limited resource. There can be no assurance that we will be able to continue to attract and retain desirable executive officers and senior managers. Our inability to hire sufficient personnel on a timely basis or the loss of significant numbers of executive officers and senior managers could adversely affect our business.

If we fail to establish and maintain important relationships with government entities and agencies, our ability to successfully bid for RFPs may be adversely affected.

To facilitate our ability to prepare bids in response to RFPs, we rely in part on establishing and maintaining relationships with officials of various government entities and agencies. These relationships enable us to provide informal input and advice to the government entities and agencies prior to the development of an RFP. We also engage marketing consultants, including lobbyists, to establish and maintain relationships with elected officials and appointed members of government agencies. The effectiveness of these consultants may be reduced or eliminated if a significant political change occurs. In that circumstance, we may be unable to successfully manage our relationships with government entities and agencies and with elected officials and appointees. Any failure to maintain positive relationships with government entities and agencies may adversely affect our ability to bid successfully in response to RFPs.

The federal government may limit or prohibit the outsourcing of certain programs or may refuse to grant consents and/or waivers necessary to permit private entities, such as us, to perform certain elements of government programs.

The federal government could limit or prohibit private contractors like MAXIMUS from operating or performing elements of certain government programs. State or local governments could be required to operate such programs with government employees as a condition of receiving federal funding. Moreover, under current law, in order to privatize certain functions of government programs, the federal government must grant a consent and/or waiver to the petitioning state or local agency. If the federal government does not grant a necessary consent or waiver, the state or local agency will be unable to outsource that function to a private entity, such as us. This situation could eliminate a contracting opportunity or reduce the value of an existing contract.

Our business could be adversely affected by future legislative or government budgetary and spending changes.

The market for our services depends largely on federal and state legislative programs and the budgetary capability to support programs, including the continuance of existing programs. These programs can be modified or amended at any time by acts of federal and state governments.

Moreover, part of our growth strategy includes aggressively pursuing new opportunities and continuing to serve existing programs scheduled for re-bid, which are or may be created by federal and state initiatives, principally in the area of health and human services.

State budgets are being adversely impacted by the current financial and credit crisis and worldwide economic slowdown, resulting in state budget deficits. All but one state must operate under a balanced budget. There are a number of alternatives to states in managing a possible budget deficit, including:

- Accessing previously set aside or “rainy day” funds;
- Increasing taxes;
- Elimination or reduction in services;
- Cost containment and savings;
- Pursuit of additional federal assistance; and
- Developing additional sources of revenue, such as the legalization of gaming.

While we believe that the demand for our services remains substantial, state budget deficits could adversely impact our existing and anticipated business as well as our future financial performance.

Also, changes in federal initiatives or in the level of federal spending due to budgetary or deficit considerations may have a significant impact on our future financial performance. For example, increased or changed spending on defense, security or anti-terrorism threats may impact the level of demand for our services. Many state programs, such as Medicaid, are federally mandated and fully or partially funded by the federal government. Changes, such as program eligibility, benefits, or the level of federal funding may impact the demand for our services. Certain changes may present new opportunities to us and other changes may reduce the level of demand for services provided by us, which could materially adversely impact our future financial performance.

If we do not successfully integrate the businesses that we acquire, our results of operations could be adversely affected.

Business combinations involve a number of factors that affect operations, including:

- diversion of management's attention;
- loss of key personnel;
- entry into unfamiliar markets;
- assumption of unanticipated legal or financial liabilities;
- becoming significantly leveraged as a result of incurring debt to finance an acquisition;
- unanticipated operating, accounting or management difficulties in connection with the acquired entities;
- impairment of acquired intangible assets, including goodwill; and
- dilution to our earnings per share.

Businesses we acquire may not achieve the revenue and earnings we anticipated. Customer dissatisfaction or performance problems with an acquired firm could materially and adversely affect our reputation as a whole. As a result, we may be unable to profitably manage businesses that we have acquired or that we may acquire or we may fail to integrate them successfully without incurring substantial expenses, delays or other problems that could materially negatively impact our business and results of operations.

Federal government officials may discourage state and local governmental entities from engaging us, which may result in a decline in revenue.

