As filed with the Securities and Exchange Commission on May 5, 2022

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

FORM 10-Q

(Mark one)

☒ Q**UARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2022

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________to__________.

Commission file number: 1-12997

Maximus, Inc.

(Exact name of registrant as specified in its charter)

Virginia	54-1000588
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1600 Tysons Boulevard, McLean, Virginia	22102
(Address of principal executive offices)	(Zip Code)

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

1891 Metro Center Drive, Reston, Virginia 20190
(Former address)

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 (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer ☐	
Non-accelerated filer ☐	Smaller reporting company ☐	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. ☐

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

There were 61,412,807 shares of the registrant's Common Stock outstanding as of May 2, 2022.

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Unless otherwise specified, references in this Quarterly Report on Form 10-Q to "our," "we," "us," "Maximus," the "Company," and "our business" refer to Maximus, Inc. and its subsidiaries.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Included in this Quarterly Report on Form 10-Q are forward-looking statements within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as: "anticipate," "intend," "plan," "goal," "seek," "opportunity," "could," "potential," "believe," "project," "estimate," "expect," "forecast," "strategy," "future," "likely," "may," "should," "will," and similar references to future periods.

Forward-looking statements that are not historical facts, including statements about our confidence, strategies and initiatives, and our expectations about revenues, results of operations, profitability, liquidity, market demand, the impact of the coronavirus ("COVID-19") global pandemic and related policy implications, and our recent acquisitions are forward-looking statements that involve risks and uncertainties. These risks could cause our actual results to differ materially from those indicated by such forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following:

- a failure to meet performance requirements in our contracts, which might lead to contract termination and actual or liquidated damages;
- our failure to successfully bid for and accurately price contracts to generate our desired profit;
- the effects of future legislative or government budgetary and spending changes;
- the impact of the Biden Administration on federal procurement, federal funding to states' safety-net programs, and the overall decision-making process related to our industry, including our business and customers;
- our ability to manage our growth, including acquired businesses;
- difficulties in integrating or achieving projected revenues, earnings, and other benefits associated with acquired businesses;
- the outcome of reviews or audits, which might result in financial penalties and impair our ability to respond to invitations for new work;
- our ability to manage capital investments and startup costs incurred before receiving related contract payments;
- our ability to manage our debt;
- the extent and impact of the continuation of the global pandemic and the actions taken or to be taken by us, our customers, and the governments or jurisdictions in which we operate in response to COVID-19;
- our ability to maintain technology systems and otherwise protect confidential or protected information;
- our ability to attract and retain executive officers, senior managers, and other qualified personnel to execute our business;
- the ability of government customers to terminate contracts on short notice, with or without cause;
- our ability to maintain relationships with key government entities from whom a substantial portion of our revenue is derived;
- a failure to comply with laws governing our business, which might result in the Company being subject to fines, penalties, suspension, debarment, and other sanctions;
- the costs and outcome of litigation;
- the effects of changes in laws and regulations governing our business, including tax laws, and applicable interpretations and guidance thereunder, or changes in accounting policies, rules, methodologies, and practices, and our ability to estimate the impact of such changes;
- matters related to business we disposed of or divested; and
- other factors set forth in Item 1A, "Risk Factors" of our Annual Report on From 10-K, filed with the Securities and Exchange Commission on November 18, 2021.

Any forward-looking statement made by us in this report is based only on information currently available to us and speaks only as of the date on which it is made. We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments, or otherwise.

PART I - Financial Information

Item 1. Financial Statements

Maximus, Inc.
Consolidated Statements of Operations
(Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
	(in thousands, except per share amounts)			
Revenue	$ 1,177,326	$ 959,280	$ 2,328,202	$ 1,904,834
Cost of revenue	948,875	728,622	1,871,596	1,468,121
Gross profit	228,451	230,658	456,606	436,713
Selling, general, and administrative expenses	130,307	112,402	254,528	224,369
Amortization of intangible assets	22,856	5,070	45,261	11,586
Operating income	75,288	113,186	156,817	200,758
Interest expense	(9,438)	(756)	(19,076)	(962)
Other income/(expense), net	715	(520)	404	(1,295)
Income before income taxes	66,565	111,910	138,145	198,501
Provision for income taxes	16,469	31,296	34,719	53,810
Net income	$ 50,096	$ 80,614	$ 103,426	$ 144,691
Earnings per share:				
Basic	$ 0.81	$ 1.30	$ 1.66	$ 2.33
Diluted	$ 0.80	$ 1.29	$ 1.66	$ 2.33
Weighted average shares outstanding:				
Basic	62,227	62,026	62,256	62,022
Diluted	62,381	62,294	62,409	62,212
Dividends declared per share	$ 0.28	$ 0.28	$ 0.56	$ 0.56

See accompanying notes to unaudited consolidated financial statements.

Maximus, Inc.
Consolidated Statements of Comprehensive Income
(Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
	(in thousands)			
Net income	$ 50,096	$ 80,614	$ 103,426	$ 144,691
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	(23)	770	436	7,693
Net gains on cash flow hedge, net of tax	10,689	—	13,374	—
Other comprehensive income	10,666	770	13,810	7,693
Comprehensive income	$ 60,762	$ 81,384	$ 117,236	$ 152,384

See accompanying notes to unaudited consolidated financial statements.

Maximus, Inc.
Consolidated Balance Sheets

	March 31, 2022	September 30, 2021
	(unaudited)	
	(in thousands)	
Assets:		
Cash and cash equivalents	$ 92,638	$ 135,061
Accounts receivable, net	885,685	834,819
Income taxes receivable	14,757	5,413
Prepaid expenses and other current assets	97,420	104,201
Total current assets	1,090,500	1,079,494
Property and equipment, net	57,945	62,627
Capitalized software, net	42,877	42,868
Operating lease right-of-use assets	160,183	179,349
Goodwill	1,780,370	1,774,406
Intangible assets, net	851,564	879,168
Deferred contract costs, net	42,813	36,486
Deferred compensation plan assets	44,773	46,738
Deferred income taxes	2,635	990
Other assets	34,036	16,839
Total assets	$ 4,107,696	$ 4,118,965
Liabilities and Shareholders' Equity:		
Liabilities:		
Accounts payable and accrued liabilities	$ 302,912	$ 305,565
Accrued compensation and benefits	142,512	186,809
Deferred revenue, current portion	122,070	98,588
Income taxes payable	3,883	6,782
Long-term debt, current portion	59,911	80,555
Operating lease liabilities, current portion	70,731	76,077
Other current liabilities	51,247	35,057
Total current liabilities	753,266	789,433
Deferred revenue, non-current portion	30,429	35,932
Deferred income taxes	198,848	194,638
Long-term debt, non-current portion	1,387,386	1,429,137
Deferred compensation plan liabilities, non-current portion	44,923	47,405
Operating lease liabilities, non-current portion	106,670	121,771
Other liabilities	31,958	20,320
Total liabilities	2,553,480	2,638,636
Commitments and contingencies (Note 16)		
Shareholders' equity:		
Common stock, no par value; 100,000 shares authorized; 61,610 and 61,954 shares issued and outstanding as of March 31, 2022 and September 30, 2021, respectively (shares in thousands)	550,228	532,411
Accumulated other comprehensive loss	(26,098)	(39,908)
Retained earnings	1,030,086	987,826
Total shareholders' equity	1,554,216	1,480,329
Total liabilities and shareholders' equity	$ 4,107,696	$ 4,118,965

See accompanying notes to unaudited consolidated financial statements.

Maximus, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

	For the Six Months Ended	
	March 31, 2022	March 31, 2021
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 103,426	$ 144,691
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization of property, equipment and capitalized software	21,199	22,835
Amortization of intangible assets	45,261	11,586
Amortization of debt issuance costs and debt discount	1,297	—
Deferred income taxes	(3,318)	7,951
Stock compensation expense	15,052	13,479
Change in assets and liabilities, net of effects of business combinations:		
Accounts receivable	(49,064)	70,217
Prepaid expenses and other current assets	9,769	8,074
Deferred contract costs	(6,431)	(9,184)
Accounts payable and accrued liabilities	(3,047)	12,395
Accrued compensation and benefits	(28,281)	(16,761)
Deferred revenue	18,473	13,296
Income taxes	(13,515)	3,230
Operating lease right-of-use assets and liabilities	(1,293)	(414)
Other assets and liabilities	2,331	(1,697)
Net cash provided by operating activities	111,859	279,698
Cash flows from investing activities:		
Purchases of property and equipment and capitalized software	(22,898)	(23,584)
Acquisitions of businesses, net of cash acquired	(4)	(413,940)
Net cash used in investing activities	(22,902)	(437,524)
Cash flows from financing activities:		
Cash dividends paid to Maximus shareholders	(34,659)	(34,414)
Purchases of Maximus common stock	(25,843)	(3,363)
Tax withholding related to RSU vesting	(9,673)	(9,818)
Proceeds from borrowings	240,000	500,162
Principal payments for debt	(303,708)	(263,838)
Other	—	(2,762)
Net cash (used in)/provided by financing activities	(133,883)	185,967
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	324	3,263
Net change in cash, cash equivalents, and restricted cash	(44,602)	31,404
Cash, cash equivalents and restricted cash, beginning of period	156,570	88,561
Cash, cash equivalents and restricted cash, end of period	$ 111,968	$ 119,965

See accompanying notes to unaudited consolidated financial statements.

Maximus, Inc.

