

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

FORM 8-K/A

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of report: **August 2, 2021**

Date of earliest event reported: May 28, 2021

Maximus, Inc.

(Exact name of registrant as specified in its charter)

Virginia
(State or other jurisdiction
of incorporation)

1-12997
(Commission
File Number)

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

**1891 Metro Center Drive,
Reston, Virginia**
(Address of principal executive offices)

20190-5207
(Zip Code)

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

Not Applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, no par value	MMS	New York Stock Exchange

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Explanatory Note

This Amendment No. 1 to the Current Report on Form 8-K (the "Report") of Maximus, Inc. (the "Company", "we", "our" or "us") is an update to the Current Report on Form 8-K filed by the Company on June 3, 2021 (the "Original Report").

VES Acquisition

On April 20, 2021, our wholly-owned subsidiary, Maximus Federal Services, Inc. ("Maximus Federal") entered into a definitive Stock Purchase Agreement to acquire all of the issued and outstanding shares of capital stock of VES Group, Inc. ("VES") (the "VES Acquisition"). The VES Acquisition closed on May 28, 2021.

On May 28, 2021, in order to finance the VES Acquisition, to refinance the Company's existing revolving credit facility and to provide liquidity for general corporate purposes of the Company and its subsidiaries, the Company entered into a Credit Agreement (the "Credit Agreement") with JPMorgan Chase Bank, N.A. and other banks. Pursuant to the Credit Agreement, the Company entered into and borrowed the entire amount under (i) a \$1.1 billion five-year secured term loan "A" credit facility and (ii) a \$400 million seven-year senior secured term loan "B" credit facility and also entered into a \$600 million five-year senior secured revolving credit facility (collectively, the "New Credit Facilities").

Both the closing of the VES Acquisition and the establishment of the New Credit Facilities were disclosed in the Original Report. The Original Report noted that additional financial statements and pro forma financial information would be included in an amendment to the Original Report and such information is included herein.

Attain Acquisition

As previously announced, on March 1, 2021, Maximus Federal entered into a definitive Equity Purchase Agreement to acquire the Federal division of Attain, LLC, ("Attain") (the "Attain Acquisition" and, collectively with the VES Acquisition, the "Acquisitions"). The Attain Acquisition was completed on March 1, 2021.

SEC regulations do not require that the pro forma financial information include the Attain statement of operations or related transaction accounting adjustments. However, this information has been included to assist readers of our financial statements in understanding the estimated effects of the Acquisitions and the New Credit Facilities.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of VES

The audited consolidated balance sheets of VES as of December 31, 2020 and 2019, and the related consolidated statements of stockholders' equity, consolidated statements of income and the consolidated statements of cash flows for the years ended December 31, 2020 and 2019, the notes to the consolidated financial statements and the independent auditor's report are filed as Exhibit 99.2 to this Report and are incorporated by reference herein.

The unaudited consolidated balance sheet of VES as of March 31, 2021, and the related consolidated statement of stockholders' equity, consolidated statement of income and the consolidated statement of cash flows for the three months ended March 31, 2021, and the notes to the consolidated financial statements are filed as Exhibit 99.3 to this Report and are incorporated by reference herein.

(b) Pro Forma Financial Information

Exhibit 99.4 in this Current Report on Form 8-K/A includes the following pro forma financial information which is incorporated by reference herein:

- a. The unaudited pro forma condensed combined balance sheet of Maximus, Inc. and its subsidiaries as of March 31, 2021, giving effect to the VES Acquisition and the Credit Agreement as though they had occurred on that date.
 - b. The unaudited pro forma condensed combined statements of operations of Maximus, Inc. and its subsidiaries for the year ended September 30, 2020, giving effect to the Acquisitions and the Credit Agreement as though they had occurred on October 1, 2019.
 - c. The unaudited pro forma condensed combined statements of operations of Maximus, Inc. and its subsidiaries for the six months ended March 31, 2021, giving effect to the Acquisitions and the Credit Agreement as though they had occurred on October 1, 2019.
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(d) Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
2.1	Stock Purchase Agreement dated as of April 20, 2021 by and among VES Group, Inc., each of the parties identified as a "Shareholder" on the signature pages thereto, George C. Turek, in his capacity as Shareholder Representative as set forth in therein, Maximus Federal Services, Inc., and Maximus, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on April 26, 2021).*
10.1	Credit Agreement, dated as of May 28, 2021 by and between the Company, JPMorgan Chase Bank, N.A., as administrative agent, the lenders party thereto and each of JPMorgan Chase Bank, N.A., BofA Securities, Inc., Truist Securities Inc. and Wells Fargo Securities, LLC, in their capacities as joint lead arrangers and joint bookrunners (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 26, 2021).**
23.1	Consent of UHY LLP
99.1	Press release dated June 1, 2021 (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on June 3, 2021).
99.2	The audited consolidated balance sheets of VES as of December 31, 2020 and 2019, and the related consolidated statements of stockholders' equity, consolidated statements of income and the consolidated statements of cash flows for the years ended December 31, 2020 and 2019, the notes to the consolidated financial statements and the independent auditor's report.
99.3	The unaudited consolidated balance sheet of VES as of March 31, 2021, and the related consolidated statement of stockholders' equity, consolidated statement of income and the consolidated statement of cash flows for the three months ended March 31, 2021, and the notes to the consolidated financial statements.
99.4	The unaudited pro forma condensed combined balance sheet of Maximus, Inc. and its subsidiaries as of March 31, 2021, giving effect to the VES Acquisition and the Credit Agreement as though they had occurred on that date. The unaudited pro forma condensed combined statements of operations of Maximus, Inc. and its subsidiaries for the year ended September 30, 2020, giving effect to the Acquisitions and the Credit Agreement as though they had occurred on October 1, 2019. The unaudited pro forma condensed combined statements of operations of Maximus, Inc. and its subsidiaries for the six months ended March 31, 2021, giving effect to the Acquisitions and the Credit Agreement as though they had occurred on October 1, 2019.

* Schedules and similar attachments omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish a copy of any omitted schedule to the Securities and Exchange Commission upon request.

** Schedules omitted pursuant to Item 601(a)(5) of Regulation S-K. The Company agrees to furnish a copy of any omitted schedule to the Securities and Exchange Commission upon request.

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 hereunto duly authorized.

Maximus, Inc.

Date: August 2, 2021

By: /s/ David R. Francis
David R. Francis
General Counsel and Secretary

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements (Nos. 333-88012, 333-41871, 333-62380, 333-75263, 333-136400, 333-217657, 333-255811) on Form S-8 of Maximus, Inc. of our report dated April 14, 2021, related to our audit of the consolidated financial statements of VES Group, Inc. and Subsidiaries as of and for the years ended December 31, 2020 and 2019, included in this Current Report on Form 8-K/A.

/s/ UHY LLP
Sterling Heights, Michigan
July 30, 2021

VES GROUP, INC. AND SUBSIDIARIES

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Years ended December 31, 2020 and 2019

VES GROUP, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1
Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Stockholders' Equity	4
Consolidated Statements of Income	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7
Independent Auditor's Report on Supplementary Information	18
Supplementary Information	
Consolidated Schedules of Costs of Revenues	19
Consolidated Schedules of Selling, General, and Administrative Expenses	20

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
VES Group, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of VES Group, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of stockholders' equity, income, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors
VES Group, Inc. and Subsidiaries
Page Two

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of VES Group, Inc. and Subsidiaries as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ UHY LLP

Sterling Heights, Michigan
April 14, 2021

VES GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 39,252,775	\$ 33,040,595
Accounts receivable, net	39,323,012	50,692,833
Other receivables	8,600	14,400
Payroll deposits	—	3,008,483
Prepaid expenses	1,355,577	1,467,593
Refundable Federal income taxes	—	1,402,739
Note receivable - related party	7,505,137	—
Total current assets	<u>87,445,101</u>	<u>89,626,643</u>
PROPERTY AND EQUIPMENT, NET	9,878,155	8,225,273
SECURITY DEPOSITS	<u>159,160</u>	<u>90,118</u>
	<u>\$ 97,482,416</u>	<u>\$ 97,942,034</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 1,319,436	\$ 439,137
Accrued expenses	27,603,270	27,338,439
Liability for uncertain income tax positions	5,106,000	—
Federal income taxes payable	8,066,862	—
Total current liabilities	<u>42,095,568</u>	<u>27,777,576</u>
OTHER LIABILITIES		
Deferred rent	862,615	723,094
Deferred tax liability	2,993,922	6,538,946
	<u>3,856,537</u>	<u>7,262,040</u>
STOCKHOLDERS' EQUITY	<u>51,530,311</u>	<u>62,902,418</u>
	<u>\$ 97,482,416</u>	<u>\$ 97,942,034</u>

VES GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2020 and 2019

	<u>Common Stock</u>	<u>Additional Paid in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, January 1, 2019	\$ 1,429	\$ 5,618,008	\$ 25,341,552	\$ 30,960,989
Net income	—	—	71,234,238	71,234,238
Dividend distributions	—	—	<u>(39,292,809)</u>	<u>(39,292,809)</u>
Balance, December 31, 2019	1,429	5,618,008	57,282,981	62,902,418
Net income	—	—	52,228,552	52,228,552
Dividend distributions	—	—	<u>(63,600,659)</u>	<u>(63,600,659)</u>
Balance, December 31, 2020	<u>\$ 1,429</u>	<u>\$ 5,618,008</u>	<u>\$ 45,910,874</u>	<u>\$ 51,530,311</u>

See notes to consolidated financial statements

Page 4

VES GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years ended December 31,			
	2020		2019	
	Amount	Percent of Net Revenues	Amount	Percent of Net Revenues
Net revenues	\$ 364,749,774	100.0 %	\$ 351,084,458	100.0 %
Costs and expenses				
Costs of revenues	159,581,993	43.8	157,207,230	44.8
Selling, general, and administrative expenses	131,306,160	36.0	102,578,139	29.2
Total costs and expenses	290,888,153	79.8	259,785,369	74.0
	73,861,621	20.2	91,299,089	26.0
Other income (expense)				
Interest expense	(731,589)	(.2)	(663)	—
Loss on sale of assets	(28,182)	—	(50,175)	—
Interest income	5,137	—	44	—
Total other income (expense)	(754,634)	(.2)	(50,794)	—
Income before provision for Federal and State income taxes	73,106,987	20.0	91,248,295	26.0
Provision for Federal and State income taxes	20,878,435	5.7	20,014,057	5.7
Net income	\$ 52,228,552	14.3 %	\$ 71,234,238	20.3 %

