

MAXIMUS INC
Form 10-Q
May 04, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

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)

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(703) 251-8500

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

As of April 30, 2012, there were 33,947,468 shares of the registrant's common stock (no par value) outstanding.

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MAXIMUS, Inc.

Quarterly Report on Form 10-Q

For the Quarter Ended March 31, 2012

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Throughout this Quarterly Report on Form 10-Q, the terms Company, we, us, our and MAXIMUS refer to MAXIMUS, Inc. and its subsidiaries.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements.****MAXIMUS, Inc.****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share data)****(Unaudited)**

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---------------------------------|------------|-------------------------------|------------|
| | 2012 | 2011 | 2012 | 2011 |
| Revenue | \$ 243,452 | \$ 227,116 | \$ 483,055 | \$ 441,230 |
| Cost of revenue | 178,686 | 164,050 | 358,442 | 322,205 |
| Gross profit | 64,766 | 63,066 | 124,613 | 119,025 |
| Selling, general and administrative expenses | 37,959 | 33,572 | 70,715 | 62,239 |
| Legal and settlement recovery, net | 591 | | 405 | |
| Operating income from continuing operations | 27,398 | 29,494 | 54,303 | 56,786 |
| Interest and other income, net | 824 | 919 | 1,928 | 1,410 |
| Income from continuing operations before income taxes | 28,222 | 30,413 | 56,231 | 58,196 |
| Provision for income taxes | 14,011 | 11,375 | 24,362 | 21,571 |
| Income from continuing operations | 14,211 | 19,038 | 31,869 | 36,625 |
| Discontinued operations, net of income taxes: | | | | |
| Income (loss) from discontinued operations | | (265) | | (265) |
| Gain (loss) on disposal | 62 | (554) | 108 | (659) |
| Income (loss) from discontinued operations | 62 | (819) | 108 | (924) |
| Net income | \$ 14,273 | \$ 18,219 | \$ 31,977 | \$ 35,701 |
| Basic earnings (loss) per share: | | | | |
| Income from continuing operations | \$ 0.42 | \$ 0.55 | \$ 0.95 | \$ 1.06 |
| Income (loss) from discontinued operations | | (0.02) | | (0.02) |
| Basic earnings per share | \$ 0.42 | \$ 0.53 | \$ 0.95 | \$ 1.04 |
| Diluted earnings (loss) per share: | | | | |
| Income from continuing operations | \$ 0.41 | \$ 0.54 | \$ 0.92 | \$ 1.03 |
| Income (loss) from discontinued operations | | (0.03) | | (0.02) |
| Diluted earnings per share | \$ 0.41 | \$ 0.51 | \$ 0.92 | \$ 1.01 |
| Dividends paid per share | \$ 0.09 | \$ 0.08 | \$ 0.18 | \$ 0.14 |
| Weighted average shares outstanding: | | | | |
| Basic | 33,788 | 34,422 | 33,725 | 34,392 |
| Diluted | 34,728 | 35,574 | 34,638 | 35,500 |

See notes to unaudited consolidated financial statements.

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MAXIMUS, Inc.

CONSOLIDATED BALANCE SHEETS

(In thousands)

| | March 31, 2012 (unaudited) | September 30, 2011 |
|---|----------------------------------|-----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 229,537 | \$ 172,950 |
| Restricted cash | 6,681 | 4,839 |
| Accounts receivable billed, net of reserves of \$4,226 and \$3,265 | 140,664 | 146,900 |
| Accounts receivable unbilled | 7,242 | 7,170 |
| Prepaid income taxes | 4,109 | 12,959 |
| Deferred income taxes | 23,943 | 19,256 |
| Prepaid expenses and other current assets | 29,406 | 27,202 |
| Total current assets | 441,582 | 391,276 |
| Property and equipment, net | 50,722 | 51,740 |
| Capitalized software, net | 26,697 | 26,616 |
| Goodwill | 72,705 | 71,323 |
| Intangible assets, net | 5,246 | 5,651 |
| Deferred contract costs, net | 6,939 | 8,020 |
| Deferred income taxes | 812 | 732 |
| Deferred compensation plan assets | 9,116 | 8,004 |
| Other assets, net | 2,015 | 1,917 |
| Total assets | \$ 615,834 | \$ 565,279 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 67,278 | \$ 55,470 |
| Accrued compensation and benefits | 40,409 | 47,748 |
| Deferred revenue | 59,265 | 47,902 |
| Current portion of long-term debt | 132 | 42 |
| Acquisition-related contingent consideration | 2,005 | 1,840 |
| Income taxes payable | 5,497 | 5,104 |
| Other accrued liabilities | 2,377 | 5,787 |
| Total current liabilities | 176,963 | 163,893 |
| Deferred revenue, less current portion | 3,553 | 2,575 |
| Long-term debt | 1,625 | 1,654 |
| Acquisition-related contingent consideration, less current portion | 401 | 388 |
| Income taxes payable, less current portion | 1,538 | 1,484 |
| Deferred income taxes | 11,136 | 11,945 |
| Deferred compensation plan liabilities, less current portion | 9,895 | 8,883 |
| Total liabilities | 205,111 | 190,822 |
| Shareholders' equity: | | |
| Common stock, no par value; 60,000 shares authorized; 56,413 and 56,018 shares issued and 33,951 and 33,793 shares outstanding at March 31, 2012 and September 30, 2011, at stated amount, respectively | 389,477 | 377,579 |
| Treasury stock, at cost; 22,462 and 22,225 shares at March 31, 2012 and September 30, 2011, respectively | (425,651) | (416,850) |

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| | | |
|--|------------|------------|
| Accumulated other comprehensive income | 20,069 | 12,480 |
| Retained earnings | 426,828 | 401,248 |
| Total shareholders' equity | 410,723 | 374,457 |
| Total liabilities and shareholders' equity | \$ 615,834 | \$ 565,279 |

See notes to unaudited consolidated financial statements.