Consolidated Statements of Changes in Shareholders' Equity

(Unaudited)

	Common Stock		Accumulated Other Comprehensive Loss	Retained Earnings	Total Equity
	Shares	Amount			
			(in thousands)		
Balance at September 30, 2021	61,954	$ 532,411	$ (39,908)	$ 987,826	$ 1,480,329
Net income	—	—	—	53,330	53,330
Foreign currency translation	—	—	459	—	459
Cash flow hedge, net of tax	—	—	2,685	—	2,685
Cash dividends	—	—	—	(17,347)	(17,347)
Dividends on RSUs	—	272	—	(272)	—
Purchases of Maximus common stock	(18)	—	—	(1,379)	(1,379)
Stock compensation expense	—	8,248	—	—	8,248
Tax withholding adjustment related to RSU vesting	—	2,101	—	—	2,101
Balance as of December 31, 2021	61,936	543,032	(36,764)	1,022,158	1,528,426
Net income	—	—	—	50,096	50,096
Foreign currency translation	—	—	(23)	—	(23)
Cash flow hedge, net of tax	—	—	10,689	—	10,689
Cash dividends	—	—	—	(17,312)	(17,312)
Dividends on RSUs	—	392	—	(392)	—
Purchases of Maximus common stock	(330)	—	—	(24,464)	(24,464)
Stock compensation expense	—	6,804	—	—	6,804
RSUs vested	4	—	—	—	—
Balance as of March 31, 2022	61,610	550,228	(26,098)	1,030,086	1,554,216

	Common Stock		Accumulated Other Comprehensive Loss	Retained Earnings	Total Equity
	Shares	Amount			
			(in thousands)		
Balance at September 30, 2020	61,504	$ 513,959	$ (42,638)	$ 770,498	$ 1,241,819
Net income	—	—	—	64,077	64,077
Foreign currency translation	—	—	6,923	—	6,923
Cash dividends	—	—	—	(17,207)	(17,207)
Dividends on RSUs	—	336	—	(336)	—
Purchases of Maximus common stock	(52)	—	—	(3,363)	(3,363)
Stock compensation expense	—	6,062	—	—	6,062
Balance as of December 31, 2020	61,452	$ 520,357	$ (35,715)	$ 813,669	$ 1,298,311
Net income	—	—	—	80,614	80,614
Foreign currency translation	—	—	770	—	770
Cash dividends	—	—	—	(17,207)	(17,207)
Dividends on RSUs	—	431	—	(431)	—
Stock compensation expense	—	7,417	—	—	7,417
RSUs vested	20	—	—	—	—
Balance as of March 31, 2021	61,472	$ 528,205	$ (34,945)	$ 876,645	$ 1,369,905

See accompanying notes to unaudited consolidated financial statements.

Maximus, Inc.

Notes to the Unaudited Consolidated Financial Statements

1. ORGANIZATION

Maximus, a Virginia corporation established in 1975, is a leading provider of government services worldwide. Maximus operates under its founding mission of *Helping Government Serve the People®*, enabling citizens around the globe to successfully engage with their governments at all levels and across a variety of health and human services programs. Maximus delivers innovative business process management and technology solutions that contribute to improved outcomes for citizens and higher levels of productivity, accuracy, accountability, and efficiency of government-sponsored programs. Maximus is a proud partner to government agencies in the United States, Australia, Canada, Italy, Saudi Arabia, Singapore, South Korea, Sweden, and the United Kingdom.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries over which the Company has a controlling financial interest, and have been prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP, and the rules and regulations of the U.S. Securities and Exchange Commission, or SEC. All intercompany balances and transactions have been eliminated in consolidation.

(b) Basis of Presentation for Interim Periods

Certain information and footnote disclosures normally included for the annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted for the interim periods presented. We believe that the unaudited interim financial statements include all adjustments (which are normal and recurring in nature) necessary to present fairly our financial position and the results of operations and cash flows for the periods presented.

The results of operations for the interim periods presented are not necessarily indicative of results that may be expected for the year or future periods. The financial statements should be read in conjunction with our audited consolidated financial statements and the notes thereto for the year ended September 30, 2021 included in our Annual Report on Form 10-K for the fiscal year then ended (the "2021 10-K"). We have continued to follow the accounting policies set forth in those financial statements.

(c) Estimates

The preparation of these financial statements, in conformity with U.S. GAAP, requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and the reported amounts of revenue and expenses. At each reporting period end, we make estimates, including those related to revenue recognition and cost estimation on certain contracts, the realizability of goodwill, and amounts related to income taxes, certain accrued liabilities, and contingencies and litigation.

We base our estimates on historical experience and expectations of the future that we believe to be reasonable. The economic and political effects of the COVID-19 global pandemic increase uncertainty, which has reduced our ability to use past results to estimate future performance. Accordingly, our estimates may be subject to greater volatility than has been the case in the past.

3. BUSINESS SEGMENTS

We conduct our operations through three business segments: U.S. Services, U.S. Federal Services, and Outside the U.S.

U.S. Services

Our U.S. Services Segment provides a variety of business process services ("BPS") such as program administration, appeals and assessments, and related consulting work for U.S. state and local government programs. These services support a variety of programs, including the Affordable Care Act ("ACA"), Medicaid, the Children's Health Insurance Program ("CHIP"), Temporary Assistance to Needy Families ("TANF"), and child support programs. Addressing societal macro trends such as aging populations and rising costs, the segment continues to execute on its clinical evolution strategy by expanding its clinical offerings. This includes assessments to determine whether personal care services are medically necessary and public health offerings such as contact tracing, disease investigation, and vaccine distribution support services as part of the governments' COVID-19 response efforts.

U.S. Federal Services

From technology solutions to program administration and operations, our U.S. Federal Services Segment delivers end-to-end solutions that help various U.S. federal government agencies better deliver on their mission. This also includes appeals and assessments services, system and application development, IT modernization, and maintenance services. The segment also contains certain state-based assessments and appeals work that is part of the segment's heritage within the Medicare Appeals portfolio which continues to be managed within this segment. Benefiting from the Maximus Federal Consulting (formerly Attain Federal) platform, the segment executes on its digital strategy to deliver technology solutions that advance agency missions, including the challenge to modernize, provide better customer experience, and drive process efficiencies. The segment continues to expand its clinical solutions with the acquisition of VES Group, Inc., which manages the clinical evaluation process for U.S. veterans and service members on behalf of the U.S. Department of Veterans Affairs. The segment further supports clinical offerings in public health with new work supporting the U.S. Federal Government's COVID-19 response efforts. This included expanded work with the Centers for Disease Control and Prevention ("CDC") for their helpline and increased support for the IRS Wage and Investment Division's response efforts to general inquiries regarding the Coronavirus Aid Relief & Economic Security ("CARES") Act and Economic Impact Payment Service Plan.

Outside the U.S.

Our Outside the U.S. Segment provides BPS for international governments and commercial clients, transforming the lives of people around the world. Helping people find employment, access vital support, and remain healthy, these services include health and disability assessments, program administration for employment services, wellbeing solutions, and other job seeker related services. We support programs and deliver services in the U.K., including the Health Assessment Advisory Service ("HAAS"), the Work & Health Programme, Fair Start, and Restart; Australia, including jobactive and the Disability Employment Service; Canada, including Health Insurance British Columbia and the Employment Program of British Columbia; in addition to Italy, Saudi Arabia, Singapore, South Korea, and Sweden, where we predominantly provide employment support and job seeker services.

Table 3: Results of Operation by Business Segment

	For the Three Months Ended				For the Six Months Ended			
	March 31, 2022		March 31, 2021		March 31, 2022		March 31, 2021	
	Amount	% (1)	Amount	% (1)	Amount	% (1)	Amount	% (1)
				(dollars in thousands)				
Revenue:								
U.S. Services	$ 398,077		$ 448,215		$ 784,494		$ 833,149	
U.S. Federal Services	573,288		330,136		1,155,159		735,381	
Outside the U.S.	205,961		180,929		388,549		336,304	
Revenue	$ 1,177,326		$ 959,280		$ 2,328,202		$ 1,904,834	
Gross profit:								
U.S. Services	$ 84,971	21.3 %	$ 119,440	26.6 %	$ 174,670	22.3 %	$ 218,442	26.2 %
U.S. Federal Services	115,153	20.1 %	74,133	22.5 %	241,729	20.9 %	156,629	21.3 %
Outside the U.S.	28,327	13.8 %	37,085	20.5 %	40,207	10.3 %	61,642	18.3 %
Gross profit	$ 228,451	19.4 %	$ 230,658	24.0 %	$ 456,606	19.6 %	$ 436,713	22.9 %
Selling, general, and administrative expenses:								
U.S. Services	$ 38,273	9.6 %	$ 36,593	8.2 %	$ 73,375	9.4 %	$ 74,049	8.9 %
U.S. Federal Services	68,949	12.0 %	50,978	15.4 %	133,874	11.6 %	103,230	14.0 %
Outside the U.S.	24,011	11.7 %	22,013	12.2 %	45,351	11.7 %	42,045	12.5 %
Other (2)	(926)	NM	2,818	NM	1,928	NM	5,045	NM
Selling, general, and administrative expenses	$ 130,307	11.1 %	$ 112,402	11.7 %	$ 254,528	10.9 %	$ 224,369	11.8 %
Operating income/(loss):								
U.S. Services	$ 46,698	11.7 %	$ 82,847	18.5 %	$ 101,295	12.9 %	$ 144,393	17.3 %
U.S. Federal Services	46,204	8.1 %	23,155	7.0 %	107,855	9.3 %	53,399	7.3 %
Outside the U.S.	4,316	2.1 %	15,072	8.3 %	(5,144)	(1.3) %	19,597	5.8 %
Amortization of intangible assets	(22,856)	NM	(5,070)	NM	(45,261)	NM	(11,586)	NM
Other (2)	926	NM	(2,818)	NM	(1,928)	NM	(5,045)	NM
Operating income/(loss)	$ 75,288	6.4 %	$ 113,186	11.8 %	$ 156,817	6.7 %	$ 200,758	10.5 %

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

(2) Other selling, general, and administrative expenses includes costs that are not allocated to a particular segment. This includes expenses incurred as part of our acquisitions, as well as potential acquisitions which have not been or may not be completed.

4. REVENUE RECOGNITION

The Company recognizes revenue as, or when, we satisfy performance obligations under a contract. The majority of our contracts have performance obligations which are satisfied over time. In most cases, we view our performance obligations as promises to transfer a series of distinct services to our customers that are substantially the same and which have the same pattern of service.

Disaggregation of Revenue

In addition to our segment reporting, we disaggregate our revenues by contract type, customer type, and geography. Our operating segments represent the manner in which our Chief Executive Officer reviews our financial results, which is further discussed in "Note 3. Business Segments."