See notes to consolidated financial statements

Page 5

VES GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,	
	2020	2019
OPERATING ACTIVITIES		
Net income	\$ 52,228,552	\$ 71,234,238
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	2,866,076	2,376,844
Loss on sale of fixed assets	28,182	50,175
Interest income	(5,137)	—
Contractual adjustments	—	64,944
Deferred income taxes	(3,545,024)	(1,097,130)
Changes in operating assets and liabilities:		
Accounts receivable	11,369,821	(13,755,710)
Other receivables	5,800	(340)
Payroll deposits	3,008,483	(1,490,281)
Prepaid expenses	112,016	(478,047)
Refundable Federal income taxes	1,402,739	(1,402,739)
Security deposits	(69,042)	(44,258)
Accounts payable and accrued expenses	1,145,130	20,320,182
Liability for uncertain income tax positions	5,106,000	—
Federal income taxes payable	8,066,862	(3,417,545)
Deferred rent	139,521	24,696
Net cash provided by operating activities	81,859,979	72,385,029
INVESTING ACTIVITIES		
Expenditures for property and equipment	(4,547,140)	(2,753,869)
Issuance of note receivable - related party	(7,500,000)	—
Net cash used in investing activities	(12,047,140)	(2,753,869)
FINANCING ACTIVITY - Dividend distributions	(63,600,659)	(39,292,809)
NET CHANGE IN CASH AND CASH EQUIVALENTS	6,212,180	30,338,351
CASH AND CASH EQUIVALENTS, beginning of year	33,040,595	2,702,244
CASH AND CASH EQUIVALENTS, end of year	\$ 39,252,775	\$ 33,040,595

VES GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in the preparation of these consolidated financial statements. The policies conform to accounting principles generally accepted in the United States of America (“GAAP”) and have been consistently applied in the preparation of the consolidated financial statements.

Company Operations

VES Group, Inc. and Subsidiaries, (the “Company”) provides independent medical reports (IME’s), x-ray exams, lab work, and consulting for its clients. The medical reports are for individuals seeking disability benefits or indemnity due to injury or disease. The medical reports, x-ray exams, lab work, and the Company’s consultation are utilized by clients in determining the examinee’s eligibility for, or entitlement to, benefits or indemnity.

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of VES Group, Inc., a Texas Corporation, and the following wholly-owned subsidiaries:

MEDS, Inc. – a Michigan corporation
Veterans Evaluation Services, Texas – a Texas corporation
Veterans Evaluation Services, Illinois – an Illinois corporation

All significant intercompany accounts and transactions have been eliminated in the accompanying consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions have been applied using methodologies that are consistent throughout the periods presented with consideration given to the potential impacts of the coronavirus disease (“COVID-19”) pandemic. However, actual results could differ materially from these estimates and be significantly affected by the severity and duration of the pandemic, the extent of actions to contain or treat COVID-19, how quickly and to what extent normal economic and operating activity can resume, and the severity and duration of the global economic downturn that results from the pandemic.

VES GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk

The Company, from time to time during the years covered by these consolidated financial statements, may have bank balances in excess of its insured limits. Management has deemed this as a normal business risk.

All of the Company's revenues and accounts receivables are from the U.S. Department of Veterans Affairs (VA). See Note 15 for additional disclosure.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

Accounts Receivable and Allowance for Contractual Adjustments and Doubtful Accounts

The Company carries its accounts receivable at invoiced amounts less an allowance for contractual adjustments and doubtful accounts. The Company evaluates its accounts receivable and establishes an allowance for contractual adjustments and doubtful accounts, when deemed necessary, based on the history of past write-offs and collections and current credit conditions. At December 31, 2020 and 2019, there was no allowance for contractual adjustments and doubtful accounts.

The Company does not accrue interest on trade receivables. Each customer's receivables are analyzed separately for determination of past due status based upon that customer's payment history. The Company will then contact the customer for all past due amounts. If no payment is received or no arrangement for payment has been made, the Company will then write off the uncollectible portion of the account balance. If any payment is received after an amount has been written off, the Company will then recognize a bad debt recovery. Generally, the Company does not require collateral for its accounts receivable.

Property and Equipment

Management capitalizes expenditures for property and equipment. Expenditures for maintenance and repairs are charged to costs and expenses. Property and equipment are carried at cost. Adjustments of the asset and the related accumulated depreciation and amortization accounts are made for property and equipment retirement and disposals, with the resulting gain or loss included in the consolidated statements of income.

VES GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation and Amortization

Depreciation of property and equipment and amortization of leasehold improvements are computed using the straight-line method for book purposes and accelerated methods for tax purposes over the estimated useful lives of the assets at acquisition. Depreciation and amortization expense for the years ended December 31, 2020 and 2019 amounted to \$2,866,076 and \$2,376,844, respectively.

Revenue Recognition

The Company's revenues from contracts with customers are primarily from performing private-sector medical disability examinations on behalf of the U.S. Department of Veteran Affairs ("VA") awarded through a firm-fixed-price ("FFP") contract.

To determine the proper revenue recognition, the Company first evaluates whether it has a duly approved and enforceable contract with a customer, in which the rights of the parties and payment terms are identified, and collectability is probable. The Company also evaluates whether two or more contracts should be combined and accounted for as a single contract, including the task orders issued under an indefinite delivery and indefinite quantity ("IDIQ") award. In addition, the Company assesses contract modifications to determine whether changes to existing contracts should be accounted for as part of the original contract or as a separate contract. Contract modifications for the Company generally relate to changes in contract specifications and requirements and do not add distinct services, and therefore are accounted for as part of the original contract. If contract modifications add distinct goods or services and increase the contract value by an amount that reflects the standalone selling price, those modifications are accounted for as separate contracts.

Most of the Company's contracts are comprised of multiple performance obligations including subcontracting with, training, and overseeing a skilled network of licensed examiners, running and maintaining of information technology infrastructure capable of interfacing with various VA systems, process incoming examination requests, and transmitting examination results and other data into the VA's system. The Company has elected to combine and account for these multiple promises as a single performance obligation as they are highly interrelated and result in a single deliverable.

The Company's contracts with the U.S. government often contain options to renew existing contracts for an additional period of time, generally a year at a time, under the same terms and conditions as the original contract, and generally do not provide the customer any material rights under the contract. The Company accounts for renewal options as separate contracts when they include distinct goods or services at standalone selling prices.

VES GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Contracts with the U.S. government are subject to the Federal Acquisition Regulation ("FAR") and priced on estimated or actual costs of providing the goods or services. The FAR provides guidance on types of costs that are allowable in establishing prices for goods and services provided to the U.S. government and its agencies. Each contract is competitively priced and bid separately. In circumstances where the standalone selling price is not directly observable, the Company estimates the standalone selling price using the expected cost-plus margin approach. The Company excludes any taxes collected or imposed when determining the transaction price.

The Company allocates the transaction price of a contract to its performance obligations in the proportion of its respective standalone selling prices. The standalone selling price of the Company's performance obligations is generally based on an expected cost-plus margin approach, in accordance with the FAR. Substantially all of the Company's contracts do not contain a significant financing component, which would require an adjustment to the transaction price of the contract.

The Company recognizes revenue at the amount to which it expects to be entitled when control of the product is transferred to its customer at a point in time. Control is generally transferred when the Company has a present right to payment and title and the significant risks and rewards of ownership are transferred to its customer. For the Company's revenue, control transfers when the final examination results are transmitted to the VA, at which time, revenues and any related direct expenses are recognized. The Company operates in various jurisdictions subject to sales and usage-based taxes. The Company has elected to record revenue net of taxes collected from customers that are remitted to governmental authorities. The Company's contracts with customers generally do not contain any significant variable consideration.

The Company does not incur significant incremental costs to acquire contracts.

Costs of Revenues

Costs of revenues are comprised of fees paid to members of the Company's medical panel; other direct costs including transcription, film, and medical record obtainment and transportation; and other indirect costs including labor and overhead related to the generation of revenues.

VES GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Deferred income tax assets and liabilities are recorded for the estimated future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax assets are reduced by a valuation allowance when the Company is unable to conclude that realization of the deferred income tax assets is more likely than not.

The benefit of an uncertain tax position is recognized in the consolidated financial statements if it meets a minimum recognition threshold. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more-likely-than-not criteria, the benefit recorded in the consolidated financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement. A reserve for uncertain income tax positions was recorded during the year ended December 31, 2020, resulting in a liability for uncertain income tax positions in the amount of \$5,106,000, reported on the consolidated balance sheets as of December 31, 2020. See Note 7 for additional disclosures.

The Company recognizes interest and penalties related to unrecognized tax positions as interest expense and general expense, respectively, in the accompanying consolidated statements of income. Accrued interest and penalties are included as accrued expenses in the consolidated balance sheets. The Company recognized interest expense related to the uncertain tax positions in the amount of \$564,900 during the year ended December 31, 2020. See Note 7 for additional disclosures.

Promotion

Promotion costs are expensed as incurred. During the years ended December 31, 2020 and 2019, promotion expenses amounted to \$101,630 and \$166,591, respectively.

Subsequent Events

The Company has performed a review of events subsequent to the consolidated balance sheet date through April 14, 2021, the date the consolidated financial statements were available to be issued, and has determined that there are no material events that have occurred during this period.

