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

FORM 10-Q

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

For the quarterly period ended June 30, 2010

Commission File Number: 1-12997

MAXIMUS, INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐ (Do not check if smaller reporting company)	Smaller reporting company ☐

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

As of July 31, 2010, there were 17,324,075 shares of the registrant's common stock (no par value) outstanding.

MAXIMUS, Inc.

Quarterly Report on Form 10-Q
For the Quarter Ended June 30, 2010

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

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements.

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

	September 30, 2009	June 30, 2010 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 87,815	$ 153,059
Restricted cash	3,919	3,753
Accounts receivable — billed, net of reserves of $5,812 and $1,484	132,058	122,611
Accounts receivable — unbilled	16,706	19,598
Note receivable	736	—
Income taxes receivable	7,501	—
Deferred income taxes	5,389	8,017
Prepaid expenses and other current assets	19,749	21,757
Current assets of discontinued operations	18,238	9,368
Total current assets	292,111	338,163
Property and equipment, at cost	98,781	109,708
Less accumulated depreciation and amortization	(53,495)	(62,887)
Property and equipment, net	45,286	46,821
Capitalized software	26,475	32,830
Less accumulated amortization	(7,506)	(10,049)
Capitalized software, net	18,969	22,781
Deferred contract costs, net	8,206	6,863
Goodwill	61,029	67,806
Intangible assets, net	2,455	8,128
Deferred income taxes	1,239	—
Other assets, net	3,939	3,816
Total assets	$ 433,234	$ 494,378
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 44,368	$ 55,834
Accrued compensation and benefits	31,713	37,941
Deferred revenue	22,177	35,385
Acquisition-related contingent consideration	—	906
Income taxes payable	—	823
Other accrued liabilities	15,083	9,577
Liabilities of discontinued operations	14,124	4,565
Total current liabilities	127,465	145,031
Deferred revenue, less current portion	6,527	16,081
Long-term debt	—	1,187
Acquisition-related contingent consideration	—	2,100
Income taxes payable, less current portion	1,871	1,755
Deferred income tax liability	243	2,724
Total liabilities	136,106	168,878
Shareholders' equity:		
Common stock, no par value; 60,000,000 shares authorized; 27,161,849 and 27,358,672 shares issued and 17,599,029 and 17,353,075 shares outstanding at September 30, 2009 and June 30, 2010, at stated amount, respectively	338,739	349,098

Treasury stock, at cost; 9,562,820 and 10,005,597 shares at September 30, 2009 and June 30, 2010, respectively	(319,149)	(341,664)
Accumulated other comprehensive income	8,268	6,673
Retained earnings	269,270	311,393
Total shareholders' equity	297,128	325,500
Total liabilities and shareholders' equity	$ 433,234	$ 494,378

See notes to unaudited consolidated financial statements.

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MAXIMUS, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2010	Nine Months Ended June 30, 2009	Nine Months Ended June 30, 2010
Revenue	$ 176,393	$ 210,659	$ 523,261	$ 616,859
Cost of revenue	128,041	153,359	381,471	456,612
Gross profit	48,352	57,300	141,790	160,247
Selling, general and administrative expenses	27,017	31,574	80,145	87,529
Legal and settlement expense (recovery), net	(4,829)	—	(4,461)	(5,351)
Operating income from continuing operations	26,164	25,726	66,106	78,069
Interest and other income, net	129	442	258	729
Income from continuing operations before income taxes	26,293	26,168	66,364	78,798
Provision for income taxes	10,386	9,813	26,214	29,549
Income from continuing operations	15,907	16,355	40,150	49,249
Discontinued operations, net of income taxes:				
Income (loss) from discontinued operations	(924)	970	(2,172)	(552)
Loss on disposal	—	—	(5)	—
Income (loss) from discontinued operations	(924)	970	(2,177)	(552)
Net income	$ 14,983	$ 17,325	$ 37,973	$ 48,697
Basic earnings (loss) per share:				
Income from continuing operations	$ 0.91	$ 0.94	$ 2.28	$ 2.82
Income (loss) from discontinued operations	(0.05)	0.05	(0.12)	(0.03)
Basic earnings per share	$ 0.86	$ 0.99	$ 2.16	$ 2.79
Diluted earnings (loss) per share:				
Income from continuing operations	$ 0.89	$ 0.91	$ 2.25	$ 2.73
Income (loss) from discontinued operations	(0.05)	0.05	(0.12)	(0.03)
Diluted earnings per share	$ 0.84	$ 0.96	$ 2.13	$ 2.70
Dividends paid per share	$ 0.12	$ 0.12	$ 0.34	$ 0.36
Weighted average shares outstanding:				
Basic	17,503	17,423	17,582	17,476
Diluted	17,839	18,004	17,855	18,015

See notes to unaudited consolidated financial statements.

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MAXIMUS, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Nine Months Ended June 30, 2009	Nine Months Ended June 30, 2010
Cash flows from operating activities:		
Net income	$ 37,973	$ 48,697
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations	2,177	552
Depreciation	6,307	9,556
Amortization	2,080	4,093
Deferred income taxes	22,351	(1,281)
Gain on sale of fixed assets	(51)	—
Deferred interest income on note receivable	312	263
Non-cash equity based compensation	5,628	5,983
Change in assets and liabilities, net of effect of business combinations:		

Accounts receivable — billed	7,493	11,065
Accounts receivable — unbilled	(8,111)	(2,762)
Prepaid expenses and other current assets	(10,949)	(2,004)
Deferred contract costs	(3,206)	1,358
Due from insurance carrier	12,500	—
Other assets	308	(136)
Accounts payable	3,418	7,543
Accrued compensation and benefits	(122)	6,727
Deferred revenue	3,389	22,549
Income taxes	(20,042)	9,519
Other liabilities	(35,664)	(1,952)
Cash provided by operating activities — continuing operations	25,791	119,770
Cash used in operating activities — discontinued operations	(2,306)	(1,573)
Cash provided by operating activities	23,485	118,197
Cash flows from investing activities:		
Proceeds from sale of fixed assets	54	—
Decrease in note receivable	631	473
Purchases of property and equipment	(10,604)	(10,383)
Capitalized software costs	(5,037)	(6,307)
Acquisition of businesses, net of cash acquired	—	(10,673)
Cash used in investing activities — continuing operations	(14,956)	(26,890)
Cash used in investing activities — discontinued operations	(36)	—
Cash used in investing activities	(14,992)	(26,890)
Cash flows from financing activities:		
Employee stock transactions	636	2,679
Repurchases of common stock	(30,046)	(22,518)
Payments on capital lease obligations	(417)	—
Tax benefit due to option exercises and restricted stock units vesting	6	1,424
Issuance of long-term debt	—	326
Cash dividends paid	(5,955)	(6,295)
Cash used in financing activities — continuing operations	(35,776)	(24,384)
Cash used in financing activities — discontinued operations	—	—
Cash used in financing activities	(35,776)	(24,384)
Effect of exchange rate changes on cash and cash equivalents	(656)	(1,679)
Net increase (decrease) in cash and cash equivalents	(27,939)	65,244
Cash and cash equivalents, beginning of period	119,605	87,815
Cash and cash equivalents, end of period	$ 91,666	$ 153,059

See notes to unaudited consolidated financial statements.