Table 4.1: Revenue by Contract Type

	For the Three Months Ended				For the Six Months Ended			
	March 31, 2022		March 31, 2021		March 31, 2022		March 31, 2021	
	Amount	%	Amount	%	Amount	%	Amount	%
	(dollars in thousands)							
Performance-based	$ 516,210	43.9 %	$ 349,749	36.4 %	$ 1,007,166	43.3 %	$ 643,709	33.8 %
Cost-plus	322,823	27.4 %	286,082	29.8 %	662,904	28.5 %	670,565	35.2 %
Fixed price	158,867	13.5 %	146,344	15.3 %	310,372	13.3 %	267,121	14.0 %
Time and materials	179,426	15.2 %	177,105	18.5 %	347,760	14.9 %	323,439	17.0 %
Total revenue	$ 1,177,326		$ 959,280		$ 2,328,202		$ 1,904,834	

Table 4.2: Revenue by Customer Type

	For the Three Months Ended				For the Six Months Ended			
	March 31, 2022		March 31, 2021		March 31, 2022		March 31, 2021	
	Amount	%	Amount	%	Amount	%	Amount	%
	(dollars in thousands)							
U.S. state government agencies	$ 411,287	35.0 %	$ 445,697	46.5 %	$ 782,834	33.7 %	$ 833,811	43.8 %
U.S. federal government agencies	553,707	47.0 %	307,870	32.1 %	1,117,801	48.0 %	693,442	36.4 %
International government agencies	194,800	16.5 %	171,700	17.9 %	366,175	15.7 %	319,042	16.7 %
Other, including local municipalities and commercial customers	17,532	1.5 %	34,013	3.5 %	61,392	2.6 %	58,539	3.1 %
Total revenue	$ 1,177,326		$ 959,280		$ 2,328,202		$ 1,904,834	

Table 4.3: Revenue by Geography

	For the Three Months Ended				For the Six Months Ended			
	March 31, 2022		March 31, 2021		March 31, 2022		March 31, 2021	
	Amount	%	Amount	%	Amount	%	Amount	%
	(dollars in thousands)							
United States	$ 971,365	82.5 %	$ 778,350	81.1 %	$ 1,939,653	83.3 %	$ 1,568,529	82.3 %
United Kingdom	107,898	9.1 %	72,882	7.6 %	193,705	8.3 %	137,668	7.2 %
Australia	46,670	4.0 %	70,947	7.4 %	99,484	4.3 %	126,878	6.7 %
Rest of world	51,393	4.4 %	37,101	3.9 %	95,360	4.1 %	71,759	3.8 %
Total revenue	$ 1,177,326		$ 959,280		$ 2,328,202		$ 1,904,834	

Contract balances

Differences in timing between revenue recognition and cash collection result in contract assets and contract liabilities. We classify these assets as accounts receivable — billed and billable and unbilled receivables; the liabilities are classified as deferred revenue.

In many contracts, we bill our customers on a monthly basis shortly after the month end for work performed in that month. These balances are considered collectible and are included within accounts receivable — billed and billable.

Exceptions to this pattern will arise for various reasons, including those listed below.

- Under cost-plus contracts, we are typically required to estimate a contract's share of our general and administrative expenses. This share is based upon estimates of total costs which may vary over time. We typically invoice our customers at an agreed provisional billing rate which may differ from actual rates incurred. If our actual rates are higher than the provisional billing rates, an asset is recorded for this variance; if the provisional billing rates are higher than our actual rates, we record a liability.
- Certain contracts include retainage balances, whereby revenue is earned but some portion of cash payments are held back by the customer for a period of time, typically to allow the customer to confirm the objective criteria laid out by the contract have been met. This balance is classified as accounts receivable — unbilled until restrictions on billing are lifted. As of March 31, 2022, and September 30, 2021, $12.6 million and $10.4 million, respectively, of our unbilled receivables related to amounts pursuant to contractual retainage provisions.
- In certain contracts, we may receive funds from our customers prior to performing operations. These funds are typically referred to as "set-up costs" and reflect the need for us to make investments in infrastructure prior to providing a service. This investment in infrastructure is not a performance obligation which is distinct from the service that is subsequently provided and, as a result, revenue is not recognized based upon the establishment of this infrastructure, but rather over the course of the contractual relationship. The funds are initially recorded as deferred revenue and recognized over the term of the contract. Other contracts may not include set-up fees but will provide higher fees in earlier periods of the contract. The premium on these fees is deferred.
- Some of our contracts, notably our employment services contracts in the Outside the U.S. Segment, include payments for desired outcomes, such as job placement and job retention, and these outcome payments occur over several months. We are required to estimate these outcome fees ahead of their realization and recognize this estimated fee over the period of delivery.

During the three and six months ended March 31, 2022, we recognized revenue of $ 20.6 million and $61.8 million, respectively, that was included in our deferred revenue balances as of September 30, 2021. During the three and six months ended March 31, 2021, we recognized revenue of $15.2 million and $29.1 million, respectively, that was included in our deferred revenue balances at September 30, 2020.

Contract estimates

We are required to use estimates in recognizing revenue from some of our contracts. As discussed in "Note 2. Significant Accounting Policies," the calculation of these estimates has been complicated by the COVID-19 pandemic, which has reduced our ability to use past results to estimate future performance.

Some of our performance-based contract revenue is recognized based upon future outcomes defined in each contract. This is the case in many of our employment services contracts in the Outside the U.S. Segment, where we are paid as individuals attain employment goals, which may take many months to achieve. We recognize revenue on these contracts over the period of performance. Our estimates vary from contract to contract but may include estimates of the number of participants, the length of the contract, and the participants reaching employment milestones. We are required to estimate these outcome fees ahead of their collection and recognize this estimated fee over the period of delivery. Changes to our estimates are recognized on a cumulative catch-up basis.

Table 4.4: Effect of Changes in Contract Estimates

	For the Three Months Ended		For the Six Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
	(in thousands, except per share data)			
Benefit to/(reduction of) revenue recognized due to changes in contract estimates	$ (1,369)	$ 7,603	$ (4,215)	$ 15,986
Benefit to/(reduction of) diluted earnings per share recognized due to changes in contract estimates	$ (0.02)	$ 0.09	$ (0.05)	$ 0.19

Remaining performance obligations

As of March 31, 2022, we had approximately $ 550 million of remaining performance obligations. We anticipate that we will recognize revenue on approximately 50% of this balance within the next 12 months. This balance excludes contracts with an original duration of twelve months or less, including contracts with a penalty-free termination for convenience clause, and any variable consideration which is allocated entirely to future performance obligations, including variable transaction fees or fees tied directly to costs incurred.

5. EARNINGS PER SHARE

Table 5: Weighted Average Number of Shares - Earnings Per Share

	For the Three Months Ended		For the Six Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
	(in thousands)			
Basic weighted average shares outstanding	62,227	62,026	62,256	62,022
Dilutive effect of unvested RSUs and PSUs	154	268	153	190
Denominator for diluted earnings per share	62,381	62,294	62,409	62,212
Unvested anti-dilutive stock units excluded from the dilutive effect (stock units)	173	199	192	201

6. BUSINESS COMBINATIONS

VES Group, Inc. (VES)

On May 28, 2021, the Company acquired 100% of VES for an estimated cash purchase price of $ 1.37 billion (the "VES Acquisition"). The final purchase price is subject to adjustment and is expected to be finalized during 2022. VES was integrated into our U.S. Federal Services Segment. The VES Acquisition also supports our ongoing strategic priority of expansion into the U.S. Federal market and accelerates our clinical evolution to meet long-term demand for BPS with a clinical dimension. As of March 31, 2022, we have completed our assessment of all acquired assets and liabilities assumed, with the exception of income taxes and the working capital true-up.

Table 6.1: VES Valuation

	Allocation of Assets and Liabilities as of September 30, 2021	Adjustments	Estimated Allocation of Assets and Liabilities as of March 31, 2022
		(in thousands)	
Consideration paid:			
Cash consideration paid, net of cash acquired	$ 1,360,231	$ —	$ 1,360,231
Estimated additional cash payments	4,635	4,988	9,623
Estimated cash consideration, net of cash acquired	1,364,866	4,988	1,369,854
Assets acquired:			
Accounts receivable - billed, billable and unbilled	$ 44,078	$ —	$ 44,078
Prepaid expenses and other current assets	7,955	—	7,955
Property and equipment, net	9,113	(1,092)	8,021
Operating lease right-of-use assets	18,898	—	18,898
Intangible assets	664,000	—	664,000
Other assets	7,166	—	7,166
Total identifiable assets acquired	751,210	(1,092)	750,118
Liabilities assumed:			
Accounts payable and accrued compensation	42,182	(4,360)	37,822
Operating lease liabilities	18,898	—	18,898
Income taxes payable, current	5,673	—	5,673
Deferred income taxes	171,497	1,147	172,644
Other long-term liabilities	12,270	—	12,270
Total identifiable liabilities assumed	250,520	(3,213)	247,307
Net identifiable assets acquired	500,690	2,121	502,811
Goodwill	864,176	2,867	867,043
Net assets acquired	$ 1,364,866	$ 4,988	$ 1,369,854

Goodwill represents the value of the assembled workforce and the enhanced knowledge, capabilities, and qualifications held by the business. This goodwill balance is not deductible for tax purposes.

Our evaluation of the intangible assets acquired with VES identified three assets. The assets were valued using methods which required a number of estimates and, accordingly, they are considered Level 3 measurements within the Accounting Standard Codification No. 820 (ASC 820) fair value methodology.

- Customer relationships represent the value of the existing contractual relationships with the U.S. federal government. These were valued using the excess earnings method, which required us to utilize estimated future revenues and earnings from contracts and an appropriate rate of return.
- VES maintains a provider network of third-party providers that assist in the performance of their clinical services. This network was valued using the cost method and income approach, which included both the cost of recreating such a network and the profits foregone during the time which would be required to recreate the network and an appropriate rate of return.
- VES maintained proprietary technology which interacted with U.S. Federal Government systems, facilitated the transmission of examination data, and supported the performance of the contracts. We valued the technology using a relief-from-royalty method, which required us to estimate future revenues and an arm's length royalty rate that a third-party provider might use to supply this service and an appropriate rate of return.

Table 6.2: VES Intangible Asset Values and Useful Lives

	Estimated Straight-Line Useful Life	Estimated Fair Value
		(in thousands)
Customer contracts and relationships	12 years	$ 580,000
Provider network	12 years	57,000
Technology-based intangible assets	12 years	27,000
Total intangible assets		$ 664,000

In connection with certain liabilities acquired in the VES acquisition, we established a liability of $ 12.0 million for a billing dispute between VES and its customer relating to prior year billings. Our exposure was partially offset by an indemnification asset of $6.0 million. Following the VES Acquisition, the liability was confirmed at $12.0 million and we have recovered our share of the indemnification asset. We expect to settle the liability in the third quarter of fiscal year 2022. In addition, we established a tax liability of $12.3 million for uncertain tax positions within VES, partially offset by another indemnification asset of $ 7.2 million.