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MAXIMUS, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

| | Six Months Ended March 31, | |
|---|-------------------------------|-----------|
| | 2012 | 2011 |
| Cash flows from operating activities: | | |
| Net income | \$ 31,977 | \$ 35,701 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| (Income) loss from discontinued operations | (108) | 924 |
| Depreciation and amortization | 11,545 | 10,783 |
| Deferred income taxes | (5,315) | 1,146 |
| Non-cash equity based compensation | 5,633 | 4,495 |
| Change in assets and liabilities: | | |
| Accounts receivable billed | 7,268 | (1,596) |
| Accounts receivable unbilled | (63) | 2,021 |
| Prepaid expenses and other current assets | (4,092) | 1,669 |
| Deferred contract costs | 1,109 | (1,229) |
| Accounts payable | 12,298 | 12,287 |
| Accrued compensation and benefits | (6,287) | (6,567) |
| Deferred revenue | 11,291 | (11,296) |
| Income taxes | 8,910 | (10,334) |
| Other assets and liabilities | (5,128) | (1,618) |
| Cash provided by operating activities continuing operations | 69,038 | 36,386 |
| Cash used in operating activities discontinued operations | | (951) |
| Cash provided by operating activities | 69,038 | 35,435 |
| Cash flows from investing activities: | | |
| Proceeds from sale of discontinued operations | 2,240 | |
| Proceeds from note receivable | 272 | |
| Purchases of property and equipment | (6,576) | (6,464) |
| Capitalized software costs | (1,832) | (3,872) |
| Cash used in investing activities continuing operations | (5,896) | (10,336) |
| Cash used in investing activities discontinued operations | | |
| Cash used in investing activities | (5,896) | (10,336) |
| Cash flows from financing activities: | | |
| Employee stock transactions | 1,687 | 8,013 |
| Repurchases of common stock | (9,749) | (8,459) |
| Tax benefit due to option exercises and restricted stock units vesting | 2,510 | 3,818 |
| Issuance of long-term debt | | 300 |
| Cash dividends paid | (6,061) | (4,643) |
| Cash used in financing activities continuing operations | (11,613) | (971) |
| Cash used in financing activities discontinued operations | | |
| Cash used in financing activities | (11,613) | (971) |
| Effect of exchange rate changes on cash and cash equivalents | 5,058 | 3,706 |

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| | | |
|--|------------|------------|
| Net increase in cash and cash equivalents | 56,587 | 27,834 |
| Cash and cash equivalents, beginning of period | 172,950 | 155,321 |
| Cash and cash equivalents, end of period | \$ 229,537 | \$ 183,155 |

See notes to unaudited consolidated financial statements.

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MAXIMUS, Inc.

Notes to Unaudited Consolidated Financial Statements

For the Three and Six Months Ended March 31, 2012 and 2011

1. Organization and Basis of Presentation

General

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the three and six months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the full fiscal year. The balance sheet at September 30, 2011 has been derived from the audited financial statements at that date but does not include all of the information and notes required by generally accepted accounting principles for complete financial statements.

The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenue and expenses. On an ongoing basis, we evaluate our estimates including those related to revenue recognition and cost estimation on certain contracts, the realizability of goodwill, and amounts related to income taxes, certain accrued liabilities and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from those estimates.

These financial statements should be read in conjunction with the consolidated audited financial statements and the notes thereto at September 30, 2011 and 2010 and for each of the three years ended September 30, 2011, included in the Company's Annual Report on Form 10-K for the year ended September 30, 2011 filed with the Securities and Exchange Commission on November 14, 2011.

Table of Contents**2. Segment Information**

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

| | Three Months Ended March 31, | | | | Six Months Ended March 31, | | | |
|--|------------------------------|-------|------------|-------|----------------------------|-------|------------|-------|
| | 2012 | % (1) | 2011 | % (1) | 2012 | % (1) | 2011 | % (1) |
| Revenue: | | | | | | | | |
| Health Services | \$ 161,170 | 100% | \$ 137,779 | 100% | \$ 319,213 | 100% | \$ 267,790 | 100% |
| Human Services | 82,282 | 100% | 89,337 | 100% | 163,842 | 100% | 173,440 | 100% |
| Total | 243,452 | 100% | 227,116 | 100% | 483,055 | 100% | 441,230 | 100% |
| Gross Profit: | | | | | | | | |
| Health services | 41,137 | 26% | 38,320 | 28% | 77,136 | 24% | 72,597 | 27% |
| Human Services | 23,629 | 29% | 24,746 | 28% | 47,477 | 29% | 46,428 | 27% |
| Total | 64,766 | 27% | 63,066 | 28% | 124,613 | 26% | 119,025 | 27% |
| Selling, general, and administrative expense: | | | | | | | | |
| Health Services | 22,935 | 14% | 18,968 | 14% | 42,151 | 13% | 34,422 | 13% |
| Human Services | 15,024 | 18% | 14,623 | 16% | 28,564 | 17% | 27,802 | 16% |
| Corporate/Other | | NM | (19) | NM | | NM | 15 | NM |
| Total | 37,959 | 16% | 33,572 | 15% | 70,715 | 15% | 62,239 | 14% |
| Operating income from continuing operations: | | | | | | | | |
| Health services | 18,202 | 11% | 19,352 | 14% | 34,985 | 11% | 38,175 | 14% |
| Human Services | 8,605 | 10% | 10,123 | 11% | 18,913 | 12% | 18,626 | 11% |
| Corporate/Other | | NM | 19 | NM | | NM | (15) | NM |
| Subtotal: Segment Operating Income | 26,807 | 11% | 29,494 | 13% | 53,898 | 11% | 56,786 | 13% |
| Legal and settlement recovery, net | 591 | NM | | NM | 405 | NM | | NM |
| Total | \$ 27,398 | 11% | \$ 29,494 | 13% | \$ 54,303 | 11% | \$ 56,786 | 13% |

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

3. Earnings Per Share

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

Three Months
Ended March 31,

Six Months
Ended March 31,

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| | 2012 | 2011 | 2012 | 2011 |
|--|-----------|-----------|-----------|-----------|
| Numerator: | | | | |
| Income from continuing operations | \$ 14,211 | \$ 19,038 | \$ 31,869 | \$ 36,625 |
| Income (loss) from discontinued operations | 62 | (819) | 108 | (924) |
| Net income | \$ 14,273 | \$ 18,219 | \$ 31,977 | \$ 35,701 |
| Denominator: | | | | |
| Basic weighted average shares outstanding | 33,788 | 34,422 | 33,725 | 34,392 |
| Effect of dilutive securities: | | | | |
| Employee stock options and unvested restricted stock units | 940 | 1,152 | 913 | 1,108 |
| Denominator for diluted earnings (loss) per share | 34,728 | 35,574 | 34,638 | 35,500 |

No shares were excluded from the computation in calculating the earnings per share for the three or six months ended March 31, 2012 or 2011.