To avoid higher than anticipated demands for federal funds, federal government officials occasionally discourage state and local authorities from engaging private consultants to advise them on obtaining federal funding reimbursements. If state and local officials are dissuaded from engaging us for revenue maximization services, we will not receive contracts for, or revenue from, those services.

We may rely on subcontractors and partners to provide clients with a single-source solution.

From time to time, we may engage subcontractors, teaming partners or other third parties to provide our customers with a single-source solution. While we believe that we perform appropriate due diligence on our subcontractors and teaming partners, we cannot guarantee that those parties will comply with the terms set forth in their agreements. We may have disputes with our subcontractors, teaming partners or other third parties arising from the quality and timeliness of the subcontractor's work, customer concerns about the subcontractor or other matters. Subcontractor performance deficiencies could result in a customer terminating our contract for default. We may be exposed to liability, and we and our clients may be adversely affected if a subcontractor or teaming partner failed to meet its contractual obligations.

In 2007, MAXIMUS sued a former subcontractor for breach of contract. The subcontractor was responsible for providing the user interface and critical software for the Connecticut COLLECT project (a project to update the State's criminal justice information system). The subcontractor abandoned the project after it decided to exit this business line. In May 2007, the State notified MAXIMUS that it was terminating the prime contract for default based on a number of alleged breaches by MAXIMUS. The State sent MAXIMUS a demand letter in September 2007 threatening to commence litigation and demanding reimbursement of \$6.2 million. The State subsequently filed a lawsuit against MAXIMUS in November 2007. MAXIMUS will seek to hold the subcontractor responsible for any damages asserted by the State as well as MAXIMUS' other damages arising in connection with this matter.

We face competition from a variety of organizations, many of which have substantially greater financial resources than we do; we may be unable to compete successfully with these organizations.

Our Consulting Segment typically competes for consulting contracts with large global consulting firms, as well as smaller niche players.

Our Operations Segment competes for program management contracts with the following:

- government services divisions of large organizations such as Affiliated Computer Services, Inc., Electronic Data Systems Corporation, and International Business Machines Corporation;
- specialized service providers; and
- local non-profit organizations such as the United Way of America, Goodwill Industries and Catholic Charities, USA.

Many of these companies are national and international in scope, are larger than us and have greater financial resources, name recognition and larger technical staffs. Substantial resources could enable certain competitors to initiate severe price cuts or take other measures in an effort to gain market share. In addition, we may be unable to compete for the limited number of large contracts because we may not be able to meet an RFP's requirement to obtain and post a large cash performance bond. Also, in some geographic areas, we face competition from smaller consulting firms with established reputations and political relationships. There can be no assurance that we will be able to compete successfully against our existing or any new competitors.

A number of factors may cause our cash flows and results of operations to vary from quarter to quarter.

Factors which may cause our cash flows and results of operations to vary from quarter to quarter include:

- the terms and progress of contracts;
- the levels of revenue earned and profitability of fixed-price and performance-based contracts;
- expenses related to certain contracts which may be incurred in periods prior to revenue being recognized;
- the commencement, completion or termination of contracts during any particular quarter;
- the schedules of government agencies for awarding contracts;
- the term of awarded contracts; and
- potential acquisitions.

Changes in the volume of activity and the number of contracts commenced, completed or terminated during any quarter may cause significant variations in our cash flows and results of operations because a large amount of our expenses are fixed.

Our Articles of Incorporation and bylaws include provisions that may have anti-takeover effects.

Our Articles of Incorporation and bylaws include provisions that may delay, deter or prevent a takeover attempt that shareholders might consider desirable. For example, our Articles of Incorporation provide that our directors are to be divided into three classes and elected to serve staggered three-year terms. This structure could impede or discourage an attempt to obtain control of us by preventing stockholders from replacing the entire board in a single proxy contest, making it more difficult for a third party to take control of us without the consent of our Board of Directors. Our Articles of Incorporation further provide that our shareholders may not take any action in writing without a meeting. This prohibition could impede or discourage an attempt to obtain control of us by requiring that any corporate actions initiated by shareholders be adopted only at properly called shareholder meetings.