Connect Assist Holdings Limited ("Connect Assist")

On September 14, 2021, we acquired 100% of the share capital of Connect Assist for an estimated purchase price of $ 21.1 million (£15.5 million British Pounds). We acquired this business to improve our contact center services and qualifications within the United Kingdom. The business was integrated into our Outside the U.S. Segment. We have completed a preliminary assessment of all acquired assets and liabilities assumed. We recorded estimated goodwill and intangible assets of $11.3 million and $7.7 million, respectively, related to the acquisition.

Aidvantage

On October 6, 2021, we completed the acquisition of the student loan servicing business from Navient, rebranded as Aidvantage. The purchase price consideration is contingent upon future volumes, with a maximum payment of $65.0 million. The final payment is uncertain as there are a number of potential outcomes. We have estimated the fair value of this liability, based upon a probability weighted assessment of the potential outcomes, of $18.6 million. We will update this liability each quarter as changes are made to our estimate of fair value. These changes will be recorded through our statement of operations. If our obligation is less than anticipated, this will result in a benefit to our earnings. The obligation may be higher, either because the number of student loans we are servicing increases or if the contractual relationship we have acquired is extended beyond its current anticipated end date of December 31, 2023. In that instance, we would record an expense to earnings which we would anticipate being offset by additional benefits from the contract. However, the timing of the adjustment to the obligation and the anticipated financial benefits would be unlikely to be consistent. We recorded a single intangible asset related to the customer contract and relationship of $16.7 million, which we are amortizing over 27 months. The goodwill balance, representing the difference between the assets acquired and the estimated obligation, represents the assembled workforce, as well as the knowledge base acquired. This business is a part of our U.S. Federal Services Segment and supplements our existing portfolio of services to the U.S. Department of Education.

During the three months ended March 31, 2022, we reported $ 47.0 million and $3.4 million of revenue and gross loss, respectively, from Aidvantage. During the six months ended March 31, 2022, we reported $81.7 million and $1.4 million of revenue and gross loss, respectively, from Aidvantage.

BZ Bodies Limited ("BZB")

On January 31, 2022, we acquired 100% of the share capital of BZB for an estimated purchase price of $ 2.9 million (£2.2 million British Pounds), which includes an estimate of contingent consideration payable upon future performance. BZB provides weight management services for adults, children and vulnerable groups in the United Kingdom. We acquired this business to complement our services within the United Kingdom. The business was integrated into our Outside the U.S. Segment. We recorded estimated goodwill and intangible assets of $1.5 million and $1.3 million, respectively, related to the acquisition. During the three and six months ended March 31, 2022, we reported $1.1 million and $0.6 million of revenue and gross profit, respectively, from BZB.

7. DEBT

Table 7.1: Details of Debt

	March 31, 2022	September 30, 2021
	(in thousands)	
Term Loan A, due 2026	$ 1,058,750	$ 1,086,250
Term Loan B, due 2028	397,000	399,000
Subsidiary loan agreements	3,971	38,281
Total debt principal	1,459,721	1,523,531
Less: Unamortized debt-issuance costs and discounts	(12,424)	(13,839)
Total debt	1,447,297	1,509,692
Less: Current portion of long-term debt	(59,911)	(80,555)
Long-term debt	$ 1,387,386	$ 1,429,137

On May 28, 2021, we entered into a credit agreement with JPMorgan Chase Bank, N.A., as Administrative Agent ("Credit Agreement"), which replaced our existing revolving credit facility. The Credit Agreement provided for the following three components.

- $1.10 billion term loan facility ("Term Loan A") which matures on May 28, 2026;
- $400.0 million term loan facility ("Term Loan B") which matures May 28, 2028; and
- $600.0 million revolving credit facility ("Revolver") which matures May 28, 2026.

The interest rates applicable to loans under the Credit Agreement are floating rates based upon the London Interbank Offered Rate ("LIBOR") plus a margin. Term Loan A and the Revolver margins are dependent upon our leverage ratio. Term Loan B is set to LIBOR plus 2.00% subject to a floor of 0.50%.

At execution of the Credit Agreement, the interest rates for Term Loan A and the Revolver was LIBOR plus 1.75%. During the first quarter of fiscal quarter 2022, we were able to lower our interest rates on both Term Loan A and the Revolver to LIBOR plus 1.50% based on the attainment of a total leverage ratio of 2.50 or better. As of March 31, 2022, the net total leverage ratio was 2.4. If we can achieve a net total leverage ratio of less than 2.00, the interest rates for Term Loan A and the Revolver could be further lowered to LIBOR plus 1.375%; conversely if the net leverage ratio increases to 2.50 or greater, the rate would revert back to LIBOR plus 1.75%. LIBOR is anticipated to be phased out over the next 18 months, and alternative benchmark rates have been identified in this agreement. This is our only significant arrangement that utilizes LIBOR. As of March 31, 2022, the annual effective interest rate, including original issue discount and amortization of debt issuance costs, was 2.4%.

The Credit Agreement is available for general corporate purposes, including the funding of working capital, capital expenditures, and possible future acquisitions. In addition to borrowings, it allows us to continue to issue letters of credit when necessary. As of March 31, 2022, we had no outstanding balance on the Revolver.

Under the terms of the Credit Agreement, we are required to comply with certain covenants, the terms of which are customary and include a net total leverage ratio and a net interest coverage ratio. The net total leverage ratio is calculated as total outstanding debt less the lower of (a) unrestricted cash or (b) $75.0 million divided by adjusted earnings before interest, taxes, depreciation, and amortization ("EBITDA"). With certain exceptions, the covenant requires the net total leverage ratio, as defined by the Credit Agreement to be less than 4.0, calculated over the previous twelve months. The net interest coverage ratio is calculated as EBITDA divided by interest expense, over the previous twelve months. The covenant requires a net interest coverage ratio of 3.0 or greater. As of March 31, 2022, as defined by the Credit Agreement, we calculated a net total leverage ratio of 2.4 and net interest coverage ratio of 15.3. We were in compliance with all applicable covenants under the Credit Agreement as of March 31, 2022, and September 30, 2021. We do not believe that the covenants represent a significant restriction to our ability to successfully operate the business or to pay our dividends.

Costs incurred in establishing the Credit Agreement have been reported as a reduction to the gross debt balance and will be amortized over the respective lives of the arrangements. In addition to the corporate Credit Agreement, we hold smaller credit facilities in Australia, Canada, and the United Kingdom. These allow our businesses to borrow to meet any short-term working capital needs.

Table 7.2: Details of Future Minimum Principal Payments Due

	Amount Due
	(in thousands)
April 1, 2022 through September 30, 2022	$ 32,963
Year ended September 30, 2023	66,383
Year ended September 30, 2024	86,500
Year ended September 30, 2025	93,375
Year ended September 30, 2026	801,500
Thereafter	379,000
Total payments	$ 1,459,721

8. DERIVATIVES

Interest Rate Derivative Instrument

In June 2021, the Company entered into an interest rate swap agreement for a notional amount of $ 300.0 million, effective June 28, 2021, with an expiration date of May 28, 2026, which hedges the floating LIBOR on a portion of the term loan (Term Loan A, $1.10 billion balance) under the Credit Agreement to a fixed rate of 0.986%. The Company elected to designate this interest rate swap as a cash flow hedge for accounting purposes.

As this cash flow hedge is considered effective, any future gains and losses are reflected within Accumulated Other Comprehensive Income in the Consolidated Statements of Comprehensive Income. Derivatives in a net asset position are recorded in "Prepaid expenses and other current assets" on our Consolidated Balance Sheets and derivatives in a net liability position are recorded in "Other current liabilities" on our Consolidated Balance Sheets. No ineffectiveness was recorded on this contract during the six months ended March 31, 2022.

Table 8.1: Details of Derivatives Fair Value

	March 31, 2022	September 30, 2021
	(in thousands)	
Assets:		
Interest rate swap	$ 17,737	$ —
Total assets	$ 17,737	$ —
Liabilities:		
Interest rate swap	$ —	$ 410
Total liabilities	$ —	$ 410

Table 8.2: Gains on Derivatives

	For the Three Months Ended		For the Six Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
	(in thousands)			
Net gains recognized in AOCI on derivatives, net of tax (1)	$ 10,225	$ —	$ 12,401	$ —
Amounts reclassified to earnings from accumulated other comprehensive loss (2)	464	—	973	—
Net current period other comprehensive income	$ 10,689	$ —	$ 13,374	$ —

(1) Amount is net of tax expense of $3.7 million and $4.4 million for the three and six months ended March 31, 2022, respectively.

(2) Amount is net of tax benefit of $0.2 million and $0.3 million for the three and six months ended March 31, 2022, respectively.

Counterparty Risk

The Company is exposed to credit losses in the event of nonperformance by the counterparty to our derivative instrument. Our counterparty has investment grade credit ratings; accordingly, we anticipate that the counterparty will be able to fully satisfy its obligations under the contracts. Our agreements outline the conditions upon which it or the counterparty are required to post collateral. As of March 31, 2022, there was no collateral posted with its counterparty related to the derivatives.

9. FAIR VALUE

The Company had two assets recorded at fair value on a recurring basis as of March 31, 2022, the deferred compensation asset, related to the portion invested in mutual funds and the interest rate swap. For the deferred compensation asset, the mutual funds prices are quoted in active markets and therefore are classified as Level 1. For the interest rate swap, the Company obtains its Level 2 pricing inputs from its counterparty for the interest rate swap. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace. As of March 31, 2022, the Company had liabilities recorded at fair value on a recurring basis for contingent consideration related to acquisitions. The contingent consideration liability is considered Level 3, as the inputs are not observable and based on internal assumptions about forecasted revenues, margins, volumes, and probability of contract extensions on businesses acquired.

The fair values of receivables, prepaids, other assets, accounts payable, accrued costs, and other current liabilities approximate the carrying values as a result of the short-term nature of these instruments. The carrying value of our debt is consistent with the fair value as the stated interest rates in the agreements are consistent with the current market rates used in notes with similar terms in the markets (Level 2 inputs).

Table 9: Fair Value

	As of March 31, 2022			
	Level 1	Level 2	Level 3	Balance
	(in thousands)			
Assets:				
Deferred compensation assets - Rabbi Trust	$ 28,231	$ —	$ —	$ 28,231
Interest rate swap	—	17,737	—	17,737
Total assets	$ 28,231	$ 17,737	$ —	$ 45,968
Liabilities:				
Contingent consideration	$ —	$ —	$ 21,340	$ 21,340
Total liabilities	$ —	$ —	$ 21,340	$ 21,340

10. STOCK COMPENSATION

The Company grants restricted stock units ("RSUs") and performance stock units ("PSUs") to eligible participants under its 2021 Stock Incentive Plan, which was approved by the Board of Directors and stockholders. The RSUs granted to employees vest ratably over three to five years and one year for members of the board of directors, in each case from the grant date. PSU vesting is subject to the achievement of certain performance and market conditions and the number of PSUs earned could vary from 0% to 200% of the number of PSUs awarded. The PSUs will vest at the end of a three year-performance period. We issue new shares to satisfy our obligations under these plans. The fair value of each RSU and PSU is calculated at the date of the grant.