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MAXIMUS, Inc.

Notes to Unaudited Consolidated Financial Statements
For the Three and Nine Months Ended June 30, 2010 and 2009

In these Notes to Unaudited Consolidated Financial Statements, the terms the "Company", "MAXIMUS", "us", "we", or "our" refer to MAXIMUS, Inc. and its subsidiaries.

1. Organization and Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the three and nine months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the full fiscal year. The balance sheet at September 30, 2009 has been derived from the audited financial statements at that date but does not include all of the information and notes required by generally accepted accounting principles for complete financial statements.

These financial statements should be read in conjunction with the consolidated audited financial statements and the notes thereto at September 30, 2009 and 2008 and for each of the three years in the period ended September 30, 2009, included in the Company's Annual Report on Form 10-K for the year ended September 30, 2009 filed with the Securities and Exchange Commission on November 17, 2009.

2. Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued a new accounting standard that provides guidance for business combinations. Under this standard, more transactions will be recorded as business combinations, as it changes the definitions of a business, which would no longer be required to be self-sustaining or revenue generating, and a business combination, which would include combinations that occur by contract alone or due to changes in substantive participation rights, such as a lapse in minority veto rights. Certain acquired contingencies will be recorded initially at fair value on the acquisition date. After the acquisition, if new information is available, contingent liabilities will be measured at the higher of the likely amount to be paid and the acquisition-date fair value. Contingent assets will be measured subsequently at the lower of the current estimated future amount to be realized and the acquisition-date fair value. Transaction and restructuring costs generally will be expensed as incurred. The Company adopted this standard in the current fiscal year, and applied the standard to the acquisition of DeltaWare (see Note 3 - Acquisition). The Company will utilize this standard on all such future transactions.

In December 2007, the FASB issued a new accounting standard that provides guidance on the accounting and reporting requirements for noncontrolling interests in financial statements. The guidance requires ownership interests in subsidiaries other than MAXIMUS, Inc. to be clearly identified, labeled and presented in the consolidated statement of financial position within equity, but separate from MAXIMUS, Inc.'s equity. It also requires the amount of consolidated net income attributable to MAXIMUS, Inc. and to the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of income. The Company does not have any material noncontrolling interests and, accordingly, there was no material impact on the adoption of this standard.

In February 2008, the FASB issued revised guidance delaying the effective date for requirements relating to the fair valuation of non-financial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. For items within its scope, the update deferred the effective date of the fair value measurement to the start of the Company's current fiscal year, or October 1, 2009. The Company has assessed the impact of this guidance for its non-financial assets and liabilities and determined that there was no material impact.

In September 2009, the FASB issued revised guidance for accounting for arrangements that contain more than one contract element. The revised guidance establishes a selling price hierarchy for determining the selling price of each contract element. The guidance also expands the required disclosures. The Company will adopt this standard on a prospective basis on October 1, 2010. We do not believe the adoption of this standard would have materially affected the accounting treatment for our existing contracts.

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3. Acquisition

DeltaWare

On February 10, 2010 (the acquisition date), the Company acquired 100% of the share capital of DeltaWare, Inc. (DeltaWare). DeltaWare is a Canadian company specializing in health administration management systems. MAXIMUS acquired DeltaWare, among other reasons, to broaden its core health services offerings and strengthen its position in the administration of public health programs. The acquired assets and business will be integrated into the Company's Operations segment.

The estimated acquisition date fair value of consideration transferred, assets acquired and liabilities are presented below and represent management's best estimates (in thousands). Management is still in the process of completing certain assessments of fair value of these assets and liabilities.

Cash, net of cash acquired	$	9,097
Additional cash consideration payable		1,288
Contingent consideration obligations		3,015
Total fair value of consideration	$	13,400
Accounts receivable	$	2,010
Other tangible assets		1,571
Intangible assets		6,060
Total identifiable assets acquired		9,641
Accounts payable and other liabilities		2,278
Loans payable		870
Deferred revenue		723
Total liabilities assumed		3,871
Net identifiable assets acquired		5,770
Goodwill		7,630
Net assets acquired	$	13,400

On the acquisition date, we paid $9.1 million to the previous owners of DeltaWare in return for all of the outstanding ownership interests. Additional payments may be made to the previous owners based upon the final calculation of the tangible net worth of the business acquired. These payments are currently estimated to be an additional $1.3 million. In addition, we may make future additional payments (contingent consideration) totaling up to seven million Canadian Dollars in cash over the course of the next seven years. The contingent consideration payments are based upon the achievement of profitability and sales targets over the seven year period.

A liability totaling $3.0 million was recognized for an estimate of the acquisition date fair value of the contingent consideration. We determined the fair value of the liability based on a probability-weighted approach derived from management's own estimates of profitability and sales targets. Any change in the estimated liability subsequent to the acquisition date fair value will be recognized in earnings in the period in which the change of estimate occurs. Between the acquisition date and June 30, 2010, the Company did not change any assumptions regarding the likelihood of payment of the balance.

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The identifiable assets acquired and liabilities assumed were recognized and measured as of the acquisition date based upon their estimated fair values. The excess of the acquisition date fair value of consideration over the estimated fair value of the net assets acquired was recorded as goodwill. The Company considers the goodwill to represent a number of potential strategic and financial benefits that are expected to be realized as a result of the acquisition, including, but not limited to bringing new capabilities to MAXIMUS in the adjacent markets and opportunities to expand its geographic reach

The valuation of the intangible assets acquired is summarized below (in thousands).

	Useful life		Fair value
Technology-based intangibles	8.5 years	$	3,733
Customer contracts and relationships	8-10 years		1,474
Non-compete arrangements	4 years		239
Tradename	10 years		614
Total intangible assets		$	6,060

The fair value of the accounts receivable balance comprises gross receivables of $2.0 million. There is no material valuation allowance against this balance at acquisition.

Of the total fair value of consideration, $7.6 million was allocated to goodwill. Goodwill is not expected to be deductible for income tax purposes.

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4. Goodwill and Intangible Assets

The changes in goodwill for the nine months ended June 30, 2010 are as follows (in thousands):

	Consulting	Operations	Total
Balance as of September 30, 2009	$ 18,646	$ 42,383	$ 61,029
Goodwill activity related to acquisitions	—	7,219	7,219
Foreign currency translation	—	(442)	(442)
Balance as of June 30, 2010	$ 18,646	$ 49,160	$ 67,806

During the nine-month period ended June 30, 2010, the Company acquired DeltaWare, resulting in additional goodwill of $7.6 million (see Note 3 — Acquisition). The Company also had an adjustment to goodwill of approximately $0.4 million relating to the finalization of amounts related to a previous acquisition.