Table of Contents**4. Comprehensive Income**

Comprehensive income comprises net income plus changes in cumulative foreign currency translation adjustments. The components of comprehensive income for the three and six months ended March 31, 2012 and 2011 are as follows (in thousands):

| (in thousands) | Three months Ended March 31, | | Six months Ended March 31, | |
|--|---------------------------------|-----------|-------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Net income | \$ 14,273 | \$ 18,219 | \$ 31,977 | \$ 35,701 |
| Foreign currency translation adjustments | 3,358 | 2,459 | 7,589 | 6,388 |
| Comprehensive income | \$ 17,631 | \$ 20,678 | \$ 39,566 | \$ 42,089 |

5. Legal and Settlement Recovery, Net

Legal and settlement recovery, net consists of reimbursed insurance claims, net of costs related to significant legal settlements and non-routine legal matters, including future probable legal costs estimated to be incurred in connection with those matters. This account also includes the incremental costs of acquisitions, including legal fees, brokerage fees and valuation reports. 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 recovery, net:

| (in thousands) | Three months Ended March 31, | | Six Months Ended March 31, | |
|----------------------|---------------------------------|--------|-------------------------------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| Insurance recovery | \$ 735 | \$ 735 | \$ 735 | \$ 735 |
| Acquisition expenses | (144) | | (144) | |
| Other | | | (186) | |
| Total | \$ 591 | \$ 735 | \$ 405 | \$ 735 |

The insurance recoveries relate to a litigation settlement in fiscal 2008. Acquisition expenses relate to the purchase of PSI Holdings, Inc. in April 2012.

6. Income Taxes

During the period ended March 31, 2012, the Company recorded a discrete tax charge of \$3.0 million, which had the effect of increasing the effective tax rate from 38% to 43.3% for the year-to-date period. The charge relates to changes in the estimated blended state tax rate and includes the correction of an error of \$1.6 million. The Company does not believe this correction is material to its consolidated financial

statements.

7. Property & Equipment

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

| | March 31, 2012 | September 30, 2011 |
|---|-------------------|-----------------------|
| Land | \$ 1,800 | \$ 1,800 |
| Building and improvements | 11,485 | 11,485 |
| Office furniture and equipment | 101,118 | 94,558 |
| Leasehold improvements | 9,856 | 9,798 |
| Property and equipment, gross | 124,259 | 117,641 |
| Less: Accumulated depreciation and amortization | (73,537) | (65,901) |
| Total property and equipment, net | \$ 50,722 | \$ 51,740 |

8. Software development costs

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

| | March 31, 2012 | September 30, 2011 |
|--|-------------------|-----------------------|
| Capitalized software development costs | \$ 43,437 | \$ 40,798 |
| Less: Accumulated amortization | (16,740) | (14,182) |
| Total Software development costs, net | \$ 26,697 | \$ 26,616 |

Table of Contents**9. Goodwill and Intangible Assets**

The changes in goodwill for the six months ended March 31, 2012 are as follows (in thousands):

| | Health Services | Human Services | Total |
|----------------------------------|-----------------|----------------|-----------|
| Balance as of September 30, 2011 | \$ 43,242 | \$ 28,081 | \$ 71,323 |
| Foreign currency translation | 269 | 1,113 | 1,382 |
| Balance as of March 31, 2012 | \$ 43,511 | \$ 29,194 | \$ 72,705 |

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

| | As of March 31, 2012 | | | As of September 30, 2011 | | |
|--------------------------------------|----------------------|-----------------------------|---------------------------|--------------------------|-----------------------------|---------------------------|
| | Cost | Accumulated Amortization | Intangible Assets, net | Cost | Accumulated Amortization | Intangible Assets, net |
| Technology-based intangible assets | \$ 7,280 | \$ 4,353 | \$ 2,927 | \$ 7,146 | \$ 4,097 | \$ 3,049 |
| Customer contracts and relationships | 3,535 | 1,838 | 1,697 | 3,454 | 1,513 | 1,941 |
| Trademark | 642 | 137 | 505 | 620 | 102 | 518 |
| Non-compete arrangements | 251 | 134 | 117 | 242 | 99 | 143 |
| Total | \$ 11,708 | \$ 6,462 | \$ 5,246 | \$ 11,462 | \$ 5,811 | \$ 5,651 |

The intangible assets include \$3.4 million of fully-amortized technology-based assets still in use by the Company. The Company's intangible assets have a weighted average remaining life of 6.0 years, comprising 6.3 years for technology-based intangible assets, 5.2 years for customer contracts and relationships, 7.8 years for the trademark, and 1.8 years for non-compete arrangements. Amortization expense for the six months ended March 31, 2012 was \$0.6 million. Future amortization expense is estimated as follows (in thousands):

| | |
|-------------------------------------|----------|
| Six months ended September 30, 2012 | \$ 585 |
| Year ended September 30, 2013 | 1,091 |
| Year ended September 30, 2014 | 723 |
| Year ended September 30, 2015 | 702 |
| Year ended September 30, 2016 | 702 |
| Year ended September 30, 2017 | 702 |
| Thereafter | 741 |
| Total | \$ 5,246 |

10. Acquisition-related contingent consideration

In February 2010, the Company acquired 100% of the share capital of DeltaWare Systems, Inc. (DeltaWare). As part of the acquisition arrangement, certain payments were to be made to the previous owners of DeltaWare based upon profitability and sales targets. The fair value of

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these payments was estimated at the time of acquisition based upon a probability-weighted approach based upon management's estimates of likely payments and the balance is updated on a quarterly basis as more information comes available. Changes to the liability based upon these changes in estimates are recorded as other income. The Financial Accounting Standards Board (FASB) requires the classification of all assets and liabilities subject to fair value measurement based upon the inputs required for their valuation. As the inputs required for the valuation of these liabilities require significant judgment, they are considered to be Level 3 inputs under the FASB classification.

The Company must pay the former owners of DeltaWare the sum of two million Canadian Dollars (\$2 million) in the event that certain profitability targets are reached. The Company believes that these targets have been reached and that payment will be made subject to completion of audit procedures and other administrative matters, which we expect to conclude shortly. This balance is shown as a current liability. The Company recorded charges of \$0.1 million and \$0.2 million during the six month periods ended March 31, 2012 and 2011, respectively, with respect to this balance.

The Company must also pay the former owners of DeltaWare up to four million Canadian Dollars (\$4 million) based upon the Company making sales of DeltaWare's products in particular geographic markets. The Company has recorded a long-term liability of \$0.4 million which represents the payment that management assesses will likely be paid. In the event that such sales are anticipated by the Company, this could result in an increase to this liability based upon the size and location of the sales. No such sales have been made to date and the likelihood of future sales between this time and the end of the measurement period in 2016 is considered low. Management reviews the likelihood of future sales on a

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quarterly basis and, to the extent that sales opportunities are identified, proposals submitted or contracts won, the Company updates its probability weighted assessment of payment. Changes in this assessment will result in an expense or credit. The contingent consideration payable for any single contract signed would be based upon the population of the area served but would be capped at one million Canadian Dollars per sale.