During the six months ended March 31, 2022, we issued approximately 340,000 RSUs, which will vest ratably over three or four years, and approximately 87,000 PSUs, which will vest after three years.

11. ACCUMULATED OTHER COMPREHENSIVE INCOME

Table 11: Details of Changes in Accumulated Other Comprehensive Loss by Category

	Foreign currency translation adjustment	Net unrealized (loss)/gain on derivatives, net of tax	Total
		(in thousands)	
Balance as of September 30, 2021	$ (39,605)	$ (303)	$ (39,908)
Other comprehensive income before reclassifications	436	12,401	12,837
Amounts reclassified from accumulated other comprehensive loss	—	973	973
Net current period other comprehensive income	436	13,374	13,810
Balance as of March 31, 2022	$ (39,169)	$ 13,071	$ (26,098)

12. STOCK PURCHASES

Under a resolution adopted in March 2020, the Board of Directors authorized the purchase, at management's discretion, of up to $ 200.0 million of our common stock. As of March 31, 2022, $120.8 million remained available for future stock purchases.

Table 12: Stock Purchase Activity

	For the Three Months Ended		For the Six Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
	(in thousands, except per share data)			
Amount paid for shares repurchased	$ 24,464	$ —	$ 25,843	$ 3,363
Number of shares repurchased	330	—	348	52
Average per share price paid	$ 74.22	$ —	$ 74.26	$ 64.98

Since March 31, 2022, we have acquired an additional 238,431 shares of our common stock for $ 17.7 million.

13. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Table 13.1: Details of Cash and Cash Equivalents and Restricted Cash

	March 31, 2022	September 30, 2021
	(in thousands)	
Cash and cash equivalents	$ 92,638	$ 135,061
Restricted cash (1)	19,330	21,509
Cash, cash equivalents, and restricted cash	$ 111,968	$ 156,570

(1) Restricted cash is recorded within "Prepaid expenses and other current assets" on the Consolidated Balance Sheets.

Table 13.2: Supplemental Disclosures of Cash Flow Information

	For the Six Months Ended	
	March 31, 2022	March 31, 2021
	(in thousands)	
Interest payments	$ 17,755	$ 783
Income tax payments	50,531	42,495

14. ACCOUNTS RECEIVABLE, NET

Table 14: Details of Accounts Receivable, Net

	March 31, 2022	September 30, 2021
	(in thousands)	
Billed and billable receivables	$ 742,713	$ 718,728
Unbilled receivables	148,122	124,135
Allowance for credit losses	(5,150)	(8,044)
Accounts receivable, net	$ 885,685	$ 834,819

15. PROPERTY AND EQUIPMENT, NET

Table 15: Details of Property and Equipment, Net

	March 31, 2022	September 30, 2021
	(in thousands)	
Land	$ —	$ 1,738
Building and improvements	—	11,981
Office furniture and equipment	247,100	254,102
Leasehold improvements	88,236	79,938
Property and equipment, at cost	335,336	347,759
Accumulated depreciation	(277,391)	(285,132)
Property and equipment, net	$ 57,945	$ 62,627

As of March 31, 2022, we classified as held for sale one building and the associated land with a carrying value of $ 5.4 million within "Prepaid expenses and other current assets" on our Consolidated Balance Sheets. As of March 31, 2022, we concluded the fair value less the costs to sell exceeds the carrying value of this asset.

16. COMMITMENTS AND CONTINGENCIES

Litigation

We are subject to audits, investigations, and reviews relating to compliance with the laws and regulations that govern our role as a contractor to agencies and departments of federal, state, local, and foreign governments, and otherwise in connection with performing services in countries outside of the U.S. Adverse findings could lead to criminal, civil, or administrative proceedings, and we could be faced with penalties, fines, suspension, or debarment. Adverse findings could also have a material adverse effect on us because of our reliance on government contracts. We are subject to periodic audits by federal, state, local, and foreign governments for taxes. We are also involved in various claims, arbitrations, and lawsuits arising in the normal conduct of our business. These include but are not limited to bid protests, employment matters, contractual disputes, and charges before administrative agencies. Although we can give no assurance, based upon our evaluation and taking into account the advice of legal counsel, we do not believe that the outcome of any existing matter would likely have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

Medicaid claims

The Centers for Medicare and Medicaid Services (CMS) asserted two disallowances against a state Medicaid agency. The state contested the first disallowance and ultimately settled that claim for approximately $7.3 million. The second disallowance of approximately $ 19.9 million is still being contested by the state. The state is seeking reimbursement from us for the first disallowance of $7.3 million and has indicated its intention to seek reimbursement of the second disallowance if its legal challenge is unsuccessful. From 2004 through 2009, we had a contract with the state agency in support of its school-based Medicaid claims. We entered into separate agreements with the school districts under which we assisted the districts with preparing and submitting claims to the state Medicaid agency which, in turn, submitted claims for reimbursement to CMS. The state has asserted that its agreement with us requires us to reimburse the state for the amounts owed to CMS. However, our agreements with the school districts require them to reimburse us for such amounts, and therefore we believe the school districts are responsible for any amounts that ultimately must be refunded to CMS. Although it is reasonably possible that a court could conclude we are responsible for the full balance of the disallowances, we believe our exposure in this matter is limited to our fees associated with this work and that the school districts will be responsible for the remainder. We have recorded a liability of our estimated fees earned from this engagement relating to the disallowances. We exited the federal healthcare-claiming business in 2009 and no longer provide the services at issue in this matter.

17. SUBSEQUENT EVENT

On April 8, 2022, our Board of Directors declared a quarterly cash dividend of $ 0.28 for each share of our common stock outstanding. The dividend is payable on May 31, 2022, to shareholders of record on May 13, 2022. Based upon the number of shares outstanding, we anticipate a cash payment of approximately $17.3 million.

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

The following discussion is intended to help the reader understand our business, financial condition, results of operations, liquidity and capital resources. You should read this discussion in conjunction with "Risk Factors," "Forward-Looking Statements," and our financial statements and related notes included in our Annual Report on Form 10-K for fiscal year 2021 filed with the Securities and Exchange Commission on November 18, 2021 (the "2021 Form 10-K") and elsewhere in this Quarterly Report on Form 10-Q, as applicable.

Business Overview

We are a leading operator of government health and human services programs worldwide. We are a responsible and reliable partner to governments under our mission of *Helping Government Serve the People*®. Governments rely on our financial stability and proven expertise in helping people connect to and use critical government programs. We use our experience, business process management expertise, innovation, and technology solutions to help government agencies run effective, efficient, and accountable programs.

Our primary portfolio of work is tied to business process services ("BPS") in the health services and human services markets. Our growth over the last decade was driven by new work, such as that from the Affordable Care Act ("ACA") in the U.S., an evolving digital transformation to meet the modernization needs of our clients, and growing demand for independent and conflict-free clinical services including assessments, appeals, and independent medical reviews in multiple geographies. Our growth has been supplemented by strategic acquisitions.

We experienced both favorable and unfavorable impacts as a result of the Coronavirus ("COVID-19") global pandemic. While some of the programs we support have experienced reduced volumes due to the pandemic, we have also been successful in winning new contracts to meet the immediate needs of our customers, including contract tracing and disease investigation, vaccine information lines, and unemployment insurance administration. Demonstrating the value of our business model, we have converted a number of these relationships into longer-term contract opportunities. The individuals and families served under these programs are those considered some of the most vulnerable to COVID-19. As a result, we believe our operations support programs that are vital for their safety and wellbeing.

We continue to execute upon our three-fold strategy to accelerate our progress and drive the next phase of our growth through:

- <u>Digital transformation.</u> We are using digital technologies to transform the experience of our customers and our employees. We believe that these technologies can help our government clients run their programs in a more streamlined manner and make it easier for individuals to interact with these programs.
- <u>Clinical evolution.</u> We are expanding our clinical-related services and are experienced at delivering clinical BPS at scale. We have established an extensive set of services that frequently requires a network of healthcare professionals who can complete clinical assessments, provide occupational health and independent medical review services, and adjudicate complicated benefits appeals. With the formation of Maximus Public Health ("MPH"), we serve as a resource to governments as they respond to public health threats. These efforts include providing health information and COVID-19 testing access, test results, and vaccination information through our citizen engagement centers in key states and counties across the U.S.
- <u>Market expansion.</u> We continue with our existing strategy to expand our markets by bringing our core capabilities to new programs and clients, adding new capabilities to access adjacent markets, and through geographic expansion. In fiscal year 2021, we expanded our clinical assessments and public health work, and completed two acquisitions in the U.S. to increase our digital and clinical capabilities, as well as create stronger relationships in key U.S. federal government agencies.

The macro-trends for our business remain unchanged. As the pandemic has underscored, governments around the world need better solutions to deliver on policy priorities that can change rapidly. Social welfare programs that reflect long-term societal commitments and priorities increasingly face rising demand, shifting demographics, and unsustainable program costs. We believe that Maximus is well positioned to address these challenges and be a transformative partner through our scalable, cost-effective, and operationally efficient services for a wide range of government programs.

Financial Overview

A number of factors have affected our results for the second quarter of fiscal year 2022, the most significant of which we have listed below. More detail on these changes is presented below within our "Results of Operations" section.

- During fiscal year 2021, we acquired VES Group, Inc. ("VES"), the Federal Division of Attain, LLC ("Attain") and Connect Assist Holdings Limited ("Connect Assist"). At the start of fiscal year 2022, we acquired the student loan servicing business from Navient, rebranded as Aidvantage. From the date of each acquisition, we have received the benefit of additional revenue, as well as additional operating costs. In completing these acquisitions, we have allocated a portion of each purchase price to identifiable intangible assets, which we are amortizing over the estimated useful lives of each asset.
- To fund the acquisition of VES, we entered into a new credit facility comprised of fixed term debt and a new revolving credit facility. The cost of servicing this debt, as well as the cost of the debt facilities, has resulted in an increase in our interest expense.
- Our services in fiscal years 2022 and 2021 were affected by the COVID-19 pandemic. We received the benefit from new, short-term work, assisting governments with their responses to the pandemic, which was often highly profitable. This mitigated the effect of declines in established programs where our transaction volume has been reduced. At this time, much of the short-term work has concluded, but our established programs are still at reduced capacity.