VES GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 2 – PREPAID EXPENSES

Prepaid expenses consist of the following at:

	December 31,	
	2020	2019
Insurance	\$ 51,839	\$ 41,332
Rent	370,809	260,238
Software licensing	816,876	993,393
Physician fees	116,053	146,031
Other	—	26,599
	<u>\$ 1,355,577</u>	<u>\$ 1,467,593</u>

NOTE 3 – NOTE RECEIVABLE – RELATED PARTY

During the year ended December 31, 2020, the Company entered into a note receivable with a stockholder in the amount of \$7,500,000. The note receivable is due on demand and incurs interest at 2.50%. Interest income amounted to \$5,137 for the year ended December 31, 2020 and was added to the principal balance of the note receivable. At December 31, 2020, the note receivable balance was \$7,505,137.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at:

	December 31,	
	2020	2019
Computer equipment	\$ 13,276,717	\$ 10,735,487
Leasehold improvements	7,485,790	5,982,393
Furniture and fixtures	3,827,085	3,497,379
Equipment	<u>2,150,740</u>	<u>2,048,388</u>
	26,740,332	22,263,647
Less: Accumulated depreciation and amortization	<u>16,862,177</u>	<u>14,038,374</u>
	<u>\$ 9,878,155</u>	<u>\$ 8,225,273</u>

VES GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 5 – NOTE PAYABLE – BANK – LINE OF CREDIT

At December 31, 2020 and 2019, the revolving line of credit was unused. The Company may borrow up to \$11,500,000 on a revolving basis. Interest will be determined at prime less .50% (Prime rate was 3.25% at December 31, 2020). The line of credit is secured by the Company's accounts receivable and property and equipment and is due on demand.

NOTE 6 – ACCRUED EXPENSES

Accrued expenses consist of the following at:

	December 31,	
	2020	2019
Payroll and payroll taxes	\$ 2,917,305	\$ 3,996,435
Physician fees	8,896,016	6,944,751
Health insurance	1,200,104	681,005
Contingent liability - Note 16	12,075,682	14,885,554
State income tax	1,882,685	704,222
Interest	564,900	—
Other	66,578	126,472
	<u>\$ 27,603,270</u>	<u>\$ 27,338,439</u>

NOTE 7 – LIABILITY FOR UNCERTAIN INCOME TAX POSITIONS

During the year ended December 31, 2020, the Company recorded a liability for uncertain income tax provisions in the amount of \$5,106,000 related to state income tax exposures. The expense has been included as a component of the provision for Federal and state income taxes in the consolidated statements of income. The state income tax exposures mainly relate to apportionment and nexus positions taken by the Company in various states the Company has activity in. Because of the complexity of some of these uncertainties, the ultimate resolution may result in an actual income tax that is different from the current estimate of the uncertain income tax positions. These differences will be reflected as increases or decreases to income tax expense in the period in which new information is available.

The Company also recognized interest expense related to the uncertain tax positions in the amount of \$564,900 during the year ended December 31, 2020, which has been included as a component of accrued expenses in the consolidated balance sheets as of December 31, 2020.

VES GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 8 – EMPLOYEE BENEFIT PLAN

The Company has a 401(k) defined contribution plan covering substantially all employees. Eligible employees may contribute up to the federal limit of their annual compensation into the plan. The Company may make a discretionary matching contribution with the percentage determined annually. The Company also may make a discretionary profit-sharing contribution to the plan. The Company made no matching 401(k) contributions during the years ended December 31, 2020 and 2019. The Company made no discretionary profit sharing contributions during the years ended December 31, 2020 and 2019. The Company has funded or accrued all calculated contributions as of December 31, 2020 and 2019.

NOTE 9 – OPERATING LEASES

The Company leases certain office equipment under month-to-month and non-cancelable operating leases which expired at various dates through February 2020. The leases required monthly payments ranging from \$55 to \$139. Total rent expense under these leases for the years ended December 31, 2020 and 2019 amounted to \$23,790 and \$12,197, respectively.

The Company leases various office space under month-to-month and non-cancelable operating leases which expire at various dates through November 2028. The leases require monthly payments ranging from \$1,500 to \$135,778, with escalating monthly payments each year. Total rent expense was \$4,064,574 and \$3,388,534 during the years ended December 31, 2020 and 2019, respectively.

The Company recognizes rent expense for their office space leases on a straight-line basis over the respective lease terms. For the years ended December 31, 2020 and 2019, rent payments totaled \$3,925,053 and \$3,363,838, respectively. At December 31, 2020 and 2019, deferred rent amounted to \$862,615 and \$723,094, respectively.

The following is a schedule of minimum future rental payments under the non-cancelable operating leases for each of the next five years and in the aggregate thereafter:

<u>Years ending December 31,</u>	<u>Amount</u>
2021	\$ 3,320,086
2022	3,383,640
2023	3,435,524
2024	3,317,863
2025	2,938,385
Thereafter	6,113,661
	<u>\$ 22,509,159</u>

VES GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 10 – SELF INSURED HEALTH INSURANCE

The Company is self-insured for purposes of health insurance. Under the plan, the Company is liable for the first \$60,000 of claims per employee per year up to \$11,750,785 and \$8,598,091 in the aggregate during the years ended December 31, 2020 and 2019, respectively. Any claims that exceed this amount are paid by the underlying insurance policy. Total plan expenses for the years ended December 31, 2020 and 2019 were \$9,342,998 and \$5,868,365, respectively, and include administrative expenses, stop-loss premiums, and claims paid. The Company has accrued health insurance in the amount of \$1,200,104 and \$681,005 at December 31, 2020 and 2019, respectively.

NOTE 11 – INCOME TAXES

The provision for income taxes consists of the following:

	Years ended December 31,	
	2020	2019
Current		
Federal	\$ 16,697,141	\$ 19,982,103
State	2,620,318	1,129,084
Increase in uncertain tax positions	5,106,000	—
	<u>24,423,459</u>	<u>21,111,187</u>
Deferred		
Federal	(3,600,948)	(1,115,753)
State	55,924	18,623
	<u>(3,545,024)</u>	<u>(1,097,130)</u>
 Total provision for income taxes	 <u>\$ 20,878,435</u>	 <u>\$ 20,014,057</u>

During the years ended December 31, 2020 and 2019, the Company's effective tax rate differs from the U.S. federal statutory rate primarily due to certain expenses that are not deductible for tax reporting purposes and income not includable for income tax purposes.

VES GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 11 – INCOME TAXES (Continued)

The components of deferred tax assets and liabilities were as follows at:

	December 31,	
	2020	2019
Deferred tax assets		
Accounts Payable	\$ 306,426	\$ 96,544
Accrued expenses	6,519,170	5,982,375
Liability for uncertain tax positions	1,072,260	—
Deferred rent	200,334	158,972
Deferred tax liabilities		
Accounts receivable	(9,132,377)	(11,144,819)
Prepaid expenses	(314,819)	(322,651)
Property and equipment	(1,644,916)	(1,309,367)
	<u>\$ (2,993,922)</u>	<u>\$ (6,538,946)</u>

Deferred tax assets and liabilities are classified as noncurrent on the consolidated balance sheets at December 31, 2020 and 2019.

NOTE 12 – COMMON STOCK

The Company has authorized 10,000 shares of \$1 par value common stock. At December 31, 2020 and 2019, the Company has 1,429 shares issued and outstanding.

NOTE 13 – PHANTOM STOCK BONUS PROGRAM

During the year ended December 31, 2019, the Company entered into phantom stock bonus agreements with various key employees. In the event the Company declares and pays dividend distributions to stockholders, the agreements require the Company to pay the applicable employees a phantom stock bonus in proportion to their phantom stock allocation percentage. In the event of the sale of the Company, the applicable employees shall be eligible to receive cash payment equal to their phantom stock allocation percentage of the net proceeds from the sale. During the years ended December 31, 2020 and 2019, the Company paid \$1,399,341 and \$707,191, respectively, to key employees under this program which was included with office salaries. The Company has funded or accrued all calculated phantom stock bonuses as of the consolidated balance sheet dates.

VES GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 14 – CASH FLOWS

For the years ended December 31, supplemental disclosure of cash flows information is as follows:

	<u>2020</u>	<u>2019</u>
Interest paid	\$ 166,689	\$ 663
Income taxes paid	\$ 10,687,333	\$ 25,491,913

NOTE 15 – ECONOMIC DEPENDENCY

During the years ended December 31, 2020 and 2019, all of the Company's revenues are derived from contract agreements with one customer, the U.S. Department of Veterans Affairs (VA). The ability of the Company to continue operations is dependent upon these contract agreements remaining in effect. At December 31, 2020 and 2019, all of the Company's accounts receivable were from this customer.

NOTE 16 – CONTINGENT LIABILITY – VETERANS AFFAIRS ("VA")

During the year ended December 31, 2019, the Company was selected for a routine audit by the VA related to their contract agreements. As of the report date of these consolidated financial statements, the examination was ongoing and the Company was in disagreement with the VA's interpretation of various contract language relating to billing codes and the amounts invoiced to the VA during the years ended December 31, 2019 and 2018. Though the Company is in disagreement with the preliminary audit determination by the VA, management plans to settle for amounts totaling \$14,885,554 related to cases completed during the years ended December 31, 2019 and 2018. Being that the settlement is probable and reasonably estimated, the contingent liability totaling \$12,075,682 and \$14,885,554 has been included in accrued expenses on the consolidated balance sheets as of December 31, 2020 and 2019, respectively. The entire \$14,885,554 amount has been reflected as a component of net revenues for the year ended December 31, 2019. During the year ended December 31, 2020, the Company reduced applicable invoices to the VA by \$2,809,872 related to this contingent liability. It is reasonably possible that the estimated liability will change in the near term.

As part of the above audit, the Company is also in disagreement of the VA's interpretation of contract language related to a separate billing code. The Company is in process of rebutting this claim with the VA. As the amount is under dispute and not probable, no contingent liability has been accrued for as of December 31, 2020 and 2019. Potential exposure related to this contingent liability is estimated to be approximately \$1,200,000.

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
VES Group, Inc. and Subsidiaries

We have audited the consolidated financial statements of VES Group, Inc. and Subsidiaries as of and for the years ended December 31, 2020 and 2019, and our report thereon dated April 14, 2021, which expressed an unmodified opinion on those consolidated financial statements, appears on page one. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedules of costs of revenues and consolidated schedules of selling, general, and administrative expenses are presented for purposes of additional analysis of the consolidated financial statements and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

/s/ UHY LLP

Sterling Heights, Michigan
April 14, 2021

VES GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF COSTS OF REVENUES

	Years ended December 31,			
	2020		2019	
	Amount	Percent of Net Revenues	Amount	Percent of Net Revenues
Physician fees	\$ 140,309,602	38.6 %	\$ 133,425,540	38.0 %
Outside services	9,203,434	2.5	10,872,892	3.1
Examinee mileage	9,275,131	2.5	12,428,554	3.5
Software	100,206	—	19,781	—
Licenses	183,967	0.1	205,058	0.1
Miscellaneous	509,653	0.1	255,405	0.1
	<u>\$ 159,581,993</u>	<u>43.8 %</u>	<u>\$ 157,207,230</u>	<u>44.8 %</u>

See independent auditor's report on supplementary information.