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

| | Acquisition-related contingent consideration | | | Total |
|------------------------------------|--|-------------------|----|-------|
| | Current portion | Long-term portion | | |
| Balance as of September 30, 2011 | \$ 1,840 | \$ 388 | \$ | 2,228 |
| Additional estimated consideration | 101 | | | 101 |
| Foreign currency translation | 64 | 13 | | 77 |
| Balance as of March 31, 2012 | \$ 2,005 | \$ 401 | \$ | 2,406 |

11. Commitments and Contingencies*Litigation*

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

In March 2009, a state Medicaid agency asserted a claim against MAXIMUS, related to a discontinued business line, in the amount of \$2.3 million in connection with a contract MAXIMUS had through February 1, 2009 to provide Medicaid administrative claiming services to school districts in the state. MAXIMUS entered into separate agreements with the school districts under which MAXIMUS helped the districts prepare and submit claims to the state Medicaid agency which, in turn, submitted claims for reimbursement to the federal government. No legal action has been initiated. The state has asserted that its agreement with MAXIMUS requires the Company to reimburse the state for the amounts owed to the federal government. However, the Company's agreements with the school districts require them to reimburse MAXIMUS for such payments and therefore MAXIMUS believes the school districts are responsible for any amounts disallowed by the state Medicaid agency or the federal government. Accordingly, the Company believes its exposure in this matter is limited to its fees associated with this work and that the school districts will be responsible for the remainder. During the second quarter of fiscal 2009, MAXIMUS recorded a \$0.7 million reduction of revenue reflecting the fees it earned under the contract. MAXIMUS has exited the federal healthcare claiming business and no longer provides the services at issue in this matter.

In 2008 MAXIMUS sold the SchoolMAX student information system business line as part of the divestiture of the MAXIMUS Education Systems division. In 2011, a school district which was a SchoolMAX client initiated the dispute resolution process under their contract. The client raised a number of issues pertaining to services and products delivered under the contract. The client also raised certain audit issues pertaining to royalties and most favored customer pricing but has apparently abandoned those claims in light of a final audit report that only questioned a total amount of approximately \$42,000. The parties participated in various mediation sessions during 2011, but they did not reach a resolution. In April 2012, the client filed a formal arbitration notice alleging that MAXIMUS and the buyer failed to (i) use best practices in

developing the software and (ii) deliver and test product releases as required by the contract. The client contends that those failures resulted in damages of at least \$10 million. MAXIMUS and the buyer are contesting the client's claims. We cannot at this time reasonably estimate the possible loss that could be incurred if the plaintiff were to prevail but we believe that we have substantial defenses. In addition, we believe that we are entitled to indemnification from the buyer of the business for the claims asserted in the arbitration notice.

Credit Facilities and Performance Bonds

The Company has a revolving credit agreement with SunTrust Bank. At March 31, 2012, the only indebtedness outstanding under this agreement was letters of credit totaling \$14.0 million. The revolving credit facility 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 as of March 31, 2012.

Certain contracts require us to provide a surety bond as a guarantee of performance. At March 31, 2012 and September 30, 2011, the Company had performance bond commitments totaling \$17.1 million and \$16.9 million, respectively. These bonds are

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typically renewed annually and remain in place until the contractual obligations have been satisfied. Although the triggering events vary from contract to contract, in general, we would only be liable for the amount of these guarantees in the event of default in our performance of our obligations under each contract, the probability of which we believe is remote.

Flexible New Deal Contract Liabilities and Contingent Gains

In August 2009, the Company commenced work for the United Kingdom government as a provider of services under the Flexible New Deal, a welfare-to-work initiative. The work was performed in the Company's Human Services Segment. This initiative was terminated for all contract providers during the 2011 fiscal year and replaced with the Work Programme, under which MAXIMUS also performs services. As a consequence of the termination of the Flexible New Deal, MAXIMUS incurred certain costs related to the termination of contracts, including property leases for offices which are no longer occupied by the Company but for which the Company retains responsibility for future lease payments. For properties which have been exited, the Company has recognized a liability for future lease rentals, service charges and property taxes for which they are liable, offset by anticipated future sublease rentals. The Company initially recorded a reserve of \$0.5 million at September 30, 2011 to cover these liabilities which has been fully utilized at March 31, 2012.

As part of the Flexible New Deal contract, MAXIMUS was entitled to reimbursement for costs incurred as a consequence of early termination, as well as a contract settlement for payments the Company would have received for realizing certain long-term goals under the contract. During the six months ended March 31, 2012, MAXIMUS received a claim of \$2.7 million for revenue foregone and \$1.5 million of cost recoveries, net of subcontractor expenses.

Loss contract

During the three and six month periods ended March 31, 2012, the Company recorded a gain of \$2.6 million on a fixed price contract owing to changes in our estimate to complete the work and the execution of a change order. During the three and six month periods ended March 31, 2011, the Company recorded a charge of \$4.2 million and \$7.3 million, respectively, on the same contract. The Company has recorded a liability of \$1.5 million related to the anticipated loss to be recorded on this contract. The revenue and profitability on this contract are based upon estimated costs to complete the project, which are inherently subject to risk.

12. Stock Repurchase Programs

Under resolutions adopted in July 2008 and September 2010, the Board of Directors authorized the repurchase, at management's discretion, of up to an aggregate of \$175.0 million of the Company's common stock. The resolutions also authorized the use of option exercise proceeds for the repurchase of the Company's common stock. During the six months ended March 31, 2012 and 2011, the Company repurchased 236,700 and 275,158 common shares at a cost of \$8.8 million and \$8.5 million, respectively.

On November 8, 2011, the Board of Directors replaced the existing share repurchase program with a new program. This program authorizes the Company to repurchase, at management's discretion, up to \$125.0 million of its common stock. The resolutions also authorize the use of option

exercise proceeds for the repurchases of the Company's common stock.

As a result of stock option exercises since November 8, 2011, the amount available for future repurchases increased to \$129.8 million as of March 31, 2012.

13. Recent accounting pronouncements

In May 2011, the FASB issued new guidance on fair value disclosure. The guidance changes certain fair value measurement principles and enhances the disclosure requirements, particularly for assets or liabilities which require valuation based upon a Company's own information and assumptions. This guidance is effective for this quarter and has resulted in additional disclosures related to our acquisition related contingent consideration.

In 2011, the FASB issued new disclosure guidance related to the presentation of the Statement of Comprehensive Income. This guidance eliminates the current option to report other comprehensive income and its components in the consolidated statement of stockholders' equity. The requirement to present reclassification adjustments out of accumulated other comprehensive income on the face of the consolidated statement of income has been deferred. We will adopt this accounting standard on its effective date, which will be for all financial statements relating to periods beginning October 1, 2012. This adoption will not have any impact on our financial position or results of operations, but will impact our financial statement presentation.

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In 2011, the FASB issued new accounting guidance that simplifies goodwill impairment tests. The new guidance states that a qualitative assessment may be performed to determine whether further impairment testing is necessary. We will adopt this accounting standard upon its effective date, which will be periods beginning after October 1, 2012. We do not anticipate that this adoption will have a significant impact on our financial position or results of operations.