Results of Operations

Table MD&A 1: Consolidated Results of Operations

	For the Three Months Ended		For the Six Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
	(dollars in thousands, except per share data)			
Revenue	$ 1,177,326	$ 959,280	$ 2,328,202	$ 1,904,834
Cost of revenue	948,875	728,622	1,871,596	1,468,121
Gross profit	228,451	230,658	456,606	436,713
Gross profit percentage	***19.4 %***	***24.0 %***	***19.6 %***	***22.9 %***
Selling, general, and administrative expenses	130,307	112,402	254,528	224,369
Selling, general, and administrative expenses as a percentage of revenue	***11.1 %***	***11.7 %***	***10.9 %***	***11.8 %***
Amortization of intangible assets	22,856	5,070	45,261	11,586
Operating income	75,288	113,186	156,817	200,758
Operating income margin	***6.4 %***	***11.8 %***	***6.7 %***	***10.5 %***
Interest expense	(9,438)	(756)	(19,076)	(962)
Other expense, net	715	(520)	404	(1,295)
Income before income taxes	66,565	111,910	138,145	198,501
Provision for income taxes	16,469	31,296	34,719	53,810
Effective tax rate	***24.7 %***	***28.0 %***	***25.1 %***	***27.1 %***
Net income	$ 50,096	$ 80,614	$ 103,426	$ 144,691
Earnings per share:				
Basic	$ 0.81	$ 1.30	$ 1.66	$ 2.33
Diluted	$ 0.80	$ 1.29	$ 1.66	$ 2.33

Our business segments have different factors driving revenue fluctuations and profitability. The sections that follow cover these segments in greater detail. Our revenue reflects fees earned for services provided. Cost of revenue consists of direct costs related to labor and related overhead, subcontractor labor, outside vendors, rent, and other direct costs. The largest component of cost of revenue, approximately two-thirds, is labor, including subcontracted labor.

Table MD&A 2: Changes in Revenue, Cost of Revenue, and Gross Profit for the Three Months Ended March 31, 2022

	Revenue		Cost of Revenue		Gross Profit	
	Dollars	% Change	Dollars	% Change	Dollars	% Change
			(dollars in thousands)			
Three Months Ended March 31, 2021	$ 959,280		$ 728,622		$ 230,658	
Organic effect	4,084	0.4 %	58,853	8.1 %	(54,769)	(23.7) %
Acquired growth	220,405	23.0 %	166,139	22.8 %	54,266	23.5 %
Currency effect compared to the prior period	(6,443)	(0.7) %	(4,739)	(0.7) %	(1,704)	(0.7) %
Three Months Ended March 31, 2022	$ 1,177,326	22.7 %	$ 948,875	30.2 %	$ 228,451	(1.0) %

Table MD&A 3: Changes in Revenue, Cost of Revenue, and Gross Profit for the Six Months Ended March 31, 2022

	Revenue		Cost of Revenue		Gross Profit	
	Dollars	% Change	Dollars	% Change	Dollars	% Change
			(dollars in thousands)			
Six Months Ended March 31, 2021	$ 1,904,834		$ 1,468,121		$ 436,713	
Organic effect	(28,680)	(1.5) %	69,706	4.7 %	(98,386)	(22.5)%
Acquired growth	456,171	23.9 %	336,317	22.9 %	119,854	27.4 %
Currency effect compared to the prior period	(4,123)	(0.2) %	(2,548)	(0.2) %	(1,575)	(0.4)%
Six Months Ended March 31, 2022	$ 2,328,202	22.2 %	$ 1,871,596	27.5 %	$ 456,606	4.6 %

Selling, general, and administrative expenses ("SG&A") consists of indirect costs related to general management, marketing, and administration. It is primarily composed of labor costs. These costs may be incurred at a segment level, for dedicated resources that are not client-facing, or at a corporate level. Corporate costs are allocated to segments on a consistent and rational basis. Fluctuations in our SG&A are primarily driven by changes in our administrative cost base, which is not directly driven by changes in our revenue. As part of our work for the U.S. federal government and many states, we allocate these costs using a methodology driven by the U.S. Federal Cost Accounting Standards.

Our SG&A expense has increased year-over-year due primarily to the additional cost base from our acquisitions. Our amortization of intangible assets increased by $17.8 million and $33.7 million for the three and six months ended March 31, 2022, compared to same periods ended March 31, 2021. The increase is a result of acquisitions during fiscal years 2021 and 2022. This increase is partially offset by the intangible asset amortization related to the Census Questionnaire Assistance (CQA) contract, which was fully amortized through November 2020.

Table MD&A 4: Changes in Amortization of Intangible Assets Expense for Three and Six Months Ended March 31, 2022

	For the Three Months Ended March 31, 2022	For the Six Months Ended March 31, 2022
	Dollars	Dollars
	(dollars in thousands)	
Period Ending March 31, 2021	$ 5,070	$ 11,586
VES acquisition	13,833	27,667
Attain acquisition	1,750	4,375
Aidvantage acquisition	2,060	3,716
Connect Assist acquisition	151	313
CQA contract	—	(2,313)
Other	(8)	(83)
Period Ending March 31, 2022	$ 22,856	$ 45,261

Table MD&A 5: Non-GAAP Adjusted Results Excluding Amortization of Intangible Assets

	For the Three Months Ended		For the Six Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
	(dollars in thousands, except per share data)			
Operating income	$ 75,288	$ 113,186	$ 156,817	$ 200,758
Add back: Amortization of intangible assets	22,856	5,070	45,261	11,586
Adjusted operating income excluding amortization of intangible assets (Non-GAAP)	$ 98,144	$ 118,256	$ 202,078	$ 212,344
Adjusted operating income margin excluding amortization of intangible assets (Non-GAAP)	8.3 %	12.3 %	8.7 %	11.1 %
Net income	$ 50,096	$ 80,614	$ 103,426	$ 144,691
Add back: Amortization of intangible assets, net of tax	16,884	3,756	33,414	8,578
Adjusted net income excluding amortization of intangible assets (Non-GAAP)	$ 66,980	$ 84,370	$ 136,840	$ 153,269
Diluted earnings per share	$ 0.80	$ 1.29	$ 1.66	$ 2.33
Add back: Effect of amortization of intangible assets on diluted earnings per share	0.27	0.06	0.53	0.13
Adjusted diluted earnings per share excluding amortization of intangible assets (Non-GAAP)	$ 1.07	$ 1.35	$ 2.19	$ 2.46

Our intangible asset amortization is based upon our assumptions of the value and economic life, typically established at the acquisition date. If these assumptions change, the pattern of future expense may be accelerated. At this time, we have a significant asset related to the Customer Center Operations (CCO) contract which is subject to a rebid anticipated towards the end of this fiscal year. If this rebid is unsuccessful, the asset life of this asset may need to be reduced.

Interest expense for the three months ended March 31, 2022, increased by $8.7 million to $9.4 million, while interest expense for the six months ended March 31, 2022, increased by $18.1 million to $19.1 million. This increase is driven by the costs of our cash borrowings utilized to acquire VES. Interest expense is expected to be in the range of $40 million to $42 million for fiscal year 2022 as the debt is expected to be outstanding for the entire fiscal year. Our interest rate will vary based upon both prevailing interest rates and our leverage ratio.

Our effective income tax rate for the three and six months ended March 31, 2022, was 24.7% and 25.1%, respectively, compared to 28.0% and 27.1% for the three and six months ended March 31, 2021. For fiscal year 2022, we expect the effective tax rate to be between 24.5% and 25.5%.

U.S. Services Segment

Our U.S. Services Segment provides a variety of business process services ("BPS") such as program administration, appeals and assessments, and related consulting work for U.S. state and local government programs. These services support a variety of programs, including the Affordable Care Act ("ACA"), Medicaid, the Children's Health Insurance Program ("CHIP"), Temporary Assistance to Needy Families ("TANF"), and child support programs. Addressing societal macro trends such as aging populations and rising costs, the segment continues to execute on its clinical evolution strategy by expanding its clinical offerings. This includes assessments to determine whether personal care services are medically necessary and public health offerings such as contact tracing, disease investigation, and vaccine distribution support services as part of the governments' COVID-19 response efforts.

Table MD&A 6: U.S. Services Segment - Financial Results

	For the Three Months Ended		For the Six Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
	(dollars in thousands)			
Revenue	$ 398,077	$ 448,215	$ 784,494	$ 833,149
Cost of revenue	313,106	328,775	609,824	614,707
Gross profit	84,971	119,440	174,670	218,442
Selling, general, and administrative expenses	38,273	36,593	73,375	74,049
Operating income	46,698	82,847	101,295	144,393
Gross profit percentage	21.3 %	26.6 %	22.3 %	26.2 %
Operating margin percentage	11.7 %	18.5 %	12.9 %	17.3 %

Our revenue and cost of revenue for the three months ended March 31, 2022, decreased 11.2% and 4.8%, compared to three months ended March 31, 2021, respectively. For the six months ended March 31, 2022, our revenue and cost of revenue decreased 5.8% and 0.8%, respectively. All movement was organic.

In fiscal year 2021, we received a large volume of short term COVID-19 related work, typically at higher margins. This work has contracted or moved into longer-term work, resulting in a reduced workload at lower margins. We estimate that our COVID related revenue has declined by approximately $120 million and $150 million for the three and six months ended March 31, 2022, respectively, compared to fiscal year 2021.

Our core established programs have been operating at depressed levels during the COVID-19 pandemic as the volume of transaction-based work has declined. In particular, we continue to report lower volumes of transactions on redetermination activities as states have paused Medicaid redeterminations. The Federal public health emergency declaration has been extended through mid-July which will further delay the commencement of redeterminations. Accordingly, we do not expect recoveries in these contracts until late in this fiscal year. For the full year, we anticipate an operating margin between 9% and 11%, with the timing of the end of the public health emergency being a significant factor in the return to higher margins.