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

	As of September 30, 2009			As of June 30, 2010		
	Cost	Accumulated Amortization	Intangible Assets, net	Cost	Accumulated Amortization	Intangible Assets, net
Technology-based intangible assets	$ 3,370	$ 3,370	$ —	$ 7,091	$ 3,538	$ 3,553
Customer contracts and relationships	6,100	3,645	2,455	7,889	4,116	3,773
Non-compete arrangements	—	—	—	238	23	215
Trademark	—	—	—	611	24	587
Total	$ 9,470	$ 7,015	$ 2,455	$ 15,829	$ 7,701	$ 8,128

The intangible assets include $3.4 million of fully-amortized technology-based assets still in use by the Company. Excluding these assets, the Company's intangible assets have a weighted average remaining life of 6.5 years, comprising 8.1 years for technology-based intangible assets, 4.6 years for customer contracts and relationships, 3.6 years for non-compete arrangements and 9.6 years for the trademark. Amortization expense for the three and nine months ended June 30, 2010 was $0.6 million and $1.6 million. Future amortization expense is estimated as follows (in thousands):

Three months ended September 30, 2010	$ 550
Year ended September 30, 2011	1,955
Year ended September 30, 2012	1,090
Year ended September 30, 2013	1,013
Year ended September 30, 2014	676
Thereafter	2,844
Total	$ 8,128

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5. Fair Value Measurements

The Company is required to disclose the fair value of all assets and liabilities subject to fair value measurement and the nature of the valuation techniques, including their classification within the fair value hierarchy, utilized by the Company in performing these measurements.

The FASB provides a fair value framework which requires the categorization of assets and liabilities into three levels based upon the assumptions (or inputs) used to price the assets or liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment. The three levels are defined as follows:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

The Company's financial assets subject to fair value measurements and the necessary disclosures are as follows (in thousands):

	Fair Value as of June 30,	Fair Value Measurements as of June 30, 2010 Using Fair Value Hierarchy		
Description	2010	Level 1	Level 2	Level 3
Current portion of acquisition-related contingent consideration	$ (906)	$ —	$ —	$ (906)
Acquisition-related contingent consideration, less current portion	(2,100)	—	—	(2,100)

The Company's only acquisition-related contingent consideration liability was incurred with the acquisition of DeltaWare in the current fiscal year. The fair value of the acquisition-related contingent consideration liability was based on a probability-weighted approach derived from management's own estimates of profitability and sales targets. There has been no change to management's estimates of profitability and sales targets between the acquisition date and June 30, 2010 and the only change to the value of the liability relates to foreign-exchange adjustments, which have been recorded as a component of other comprehensive income.

6. Commitments and Contingencies

Litigation

The Company is involved in various legal proceedings, including the matters described below, in the ordinary course of its business.

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

In August 2010 the Company received a draft audit report prepared on behalf of one of its former SchoolMAX customers. The SchoolMAX business line was sold as part of the divestiture of the MAXIMUS Education Systems division in 2008. The draft audit report recommends a refund of approximately $11.6 million primarily arising out of the alleged failure of MAXIMUS and the buyer of the division to observe the most favored customer pricing term of the contract. MAXIMUS believes the audit report is incorrect and that no amounts are owed as a refund. The Company will work with the customer to resolve this matter before the audit report is finalized. To the extent that resolution is not reached, MAXIMUS will contest the matter through the dispute resolution process set forth in the contract.

Credit Facilities and Performance Bonds

The Company's Revolving Credit Agreement provides for a senior secured revolving credit facility, with SunTrust Bank as administrative agent, issuing bank and swingline lender, and a syndicate of other lenders (the "Credit Facility"). The Credit Facility provides for a $35.0 million revolving line of credit commitment, which may be used (i) for revolving loans, (ii) for swingline loans, subject to a sublimit of $5.0 million, and (iii) to request the issuance of letters of credit on the Company's behalf, subject to a sublimit of $25.0 million. The Company may request an increase in the commitment under the Credit Facility, such that the aggregate commitments under the Credit Facility shall at no time exceed $75.0 million. The credit available under the Credit Facility may be used, among other purposes, to refinance the Company's current indebtedness, to repurchase shares of the Company's capital stock and to finance the ongoing working capital, capital expenditure, and general corporate needs of the Company. The Credit Facility matures on January 25, 2013, at which time all outstanding borrowings must be repaid and all outstanding letters of credit must have been terminated or cash collateralized. At June 30, 2010, letters of credit totaling $10.3 million were outstanding under the Credit Facility.

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

The Credit Facility, as amended by the Company and its lender on December 12, 2008, provides for the payment of specified fees and expenses, including an up-front fee and commitment and letter of credit fees, and contains customary financial and other covenants that require the maintenance of certain ratios including a maximum leverage ratio and a minimum fixed charge coverage ratio. The Company was in compliance with all covenants in the amended Credit Facility as of June 30, 2010. The Company's obligations under the Credit Facility are guaranteed by certain of the Company's direct and indirect subsidiaries (collectively, the "Guarantors") and are secured by substantially all of MAXIMUS' and the Guarantors' present and future tangible and intangible assets, including the capital stock of subsidiaries and other investment property.

In addition to this credit facility, the Company has a loan agreement with the Atlantic Innovation Fund of Canada, which was acquired as part of the DeltaWare acquisition (see Note 3 — Acquisition). This provides for a loan of up to 1.7 million Canadian Dollars, which must be used for specific technology-based research and development. The loan has no interest charge and is repayable in installments between 2012 and 2022. At June 30, 2010, $1.2 million (1.2 million Canadian Dollars) was outstanding under this agreement. Borrowings using this facility reduce the availability of credit under the Revolving Credit Agreement.

Certain contracts require us to provide a surety bond as a guarantee of performance. At September 30, 2009 and June 30, 2010, the Company had performance bond commitments totaling $71.1 million and $33.8 million, respectively. These bonds are typically renewed annually and remain in place until the contractual obligations have been satisfied. Although the triggering events vary from contract to contract, in general, we would only be liable for the amount of these guarantees in the event of default in our performance of our obligations under each contract, the probability of which we believe is remote.

7. Legal and settlement expense (recovery), net

Legal and settlement expense (recovery), net consists of costs, net of reimbursed insurance claims, related to significant legal settlements and non-routine legal matters, including future probable legal costs estimated to be incurred in connection with those matters. Legal expenses incurred in the ordinary course of business are included in selling, general and administrative expense.

Following a change in accounting standards, from October 1, 2009 the incremental costs of acquisitions, including legal fees, brokerage fees, and valuation reports, are included in this balance. Under previous accounting guidance, these expenses were included as part of the acquisition consideration of successful acquisitions. The following table sets forth the matters that represent legal and settlement expense (recovery), net:

	Three months Ended June 30,		Nine months Ended June 30,	
(in thousands)	**2009**	**2010**	**2009**	**2010**
Acquisition expenses relating to DeltaWare	$ —	$ —	$ —	$ 254
Arbitration insurance recovery	(6,300)	—	(6,300)	(7,500)
Other	1,471	—	1,839	1,895
Total	$ (4,829)	$ —	$ (4,461)	$ (5,351)

The balances above include insurance recoveries related to a 2008 arbitration settlement.