14. Discontinued operations

On May 2, 2008, the Company sold its Unison MAXIMUS, Inc. subsidiary for \$6.5 million, including a promissory note of \$6.4 million. At March 31, 2012, the promissory note has a current value of \$3.5 million, which has been fully reserved since the disposal. The Company recorded a gain on sale of \$0.1 million in the three and six month periods ended March 31, 2012. The Company continues to monitor the payments on the note but no further gains are certain at this time.

On September 30, 2010, the Company sold its ERP division. During the first half of fiscal 2011, the Company reserved an additional pre-tax loss on sale of \$1.0 million owing to a dispute with the purchaser of the division. This matter was settled in the second half of fiscal 2011 for \$1.7 million.

15. Subsequent Events

Acquisition of PSI Services Holding, Inc.

On April 30, 2012, the Company acquired 100% of the stock of PSI Services Holding, Inc. and its wholly-owned subsidiary, Policy Studies, Inc. (collectively PSI). The acquisition will strengthen the Company's business in the United States through new resources and customers as well as providing additional experience and knowledge of the health and human services markets. The purchase price was \$67 million, subject to adjustment based upon PSI's working capital on the date of acquisition. MAXIMUS paid for PSI using existing cash funds. The Company has not yet completed its allocation of the consideration to the assets acquired.

Dividend

On April 6, 2012, the Company's Board of Directors declared a quarterly cash dividend of \$0.09 for each share of the Company's common stock outstanding. The dividend is payable on May 31, 2012, to shareholders of record on May 15, 2012.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of financial condition and results of operations is provided to enhance the understanding of, and should be read in conjunction with, our Consolidated Financial Statements and related Notes included both herein and in our Annual Report on Form 10-K for the year ended September 30, 2011, filed with the Securities and Exchange Commission on November 14, 2011.

Forward Looking Statements

From time to time, we may make forward-looking statements that are not historical facts, including statements about our confidence and strategies and our expectations about revenue, results of operations, profitability, current and future contracts, market opportunities, market demand or acceptance of our products and services. Any statements contained in this Quarterly Report on Form 10-Q that are not statements of historical fact may be forward-looking statements. The words could, estimate, future, intend, may, opportunity, potential, project, anticipates, plans, expect and similar expressions are intended to identify forward-looking statements. These statements may involve risks and uncertainties that could cause our actual results to differ materially from those indicated by such forward-looking statements. These risks are detailed in Exhibit 99.1 to our Annual Report on Form 10-K for the year ended September 30, 2011 and incorporated herein by reference.

Business Overview

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

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

On April 30, 2012, the Company completed the acquisition of PSI Holdings, Inc. and its wholly-owned subsidiary, Policy Studies, Inc. (PSI). The acquisition will strengthen the Company's business in the United States through new resources and customers as well as providing additional experience and knowledge of the health and human services markets.

Industry considerations

Within the United States, fiscal pressures remain a challenge for state governments while at the same time they are also facing increasing demand for critical services from the most vulnerable members of society. The majority of states are required to balance their budgets each year and states have taken steps to more efficiently manage their social programs, including Medicaid. Since Medicaid accounts for a large portion of states' budgets, many states have taken steps to control costs by shifting more populations to managed care, increasing co-pays, reducing provider rates, and modifying benefits. As more populations shift into managed care, demand for our administrative services and program volumes generally increases.

The situation for international governments is also challenging, with each of the areas in which MAXIMUS operates offering unique local issues in addition to general global economic factors. Both Australia and the United Kingdom have implemented measures to deal with significant debt and commitments and both have implemented welfare reform as a means to better manage resources. Companies like MAXIMUS may benefit from the need for governments to reform certain benefits programs.

Table of Contents**Results of Operations***Consolidated*

The following table sets forth, for the periods indicated, selected statements of operations data:

| (dollars in thousands, except per share data) | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---------------------------------|------------|-------------------------------|------------|
| | 2012 | 2011 | 2012 | 2011 |
| Revenue | \$ 243,452 | \$ 227,116 | \$ 483,055 | \$ 441,230 |
| Gross profit | \$ 64,766 | \$ 63,066 | \$ 124,613 | \$ 119,025 |
| Selling, general and administrative expenses | \$ 37,959 | \$ 33,572 | \$ 70,715 | \$ 62,239 |
| Selling, general and administrative expense as a percentage of revenue | 15.6% | 14.8% | 14.6% | 14.1% |
| Operating income from continuing operations excluding legal and settlement recovery | 26,807 | 29,494 | 53,898 | 56,786 |
| Legal and settlement recovery, net | 591 | | 405 | |
| Operating income from continuing operations | \$ 27,398 | \$ 29,494 | \$ 54,303 | \$ 56,786 |
| Operating margin from continuing operations percentage | 11.3% | 13.0% | 11.2% | 12.9% |
| Interest and other income, net | 824 | 919 | 1,928 | 1,410 |
| Income from continuing operations before income taxes | 28,222 | 30,413 | 56,231 | 58,196 |
| Provision for income taxes | 14,011 | 11,375 | 24,362 | 21,571 |
| Tax rate | 49.6% | 37.4% | 43.3% | 37.1% |
| Income from continuing operations, net of income taxes | \$ 14,211 | \$ 19,038 | \$ 31,869 | \$ 36,625 |
| Income (loss) from discontinued operations, net of income taxes | \$ 62 | \$ (819) | \$ 108 | \$ (924) |
| Net income | \$ 14,273 | \$ 18,219 | \$ 31,977 | \$ 35,701 |
| Basic earnings (loss) per share: | | | | |
| Income from continuing operations | \$ 0.42 | \$ 0.55 | \$ 0.95 | \$ 1.06 |
| Income (loss) from discontinued operations | | (0.02) | | (0.02) |
| Basic earnings per share | \$ 0.42 | \$ 0.53 | \$ 0.95 | \$ 1.04 |
| Diluted earnings (loss) per share: | | | | |
| Income from continuing operations | \$ 0.41 | \$ 0.54 | \$ 0.92 | \$ 1.03 |
| Income (loss) from discontinued operations | | (0.03) | | (0.02) |
| Diluted earnings per share | \$ 0.41 | \$ 0.51 | \$ 0.92 | \$ 1.01 |

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

We discuss constant currency revenue information to provide a framework for assessing how our business performed excluding the effect of foreign currency rate fluctuations. To provide this information, revenue from foreign operations is converted into United States dollars using average exchange rates from the previous fiscal year.