VES GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF SELLING, GENERAL,
AND ADMINISTRATIVE EXPENSES

	Years ended December 31,			
	2020		2019	
	Amount	Percent of Net Revenues	Amount	Percent of Net Revenues
Officers' salaries	\$ 3,497,651	1.0 %	\$ 3,344,753	1.0 %
Office salaries	87,562,044	24.0	67,361,794	19.2
Taxes				
Payroll	7,282,458	2.0	5,825,466	1.7
Property	113,734	—	102,856	—
Insurance				
General	508,084	0.1	428,102	0.1
Health	9,342,998	2.6	5,868,365	1.7
Travel and entertainment	669,384	0.2	1,464,593	0.4
Promotion	101,630	—	166,591	—
Meetings and seminars	179,586	—	322,238	0.1
Office expense	6,988,857	1.9	6,759,237	1.9
Repairs and maintenance	430,808	0.1	414,079	0.1
Medical supplies	1,322,339	0.4	294,400	0.1
Telephone	947,075	0.3	814,347	0.2
Utilities	265,313	0.1	143,772	—
Professional fees	4,433,066	1.2	2,449,912	0.7
Dues and subscriptions	363,871	0.1	542,635	0.2
Depreciation and amortization	2,866,076	0.8	2,376,844	0.7
Rent	4,088,364	1.1	3,400,731	1.0
Bank charges	336,282	0.1	474,647	0.1
Donations	1,500	—	20,430	—
Miscellaneous	5,040	—	2,347	—
	\$ 131,306,160	36.0 %	\$ 102,578,139	29.2 %

See independent auditor's report on supplementary information.

VES GROUP, INC. AND SUBSIDIARIES

REVIEWED CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

For the three months ended March 31, 2021

VES GROUP, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
Financial Statements	
Consolidated Balance Sheet	1
Consolidated Statement of Stockholders' Equity	2
Consolidated Statement of Income	3
Consolidated Statement of Cash Flows	4
Notes to Consolidated Financial Statements	5
Supplementary Information	
Consolidated Schedule of Costs of Revenues	17
Consolidated Schedule of Selling, General, and Administrative Expenses	18

VES GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
March 31, 2021

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	24,565,794
Accounts receivable, net		80,370,231
Prepaid expenses		1,598,510
Note receivable - related party		12,572,668

Total current assets 119,107,203

PROPERTY AND EQUIPMENT, NET

9,291,538

SECURITY DEPOSITS

173,734

\$ 128,572,475

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$	533,919
Accrued expenses		31,889,556
Liability for uncertain income tax positions		5,106,000
Federal income taxes payable		8,251,423

Total current liabilities 45,780,898

OTHER LIABILITIES

Deferred rent		835,445
Deferred tax liability		9,531,748

10,367,193

STOCKHOLDERS' EQUITY

72,424,384

\$ 128,572,475

VES GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Three months ended March 31, 2021

	<u>Common Stock</u>	<u>Additional Paid in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, January 1, 2021	\$ 1,429	\$ 5,618,008	\$ 45,910,874	\$ 51,530,311
Net income	<u>—</u>	<u>—</u>	<u>20,894,073</u>	<u>20,894,073</u>
Balance, March 31, 2021	<u>\$ 1,429</u>	<u>\$ 5,618,008</u>	<u>\$ 66,804,947</u>	<u>\$ 72,424,384</u>

VES GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
Three months ended March 31, 2021

	<u>Amount</u>	<u>Percent of Net Revenues</u>
Net revenues	\$ 117,735,441	100.0 %
Costs and expenses		
Costs of revenues	53,195,088	45.2
Selling, general, and administrative expenses	<u>37,434,533</u>	<u>31.8</u>
Total costs and expenses	<u>90,629,621</u>	<u>77.0</u>
	<u>27,105,820</u>	<u>23.0</u>
Other income (expense)		
Loss on sale of assets	(24,272)	—
Interest income	<u>67,531</u>	<u>0.1</u>
Total other income	<u>43,259</u>	<u>0.1</u>
Income before provision for Federal and State income taxes	27,149,079	23.1
Provision for Federal and State income taxes	<u>6,255,006</u>	<u>5.3</u>
Net income	<u>\$ 20,894,073</u>	<u>17.8 %</u>

VES GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
Three months ended March 31, 2021

OPERATING ACTIVITIES

Net income	\$ 20,894,073
Adjustments to reconcile net income to net cash flows from operating activities:	
Depreciation and amortization	774,952
Loss on sale of fixed assets	24,272
Interest income	(67,531)
Deferred income taxes	6,537,826
Changes in operating assets and liabilities:	
Accounts receivable	(41,047,219)
Other receivables	8,600
Prepaid expenses	(242,933)
Security deposits	(14,574)
Accounts payable and accrued expenses	3,500,769
Federal income taxes payable	184,561
Deferred rent	(27,170)
	<hr/>
Net cash used in operating activities	(9,474,374)

INVESTING ACTIVITIES

Proceeds from sale of fixed assets	9,292
Expenditures for property and equipment	(221,899)
Issuance of note receivable - related party	(5,000,000)
	<hr/>
Net cash used in investing activities	(5,212,607)

NET CHANGE IN CASH AND CASH EQUIVALENTS

(14,686,981)

CASH AND CASH EQUIVALENTS, beginning of period

39,252,775

CASH AND CASH EQUIVALENTS, end of period

\$ 24,565,794

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in the preparation of these consolidated financial statements. The policies conform to accounting principles generally accepted in the United States of America (“GAAP”) and have been consistently applied in the preparation of the consolidated financial statements.

Company Operations

VES Group, Inc. and Subsidiaries, (the “Company”) provides independent medical reports (IME’s), x-ray exams, lab work, and consulting for its clients. The medical reports are for individuals seeking disability benefits or indemnity due to injury or disease. The medical reports, x-ray exams, lab work, and the Company’s consultation are utilized by clients in determining the examinee’s eligibility for, or entitlement to, benefits or indemnity.

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of VES Group, Inc., a Texas Corporation, and the following wholly-owned subsidiaries:

MEDS, Inc. – a Michigan corporation
Veterans Evaluation Services, Texas – a Texas corporation
Veterans Evaluation Services, Illinois – an Illinois corporation

All significant intercompany accounts and transactions have been eliminated in the accompanying consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions have been applied using methodologies that are consistent throughout the periods presented with consideration given to the potential impacts of the coronavirus disease (“COVID-19”) pandemic. However, actual results could differ materially from these estimates and be significantly affected by the severity and duration of the pandemic, the extent of actions to contain or treat COVID-19, how quickly and to what extent normal economic and operating activity can resume, and the severity and duration of the global economic downturn that results from the pandemic.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk

The Company, from time to time during the years covered by these consolidated financial statements, may have bank balances in excess of its insured limits. Management has deemed this as a normal business risk.

All of the Company's revenues and accounts receivables are from the U.S. Department of Veterans Affairs (VA). See Note 15 for additional disclosure.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Company considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

Accounts Receivable and Allowance for Contractual Adjustments and Doubtful Accounts

The Company carries its accounts receivable at invoiced amounts less an allowance for contractual adjustments and doubtful accounts. The Company evaluates its accounts receivable and establishes an allowance for contractual adjustments and doubtful accounts, when deemed necessary, based on the history of past write-offs and collections and current credit conditions. At March 31, 2021, there was no allowance for contractual adjustments and doubtful accounts.

The Company does not accrue interest on trade receivables. Each customer's receivables are analyzed separately for determination of past due status based upon that customer's payment history. The Company will then contact the customer for all past due amounts. If no payment is received or no arrangement for payment has been made, the Company will then write off the uncollectible portion of the account balance. If any payment is received after an amount has been written off, the Company will then recognize a bad debt recovery. Generally, the Company does not require collateral for its accounts receivable.

Property and Equipment

Management capitalizes expenditures for property and equipment. Expenditures for maintenance and repairs are charged to costs and expenses. Property and equipment are carried at cost. Adjustments of the asset and the related accumulated depreciation and amortization accounts are made for property and equipment retirement and disposals, with the resulting gain or loss included in the consolidated statement of income.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation and Amortization

Depreciation of property and equipment and amortization of leasehold improvements are computed using the straight-line method for book purposes and accelerated methods for tax purposes over the estimated useful lives of the assets at acquisition. Depreciation and amortization expense for the three months ended March 31, 2021 amounted to \$774,952.

Revenue Recognition

The Company's revenues from contracts with customers are primarily from performing private-sector medical disability examinations on behalf of the U.S. Department of Veteran Affairs ("VA") awarded through a firm-fixed-price ("FFP") contract.

To determine the proper revenue recognition, the Company first evaluates whether it has a duly approved and enforceable contract with a customer, in which the rights of the parties and payment terms are identified, and collectability is probable. The Company also evaluates whether two or more contracts should be combined and accounted for as a single contract, including the task orders issued under an indefinite delivery and indefinite quantity ("IDIQ") award. In addition, the Company assesses contract modifications to determine whether changes to existing contracts should be accounted for as part of the original contract or as a separate contract. Contract modifications for the Company generally relate to changes in contract specifications and requirements and do not add distinct services, and therefore are accounted for as part of the original contract. If contract modifications add distinct goods or services and increase the contract value by an amount that reflects the standalone selling price, those modifications are accounted for as separate contracts.

Most of the Company's contracts are comprised of multiple performance obligations including subcontracting with, training, and overseeing a skilled network of licensed examiners, running and maintaining of information technology infrastructure capable of interfacing with various VA systems, process incoming examination requests, and transmitting examination results and other data into the VA's system. The Company has elected to combine and account for these multiple promises as a single performance obligation as they are highly interrelated and result in a single deliverable.