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8. Earnings (Loss) Per Share

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

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2010	Nine Months Ended June 30, 2009	Nine Months Ended June 30, 2010
Numerator:				
Income from continuing operations	$ 15,907	$ 16,355	$ 40,150	$ 49,249
Income (loss) from discontinued operations	(924)	970	(2,177)	(552)
Net income	$ 14,983	$ 17,325	$ 37,973	$ 48,697
Denominator:				
Basic weighted average shares outstanding	17,503	17,423	17,582	17,476
Effect of dilutive securities:				
Employee stock options and unvested restricted stock units	336	581	273	539
Denominator for diluted earnings (loss) per share	17,839	18,004	17,855	18,015

The calculation excludes share options where the effect of including them would have been antidilutive. For the three months and nine months ended June 30, 2009, 43,000 and 156,000 outstanding options were excluded, respectively. For the three months and nine months ended June 30, 2010, no outstanding options were excluded.

9. Stock Repurchase Programs

Under a resolution adopted in July 2008, the Board of Directors has authorized the repurchase, at management's discretion, of up to an aggregate of $75.0 million of the Company's common stock. The resolution also authorized the use of option exercise proceeds for the repurchase of the Company's common stock. During the nine months ended June 30, 2009, the Company repurchased 927,690 common shares at a cost of $30.0 million. During the nine months ended June 30, 2010, the Company repurchased 442,777 common shares at a cost of $22.5 million. At June 30, 2010, $38.1 million remained available for future stock repurchases under the July 2008 resolution.

As of August 5, 2010, the Company had repurchased an additional 40,000 common shares at a cost of $2.3 million during the fourth quarter of fiscal 2010.

10. Comprehensive Income

Comprehensive income includes net income, plus changes in cumulative foreign currency translation adjustments. The components of comprehensive income for the three and nine months ended June 30, 2009 and 2010 are as follows:

(in thousands)	Three months Ended June 31, 2009	Three months Ended June 31, 2010	Nine months Ended June 30, 2009	Nine months Ended June 30, 2010
Net income	$ 14,983	$ 17,325	$ 37,973	$ 48,697
Foreign currency translation adjustments	6,465	(4,334)	(842)	(1,595)
Comprehensive income	$ 21,448	$ 12,991	$ 37,131	$ 47,102

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11. Segment Information

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

	Three Months Ended June 30, 2009	% (1)	2010	% (1)	Nine Months Ended June 30, 2009	% (1)	2010	% (1)
Revenue:								
Operations	$ 165,522	100%	$ 196,458	100%	$ 477,486	100%	$ 576,580	100%
Consulting	10,871	100%	14,201	100%	45,775	100%	40,279	100%
Total	176,393	100%	210,659	100%	523,261	100%	616,859	100%
Gross Profit:								
Operations	41,981	25.4%	52,271	26.6%	123,683	25.9%	145,773	25.3%
Consulting	6,371	58.6%	5,029	35.4%	18,107	39.6%	14,474	35.9%
Total	48,352	27.4%	57,300	27.2%	141,790	27.1%	160,247	26.0%
Selling, general, and administrative expense:								
Operations	22,854	13.8%	27,311	13.9%	63,866	13.4%	75,114	13.0%
Consulting	4,119	37.9%	4,425	31.2%	15,645	34.2%	12,440	30.9%
Corporate/Other	44	NM	(162)	NM	634	NM	(25)	NM
Total	27,017	15.3%	31,574	15.0%	80,145	15.3%	87,529	14.2%
Operating income from continuing operations:								
Operations	19,127	11.6%	24,960	12.7%	59,817	12.5%	70,659	12.3%

Consulting	2,252	20.7%	604	4.3%	2,462	5.4%	2,034	5.0%
Consolidating adjustments	(44)	NM	162	NM	(634)	NM	25	NM
Subtotal: Segment Operating Income	21,335	12.1%	25,726	12.2%	61,645	11.8%	72,718	11.8%
Legal and settlement recovery (expense), net	4,829	NM	—	NM	4,461	NM	5,351	NM
Total	$ 26,164	14.8%	$ 25,726	12.2%	$ 66,106	12.6%	$ 78,069	12.7%

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

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12. Discontinued Operations

In September 2009, the Company committed to a sale of its ERP business. We are actively pursuing a buyer and expect to complete this sale by the end of the current fiscal year. The financial position, results of operations, and cash flows of this division, which were previously included in the Company's Consulting segment, are reported as discontinued operations and all prior periods have been reclassified to conform to the current period's presentation.

Effective January 28, 2010, the Company entered into a Mutual Release and Settlement Agreement with a customer of the ERP business under which both parties agreed to a transfer of the project back to the client. The resolution resulted in an after-tax charge to the Company of $2.2 million, which was recorded in the three months ended December 31, 2009.

During fiscal 2008, the Company disposed of five business divisions. Although these sales occurred prior to September 30, 2008, the final sales prices for these divisions were based upon evaluation of the net assets transferred to the purchaser. Accordingly, further losses on disposal continued to be recorded during the nine months ended June 30, 2009.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2010	2009	2010
Revenue	$ 8,847	$ 7,661	$ 26,272	$ 22,093
Income (loss) from discontinued operations	$ (1,528)	1,552	(3,590)	(884)
Provision for (benefit from) income taxes	(604)	582	(1,418)	(332)
Income (loss) from discontinued operations	$ (924)	$ 970	$ (2,172)	$ (552)
Loss from discontinued operations	—	—	(9)	—
Benefit from income taxes	—	—	(4)	—
Loss on disposal	—	—	(5)	—
Income (loss) from discontinued operations	$ (924)	$ 970	$ (2,177)	$ (552)

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

	As of September 30, 2009	As of June 30, 2010
Accounts receivable — billed	$ 6,677	$ 5,088
Accounts receivable — unbilled	11,508	4,223
Prepaid expenses and other current assets	53	57
Current assets of discontinued operations	$ 18,238	$ 9,368
Accounts payable	$ 6,199	$ 2,885
Accrued compensation and benefits	930	1,206
Deferred revenue	—	474
Other accrued liabilities	6,995	—
Current liabilities of discontinued operations	$ 14,124	$ 4,565

13. Subsequent Events

Dividend

On July 9, 2010, the Company's Board of Directors declared a quarterly cash dividend of $0.12 for each share of the Company's common stock outstanding. The dividend is payable on August 31, 2010, to shareholders of record on August 16, 2010.

Stock repurchase

As of August 5, 2010, the Company had repurchased an additional 40,000 common shares at a cost of $2.3 million during the fourth fiscal quarter of 2010.

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

The following discussion and analysis of financial condition and results of operations is provided to enhance the understanding of, and should be read in conjunction with, our Consolidated Financial Statements and related Notes included both herein and in our Annual Report on Form 10-K for the year ended September 30, 2009, filed with the Securities and Exchange Commission on November 17, 2009.

Forward Looking Statements

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

Business Overview

We provide operations program management and consulting services focused in the areas of health and human services primarily for government-sponsored programs such as Medicaid and the Children's Health Insurance Program (CHIP). Founded in 1975, we are the largest pure-play health and human services provider to government in the United States and are at the forefront of innovation in meeting our mission of *Helping Government Serve the People*®. We use our expertise, experience and advanced technological solutions to help government agencies run more efficient and cost-effective programs, while improving the quality of services provided to program beneficiaries. We operate in the United States, Australia, Canada, the United Kingdom, and Israel. We have held contracts with government agencies in all 50 states in the U.S. For the fiscal year ended September 30, 2009, we had revenue of $717.3 million and net income of $46.5 million. For the three months and nine months ended June 30, 2010, we had revenue of $210.7 million and $616.9 million, respectively, and net income of $17.3 million and $48.7 million, respectively.