We discuss operating income from continuing operations excluding legal and settlement expenses and recoveries. Legal and settlement expenses and recoveries are typically driven by factors that are not consistent with other drivers of our business, and the timing and extent of both legal and settlement expenses and recoveries may have an unusual effect on our financial results. During the current year, we have received the benefit of an insurance recovery and incurred costs related to the acquisition of PSI. We believe that excluding the effects of these costs and recoveries provides a framework for assessing how the business performed excluding the effects of legal and settlement expenses and recoveries.

Constant currency revenue and operating income excluding legal and settlement expenses are non-GAAP numbers. We believe that these numbers provide a useful basis for assessing the Company's performance. The presentation of these non-GAAP

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numbers is not meant to be considered in isolation, or as an alternative to revenue growth or operating income as measures of performance.

Revenue increased 7.2%, or 6.5% on a constant currency basis, for the three months ended March 31, 2012, compared to the same period in fiscal 2011. Revenue increased 9.5%, or 9.0% on a constant currency basis, for the six months ended March 31, 2012, compared to the same period in fiscal 2011. This growth was driven by growth in our managed care contract in Texas offset by declines in revenue notably due to the transition from the Flexible New Deal to the Work Programme contracts in the United Kingdom. The principal drivers of the changes in the Health Services and Human Services Segments are discussed in more detail below.

Selling, general and administrative expense (SG&A) consists of costs related to general management, marketing and administration. These costs include salaries, benefits, bid and proposal efforts, travel, recruiting, continuing education, employee training, non-chargeable labor costs, facilities costs, printing, reproduction, communications, equipment depreciation, intangible amortization and legal expenses incurred in the ordinary course of business. SG&A has increased during the first half of 2012 due to increased business development activity, both domestically and internationally.

Legal and settlement recovery, net consists of reimbursed insurance claims, net of costs related to significant legal settlements and non-routine legal matters, including future probable legal costs estimated to be incurred in connection with those matters. Legal expenses incurred in the ordinary course of business are included in selling, general and administrative expense. The incremental costs of acquisitions, including legal fees, brokerage fees and valuation reports, are also included in this balance. During the three months ended March 31, 2012, the Company received the benefit of a \$0.7 million insurance recovery related to an arbitration settlement from fiscal year 2008. This recovery was partially offset by charges incurred as a consequence of the Company's acquisition of PSI in April 2012.

Operating income from continuing operations declined 7.1% to \$27.4 million for the three months ended March 31, 2012 compared to the same period in the prior year. Excluding legal and settlement recoveries, operating income decreased 9.1% to \$26.8 million, compared to the same period last year. Operating income from continuing operations decreased 4.4% to \$54.3 million for the six months ended March 31, 2012 compared to the comparative period in the prior year. Excluding legal and settlement recoveries, operating income decreased 5.1% to \$53.9 million, compared to the same period last year. These decreases were driven by contract life cycle in the Health Services Segment and by the transition to the new United Kingdom project in the Human Services Segment.

Interest and other income, net includes interest earned on cash and cash equivalents and on a note received by the Company for the disposal of a business in fiscal 2008, offset by charges related to the deferred compensation plan and the acquisition-related contingent consideration related to DeltaWare. The balance also includes foreign exchange gains and losses, which are typically immaterial. Almost all of the income recorded represents income from interest on cash accounts in overseas jurisdictions.

The provision for income taxes in the three and six months ended March 31, 2012 was \$14.0 million and \$24.4 million, respectively, reflecting effective tax rates of 49.6% and 43.3%, respectively. The increase relates to changes in estimates and includes the correction of an immaterial error of \$1.6 million related to prior years.

Income from continuing operations, net of income taxes, was \$14.2 million, or \$0.41 per diluted share, for the three months ended March 31, 2012, compared with \$19.0 million, or \$0.54 per diluted share, for the same period in fiscal year 2011. For the six month periods ended

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March 31, 2012 and 2011, income from continuing operations, net of income taxes was \$31.9 million and \$36.6 million, or \$0.92 and \$1.03 per diluted share, respectively.

Health Services

| (dollars in thousands) | Three Months Ended March 31, | | Six Months Ended March 31, | |
|-----------------------------|---------------------------------|------------|-------------------------------|------------|
| | 2012 | 2011 | 2012 | 2011 |
| Revenue | \$ 161,170 | \$ 137,779 | \$ 319,213 | \$ 267,790 |
| Gross profit | 41,137 | 38,320 | 77,136 | 72,597 |
| Operating income | 18,202 | 19,352 | 34,985 | 38,175 |
| Operating margin percentage | 11.3% | 14.0% | 11.0% | 14.3% |

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Revenue increased by 17.0%, or 17.2% on a constant currency basis, for the three months ended March 31, 2012, compared to the same period in fiscal year 2011. Revenue increased by 19.2%, or 19.4% on a constant currency basis, for the six months ended March 31, 2012, compared to the same period in fiscal year 2011. Growth in revenue was principally driven by our contracts in Texas which benefitted from the growth of managed care as well as other organic growth. Operating income growth did not increase in line with revenue growth as the Texas contract operates at lower margins than other work. Operating profit was also adversely affected by new programs that are in the first year of the business cycle as well as some recently rebid programs.

Human Services

| (dollars in thousands) | Three Months Ended March 31, | | Six Months Ended March 31, | |
|-----------------------------|---------------------------------|-----------|-------------------------------|------------|
| | 2012 | 2011 | 2012 | 2011 |
| Revenue | \$ 82,282 | \$ 89,337 | \$ 163,842 | \$ 173,440 |
| Gross profit | 23,629 | 24,746 | 47,477 | 46,428 |
| Operating income | 8,605 | 10,123 | 18,913 | 18,626 |
| Operating margin percentage | 10.5% | 11.3% | 11.5% | 10.7% |

Revenues declined 7.9% and 5.5% for the three and six month periods ended March 31, 2012, compared to the same periods in fiscal year 2011. On a constant currency basis, revenue would have declined 9.9% and 7.1%, respectively. Results in the Human Services Segment were affected by the transition from the United Kingdom's Flexible New Deal contract, which was operational in fiscal year 2011, to the Work Programme contract which was operational in fiscal year 2012. The revenues for the Work Programme were lower than the Flexible New Deal by \$6.4 million and by \$15.0 million for the three and six months ended March 31, 2012 compared to the prior period. This decline was anticipated and reflected the ramp-up of the Work Programme and the new payment structure, where payments are made based upon achieving the required employment outcomes. These declines were offset in the six months ended March 31, 2012 by \$2.7 million in termination payments related to the Flexible New Deal received in November 2011. Operating income declined to \$8.6 million in the three month period ended March 31, 2012, compared with \$10.1 million in the comparable quarter of fiscal 2011. This decline was principally driven by the United Kingdom contract, offset by a benefit of \$2.6 million related to changes in estimate and a change order on a fixed-price contract. During the three months ended March 31, 2011, the same fixed-price contract had recorded a charge of \$4.2 million. For the six months ended March 31, 2012, operating income increased to \$18.9 million from \$18.6 million in the comparative period. The fiscal 2011 period had been adversely affected by the fixed-price contract charge of \$7.3 million, whereas the 2012 fiscal year has the benefit of the \$2.6 million noted above, offset by the adverse effect of the United Kingdom contract.