The Company's contracts with the U.S. government often contain options to renew existing contracts for an additional period of time, generally a year at a time, under the same terms and conditions as the original contract, and generally do not provide the customer any material rights under the contract. The Company accounts for renewal options as separate contracts when they include distinct goods or services at standalone selling prices.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Contracts with the U.S. government are subject to the Federal Acquisition Regulation ("FAR") and priced on estimated or actual costs of providing the goods or services. The FAR provides guidance on types of costs that are allowable in establishing prices for goods and services provided to the U.S. government and its agencies. Each contract is competitively priced and bid separately. In circumstances where the standalone selling price is not directly observable, the Company estimates the standalone selling price using the expected cost-plus margin approach. The Company excludes any taxes collected or imposed when determining the transaction price.

The Company allocates the transaction price of a contract to its performance obligations in the proportion of its respective standalone selling prices. The standalone selling price of the Company's performance obligations is generally based on an expected cost-plus margin approach, in accordance with the FAR. Substantially all of the Company's contracts do not contain a significant financing component, which would require an adjustment to the transaction price of the contract.

The Company recognizes revenue at the amount to which it expects to be entitled when control of the product is transferred to its customer at a point in time. Control is generally transferred when the Company has a present right to payment and title and the significant risks and rewards of ownership are transferred to its customer. For the Company's revenue, control transfers when the final examination results are transmitted to the VA, at which time, revenues and any related direct expenses are recognized. The Company operates in various jurisdictions subject to sales and usage-based taxes. The Company has elected to record revenue net of taxes collected from customers that are remitted to governmental authorities. The Company's contracts with customers generally do not contain any significant variable consideration.

The Company does not incur significant incremental costs to acquire contracts.

Costs of Revenues

Costs of revenues are comprised of fees paid to members of the Company's medical panel; other direct costs including transcription, film, and medical record obtainment and transportation; and other indirect costs including labor and overhead related to the generation of revenues.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Deferred income tax assets and liabilities are recorded for the estimated future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax assets are reduced by a valuation allowance when the Company is unable to conclude that realization of the deferred income tax assets is more likely than not.

The benefit of an uncertain tax position is recognized in the consolidated financial statements if it meets a minimum recognition threshold. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more-likely-than-not criteria, the benefit recorded in the consolidated financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement. A reserve for uncertain income tax positions was recorded during the three months ended March 31, 2020, resulting in a liability for uncertain income tax positions in the amount of \$5,106,000, as reported on the consolidated balance sheet as of March 31, 2021. See Note 7 for additional disclosures.

The Company recognizes interest and penalties related to unrecognized tax positions as interest expense and general expense, respectively, in the accompanying consolidated statement of income. Interest related to the uncertain tax positions noted above is included as a component of accrued expense on the consolidated balance sheet in the amount of \$564,900 at March 31, 2021. See Note 7 for additional disclosures.

Promotion

Promotion costs are expensed as incurred. During the three months ended March 31, 2021 promotion expenses amounted to \$24,697.

Subsequent Events

The Company has performed a review of events subsequent to the consolidated balance sheet date through July 16, 2021, the date the consolidated financial statements were available to be issued, and has determined that there are no material events that have occurred during this period except as disclosed in Note 17.

VES GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021

NOTE 2 – PREPAID EXPENSES

Prepaid expenses consist of the following at March 31, 2021:

Insurance	\$	385,915
Rent		363,416
Software licensing		546,025
Physician fees		303,154
	\$	<u>1,598,510</u>

NOTE 3 – NOTE RECEIVABLE – RELATED PARTY

At March 31, 2021, the Company had a note receivable with a stockholder in the amount of \$12,500,000. The note receivable is due on demand and incurs interest at 2.50%. Interest income amounted to \$67,531 for the three months ended March 31, 2021 and was added to the principal balance of the note receivable. At March 31, 2021, the note receivable balance was \$12,572,668.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at March 31, 2021:

Computer equipment	\$	13,453,090
Leasehold improvements		7,501,469
Furniture and fixtures		3,827,085
Equipment		<u>2,100,839</u>
		26,882,483
Less: Accumulated depreciation and amortization		<u>17,590,945</u>
	\$	<u>9,291,538</u>

VES GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021

NOTE 5 – NOTE PAYABLE – BANK – LINE OF CREDIT

At March 31, 2021, the revolving line of credit was unused. The Company may borrow up to \$11,500,000 on a revolving basis. Interest will be determined at prime less .50% (Prime rate was 3.25% at March 31, 2021). The line of credit is secured by the Company's accounts receivable and property and equipment and is due on demand.

NOTE 6 – ACCRUED EXPENSES

Accrued expenses consist of the following at March 31, 2021:

Payroll and payroll taxes	\$	4,248,880
Vacation		573,042
Physician fees		10,577,174
Health insurance		1,713,212
Contingent liability - Note 16		12,075,682
State income tax		1,415,304
Professional fees		633,000
Interest		564,900
Other		88,362
	\$	<u>31,889,556</u>

NOTE 7 – LIABILITY FOR UNCERTAIN INCOME TAX POSITIONS

At March 31, 2021, the Company has a liability for uncertain income tax provisions in the amount of \$5,106,000 related to state income tax exposures. The expense was been included as a component of the provision for Federal and state income taxes in the consolidated statements of income during the three months ended March 31, 2020. The state income tax exposures mainly relate to apportionment and nexus positions taken by the Company in various states the Company has activity in. Because of the complexity of some of these uncertainties, the ultimate resolution may result in an actual income tax that is different from the current estimate of the uncertain income tax positions. These differences will be reflected as increases or decreases to income tax expense in the period in which new information is available.

The Company also recognized interest expense related to the uncertain tax positions in the amount of \$564,900 during the three months ended March 31, 2020, which has been included as a component of accrued expenses in the consolidated balance sheet as of March 31, 2021.

VES GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021

NOTE 8 – EMPLOYEE BENEFIT PLAN

The Company has a 401(k) defined contribution plan covering substantially all employees. Eligible employees may contribute up to the federal limit of their annual compensation into the plan. The Company may make a discretionary matching contribution with the percentage determined annually. The Company also may make a discretionary profit-sharing contribution to the plan. The Company made no matching 401(k) contributions during the three months ended March 31, 2021. The Company made no discretionary profit sharing contributions during the three months ended March 31, 2021. The Company has funded or accrued all calculated contributions as of March 31, 2021.

NOTE 9 – OPERATING LEASES

The Company leased certain office equipment under month-to-month operating leases. Total rent expense under these leases for the three months ended March 31, 2021 amounted to \$2,049.

The Company leases various office space under month-to-month and non-cancelable operating leases which expire at various dates through November 2028. The leases require monthly payments ranging from \$1,500 to \$135,778, with escalating monthly payments each year. Total rent expense was \$1,176,427 during the three months ended March 31, 2021.

The Company recognizes rent expense for their office space leases on a straight-line basis over the respective lease terms. For the three months ended March 31, 2021, rent payments totaled \$1,203,597. At March 31, 2021, deferred rent amounted to \$835,445.

The following is a schedule of minimum future rental payments under the non-cancelable operating leases for each of the next five years and in the aggregate thereafter:

Periods ending March 31,	Amount
2022	\$ 3,365,326
2023	3,475,626
2024	3,487,562
2025	3,306,884
2026	2,830,182
Thereafter	5,624,681
	<u>\$ 22,090,261</u>

VES GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021

NOTE 10 – SELF INSURED HEALTH INSURANCE

The Company is self-insured for purposes of health insurance. Under the plan, the Company is liable for the first \$60,000 of claims per employee per year up to \$11,750,785 in the aggregate during the three months ended March 31, 2021. Any claims that exceed this amount are paid by the underlying insurance policy. Total plan expenses for the three months ended March 31, 2021 were \$2,430,311, and include administrative expenses, stop-loss premiums, and claims paid. The Company has accrued health insurance in the amount of \$1,713,212 at March 31, 2021.

NOTE 11 – INCOME TAXES

The provision for income taxes consists of the following at March 31, 2021:

Current		
Federal	\$	184,561
State		<u>(467,381)</u>
		(282,820)
Deferred		
Federal		5,689,247
State		<u>848,579</u>
		<u>6,537,826</u>
Total provision for income taxes	\$	<u><u>6,255,006</u></u>

During the three months ended March 31, 2021, the Company's effective tax rate differs from the U.S. federal statutory rate primarily due to certain expenses that are not deductible for tax reporting purposes and income not includable for income tax purposes.

VES GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021

NOTE 11 – INCOME TAXES (Continued)

The components of deferred tax assets and liabilities were as follows at March 31, 2021:

Deferred tax assets		
Accounts Payable	\$	123,944
Accrued expenses		7,492,441
Liability for uncertain tax positions		1,072,260
Deferred rent		193,940
Net operating loss		2,190,846
Deferred tax liabilities		
Accounts receivable		(18,657,146)
Prepaid expenses		(371,078)
Property and equipment		(1,576,955)
		<hr/>
	\$	<u>(9,531,748)</u>

Deferred tax assets and liabilities are classified as noncurrent on the consolidated balance sheet at March 31, 2021.

NOTE 12 – COMMON STOCK

The Company has authorized 10,000 shares of \$1 par value common stock. At March 31, 2021, the Company has 1,429 shares issued and outstanding.

NOTE 13 – PHANTOM STOCK BONUS PROGRAM

The Company has phantom stock bonus agreements with various key employees. In the event the Company declares and pays dividend distributions to stockholders, the agreements require the Company to pay the applicable employees a phantom stock bonus in proportion to their phantom stock allocation percentage. In the event of the sale of the Company, the applicable employees shall be eligible to receive cash payment equal to their phantom stock allocation percentage of the net proceeds from the sale. No payments were made under this program for the three months ended March 31, 2021. The Company has funded or accrued all calculated phantom stock bonuses as of the consolidated balance sheet date.

VES GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021

NOTE 14 – CASH FLOWS

During the three months ended March 31, 2021, no interest or income taxes were paid.

NOTE 15 – ECONOMIC DEPENDENCY

During the three months ended March 31, 2021, all of the Company's revenues are derived from contract agreements with one customer, the U.S. Department of Veterans Affairs (VA). The ability of the Company to continue operations is dependent upon these contract agreements remaining in effect. At March 31, 2021, all of the Company's accounts receivable were from this customer.