On February 10, 2010 (the acquisition date), the Company acquired 100% of the share capital of DeltaWare, Inc. (DeltaWare). DeltaWare is a Canadian company specializing in health administration management systems. MAXIMUS acquired DeltaWare, among other reasons, to broaden its core health services offerings and strengthen its position in the administration of public health programs. The results of DeltaWare are included in the Operations Segment from the acquisition date.

Results of Operations

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

	Three Months Ended June 30,				Nine Months Ended June 30,			
	2009	% (1)	2010	% (1)	2009	% (1)	2010	% (1)
Revenue:								
Operations	$ 165,522	100%	$ 196,458	100%	$ 477,486	100%	$ 576,580	100%
Consulting	10,871	100%	14,201	100%	45,775	100%	40,279	100%
Total	176,393	100%	210,659	100%	523,261	100%	616,859	100%
Gross Profit:								
Operations	41,981	25.4%	52,271	26.6%	123,683	25.9%	145,773	25.3%
Consulting	6,371	58.6%	5,029	35.4%	18,107	39.6%	14,474	35.9%
Total	48,352	27.4%	57,300	27.2%	141,790	27.1%	160,247	26.0%
Selling, general, and administrative expense:								
Operations	22,854	13.8%	27,311	13.9%	63,866	13.4%	75,114	13.0%
Consulting	4,119	37.9%	4,425	31.2%	15,645	34.2%	12,440	30.9%
Corporate/Other	44	NM	(162)	NM	634	NM	(25)	NM
Total	27,017	15.3%	31,574	15.0%	80,145	15.3%	87,529	14.2%
Operating income from continuing operations:								
Operations	19,127	11.6%	24,960	12.7%	59,817	12.5%	70,659	12.3%
Consulting	2,252	20.7%	604	4.3%	2,462	5.4%	2,034	5.0%
Consolidating adjustments	(44)	NM	162	NM	(634)	NM	25	NM
Subtotal: Segment Operating Income	21,335	12.1%	25,726	12.2%	61,645	11.8%	72,718	11.8%
Legal and settlement recovery (expense), net	4,829	NM	—	NM	4,461	NM	5,351	NM
Total	$ 26,164	14.8%	$ 25,726	12.2%	$ 66,106	12.6%	$ 78,069	12.7%

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

We present constant currency revenue information to provide a framework for assessing how our business performed excluding the effect of foreign currency rate fluctuations. To present this information, current quarter and year-to-date revenue from foreign operations is converted into United States dollars using average exchange rates from the same periods in fiscal 2009. All our foreign operations are in the Operations Segment.

We also present organic growth revenue information to provide a framework for assessing how the business performed excluding the effect of business combinations. To present this information, revenue from recently-acquired entities is removed from the current period where no comparative revenues exist in the same period in fiscal 2009.

Both constant currency and organic growth revenue information are non-GAAP numbers. We believe that these numbers provide a useful basis for assessing the Company's performance. The presentation of these non-GAAP numbers is not meant to be considered in isolation, or as an alternative to revenue growth as a measure of performance.

Revenue increased $34.3 million, or 19.4%, for the three month period ended June 30, 2010, compared to the same period in fiscal 2009. On a constant currency basis, revenue growth would have been $28.0 million, or 15.9%. Organic revenue growth was $28.3 million (or 16.0%), or $22.0 million (or 12.5%) on a constant currency basis. Out of total revenue growth, $6.0 million was attributable to acquisitions. Acquisitions and foreign exchange affected only the Operations segment.

The principal driver of revenue growth came from the Operations segment. Operations segment revenue for the quarter increased $30.9 million (or 18.7%) compared to the same period in the prior fiscal year, driven by expanded scope and new work in Australia and the United Kingdom as well as $6.0 million of revenue from businesses acquired within the last twelve months. In fiscal 2009, MAXIMUS was awarded an expanded contract in Australia which doubled the size of the Company's work in that region. In the UK, MAXIMUS was awarded a 5-year, $200 million welfare-to-work program which started on October 1, 2009. In June 2010, MAXIMUS and all other providers were notified that this contract will expire in June 2011. The government is launching a welfare reform plan and has consolidated most welfare-to-work programs under the new Work Programme, which is scheduled to be bid in fall 2010.

Revenue increased $93.6 million, or 17.9%, for the nine month period ended June 30, 2010, compared to the same period in fiscal 2009. On a constant currency basis, revenue growth would have been $65.6 million, or 12.5%. Organic revenue growth was $80.9 million (or 15.5%), or $52.9 million (or 10.1%) on a constant currency basis. Out of total revenue growth, $12.7 million was attributable to acquisitions.

The principal driver of revenue growth was the Operations segment. Operations segment revenue increased $99.0 million and generated over 93% of the Company's total revenues. This growth was driven by the new contracts in Australia and the United Kingdom and by $12.7 million of growth from acquisitions. Consulting revenues for the same period declined by $5.5 million. Much of the decline is the result of a $4.8 million pass through of revenue in 2009 relating to the New York City Department of Education contract. No significant pass-throughs occurred in 2010.

Gross profit and segment operating income for the three month period ended June 30, 2010 increased compared to the same period in fiscal 2009 by $8.9 million (or 18.5%) and $4.4 million (or 20.6%), respectively. Gross profit and segment operating income for the nine month period ended June 30, 2010 increased compared to the same period in fiscal 2009 by $18.5 million (or 13.0%) and $11.1 million (or 18.0%), respectively. These increases were driven by factors consistent with revenue growth, principally the growth from the Australian and United Kingdom contracts.

Selling, general and administrative expense (SG&A) consists of costs related to general management, marketing and administration. These costs include salaries, benefits, bid and proposal efforts, travel, recruiting, continuing education, employee training, non-chargeable labor costs, facilities costs, printing, reproduction, communications, equipment depreciation, intangible amortization, and legal expenses incurred in the ordinary course of business. SG&A as a percentage of revenue has declined year-on-year for both the three months and nine months ended June 30, 2010, compared to the prior year. This is the result of improved efficiencies within the business.

Legal and settlement expense (recovery), net consists of costs, net of reimbursed insurance claims, related to significant legal settlements and non-routine legal matters, including future probable legal costs estimated to be incurred in connection with those matters. Legal expenses incurred in the ordinary course of business are included in selling, general and administrative expense.

Following a change in accounting standards, from October 1, 2009 the incremental costs of acquisitions, including legal fees, brokerage fees, and valuation reports, are included in this line item. Under previous accounting guidance, these expenses were included as part of the acquisition consideration of successful acquisitions. The following table sets forth the matters that represent legal and settlement expense (recovery), net:

	Three months Ended June 30,		Nine months Ended June 30,	
(in thousands)	2009	2010	2009	2010
Acquisition expenses relating to DeltaWare	$ —	$ —	$ —	$ 254
Arbitration insurance recovery	(6,300)	—	(6,300)	(7,500)
Other	1,471	—	1,839	1,895
Total	$ (4,829)	$ —	$ (4,461)	$ (5,351)

The balances above include insurance recoveries related to a 2008 arbitration settlement.