Discontinued operations

On May 2, 2008, the Company sold its Unison MAXIMUS, Inc. subsidiary for \$6.5 million, including a promissory note of \$6.4 million. At March 31, 2012, the promissory note has a current value of \$3.5 million, which has been fully reserved since the disposal. The Company recorded a gain on sale of \$0.1 million in the three and six month periods ended March 31, 2012. The Company continues to monitor the payments on the note but no further gains are certain at this time.

On September 30, 2010, the Company sold its ERP division. During the first half of fiscal 2011, the Company reserved an additional pre-tax loss on sale of \$1.0 million owing to a dispute with the purchaser of the division. This matter was settled in the second half of fiscal 2011 for \$1.7

million

Table of Contents**Liquidity and Capital Resources**

In recent years, the Company has relied upon cash flows from operations to fund operations, capital expenditures, acquisitions, share repurchases and dividends. Both domestic and overseas locations have remained self-sufficient in funding operations and capital resources. The Company expects to be able to continue to fund operations and capital expenditures from operating cash flows. In prior periods, the Company has faced short-term payment delays from state customers, all of which were ultimately recovered. The Company believes its liquidity and capital positions are adequate to weather short-term payment delays. In the event of more protracted delays, the Company may be required to seek additional capital sources, amend payment terms or take other actions. Extended payment delays could adversely affect the Company's cash flows, operations and profitability.

At March 31, 2012, the Company held \$229.5 million in cash and cash equivalents. Approximately 50% of these funds are held in overseas locations. If we were to transfer these funds to the United States, the Company would be required to accrue and pay additional taxes. We do not intend to repatriate these funds and, accordingly, we have not attempted to quantify the charges which might arise if we were to make this transaction. The charges would vary based upon tax legislation in the United States and the other overseas jurisdictions as well as the manner and timing in which MAXIMUS would make these transactions. In addition to these cash balances, the Company had access to an additional \$21.0 million from a credit facility in the United States. These funds are available to cover short-term cash requirements and other potential capital outlays, including share repurchases and acquisitions. The Company has also utilized a \$1.7 million interest-free loan from the Atlantic Innovation Fund of Canada. These funds must be used for certain investment projects within Prince Edward Island.

Our primary source of cash is revenues received from customers. Our collection of cash is driven by billing schedules and payment terms which can vary based upon a number of factors, including contract type. In certain contracts, particularly international welfare-to-work contracts, cash receipts are structured around our performance, which may take several quarters to be realized. In these cases, contracts will typically result in cash outflows over the early period of the contract and the ultimate cash flows of the contract will be subject to risk until the performance outcomes are known. Certain contracts require significant financial outlay in terms of capital assets and in reimbursable start-up costs. These expenditures result in our use of cash which may be reimbursed during the set-up phase or over the life of the contract. Related revenue may also be deferred during the set-up phase. At March 31, 2012, management considered that the net book value of all capital assets, including deferred contract costs, was less than the expected future cash flows related to these assets.

As noted above, the Company's acquisition of PSI in April 2012 resulted in a cash payment of \$67 million. The funds utilized in this acquisition came from cash based in the United States. The acquisition of PSI will also require up to \$6.7 million of letters of credit, which will reduce the Company's available credit by a corresponding amount.

Cash Flows

| (dollars in thousands) | Six Months Ended | |
|--|------------------|----------------|
| | 2012 | March 31, 2011 |
| Net cash provided by (used in): | | |
| Operating activities continuing operations | \$ 69,038 | \$ 36,386 |
| Operating activities discontinued operations | | (951) |
| Investing activities continuing operations | (5,896) | (10,336) |

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| | | | | |
|--|----|----------|----|--------|
| Financing activities – continuing operations | | (11,613) | | (971) |
| Effect of exchange rate changes on cash and cash equivalents | | 5,058 | | 3,706 |
| Net increase in cash and cash equivalents | \$ | 56,587 | \$ | 27,834 |

Cash provided by operating activities from continuing operations for the six months ended March 31, 2012 was \$69.0 million, compared with \$36.4 million in the same period in fiscal year 2011. The increase of \$32.6 million was principally driven by increased cash receipts of \$71.2 million, offset by increased operating payments of \$49.5 million, a net cash inflow of \$21.7 million. This net increase reflects increased work, improved cash collections and cash payments up front in certain projects. The Company's tax payments also declined by \$8 million year-over-year, owing to overpayments in prior years.

Cash used in operating activities from discontinued operations for the six months ended March 31, 2011 was \$1.0 million. Upon the sale of the Company's ERP division in fiscal 2010, certain liabilities related to accounts payable and payroll had not been settled and were made by the Company in October 2010.

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Cash used in investing activities from continuing operations for the six months ended March 31, 2012 was \$5.9 million, compared to \$10.3 million for the same period in fiscal year 2011. The decline is caused by the completion of capital software projects in the United States in 2011 as well as the receipt of \$2.5 million from the sale of businesses.

Cash used in financing activities from continuing operations for the six months ended March 31, 2012 was \$11.6 million, compared to \$1.0 million for the same period in fiscal year 2011. The principal driver of the \$10.6 million increase was a reduction of \$6.3 million of funds received from employee stock transactions. In the first half of fiscal 2011, 475,000 stock options were exercised, compared with 300,000 in the first half of fiscal 2012. The balance of the decline was caused by an increase of \$1.4 million in dividend payments caused by an increase in the Company's dividend and \$1.3 million of additional payments for share repurchases of common stock.

The Company's cash balance increased by \$5.1 million in the six-month period ended March 31, 2012 owing to foreign exchange rate fluctuations. The principal driver of this change was the strengthening of the Australian Dollar against the United States Dollar.