NOTE 16 – CONTINGENT LIABILITY – VETERANS AFFAIRS ("VA")

The Company was selected for a routine audit by the VA related to their contract agreements. As of the report date of these consolidated financial statements, the examination was ongoing and the Company was in disagreement with the VA's interpretation of various contract language relating to billing codes and the amounts invoiced to the VA during the years ended December 31, 2019 and 2018. Though the Company is in disagreement with the preliminary audit determination by the VA, management plans to settle for amounts totaling \$14,885,554 related to cases completed during the years ended December 31, 2019 and 2018. Being that the settlement is probable and reasonably estimated, the contingent liability totaling \$12,075,682 has been included in accrued expenses on the consolidated balance sheet as of March 31, 2021. During the year ended December 31, 2020, the Company reduced applicable invoices to the VA by \$2,809,872 related to this contingent liability. It is reasonably possible that the estimated liability will change in the near term.

As part of the above audit, the Company is also in disagreement of the VA's interpretation of contract language related to a separate billing code. The Company is in process of rebutting this claim with the VA. As the amount is under dispute and not probable, no contingent liability has been accrued for as of March 31, 2021. Potential exposure related to this contingent liability is estimated to be approximately \$1,200,000.

VES GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021

NOTE 17 – SUBSEQUENT EVENT

Subsequent to the balance sheet date, effective April 20, 2021, stockholders of the Company entered into a Stock Purchase Agreement with Maximus Federal Services, Inc. to sell all of the issued and outstanding shares of capital stock of the Company, which closed on May 28, 2021.

SUPPLEMENTARY INFORMATION

VES GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF COSTS OF REVENUES
Three months ended March 31, 2021

	Amount	Percent of Net Revenues	
Physician fees	\$ 45,550,178	38.7	%
Outside services	4,128,541	3.5	
Examinee mileage	3,298,474	2.8	
Software	25,185	—	
Licenses	61,655	0.1	
Miscellaneous	131,055	0.1	
	\$ 53,195,088	45.2	%

VES GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF SELLING, GENERAL,
AND ADMINISTRATIVE EXPENSES
Three months ended March 31, 2021

	<u>Amount</u>	<u>Percent of Net Revenues</u>
Officers' salaries	\$ 794,831	0.7 %
Office salaries	24,921,271	21.2
Vacation	573,042	0.5
Taxes		
Payroll	2,470,117	2.1
Property	39,750	—
Insurance		
General	100,685	0.1
Health	2,430,311	2.1
Travel and entertainment	178,610	0.2
Promotion	24,697	—
Meetings and seminars	35,382	—
Office expense	1,786,402	1.5
Repairs and maintenance	135,108	0.1
Medical supplies	72,896	0.1
Telephone	290,822	0.2
Utilities	46,707	—
Professional fees	1,264,165	1.1
Dues and subscriptions	113,448	0.1
Depreciation and amortization	774,952	0.7
Rent	1,178,476	1.0
Bank charges	99,227	0.1
Donations	43,885	—
Recruitment fees	56,264	—
Miscellaneous	3,485	—
	<u>\$ 37,434,533</u>	<u>31.8 %</u>

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited pro forma condensed combined financial information has been prepared in accordance with Regulation S-X Article 11, *Pro Forma Financial Information*, as amended by the final rule, *Amendments to Financial Disclosures About Acquired and Disposed Businesses*, adopted by the SEC on May 21, 2020 (“Article 11”). The unaudited pro forma condensed combined financial information presents the pro forma effects of the following Transactions:

- On May 28, 2021, Maximus, Inc. (the “Company”, “we”, “our” or “us”) completed the acquisition of VES Group, Inc. (“VES”) (the “VES Acquisition”), pursuant to a Stock Purchase Agreement dated April 20, 2021. Pursuant to this agreement, we acquired all of the equity interests of VES for \$1.38 billion in cash, subject to adjustments based on closing levels of cash, indebtedness, debt-like items and working capital.
- On May 28, 2021, in order to finance the VES Acquisition, to refinance the Company’s existing revolving credit facility and to provide liquidity for general corporate purposes of the Company, the Company entered into a Credit Agreement (the “Credit Agreement”) with JPMorgan Chase Bank, N.A. (“JPMCB”) in its capacity as administrative agent, collateral agent, an issuing lender and swing line lender, the lenders party thereto and each of JPMCB, BofA Securities, Inc., Truist Securities Inc. and Wells Fargo Securities, LLC, in their capacities as joint lead arrangers and joint bookrunners. Pursuant to the Credit Agreement, the Company entered into and borrowed the entire amount under (i) a \$1.1 billion five-year secured term loan “A” credit facility (the “Tranche A Term Facility”) (ii) a \$400 million seven-year senior secured term loan “B” credit facility (the “Tranche B Term Facility”) and (iii) a \$600 million five-year senior secured revolving credit facility (the “Revolving Facility” and together with the Tranche A Term Facility and the Tranche B Term Facility, the “New Credit Facilities”).

On April 20, 2021, JPMCB committed to provide bridge financing for the VES Acquisition in the event that the best efforts financing discussed above was delayed. This bridge financing commitment terminated on May 28, 2021, upon the closing of the acquisition.

On May 28, 2021, all indebtedness under the Amended and Restated Revolving Credit Agreement with Truist Bank (the previous financing agreement utilized by the Company) was repaid in full and the agreement was terminated.

- On March 1, 2021, we completed the acquisition of the Federal division of Attain, LLC (“Attain”) (the “Attain Acquisition” and, with the VES Acquisition, the “Acquisitions”), pursuant to an Equity Purchase Agreement dated March 1, 2021. Pursuant to this agreement, we acquired all of the Federal division of Attain for a purchase price of \$419.9 million in cash. The Attain Acquisition was funded using the Company’s previous Amended and Restated Revolving Credit Agreement with Truist Bank, as well as our cash balances.

The following unaudited pro forma condensed combined financial information is presented to illustrate the estimated effects of the Acquisitions and New Credit Facilities (collectively, “Transactions”). The estimated effects of the Transactions are described below (collectively, “Adjustments” or “Transaction Accounting Adjustments”).

The unaudited pro forma condensed combined statements of operations for the fiscal year ended September 30, 2020, and the six months ended March 31, 2021, combine the historical consolidated statements of operations of the Company and the consolidated historical statements of income of VES and Attain, after giving effect to the Transactions as if they had occurred on the first day of our fiscal year 2020, October 1, 2019. The unaudited pro forma condensed combined balance sheet as of March 31, 2021 combines the historical consolidated balance sheet of the Company and the consolidated balance sheet of VES, after giving effect to the Transactions as if they had occurred on March 31, 2021. We refer to the unaudited pro forma condensed combined statements of operations and unaudited pro forma condensed combined balance sheet as the “pro forma financial information.”

The pro forma financial information should be read in conjunction with the accompanying notes to the pro forma financial information. In addition, the pro forma financial information is derived from the historical financial statements of the Company and the historical financial records of VES and Attain, and should be read in conjunction with the following consolidated financial statements and accompanying notes of the Company and VES:

1. the audited consolidated financial statements of the Company as of and for the fiscal year ended September 30, 2020, and the related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2020;
2. the unaudited consolidated financial statements of the Company as of and for the six months ended March 31, 2021, and the related notes included in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2021;
3. the audited VES consolidated financial statements as of and for the year ended December 31, 2020, and unaudited financial statements as of and for the three months ended March 31, 2021, and the related notes included as Exhibits 99.2 and 99.3, respectively, in the accompanying filing.

Regulation S-X does not require that the pro forma financial information include the Attain statement of operations or related Transaction Accounting Adjustments. However, this information has been included to assist users of our financial statements in understanding the estimated effects of the Transactions. Attain was acquired on March 1, 2021, and is included in our consolidated balance sheet as of March 31, 2021. The Attain statements of operations for the fiscal year ended September 30, 2020, and for the period from October 1, 2020 to March 1, 2021, were derived from Attain's historical financial records.

The Acquisitions will be accounted for as business combinations under Accounting Standards Codification 805, *Business combinations* ("ASC 805") using the acquisition method of accounting whereby the assets acquired and liabilities assumed are recognized based upon their estimated fair values at the acquisition date. The Company is the accounting acquirer.

The pro forma financial information has been prepared by the Company for illustrative and informational purposes only in accordance with Article 11. The pro forma financial information is not necessarily indicative of what the Company's combined statements of operations or combined balance sheet would have been had the Transactions and related Adjustments been completed as of the dates indicated or will be for any future periods. The pro forma financial information does not purport to project the future financial position or financial results of operations of the Company following the completion of the Transactions. The pro forma financial information does not include adjustments to reflect any potential revenue synergies or cost savings that may be achievable in connection with the Transactions. Article 11 requires the pro forma financial information to include one-time, non-recurring costs incurred to effect the Acquisitions. The pro forma financial information reflects Adjustments that management believes are necessary to present fairly the Company's pro forma financial position and results of operations following the consummation of the Transactions as of and for the periods indicated. The Adjustments are based on currently available information and assumptions management believes are, under the circumstances and given the information available at this time, reasonable, and reflective of adjustments necessary to reflect the Company's financial condition and results of operations as if the Transactions were consummated as of the dates indicated. The allocation of the estimated purchase prices are preliminary and are pending finalization of various estimates, inputs and analyses. Since this pro forma financial information has been prepared based on preliminary estimates of consideration and fair values attributable to the Acquisitions, the actual amounts eventually recorded for the acquisition method of accounting, including identifiable intangible assets and goodwill, may differ materially from the information presented.