U.S. Federal Services Segment

From technology solutions to program administration and operations, our U.S. Federal Services Segment delivers end-to-end solutions that help various U.S. federal government agencies better deliver on their mission. This also includes appeals and assessments services, system and application development, IT modernization, and maintenance services. The segment also contains certain state-based assessments and appeals work that is part of the segment's heritage within the Medicare Appeals portfolio which continues to be managed within this segment. Benefiting from the Maximus Federal Consulting (formerly Attain Federal) platform, the segment executes on its digital strategy to deliver technology solutions that advance agency missions, including the challenge to modernize, provide better customer experience, and drive process efficiencies. The segment continues to expand its clinical solutions with the acquisition of VES which manages the clinical evaluation process for U.S. veterans and service members on behalf of the U.S. Department of Veterans Affairs. The segment further supports clinical offerings in public health with new work supporting the U.S. Federal Government's COVID-19 response efforts. This included expanded work with the Centers for Disease Control and Prevention ("CDC") for their helpline and increased support for the IRS Wage and Investment Division's response efforts to general inquiries regarding the Coronavirus Aid Relief & Economic Security ("CARES") Act and Economic Impact Payment Service Plan.

Table MD&A 7: U.S. Federal Services Segment - Financial Results

	For the Three Months Ended		For the Six Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
	(dollars in thousands)			
Revenue	$ 573,288	$ 330,136	$ 1,155,159	$ 735,381
Cost of revenue	458,135	256,003	913,430	578,752
Gross profit	115,153	74,133	241,729	156,629
Selling, general, and administrative expenses	68,949	50,978	133,874	103,230
Operating income	46,204	23,155	107,855	53,399
Gross profit percentage	20.1 %	22.5 %	20.9 %	21.3 %
Operating margin percentage	8.1 %	7.0 %	9.3 %	7.3 %

Table MD&A 8: U.S. Federal Services Segment - Changes in Revenue, Cost of Revenue, and Gross Profit for the Three Months Ended March 31, 2022

	Revenue		Cost of Revenue		Gross Profit	
	Amount	% Change	Amount	% Change	Amount	% Change
	(dollars in thousands)					
Three Months Ended March 31, 2021	$ 330,136		$ 256,003		$ 74,133	
Organic effect	29,055	8.8 %	39,740	15.5 %	(10,685)	(14.4) %
Acquired growth	214,097	64.9 %	162,392	63.4 %	51,705	69.7 %
Three Months Ended March 31, 2022	$ 573,288	73.7 %	$ 458,135	79.0 %	$ 115,153	55.3 %

Table MD&A 9: U.S. Federal Services Segment - Changes in Revenue, Cost of Revenue, and Gross Profit for the Six Months Ended March 31, 2022

	Revenue		Cost of Revenue		Gross Profit	
	Amount	% Change	Amount	% Change	Amount	% Change
	(dollars in thousands)					
Six Months Ended March 31, 2021	$ 735,381		$ 578,752		$ 156,629	
Organic effect	(24,284)	(3.3) %	5,685	1.0 %	(29,969)	(19.1) %
Acquired growth	444,062	60.4 %	328,993	56.8 %	115,069	73.5 %
Six Months Ended March 31, 2022	$ 1,155,159	57.1 %	$ 913,430	57.8 %	$ 241,729	54.3 %

We received significant acquired growth from:

- VES, which we acquired in May 2021,
- Attain, which we acquired in March 2021, and
- The Aidvantage business, which we acquired in October 2021.

Our profit margins on VES and Attain are higher than our organic work, resulting in improvements to our profit margins. These were partially tempered by our Aidvantage contract, which has recorded a loss in the three months ended March 31, 2022. The deferral of student loan repayments by the government has reduced our revenue and we have incurred costs related to the transition of the program.

Our organic work also tempered our gross profit margins. This was driven by a large contract on which we agreed to accept a lower margin in return for increased funding and anticipated future revenue. Our operating profit margins received a benefit from the increased scale of the segment.

We anticipate operating margins between 10% and 11% for the full year. At this time, we assume that student loan repayments will commence in September 2022, but any further delays will temper our revenue and profit.

Outside the U.S. Segment

Our Outside the U.S. Segment provides BPS for international governments and commercial clients, transforming the lives of people around the world. Helping people find employment, access vital support, and remain healthy, these services include health and disability assessments, program administration for employment services, wellbeing solutions, and other job seeker related services. We support programs and deliver services in the U.K., including the Health Assessment

Advisory Service ("HAAS"), the Work & Health Programme, Fair Start, and Restart; Australia, including jobactive and the Disability Employment Service; Canada, including Health Insurance British Columbia and the Employment Program of British Columbia; in addition to Italy, Saudi Arabia, Singapore, South Korea, and Sweden, where we predominantly provide employment support and job seeker services.

Table MD&A 10: Outside the U.S. Segment - Financial Results

	For the Three Months Ended		For the Six Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
	(dollars in thousands)			
Revenue	$ 205,961	$ 180,929	$ 388,549	$ 336,304
Cost of revenue	177,634	143,844	348,342	274,662
Gross profit	28,327	37,085	40,207	61,642
Selling, general, and administrative expenses	24,011	22,013	45,351	42,045
Operating income/(loss)	4,316	15,072	(5,144)	19,597
Gross profit percentage	13.8 %	20.5 %	10.3 %	18.3 %
Operating margin percentage	2.1 %	8.3 %	(1.3) %	5.8 %

Table MD&A 11: Outside the U.S. Segment - Changes in Revenue, Cost of Revenue, and Gross Profit for the Three Months Ended March 31, 2022

	Revenue		Cost of Revenue		Gross Profit	
	Amount	% Change	Amount	% Change	Amount	% Change
	(dollars in thousands)					
Three Months Ended March 31, 2021	$ 180,929		$ 143,844		$ 37,085	
Organic effect	25,167	13.9 %	34,782	24.2 %	(9,615)	(25.9) %
Acquired growth	6,308	3.5 %	3,747	2.6 %	2,561	6.9 %
Currency effect compared to the prior period	(6,443)	(3.6) %	(4,739)	(3.3) %	(1,704)	(4.6) %
Three Months Ended March 31, 2022	$ 205,961	13.8 %	$ 177,634	23.5 %	$ 28,327	(23.6) %

Table MD&A 12: Outside the U.S. Segment - Changes in Revenue, Cost of Revenue, and Gross Profit for the Six Months Ended March 31, 2022

	Revenue		Cost of Revenue		Gross Profit	
	Amount	% Change	Amount	% Change	Amount	% Change
	(dollars in thousands)					
Six Months Ended March 31, 2021	$ 336,304		$ 274,662		$ 61,642	
Organic effect	44,259	13.2 %	68,904	25.1 %	(24,645)	(40.0)%
Acquired growth	12,109	3.6 %	7,324	2.7 %	4,785	7.8 %
Currency effect compared to the prior period	$ (4,123)	(1.2) %	$ (2,548)	(0.9) %	(1,575)	(2.6)%
Six Months Ended March 31, 2022	$ 388,549	15.5 %	$ 348,342	26.8 %	$ 40,207	(34.8)%

This segment experienced organic growth in revenue and costs, as well as acquired growth, during the three and six months ended March 31, 2022. These were mitigated by declines in the values of the currencies in which we operate against the U.S. Dollar.

Our results in fiscal year 2021 included a significant revenue benefit from the recovery of our welfare-to-work contracts in Australia. Fiscal year 2022 has also seen revenue and cost growth from our United Kingdom business, where the Restart contract continued to ramp up. Margins on the Restart contract are tempered as we have not yet reached our full service capacity.

Acquired growth is from the Connect Assist and BZB acquisitions.

A large employment services contract in Australia ends in June 2022 and we have been awarded a significantly lower caseload for the follow-on contract. This will result in reduced revenues in the latter half of this year, as well as costs related to the ramping down of our existing case load, including severance. We anticipate that we will record a small loss for this segment in the current fiscal year.

Much of our revenue, including that on the Restart contract, stems from our employment services contracts. On many contracts, we recognize revenue based upon estimates of future employment outcomes, which have become more volatile due to the effects of the COVID-19 pandemic, including those actions adopted by governments and employers. We update our estimates regularly based upon actual performance and updated expectations, but a sudden change in employment markets may result in significant fluctuations in our revenue.

Liquidity and Capital Resources

Our primary sources of liquidity are cash on hand, cash flows from operating activities, and availability under our revolving credit facilities. As of March 31, 2022, we had $92.6 million in cash and cash equivalents. We believe that our current cash position, access to our credit facility, and cash flows generated from operations should be not only sufficient for our operating requirements but also to enable us to fund share repurchases and any required long-term debt payments through the next several fiscal years. See Note 7 to the Consolidated Financial Statements for a more detailed discussion of our debt financing arrangements.

Table MD&A 13: Net Change in Cash and Cash Equivalents and Restricted Cash

	For the Six Months Ended	
	March 31, 2022	March 31, 2021
	(in thousands)	
Operating activities:		
Net income	$ 103,426	$ 144,691
Non-cash adjustments	79,491	55,851
Changes in working capital	(71,058)	79,156
Net cash provided by operating activities	111,859	279,698
Net cash used in investing activities	(22,902)	(437,524)
Net cash (used in)/provided by financing activities	(133,883)	185,967
Effect of foreign exchange rates on cash and cash equivalents and restricted cash	324	3,263
Net change in cash and cash equivalents and restricted cash	$ (44,602)	$ 31,404

Net Cash Provided By Operating Activities

Net cash provided by operating activities decreased by $167.8 million for the six months ended March 31, 2022, compared to six months ended March 31, 2021. This decrease is caused by:

- A decline in operating income;
- The timing of cash receipts, which provided a significant benefit in fiscal year 2021;
- The timing of cash payments, including tax payments previously deferred in the U.S. under the CARES Act;
- Increased interest payments related to our new credit facility; and
- The timing of income tax payments.

Our Days Sales Outstanding ("DSO") as of March 31, 2022, and September 30, 2021, were 68 days and 67 days, respectively.

Net Cash Used In Investing Activities

The net cash used in investing activities were $22.9 million for the six months ended March 31, 2022. These are primarily investments in capital expenditure. Further working capital true-up payments for our recent business combinations are anticipated in the latter half of the year. The prior year comparative total includes payments for the acquisition of Attain.

Net Cash (Used In)/Provided By Financing Activities

The $133.9 million cash used in financing activities during the six months ended March 31, 2022, includes $34.7 million in dividend payments, $9.7 million in tax withholding payments for stock compensation, and $25.8 million for share repurchases. We have made $63.7 million of net repayments of debt related to the mandatory repayments on our U.S. credit facility, voluntary repayments of our U.S. revolver and a mix of mandatory and voluntary payments related to our subsidiary debt.

With the acquisition of Aidvantage, we have incurred a liability to the seller based upon future performance, which we have estimated at $18.6 million. We expect these payments to be made through fiscal year 2024.