To supplement our statements of cash flows presented on a GAAP basis, we use the non-GAAP measure of free cash flows from continuing operations to analyze the funds generated from operations. We believe free cash flow from continuing operations is a useful basis for comparing our performance with our competitors. The presentation of non-GAAP free cash flows from continuing operations is not meant to be considered in isolation, or as an alternative to net income as an indicator of performance, or as an alternative to cash flows from operating activities as a measure of liquidity. We calculate free cash flow from continuing operations as follows:

| (dollars in thousands) | Six Months Ended | |
|---|------------------|----------------|
| | 2012 | March 31, 2011 |
| Cash provided by operating activities – continuing operations | \$ 69,038 | \$ 36,386 |
| Purchases of property and equipment | (6,576) | (6,464) |
| Capitalized software costs | (1,832) | (3,872) |
| Free cash flow from continuing operations | \$ 60,630 | \$ 26,050 |

Repurchases of the Company's common stock

Under a resolution adopted in November 2011, the Board of Directors has authorized the repurchase, at management's discretion, of up to an aggregate of \$125.0 million of the Company's common stock. The resolution also authorizes the use of option exercise proceeds for the repurchase of the Company's common stock. At March 31, 2012, \$129.8 million is available for future stock repurchases. Under earlier repurchase plans, the Company repurchased 236,700 and 275,158 common shares at a cost of \$8.8 million and \$8.5 million, during the six month periods ended March 31, 2012 and 2011, respectively.

Letters of Credit and Performance Bonds

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Certain contracts require us to provide a letter of credit or a surety bond as a guarantee of performance. At March 31, 2012, the Company had letters of credit totaling \$14.0 million and performance bond commitments totaling \$17.1 million. These letters of credit and performance bonds are typically renewed annually and remain in place until the contractual obligations have been satisfied. Although the triggering events vary from contract to contract, in general, we would only be liable for the amount of these guarantees in the event of default in our performance of our obligations under each contract, the probability of which we believe is remote.

Dividend

On April 6, 2012, the Company's Board of Directors declared a quarterly cash dividend of \$0.09 for each share of the Company's common stock outstanding. The dividend is payable on May 31, 2012, to shareholders of record on May 15, 2012.

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Critical Accounting Policies and Estimates

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

We believe that we do not have material off-balance-sheet risk or exposure to liabilities that are not recorded or disclosed in our financial statements. While we have significant operating lease commitments for office space, those commitments are generally tied to the period of performance under related contracts. Additionally, although on certain contracts we are bound by performance bond commitments and standby letters of credit, we have not had any defaults resulting in draws on performance bonds. Also, we do not speculate in derivative transactions.

During the three months ended March 31, 2012, there were no significant changes to the critical accounting policies we disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended September 30, 2011.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We believe that our exposure to market risk related to the effect of changes in interest rates, commodity prices and other market risks with regard to instruments entered into for trading or for other purposes is immaterial.

The Company is exposed to foreign exchange fluctuations in the Australian Dollar, the Canadian Dollar, and the British Pound. During the year ended September 30, 2011, the Company earned approximately 32% of revenues and 46% of operating income from foreign subsidiaries. At September 30, 2011, approximately 38% of the Company's assets are held by foreign subsidiaries. The Company mitigates its foreign exchange risks through maintaining sufficient capital within its foreign subsidiaries to support the short-term and long-term capital requirements of these businesses. The Company's foreign subsidiaries typically incur costs in the same currency as they earn revenues, thus limiting the Company's exposure to unexpected expenditures. The operations of the U.S. business do not depend upon cash flows from foreign subsidiaries.

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Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.

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

In March 2009, a state Medicaid agency asserted a claim against MAXIMUS, related to a discontinued business line, in the amount of \$2.3 million in connection with a contract MAXIMUS had through February 1, 2009 to provide Medicaid administrative claiming services to school districts in the state. MAXIMUS entered into separate agreements with the school districts under which MAXIMUS helped the districts prepare and submit claims to the state Medicaid agency which, in turn, submitted claims for reimbursement to the federal government. No legal action has been initiated. The state has asserted that its agreement with MAXIMUS requires the Company to reimburse the state for the amounts owed to the federal government. However, the Company's agreements with the school districts require them to reimburse MAXIMUS for such payments and therefore MAXIMUS believes the school districts are responsible for any amounts disallowed by the state Medicaid agency or the federal government. Accordingly, the Company believes its exposure in this matter is limited to its fees associated with this work and that the school districts will be responsible for the remainder. During the second quarter of fiscal 2009, MAXIMUS recorded a \$0.7 million reduction of revenue reflecting the fees it earned under the contract. MAXIMUS has exited the federal healthcare claiming business and no longer provides the services at issue in this matter.

In 2008 MAXIMUS sold the SchoolMAX student information system business line as part of the divestiture of the MAXIMUS Education Systems division. In 2011, a school district which was a SchoolMAX client initiated the dispute resolution process under their contract. The client raised a number of issues pertaining to services and products delivered under the contract. The client also raised certain audit issues pertaining to royalties and most favored customer pricing but has apparently abandoned those claims in light of a final audit report that only questioned a total amount of approximately \$42,000. The parties participated in various mediation sessions during 2011, but they did not reach a resolution. In April 2012, the client filed a formal arbitration notice alleging that MAXIMUS and the buyer failed to (i) use best practices in developing the software and (ii) deliver and test product releases as required by the contract. The client contends that those failures resulted in damages of at least \$10 million. MAXIMUS and the buyer are contesting the client's claims. We cannot at this time reasonably estimate the possible loss that could be incurred if the plaintiff were to prevail but we believe that we have substantial defenses. In addition, we believe that we are entitled to indemnification from the buyer of the business for the claims asserted in the arbitration notice.

Item 1A. Risk Factors.

In connection with information set forth in this Form 10-Q, the factors discussed under Risk Factors in our Form 10-K for fiscal year ended September 30, 2011 should be considered. The risks included in the Form 10-K could materially and adversely affect our business, financial condition and results of operations. There have been no material changes to the factors discussed in our Form 10-K.

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

Under resolutions adopted in July 2008 and September 2010, the Board of Directors has authorized the repurchase, at management's discretion, of up to an aggregate of \$175.0 million of the Company's common stock. The resolution also authorized the use of option exercise proceeds for the repurchase of the Company's common stock.

On November 8, 2011, the Board of Directors replaced the existing share repurchase program with a new program, which authorizes the Company to purchase, at management's discretion, up to \$125.0 million of its common stock. The resolution also authorized the use of option exercise proceeds for the repurchase of the Company's common stock.

The Company did not repurchase any common stock during the three months ended March 31, 2012.

Item 6. Exhibits.

The Exhibits filed as part of this Quarterly Report on Form 10-Q are listed on the Exhibit Index immediately following the Signatures. The Exhibit Index is incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MAXIMUS, INC.

Date: May 4, 2012

By:

/s/ David N. Walker
David N. Walker
Chief Financial Officer
(On behalf of the registrant and as Principal
Financial and Accounting Officer)

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EXHIBIT INDEX

| Exhibit No. | Description |
|--------------------|--|
| 31.1 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Section 906 Principal Executive Officer Certification. |
| 32.2 | Section 906 Principal Financial Officer Certification. |
| 101 | The following materials from the MAXIMUS, Inc. Quarterly Report on Form 10-Q for the year ended March 31, 2012 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements. Filed electronically herewith. |