Maximus, Inc.
Unaudited Pro Forma Condensed Combined Balance Sheet
March 31, 2021

<i>(in thousands)</i>	Maximus	VES	VES and New Credit Facilities Transaction Accounting Adjustments		Pro Forma Combined
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 101,683	\$ 24,566	\$ (19,674)	4a	\$ 106,575
Accounts receivable, billed and billable, net	582,474	80,370	—		662,844
Accounts receivable, unbilled	177,938	—	—		177,938
Income taxes receivable	1,685	—	—		1,685
Prepaid expenses and other current assets	68,357	14,171	(7,107)	4b	75,421
Total current assets	932,137	119,107	(26,781)		1,024,463
Property and equipment, net	62,087	9,292	—		71,379
Capitalized software, net	45,351	—	—		45,351
Operating lease right-of-use assets	176,826	—	18,898	4c	195,724
Goodwill	899,796	—	844,472	4d	1,744,268
Intangible assets, net	240,463	—	664,000	4e	904,463
Deferred contract costs, net	30,309	—	—		30,309
Deferred compensation plan assets	43,747	—	—		43,747
Deferred income taxes	222	—	—		222
Other assets	10,457	173	7,667	4f	18,297
Total assets	\$ 2,441,395	\$ 128,572	\$ 1,508,256		\$ 4,078,223
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 278,629	\$ 24,473	\$ —		\$ 303,102
Accrued compensation and benefits	124,279	6,535	—		130,814
Deferred revenue	61,475	—	—		61,475
Income taxes payable	8,051	14,773	—		22,824
Current portion of long-term debt	16,551	—	42,091	4i	58,642
Operating lease liabilities	79,430	—	2,845	4c	82,275
Other current liabilities	25,309	—	7,494	4g	71,919
			39,116	4h	
Total current liabilities	593,724	45,781	91,546		731,051
Deferred revenue, less current portion	32,926	—	—		32,926
Deferred income taxes	31,044	9,532	174,632	4j	215,208
Long-term debt, less current portion	250,601	—	1,358,396	4i	1,608,997
Deferred compensation plan liabilities, long term	44,076	—	—		44,076
Operating lease liabilities, less current portion	110,124	835	(835)	4c	126,177
			16,053	4c	
Other liabilities	8,995	—	7,667	4f	16,662
Total liabilities	\$ 1,071,490	\$ 56,148	\$ 1,647,459		\$ 2,775,097
Shareholders' equity:					
Common stock	\$ 528,205	\$ 1	\$ (1)	4k	\$ 528,205
Additional paid in capital	—	5,618	(5,618)	4k	—
Accumulated other comprehensive loss	(34,945)	—	—		(34,945)
Retained earnings	876,645	66,805	(133,584)	4k	809,866
Total shareholders' equity	\$ 1,369,905	\$ 72,424	\$ (139,203)	—	\$ 1,303,126
Total liabilities and shareholders' equity	\$ 2,441,395	\$ 128,572	\$ 1,508,256		\$ 4,078,223

Maximus, Inc.
Unaudited Pro Forma Condensed Combined Statement of Operations
Six Months Ended March 31, 2021

<i>(in thousands, except per share data)</i>	Maximus	VES	VES Transaction Accounting Adjustments		Attain [6a]	Attain Transaction Accounting Adjustments		New Credit Facilities Transaction Accounting Adjustments		Pro Forma Combined
Revenue	\$ 1,904,834	\$ 234,308	\$ —		\$ 91,543	\$ —		\$ —		\$ 2,230,685
Cost of revenue	1,468,121	103,423	32,528	5a	70,443	—		—		1,674,515
Gross profit	436,713	130,885	(32,528)		21,100	—		—		556,170
Selling, general and administrative expenses	224,369	77,369	(32,528)	5a	7,663	(404)	6b	—		276,469
Amortization of intangible assets	11,586	—	27,506	5c	912	(912)	6c	—		44,342
						5,250	6d	—		
Operating income	200,758	53,516	(27,506)		12,525	(3,934)		—		235,359
Interest expense	962	—	—		—	1,331	6e	15,721	7a	18,014
Other (expense)/income, net	(1,295)	48	—		(1,834)	—		—		(3,081)
Income before income taxes	198,501	53,564	(27,506)		10,691	(5,265)		(15,721)		214,264
Provision for income taxes	53,810	12,590	(7,234)	5d	2,812	(1,385)	6f	(4,135)	7d	56,458
Net income	<u>\$ 144,691</u>	<u>\$ 40,974</u>	<u>\$ (20,272)</u>		<u>\$ 7,879</u>	<u>\$ (3,880)</u>		<u>\$ (11,586)</u>		<u>\$ 157,806</u>
Basic earnings per share	\$ 2.33									\$ 2.54
Diluted earnings per share	<u>\$ 2.33</u>									<u>\$ 2.54</u>
Weighted average shares outstanding:										
Basic	62,022									62,022
Diluted	<u>62,212</u>									<u>62,212</u>

Maximus, Inc.
Unaudited Pro Forma Condensed Combined Statement of Operations
Twelve Months Ended September 30, 2020

<i>(in thousands, except per share data)</i>	Maximus	VES	VES Transaction Accounting Adjustments		Attain	Attain Transaction Accounting Adjustments		New Credit Facilities Transaction Accounting Adjustments		Pro Forma Combined
Revenue	\$ 3,461,537	\$ 343,686	\$ —		\$ 208,771	\$ —		\$ —		\$ 4,013,994
Cost of revenue	2,750,535	151,203	49,171	5a	156,584	—		—		3,107,493
Gross profit	711,002	192,483	(49,171)		52,187	—		—		906,501
Selling, general and administrative expenses	387,090	119,329	(49,171)	5a	29,463	(808)	6b	—		543,663
			57,760	5b						
Amortization of intangible assets	35,634	—	55,012	5c	1,615	(1,615)	6c	—		101,146
						10,500	6d			
Operating income	288,278	73,154	(112,772)		21,109	(8,077)		—		261,692
Interest expense	2,059	732	—		—	2,662	6e	32,277	7a	38,239
								509	7b	
Other (expense)/income, net	843	(15)	—		(5,110)	—		(8,509)	7c	(12,791)
Income before income taxes	287,062	72,407	(112,772)		15,999	(10,739)		(41,295)		210,662
Provision for income taxes	72,553	15,803	(29,659)	5d	4,208	(2,824)	6f	(10,860)	7d	49,221
Net income	<u>\$ 214,509</u>	<u>\$ 56,604</u>	<u>\$ (83,113)</u>		<u>\$ 11,791</u>	<u>\$ (7,915)</u>		<u>\$ (30,435)</u>		<u>\$ 161,441</u>
Basic earnings per share	\$ 3.40									\$ 2.56
Diluted earnings per share	<u>\$ 3.39</u>									<u>\$ 2.55</u>
Weighted average shares outstanding										
Basic	63,062									63,062
Diluted	<u>63,322</u>									<u>63,322</u>

1. Basis of Presentation

The pro forma financial information was prepared using the acquisition method of accounting in accordance with ASC 805 with the Company as the accounting acquirer, and is derived from the historical financial statements of the Company and the historical financial records of VES and Attain. Regulation S-X permits us to use financial information from VES and Attain for the year ended December 31, 2020, their typical reporting periods, instead of financial information for the year ended September 30, 2020. We have elected not to use this expedient and, instead, show comparative balances. Accordingly, the Company's statements of operations for the fiscal year ended September 30, 2020, and the six months ended March 31, 2021, have been combined with the VES and Attain statements of operations for the 12 months ended September 30, 2020, and six months ended March 31, 2021, respectively.

The acquisition method of accounting uses the fair value concepts defined in ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"). Fair value is defined in ASC 820 as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." Fair value measurements can be highly subjective, and it is possible that the application of reasonable judgment could develop different assumptions, resulting in a range of alternative estimates using the same facts and circumstances.

The allocation of the estimated purchase prices are preliminary and are pending finalization of various estimates, inputs and analyses. Since this pro forma financial information has been prepared based on preliminary estimates of consideration and fair values attributable to the Acquisitions, the actual amounts eventually recorded for the acquisition method of accounting, including identifiable intangible assets and goodwill, may differ materially from the information presented.

The initial allocations of the estimated purchase prices to the assets acquired and liabilities assumed are based upon management's preliminary estimate of what their respective fair values would be as of the dates of the Acquisitions. At this preliminary stage, the estimated identifiable finite-lived intangible assets recognized include customer relationships, a healthcare provider network, and developed technology. We estimated the fair value of these intangible assets using the following methods (which are Level 3 measurements within the ASC 820 fair value hierarchy) and a number of significant estimates, including those noted below:

Intangible Asset	Fair Value Method	Significant estimates include:
Customer Relationships	Excess earnings	Expected future earnings from the acquired business and an appropriate expected rate of return
Healthcare Provider Network	Cost to recreate and lost profits	Estimated time to recreate the network of independent contractors and expected future earnings from the acquired business during the estimated time to recreate
Developed Technology	Relief from royalty	Expected future revenue from the acquired business and an appropriate hypothetical royalty rate

These identifiable finite-lived intangible assets are amortized over their estimated useful lives.

Goodwill represents the excess of the estimated purchase price over the estimated fair value of the assets acquired and liabilities assumed, including the fair value of the estimated identifiable finite-lived intangible assets described above. Goodwill will not be amortized, but will be subject to periodic impairment testing.

The calculation of goodwill and other identifiable intangible assets could be materially impacted by changing fair value measurements. Under ASC 805, acquisition-related transaction costs are not included

as a component of consideration transferred, but are accounted for as expenses in the period in which the costs are incurred.

During our fiscal years 2020 and 2021, Maximus, VES and Attain incurred expenses which were wholly and exclusively related to the VES Acquisition or the Attain Acquisition. As required by Article 11, we have included these costs in the pro forma information as follows.

- Maximus, VES and Attain incurred \$3.9 million of costs related to the sales by VES and Attain and the acquisition by Maximus in the six months ended March 31, 2021. These costs have been recorded in the periods in which they were incurred.
- Maximus and VES incurred \$57.8 million of acquisition-related costs after March 31, 2021. These have been included in the pro forma financial information for the year ended September 30, 2020, as though these costs had been incurred on October 1, 2019.

We consider these costs to be one-time, nonrecurring charges and believe that showing readers of our pro forma financial information would benefit from seeing our pro forma results excluding acquisition-related expenses. We have provided an analysis of this number below, reconciling it back to the pro forma net income totals.

<i>(in thousands, except per share data)</i>	Six Months Ended March 31, 2021	Year Ended September 30, 2020
Pro forma net income	\$ 157,806	\$ 161,441
Acquisition and selling expenses recorded in respective periods	3,890	57,761
Tax benefit from acquisition expenses	(1,023)	(15,191)
Pro forma net income excluding acquisition costs	<u>\$ 160,673</u>	<u>\$ 204,011</u>
Basic earnings per share excluding acquisition costs	\$2.59	\$3.24
Diluted earnings per share excluding acquisition costs	\$2.58	\$3.22

The pro forma condensed combined statements of operation reflect the results of the business and include the effects of the COVID-19 pandemic. In performing due diligence over the acquisition of VES, we estimate that the pandemic reduced revenue and profit for VES for the three months ended June 30, 2020 by approximately \$35 million, or approximately \$0.40 per diluted share on a pro forma basis.