	Three Months Ended June 30,		Nine Months Ended June 30,	
(dollars in thousands, except per share data)	2009	2010	2009	2010
Income from continuing operations before income taxes	$ 26,293	$ 26,168	$ 66,364	$ 78,798
Provision for income taxes	10,386	9,813	26,214	29,549
Income from continuing operations, net of income taxes	15,907	16,355	40,150	49,249
Income (loss) from discontinued operations, net of income taxes	(924)	970	(2,177)	(552)
Net income	$ 14,983	$ 17,325	$ 37,973	$ 48,697
Basic earnings (loss) per share:				
Income from continuing operations	$ 0.91	$ 0.94	$ 2.28	$ 2.82
Income (loss) from discontinued operations	(0.05)	0.05	(0.12)	(0.03)
Basic earnings per share	$ 0.86	$ 0.99	$ 2.16	$ 2.79
Diluted earnings (loss) per share:				
Income from continuing operations	$ 0.89	$ 0.91	$ 2.25	$ 2.73
Income (loss) from discontinued operations	(0.05)	0.05	(0.12)	(0.03)
Diluted earnings per share	$ 0.84	$ 0.96	$ 2.13	$ 2.70

Provision for income taxes was 37.5% of income from continuing operations before income taxes for the three months and nine months ended June 30, 2010. The respective rate was 39.5% for both comparative periods in fiscal 2009. The effective rate has declined as a greater share of the Company's income is being generated in jurisdictions with lower tax rates than those in the United States.

Income from continuing operations, net of income taxes was $16.4 million, or $0.91 per diluted share, for the three months ended June 30, 2010, compared with $15.9 million, or $0.89 per diluted share, for the same period in fiscal 2009. The increase in income from continuing operations, net of income taxes of $0.5 million is primarily driven by increases in revenue within the Operations Segment and a decline in the Company's effective tax rate resulting from a larger mix of international business, offset by a $6.3 million, pre-tax, insurance recovery in the year-ago period.

Income from continuing operations, net of income taxes was $49.2 million, or $2.73 per diluted share, for the nine months ended June 30, 2010, compared with $40.2 million, or $2.25 per diluted share, for the same period in fiscal 2009. The increase in income from continuing operations, net of income taxes of $9.0 million is primarily driven by increases in revenue within the Operations Segment, as well as a decline in the Company's effective tax rate, resulting from a larger mix of international business.

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Discontinued Operations

In September 2009, the Company committed to a sale of its ERP business. We are actively pursuing a buyer and expect to complete this sale by the end of the current fiscal year. The financial position, results of operations, and cash flows of this division, which were previously included in the Company's Consulting segment, are reported as discontinued operations and all prior periods have been reclassified to conform to the current period's presentation.

Effective January 28, 2010, the Company entered into a Mutual Release and Settlement Agreement with a customer of the ERP business under which both parties agreed to a transfer of the project back to the client. The resolution resulted in an after-tax charge to the Company of $2.2 million, which was recorded in the three months ended December 31, 2009.

During fiscal 2008, the Company disposed of five business divisions. Although these sales occurred prior to September 30, 2008, the final sales prices for these divisions were based upon evaluation of the net assets transferred to the purchaser. Accordingly, further losses on disposal continued to be recorded during the nine months ended June 30, 2009.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2010	2009	2010
Revenue	$ 8,847	$ 7,661	$ 26,272	$ 22,093
Income (loss) from discontinued operations	$ (1,528)	1,552	(3,590)	(884)
Provision for (benefit from) income taxes	(604)	582	(1,418)	(332)
Income (loss) from discontinued operations	$ (924)	$ 970	$ (2,172)	$ (552)
Loss from discontinued operations	—	—	(9)	—
Benefit from income taxes	—	—	(4)	—
Loss on disposal	—	—	(5)	—
Income (loss) from discontinued operations	$ (924)	$ 970	$ (2,177)	$ (552)

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Liquidity and Capital Resources

Current Economic Environment

The economic climate is a challenging one at present for all businesses. The Company operates in a number of jurisdictions across the globe and the issues which arise vary according to local conditions. In general, many of our customers are experiencing increased demand for critical services for the most vulnerable members of society, yet are also experiencing declines in the tax revenues they rely upon to fund these services. In prior periods, the Company has faced short-term payment delays from state customers, all of which were ultimately recovered. The Company believes its liquidity and capital positions are adequate to weather short-term payment delays. In the event of more protracted delays, the Company may be required to seek additional capital sources, amend payment terms or take other actions. Extended payment delays could adversely affect the Company's cash flows, operations and profitability.

A number of governments worldwide have passed economic stimulus legislation. The Company believes that demand for its services in its core areas of health, education and human services will remain strong and that these stimulus packages could ultimately increase demand for such services. However, any increases in demand resulting from stimulus legislation will depend largely upon the timing, amount and nature of the stimulus.

Cash Flows

(dollars in thousands)	Nine Months Ended June 30, 2009	Nine Months Ended June 30, 2010
Net cash provided by (used in):		
Operating activities — continuing operations	$ 25,791	$ 119,770
Operating activities — discontinued operations	(2,306)	(1,573)
Investing activities — continuing operations	(14,956)	(26,890)
Investing activities — discontinued operations	(36)	—
Financing activities — continuing operations	(35,776)	(24,384)
Effect of exchange rate changes on cash and cash equivalents	(656)	(1,679)

Net increase/(decrease) in cash and cash equivalents	$ (27,939)	$ 65,244

Cash provided by operating activities from continuing operations for the nine months ended June 30, 2010 was $119.8 million, compared to $25.8 million for the same period in fiscal 2009. The difference of $94.0 million is primarily driven by (1) improved operating results, particularly in the Company's overseas contracts, (2) advanced payments received in the United Kingdom and Australia from favorable billing terms and to cover the start-up costs of new projects, and (3) the receipt of $7.5 million of insurance recoveries in the current year, compared with the payment in fiscal 2009 of $40 million, offset by insurance recoveries of $18.8 million to cover arbitration matters which have not recurred in the current period.

Cash used in operating activities from discontinued operations for the nine months ended June 30, 2010 was $1.6 million, compared to $2.3 million for the same period in fiscal 2009. Discontinued operations in 2010 have been adversely affected by payments relating to the mutual termination of a contract, offset by large cash receipts from customers.

Cash used in investing activities from continuing operations for the nine months ended June 30, 2010 was $26.9 million, compared to $15.0 million for the same period in fiscal 2009. The increase in cash used in investing activities from continuing operations of $11.9 million is primarily attributable to payments made for the acquisition of the DeltaWare business in the current period.

Cash used in financing activities from continuing operations for the nine months ended June 30, 2010 was $24.4 million, compared to $35.8 million for the same period in fiscal 2009. The decrease in cash used in financing activities from continuing operations of $11.4 million is primarily attributable to the decline in repurchases of common stock. Repurchases of common stock were $22.5 million in fiscal 2010, compared with $30.0 million in fiscal 2009.