Cash in Foreign Locations

We have no requirement to remit funds from our foreign locations to the U.S.. We will continue to explore opportunities to remit additional funds, taking into consideration the working capital requirements and relevant tax rules in each jurisdiction. When we are unable to remit funds back without incurring a penalty, we will consider these funds indefinitely reinvested until such time as these restrictions are changed. As a result, we do not record U.S. deferred income taxes on any funds held in foreign jurisdictions. We have not attempted to calculate our potential liability from any transfer of these funds as any such transaction might include tax planning strategies that we have not fully explored. Accordingly, it is not possible to estimate the potential tax obligations if we were to remit all of our funds from foreign locations to the U.S.

Free Cash Flow (Non-GAAP)

Table MD&A 14: Free Cash Flow (Non-GAAP)

	For the Six Months Ended	
	March 31, 2022	March 31, 2021
	(in thousands)	
Net cash provided by operating activities	$ 111,859	$ 279,698
Purchases of property and equipment and capitalized software	(22,898)	(23,584)
Free cash flow (Non-GAAP)	$ 88,961	$ 256,114

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires us to make estimates, judgments, and assumptions that affect the amounts reported. Actual results could differ from those estimates. The 2021 Form 10-K, as filed with the SEC on November 18, 2021, includes a summary of critical accounting policies we believe are the most important to aid in understanding our financial results. There have been no changes to those critical accounting policies that have had a material impact on our reported amounts of assets, liabilities, revenues, or expenses during the six months ended March 31, 2022.

Non-GAAP and Other Measures

We utilize non-GAAP measures where we believe it will assist users of our financial statements in understanding our business. The presentation of these measures is meant to complement, but not replace, other financial measures in this document. The presentation of non-GAAP numbers is not meant to be considered in isolation, nor as an alternative to revenue growth, cash flows from operating activities, net income, or earnings per share as measures of performance. These non-GAAP measures, as determined and presented by us, may not be comparable to related or similarly titled measures presented by other companies.

For the six months ended March 31, 2022, 17% of our revenue was generated outside the U.S. We believe that users of our financial statements wish to understand the performance of our foreign operations using a methodology which excludes the effect of year-over-year exchange rate fluctuations. To calculate year-over-year currency movement, we determine the current fiscal year's results for all foreign businesses using the exchange rates in the prior fiscal year. We refer to this adjusted revenue on a "constant currency basis."

In recent years, we have made a number of acquisitions. We believe users of our financial statements wish to evaluate the performance of our operations, excluding changes that have arisen due to businesses acquired or disposed of. We identify acquired revenue and cost of revenue by showing these results for periods for which no comparative results exist within our financial statements. We identify revenue and cost of revenue that has been disposed of in a similar manner. This information is supplemented by our calculations of organic growth. To calculate organic growth, we compare current fiscal year results excluding results from acquisitions or disposals, to our prior fiscal year results.

Our recent acquisitions have resulted in significant intangible assets which are amortized over their estimated useful lives. We believe users of our financial statements wish to understand the performance of the business by using a methodology that allows them to compare operating activities excluding the effects of the amortization of intangible assets. Accordingly, we have calculated our operating profit, net income, and earnings per share excluding the effect of the amortization of intangible assets. We have included a table showing our reconciliation of these income measures to their corresponding GAAP measures.

In order to sustain our cash flows from operations, we regularly refresh our fixed assets and technology. We believe that users of our financial statements wish to understand the cash flows that directly correspond with our operations and the investments we must make in those operations using a methodology which combines operating cash flows and capital expenditures. We provide free cash flow to complement our statement of cash flows. Free cash flow shows the effects of the Company's operations and replacement capital expenditures and excludes the cash flow effects of acquisitions, purchases of our common stock, dividend payments, and other financing transactions. We have provided a reconciliation of cash flows from operating activities to free cash flow in "Liquidity and Capital Resources."

To sustain our operations, our principal source of financing comes from receiving payments from our customers. We believe that users of our financial statements wish to evaluate our efficiency in converting revenue into cash receipts. Accordingly, we provide DSO, which we calculate by dividing billed and unbilled receivable balances at the end of each quarter by revenue per day for the period. Revenue per day for a quarter is determined by dividing total revenue by 91 days.

As noted above, we have a $2.10 billion corporate credit facility. Our credit agreement includes the defined term Consolidated EBITDA and our calculation of Adjusted EBITDA conforms to the credit agreement definition. We believe our investors appreciate the opportunity to understand the possible restrictions which arise from our credit agreement.

- Adjusted EBITDA is also a useful measure of performance which focuses on the cash generating capacity of the business as it excludes the non-cash expenses of depreciation and amortization, and makes for easier comparisons between the operating performance of companies with different capital structures by excluding interest expense and therefore the impacts of financing costs.
- The measure of Adjusted EBITA is a step in calculating Adjusted EBITDA and facilitates comparisons to similar businesses as it isolates the amortization effect of business combinations.
- Our corporate credit facility requires us to calculate Adjusted EBITDA on a pro forma basis, as though we had owned any significant acquired business for a full twelve months. Accordingly, we have included pro forma data for VES, Aidvantage, and Connect Assist in the table below.

We have provided a reconciliation from net income to Non-GAAP Adjusted EBITA, Non-GAAP Adjusted EBITDA, and Non-GAAP Pro Forma Adjusted EBITDA as shown below. Our current credit facilities utilized a different version of EBITDA from that of the credit facility used in prior years.

Table MD&A 15: Reconciliation of Net Income to Non-GAAP Adjusted EBITA, Non-GAAP Adjusted EBITDA, and Non-GAAP Pro Forma Adjusted EBITDA

	For the Three Months Ended March 31, 2022	For the Trailing Twelve Months Ended March 31, 2022
	(in thousands)	
Net income	$ 50,096	$ 249,935
Adjustments:		
Interest expense	9,438	32,858
Other expense, net	(715)	8,406
Provision for income taxes	16,469	73,390
Amortization of intangibles	22,856	78,032
Stock compensation expense	6,804	30,127
Acquisition-related expenses	175	9,154
Adjusted EBITA - Non-GAAP measure	105,123	481,902
Depreciation and amortization of property, equipment, and capitalized software	9,834	44,725
Adjusted EBITDA - Non-GAAP measure	114,957	526,627
Pro forma adjusted EBITDA related to acquisitions - Non-GAAP measure	—	40,089
Other pro forma adjustments allowed by our debt agreement	$ 9,633	$ 20,931
Pro forma adjusted EBITDA - Non-GAAP measure	$ 124,590	$ 587,647

Item 3. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of business, we are exposed to financial risks such as changes in interest rates, foreign currency exchange rates, and counterparty risk. We use derivative instruments to manage selected interest rate exposures. The Company's market rate risk disclosures set forth in Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" on the 2021 Form 10-K, as filed with the SEC on November 18, 2021, have not changed materially during the six month period ended March 31, 2022.

Item 4. Controls and Procedures

Management's Evaluation of Disclosure Controls and Procedures. The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in its periodic filings under the Securities Exchange Act of 1934 ("Exchange Act"), including this Quarterly Report on Form 10-Q, is recorded, processed, summarized, and reported on a timely basis. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed under the Exchange Act is accumulated and communicated to the Company's management on a timely basis to allow decisions about required disclosure. Management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of Maximus' disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of March 31, 2022.

Maximus carried out the evaluation of the effectiveness of its disclosure controls and procedures, required by paragraph (b) of Exchange Act Rules 13a-15 and 15d-15, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of March 31, 2022.

Changes in Internal Control Over Financial Reporting. There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the three months ended March 31, 2022, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Refer to our disclosures included in Note 16. Commitments and Contingencies included in Part 1, Item 1 of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

There were no material changes during the six months ended March 31, 2022, to the risk factors previously disclosed in the 2021 Form 10-K, as filed with the SEC on November 18, 2021.

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

(a) None.

(b) None.

(c) Under a resolution adopted in March 2020, the Board of Directors authorized the purchase, at management's discretion, of up to $200.0 million of our common stock.

Common Stock Purchase Activity During the Three Months Ended March 31, 2022

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of the Publicly Announced Plans or Programs	Maximum Dollar Value that May Yet Be Purchased Under the Plans or Programs
	(in thousands, except per share data)			
January 1 - January 31, 2022	13,767	$ 74.87	13,767	$ 144,256
February 1 - February 28, 2022	94,200	74.70	94,200	$ 137,219
March 1 - March 31, 2022	221,500	73.98	221,500	$ 120,832
Total	329,467	$ 74.22	329,467	

Item 3. Defaults Upon Senior Securities

(a) None.

(b) None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

(a) None.

(b) None.

Item 6. Exhibits

Exhibit No.		Description of Exhibit
31.1	❖	Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
31.2	❖	Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
32.1	Φ	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
101.INS	❖	XBRL Instance Document.
101.SCH	❖	XBRL Taxonomy Extension Schema Document.
101.CAL	❖	XBRL Taxonomy Calculation Linkbase Document.
101.DEF	❖	XBRL Taxonomy Definition Linkbase Document.
101.LAB	❖	XBRL Taxonomy Label Linkbase Document.
101.PRE	❖	XBRL Taxonomy Presentation Linkbase Document.
104	❖	Cover Page Interactive Data File. (formatted as Inline XBRL tags and contained in Exhibit 101)

❖ Filed herewith.
Φ Furnished herewith.

SIGNATURES

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

Maximus, Inc.

/s/ Bruce L. Caswell	May 5, 2022
By: Bruce L. Caswell President and Chief Executive Officer (Principal Executive Officer)	
/s/ David. W. Mutryn	May 5, 2022
By: David W. Mutryn Chief Financial Officer (Principal Financial Officer)	

EXHIBIT 31.1

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

I, Bruce L. Caswell, certify that:

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

/s/ Bruce L. Caswell	May 5, 2022

By: Bruce L. Caswell
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

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

I, David W. Mutryn, certify that:

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

/s/ David W. Mutryn

May 5, 2022

By: David W. Mutryn
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Maximus, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended March 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Bruce Caswell, President and Chief Executive Officer of the Company, and David Mutryn, Chief Financial Officer of the Company, each certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that to his knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Bruce L. Caswell — May 5, 2022

By: Bruce L. Caswell
President and Chief Executive Officer
(Principal Executive Officer)

/s/ David W. Mutryn — May 5, 2022

By: David W. Mutryn
Chief Financial Officer
(Principal Financial Officer)