2. Reclassifications and Conforming Accounting Policies

The effective date of ASC Topic 842, *Leases*, (“ASC 842”) for private companies is for fiscal years beginning after December 31, 2021. Accordingly, VES had not adopted ASC 842 in the accompanying historical unaudited combined balance sheet as of March 31, 2021. Refer to note 4.c for the adjustment to record the preliminary estimated fair value of right-of-use assets and related liabilities for the operating leases of VES assumed by the Company in the acquisition. In addition, VES applied a different accounting policy than the Company for classifying certain employee costs between Cost of revenue and Selling, general and administrative expenses (“SG&A”). Refer to note 5.a for the adjustment to reclassify these employee expenses from SG&A to Cost of revenue to conform to the Company’s accounting policy.

The Company is still in the process of performing a full review of the accounting policies of VES and Attain to determine whether there are material differences that require modification or reclassification of the revenues, expenses, assets or liabilities of VES or Attain to conform to the Company’s accounting policies and classifications. As a result of that review, we may identify differences between the accounting policies of the Company and VES and Attain that, when conformed, could have a material impact on the pro forma financial information.

3. Preliminary Fair Value Estimates of Assets Acquired and Liabilities Assumed

The estimated purchase price for VES of \$1.38 billion represents the cash transferred to the sellers on the acquisition date, less the VES cash and cash equivalents acquired, plus the estimated final purchase price adjustment which is subject to adjustments based on closing levels of cash, indebtedness, debt-like items and working capital. The table below represents an initial allocation of the estimated purchase price to the VES tangible and intangible assets acquired and liabilities assumed as of March 31, 2021 based on the Company's preliminary measurement of their respective fair values:

<i>(in thousands)</i>	Purchase price allocation
Cash paid at closing	\$ 1,393,008
VES cash and cash equivalents balance acquired	(24,566)
Estimated final purchase price adjustment	7,494
Estimated purchase price	<u>\$ 1,375,936</u>
Net working capital, excluding cash and cash equivalents	\$ 39,318
Property and equipment	9,292
Operating lease right-of-use assets	18,898
Intangible assets	664,000
Other assets	173
Deferred income taxes	(184,164)
Operating lease liabilities, long-term	(16,053)
Net identifiable assets acquired	<u>531,464</u>
Goodwill	844,472
Net assets acquired	<u>\$ 1,375,936</u>

4. Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheets

Explanations of the adjustments to the unaudited pro forma condensed combined balance sheet are as follows:

a. Cash and cash equivalents were adjusted as follows:

<i>(in thousands)</i>	Cash and cash equivalent adjustments
Proceeds from the New Credit Facilities net of the extinguishment of all indebtedness outstanding under the Company's previous Amended and Restated Revolving Credit Agreement	\$ 1,414,736
Cash paid at closing	(1,393,008)
Financing costs – New Credit Facilities (see note 4.i.)	(14,249)
Financing costs – bridge financing	(8,509)
Maximus non-recurring Acquisition 3rd party costs	(5,607)
VES non-recurring transaction bonuses and 3rd party costs paid by VES	(13,037)
Total pro forma adjustment to Cash and cash equivalents	<u>\$ (19,674)</u>

b. Represents (i) the elimination of the \$12.6 million VES related party note receivable balance that was not acquired by the Company, (ii) the elimination of \$0.5 million of unamortized deferred

financing costs related to the Company's previous Amended and Restated Revolving Credit Agreement that was terminated in connection with the VES Acquisition and (iii) the recognition of a \$6.0 million asset related to a VES estimated contingent liability for which the sellers indemnified the Company.

- c. Represents the adjustment to record the preliminary estimated fair value of right-of-use assets and related liabilities for operating leases of VES assumed by the Company and eliminate the \$0.8 million VES historical deferred rent liability balance.
- d. Goodwill represents the excess of the purchase price over the preliminary fair value of the underlying net tangible and identifiable intangible assets acquired, net of liabilities assumed. The estimated goodwill primarily represents the value attributable to the assembled workforce, enhanced knowledge and capabilities, and other expected benefits that the Company believes will result from combining its operations with the operations of VES. The goodwill is not expected to be deductible for tax purposes.
- e. Represents the adjustment to record the preliminary estimated fair value of the identified intangible assets acquired. The preliminary estimated useful lives of these intangible assets is approximately 12 years.
- f. Represents the recognition of an indemnification asset related to a VES estimated contingent long-term income tax liability for which the sellers indemnified the Company.
- g. Represents our initial estimate of the VES final purchase price adjustment that is expected to be finalized during the fourth quarter of our fiscal year 2021.
- h. Represents the non-recurring VES Acquisition transaction bonuses and 3rd party costs paid at closing via a reduction of sellers' proceeds from the sale of VES.
- i. Represents the adjustment to record the current and long-term portions of the (i) \$1.1 billion Tranche A Term Facility with a 5-year maturity and quarterly principal payments commencing September 2021 and (ii) \$400 million Tranche B Term Facility with a 7-year maturity and quarterly principal payments commencing September 2021. Adjustment also includes recording in long-term debt the amount outstanding under the new \$600 million Revolving Facility with a 5-year maturity, net of the extinguishment of the indebtedness outstanding on the Company's previous Amended and Restated Revolving Credit Agreement that was repaid in full on May 28, 2021. These adjustments to the current and long-term portions of debt are net of \$14.2 million of debt issuance costs, which will be amortized over the life of the debt arrangement.
- j. Represents the adjustment to record the deferred tax effects of the VES transaction accounting adjustments.

k. Total shareholders' equity was adjusted as follows:

<i>(in thousands)</i>	Adjustments to shareholders' equity
Elimination of the historical VES common stock, additional paid-in capital and retained earnings balances	\$ (72,424)
Adjust retained earnings to expense Maximus bridge financing costs	(8,509)
Adjust retained earnings to expense Maximus non-recurring Acquisition 3rd party costs	(5,607)
Adjust retained earnings to expense VES non-recurring transaction bonuses and 3rd party costs	(52,154)
Adjust retained earnings to expense unamortized deferred financing costs related to the Company's previous Amended and Restated Revolving Credit Agreement	(509)
Total pro forma adjustment to Total shareholders' equity	<u>\$ (139,203)</u>

5. Adjustments to Unaudited Pro Forma Condensed Combined Statements of Operations – VES

- a. This adjustment reclassifies certain employee expenses from SG&A to Cost of revenue to conform to the Company's accounting policy.
- b. Represents the estimated non-recurring Acquisition transaction bonuses and third party costs incurred after March 31, 2021 of \$5.6 million and \$52.2 million for the Company and VES, respectively, which are expensed as incurred.
- c. Represents the amortization of the preliminary estimated fair value of identified intangible assets acquired recorded in adjustment 4.e over their preliminary estimated useful lives of approximately 12 years using the straight-line method.
- d. Represents the income tax impact of the VES Acquisition Adjustments, using the combined federal and state statutory tax rate of approximately 26.3%. This does not represent the Company's effective tax rate, which will include other tax charges and benefits, and does not take into account any historical or possible future tax events that may impact the Company following the consummation of the VES Acquisition.

6. Adjustments to Unaudited Pro Forma Condensed Combined Statements of Operations – Attain

- a. Attain was acquired by the Company on March 1, 2021. Accordingly, the Company's results of operations for the six months ended March 31, 2021 include one month of Attain's results of operations. Therefore, this column represents Attain's results of operations for the five months ended February 28, 2021.
 - b. Assumed lease liabilities are initially measured at the present value of the remaining lease payments as of the acquisition date. The right-of-use asset is initially measured at an amount equal to the lease liability, adjusted for favorable or unfavorable terms of the lease when compared with market terms. The Company determined that as of the acquisition date certain Attain leases assumed include unfavorable terms when compared to market terms. This adjustment represents the amortization of this right-of-use asset fair value adjustment to lease expense over the remaining lease term.
 - c. Represents the elimination of Attain's historical intangible asset amortization expense that was recognized in Attain's statements of operations prior to the Attain Acquisition.
 - d. Represents the amortization of the preliminary estimated fair value of identified intangible assets acquired of \$105 million over their preliminary estimated useful lives of 10 years using the straight-line method.
 - e. The Attain Acquisition was funded using the Company's previous Amended and Restated Revolving Credit Agreement with Truist Bank, as well as our cash balances. This adjustment represents interest expense on the increased borrowings under such credit agreement.
 - f. Represents the income tax impact of the Attain Acquisition Adjustments, using the combined federal and state statutory tax rate of approximately 26.3%. This does not represent the Company's effective tax rate, which will include other tax charges and benefits, and does not take into account any historical or possible future tax events that may impact the Company following the consummation of the Attain Acquisition.
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7. Adjustments to Unaudited Pro Forma Condensed Combined Statements of Operations – New Credit Facilities

- a. Represents adjustment to record interest expense for (i) the \$1.1 billion Tranche A Term Facility based on the 1-month LIBOR plus a margin of 1.75%, (ii) the \$400 million Tranche B Term Facility based on the 1-month LIBOR (subject to a 0.5% floor) plus a margin of 2% and (iii) the amount outstanding under the new \$600 million Revolving Facility based on the 1-month LIBOR plus a margin of 1.75%, less the historical interest expense recognized on the indebtedness outstanding under the Company's previous Amended and Restated Revolving Credit Agreement that was repaid in full on May 28, 2021. This adjustment also includes the amortization of the \$14.2 million of debt issuance costs over the respective contractual maturities of each facility.
- b. Represents adjustment to expense the \$0.5 million of unamortized deferred financing costs related to the Company's previous Amended and Restated Revolving Credit Agreement that was extinguished on May 28, 2021.
- c. Represents adjustment to expense the \$8.5 million of financing costs related to the Company's bridge financing that was terminated on May 28, 2021 upon the closing of the VES acquisition.
- d. Represents the income tax impact of the New Credit Facilities Adjustments, using the combined federal and state statutory tax rate of approximately 26.3%. This does not represent the Company's effective tax rate, which will include other tax charges and benefits, and does not take into account any historical or possible future tax events that may impact the Company following the execution of the Credit Agreement.