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The adverse effect of exchange rate changes on cash and cash equivalents of $1.7 million in the nine month period ended June 30, 2010 was due to the impact of the strengthening United States dollar on cash and cash equivalents held in our foreign operations.

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

	Nine Months Ended June 30,	
(dollars in thousands)	**2009**	**2010**
Cash provided by operating activities — continuing operations	$ 25,791	$ 119,770
Purchases of property and equipment	(10,604)	(10,383)
Capitalized software costs	(5,037)	(6,307)
Free cash flow from continuing operations	$ 10,150	$ 103,080

Repurchases of the Company's common stock

Under a resolution adopted in July 2008, the Board of Directors has authorized the repurchase, at management's discretion, of up to an aggregate of $75.0 million of the Company's common stock. The resolution also authorized the use of option exercise proceeds for the repurchase of the Company's common stock. During the nine months ended June 30, 2009, the Company repurchased 927,690 common shares at a cost of $30.0 million. During the nine months ended June 30, 2010, the Company repurchased 442,777 common shares at a cost of $22.5 million. At June 30, 2010, $38.1 million remained available for future stock repurchases under the July 2008 resolution.

Credit arrangements

The Company's Revolving Credit Agreement provides for a senior secured revolving credit facility, with SunTrust Bank as administrative agent, issuing bank and swingline lender, and a syndicate of other lenders (the "Credit Facility"). The Credit Facility provides for a $35.0 million revolving line of credit commitment, which may be used (i) for revolving loans, (ii) for swingline loans, subject to a sublimit of $5.0 million, and (iii) to request the issuance of letters of credit on the Company's behalf, subject to a sublimit of $25.0 million. The Company may request an increase in the commitment under the Credit Facility, such that the aggregate commitments under the Credit Facility shall at no time exceed $75.0 million. The credit available under the Credit Facility may be used, among other purposes, to refinance the Company's current indebtedness, to repurchase shares of the Company's capital stock and to finance the ongoing working capital, capital expenditure, and general corporate needs of the Company. The Credit Facility matures on January 25, 2013, at which time all outstanding borrowings must be repaid and all outstanding letters of credit must have been terminated or cash collateralized. At June 30, 2010, letters of credit totaling $10.3 million were outstanding under the Credit Facility.

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

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The Credit Facility contains customary financial and other covenants that require the maintenance of certain ratios including a maximum leverage ratio and a minimum fixed charge coverage ratio. The Company was in compliance with all covenants in the Credit Facility as of June 30, 2010. The Company's obligations under the Credit Facility are guaranteed by certain of the Company's direct and indirect subsidiaries (collectively, the "Guarantors") and are secured by substantially all of MAXIMUS' and the Guarantors' present and future tangible and intangible assets, including the capital stock of subsidiaries and other investment property.

In addition to this credit facility, the Company has a loan agreement with the Atlantic Innovation Fund of Canada, which was acquired as part of the DeltaWare acquisition (see Note 3 — Acquisition). This provides for a loan of up to 1.7 million Canadian Dollars, which must be used for specific technology-based research and development. The loan has no interest charge and is repayable in installments between 2012 and 2022. At June 30, 2010, 1.2 million Canadian Dollars ($1.2 million) was outstanding under this agreement. Borrowings using this facility reduce the availability of credit under the Revolving Credit Agreement.

Certain contracts require us to provide a surety bond as a guarantee of performance. At September 30, 2009 and June 30, 2010, the Company had performance bond commitments totaling $71.1 million and $33.8 million, respectively. These bonds are typically renewed annually and remain in place until the contractual obligations have been satisfied. Although the triggering events vary from contract to contract, in general, we would only be liable for the amount of these guarantees in the event of default in our performance of our obligations under each contract, the probability of which we believe is remote.

Other

Our working capital at June 30, 2010 was $193.1 million. At June 30, 2010, we had cash and cash equivalents of $153.1 million and $1.2 million of debt. Management believes this liquidity and financial position, along with the revolving credit facility discussed above, provides sufficient liquidity to continue any contemplated stock repurchase program (depending on the price of the Company's common stock), to pursue selective acquisitions, and to consider the continuation of dividends on a quarterly basis. Restricted cash at June 30, 2010 was $3.8 million. Restricted cash represents amounts collected on behalf of certain customers where its use is restricted to the purposes specified under our contracts with these customers, and amounts on deposit with foreign banks as compensating balances for certain bank guarantees.

Under the provisions of certain long-term contracts, we may incur certain reimbursable transition period costs. During the transition period, these expenditures result in the use of our cash. Reimbursement of these costs may occur in the set-up phase or over the contract operating period. Related revenue may also be deferred during the set-up phase. As of June 30, 2010, $6.9 million in net costs had been incurred and reported as deferred contract costs on our consolidated balance sheet.

On July 9, 2010, the Company's Board of Directors declared a quarterly cash dividend of $0.12 for each share of the Company's common stock outstanding. The dividend is payable on August 31, 2010, to shareholders of record on August 16, 2010.

We believe that we will have sufficient resources to meet our currently anticipated capital expenditures and working capital requirements for at least the next twelve months.

Critical Accounting Policies and Estimates

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

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

During the nine months ended June 30, 2010, there were no significant changes to the critical accounting policies we disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended September 30, 2009.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued a new accounting standard that provides guidance for business combinations. Under this standard, more transactions will be recorded as business combinations, as it changes the definitions of a business, which would no longer be required to be self-sustaining or revenue generating, and a business combination, which would include combinations that occur by contract alone or due to changes in substantive participation rights, such as a lapse in minority veto rights. Certain acquired contingencies will be recorded initially at fair value on the acquisition date. After the acquisition, if new information is available, contingent liabilities will be measured at the higher of the likely amount to be paid and the acquisition-date fair value. Contingent assets will be measured subsequently at the lower of the current estimated future amount to be realized and the acquisition-date fair value. Transaction and restructuring costs generally will be expensed as incurred. The Company adopted this standard in the current fiscal year and applied the standard to the acquisition of DeltaWare (see Note 3 - Acquisition). The Company will utilize this standard on all such future transactions.

In December 2007, the FASB issued a new accounting standard that provides guidance on the accounting and reporting requirements for noncontrolling interests in financial statements. The guidance requires ownership interests in subsidiaries other than MAXIMUS, Inc. to be clearly identified, labeled and presented in the consolidated statement of financial position within equity, but separate from MAXIMUS, Inc.'s equity. It also requires the amount of consolidated net income attributable to MAXIMUS, Inc. and to the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of income. The Company does not have any material noncontrolling interests and, accordingly, there was no material impact on the adoption of this standard.

In February 2008, the FASB issued revised guidance delaying the effective date for requirements relating to the fair valuation of non-financial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. For items within its scope, the update deferred the effective date of the fair value measurement to the start of the Company's current fiscal year, or October 1, 2009. The Company has assessed the impact of this guidance for its non-financial assets and liabilities and determined that there was no material impact.

In September 2009, the FASB issued revised guidance for accounting for contracts that contain more than one contract element. The revised guidance establishes a selling price hierarchy for determining the selling price of each contract element. The guidance also expands the required disclosures. The Company will adopt this standard on a prospective basis on October 1, 2010. We do not believe the adoption of this standard would have materially affected the accounting treatment for our existing contracts.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

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

There have been no material changes to the information presented in Item 7A of our Annual Report on Form 10-K for the year ended September 30, 2009.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Control over Financial Reporting

By the third quarter of fiscal 2010, the Company had substantially completed the phased implementation of an enterprise resource planning ("ERP") system and completed installation of core financial modules for all US based divisions. We have updated the Company's internal controls over financial reporting as necessary to accommodate modifications to business processes and accounting procedures. However, the internal control design remained substantially unchanged for the implementation. There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation of our internal control that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. *Legal Proceedings.*

The Company is involved in various legal proceedings, including the matter described below, in the ordinary course of its business.

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

In August 2010 the Company received a draft audit report prepared on behalf of one of its former SchoolMAX customers. The SchoolMAX business line was sold as part of the divestiture of the MAXIMUS Education Systems division in 2008. The draft audit report recommends a refund of approximately $11.6 million primarily arising out of the alleged failure of MAXIMUS and the buyer of the division to observe the most favored customer pricing term of the contract. MAXIMUS believes the audit report is incorrect and that no amounts are owed as a refund. The Company will work with the customer to resolve this matter before the audit report is finalized. To the extent that resolution is not reached, MAXIMUS will contest the matter through the dispute resolution process set forth in the contract.

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Item 1A. Risk Factors.

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

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

(c) The following table sets forth the information required regarding repurchases of common stock that we made during the three months ended June 30, 2010:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan (in thousands)
Apr. 1, 2010 — Apr. 30, 2010	—	$	—	$ 45,309
May. 1, 2010 — May 31, 2010	59,636	59.36	59,636	$ 41,994
June. 1, 2010 — June 30, 2010	76,300	58.48	76,300	$ 38,080
Total	135,936	$ 58.87	135,936	

(1) Under a resolution adopted on July 22, 2008, which rescinds and supersedes all previous resolutions, the Board of Directors has authorized the repurchase, at management's discretion, of up to an aggregate of $75.0 million of the Company's common stock. The resolution also authorized the use of option exercise proceeds for the repurchase of the Company's common stock.

Item 6. Exhibits.

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

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SIGNATURES

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

MAXIMUS, INC.

Date: August 5, 2010

By: /s/ David N. Walker

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

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EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Section 906 Principal Executive Officer Certification.
32.2	Section 906 Principal Financial Officer Certification.
99.1	Special Considerations and Risk Factors

EXHIBIT 31.1

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

I, Richard A. Montoni, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of MAXIMUS, Inc. for the period ended June 30, 2010;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 5, 2010

/s/ Richard A. Montoni
Richard A. Montoni
Chief Executive Officer

EXHIBIT 31.2

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

I, David N. Walker, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of MAXIMUS, Inc. for the period ended June 30, 2010;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 5, 2010

/s/ David N. Walker
David N. Walker
Chief Financial Officer

EXHIBIT 32.1

Section 906 CEO Certification

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

1. The Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2010 (the "Quarterly Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m or 78o(d)); and

2. The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 5, 2010

/s/ Richard A. Montoni
Richard A. Montoni
Chief Executive Officer

EXHIBIT 32.2

Section 906 CFO Certification

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

1. The Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2010 (the “Quarterly Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m or 78o(d)); and

2. The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 5, 2010

/s/ David N. Walker
David N. Walker
Chief Financial Officer

Special Considerations and Risk Factors

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

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

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

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

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

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

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

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

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

As a provider of services to government agencies, we are subject to periodic audits and other reviews by Federal, state and local governments of our costs and performance, accounting and general business practices relating to our contracts with those

government agencies. As part of that process, the government agency reviews our performance on the contract, our pricing practices, our cost structure and our compliance with applicable laws, regulations and standards. Based on the results of these audits, government agencies may demand refunds or adjust our contract-related costs and fees, including internal costs and expense allocation. Although adjustments arising from government audits and reviews have not had a material adverse effect on our results of operations in the past, there can be no assurance that future audits and reviews would not have such effects.

We may face liabilities arising from divested or discontinued businesses.

During 2008 we divested our Security Solutions, Unison, Education Systems, Justice Solutions and Asset Solutions businesses. During fiscal 2010, we plan to divest our ERP business. The transaction documents for those divestitures contain a variety of representations, warranties and indemnification obligations. We could face indemnification claims and liabilities from alleged breaches of representations or warranties. In addition, the majority of our customer contracts require customer consent to assign those contracts to a third party. Although we are cooperating with the buyers of those businesses to obtain all customer consents, a customer could refuse to consent to an assignment and seek to hold us liable for performance problems or other contractual obligations.

During 2009 we exited the revenue maximization business. Although we no longer provide those services, former projects that we performed for state clients remain subject to Federal audits. Our contracts for that business generally provide that the company will refund the portion of its fee associated with any Federal disallowance. Accordingly, we may be obligated to refund amounts paid for such revenue maximization services depending on the outcome of future Federal audits.

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

We derived approximately 27% of our fiscal 2009 revenue from fixed-price contracts and approximately 40% of our fiscal 2009 revenue from performance-based contracts. For fixed-price contracts, we receive our fee based on services provided. Those services might include operating a Medicaid enrollment center pursuant to specified standards, designing and implementing computer systems or applications, or delivering a planning document under a consulting arrangement. For performance-based contracts, we receive our fee on a per-transaction basis. These contracts include, for example, child support enforcement contracts, in which we often receive a fee based on the amount of child support collected. To earn a profit on these contracts, we must accurately estimate costs involved and assess the probability of completing individual transactions within the contracted time period. If our estimates prove to be inaccurate, we may not achieve the level of profit we expected or we may incur a net loss on a contract. Although we believe that we have recorded adequate provisions in our financial statements for losses on our fixed-price and cost-plus contracts, as required under U.S. generally accepted accounting principles, we cannot assure you that our contract loss provisions will be adequate to cover all actual future losses.

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

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

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

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

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

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

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

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

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

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

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

In fiscal 2009, approximately 66% of our total revenue was derived from contracts with state and local government agencies. Any significant disruption or deterioration in our relationship with state and local governments and a corresponding reduction in these contracts would significantly reduce our revenues and could substantially harm our business.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

State budgets have been adversely impacted by the recent financial and credit crisis and worldwide economic slowdown, resulting in state budget deficits. There are a number of alternatives to states in managing a possible budget deficit, including:

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

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

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

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

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

- diversion of management’s attention;
- loss of key personnel;
- entry into unfamiliar markets;
- assumption of unanticipated legal or financial liabilities;

- becoming significantly leveraged as a result of incurring debt to finance an acquisition;

- unanticipated operating, accounting or management difficulties in connection with the acquired entities;
- impairment of acquired intangible assets, including goodwill; and
- dilution to our earnings per share.

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

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

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

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

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

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

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

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

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

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

- the terms and progress of contracts;

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

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

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

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