As filed with the Securities and Exchange Commission on February 3, 2022

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

# FORM 10-Q

(Mark one)

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

**For the quarterly period ended December 31, 2021**

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

**For the transition period from __________to__________.**

**Commission file number: 1-12997**

MAXIMUS®

**Maximus, Inc.**

*(Exact name of registrant as specified in its charter)*

| Virginia | 54-1000588 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 1891 Metro Center Drive, Reston, Virginia | 20190 |
| (Address of principal executive offices) | (Zip Code) |

(703) 251-8500

(Registrant's telephone number, including the area code)

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

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

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

Yes ☒ No ☐

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

Yes ☒ No ☐

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

| | | |
|---|---|---|
| Large accelerated filer ☒ | Accelerated filer ☐ | |
| Non-accelerated filer ☐ | Smaller reporting company ☐ | Emerging growth company ☐ |

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

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

There were 61,922,097 shares of the registrant's Common Stock outstanding as of February 1, 2022.

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

## PART I - Financial Information

### Item 1. Financial Statements

**Maximus, Inc.**
**Consolidated Statements of Operations**
*(Unaudited)*

| | For the Three Months Ended | |
|---|---|---|
| | December 31, 2021 | December 31, 2020 |
| | *(in thousands, except per share amounts)* | |
| Revenue | $ 1,150,876 | $ 945,554 |
| Cost of revenue | 922,721 | 739,499 |
| Gross profit | 228,155 | 206,055 |
| Selling, general, and administrative expenses | 124,221 | 111,967 |
| Amortization of intangible assets | 22,405 | 6,516 |
| Operating income | 81,529 | 87,572 |
| Interest expense | (9,638) | (206) |
| Other expense, net | (311) | (775) |
| Income before income taxes | 71,580 | 86,591 |
| Provision for income taxes | 18,250 | 22,514 |
| Net income | $ 53,330 | $ 64,077 |
| | | |
| Earnings per share: | | |
| Basic | $ 0.86 | $ 1.03 |
| Diluted | $ 0.85 | $ 1.03 |
| Weighted average shares outstanding: | | |
| Basic | 62,262 | 62,038 |
| Diluted | 62,445 | 62,135 |
| | | |
| Dividends declared per share | $ 0.28 | $ 0.28 |

See accompanying notes to unaudited consolidated financial statements.

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

| | For the Three Months Ended | |
| --- | --- | --- |
| | December 31, 2021 | December 31, 2020 |
| | *(in thousands)* | |
| Net income | $ 53,330 | $ 64,077 |
| Other comprehensive income, net of tax: | | |
| Foreign currency translation adjustments | 459 | 6,923 |
| Net gains on cash flow hedge, net of tax | 2,685 | — |
| Other comprehensive income | 3,144 | 6,923 |
| Comprehensive income | $ 56,474 | $ 71,000 |

See accompanying notes to unaudited consolidated financial statements.

**Maximus, Inc.**
**Consolidated Balance Sheets**

| | December 31, 2021 | September 30, 2021 |
|---|---|---|
| | *(unaudited)* | |
| | *(in thousands)* | |
| Assets: | | |
| Cash and cash equivalents | $ 181,790 | $ 135,061 |
| Accounts receivable, net | 849,410 | 834,819 |
| Income taxes receivable | 2,826 | 5,413 |
| Prepaid expenses and other current assets | 114,303 | 104,201 |
| Total current assets | 1,148,329 | 1,079,494 |
| Property and equipment, net | 53,627 | 62,627 |
| Capitalized software, net | 40,349 | 42,868 |
| Operating lease right-of-use assets | 177,866 | 179,349 |
| Goodwill | 1,776,239 | 1,774,406 |
| Intangible assets, net | 871,761 | 879,168 |
| Deferred contract costs, net | 43,319 | 36,486 |
| Deferred compensation plan assets | 49,376 | 46,738 |
| Deferred income taxes | 1,745 | 990 |
| Other assets | 19,257 | 16,839 |
| Total assets | $ 4,181,868 | $ 4,118,965 |
| Liabilities and Shareholders' Equity: | | |
| Liabilities: | | |
| Accounts payable and accrued liabilities | $ 273,289 | $ 305,565 |
| Accrued compensation and benefits | 118,891 | 186,809 |
| Deferred revenue, current portion | 111,578 | 98,588 |
| Income taxes payable | 14,897 | 6,782 |
| Long-term debt, current portion | 78,703 | 80,555 |
| Operating lease liabilities, current portion | 70,345 | 76,077 |
| Other current liabilities | 43,089 | 35,057 |
| Total current liabilities | 710,792 | 789,433 |
| Deferred revenue, non-current portion | 29,072 | 35,932 |
| Deferred income taxes | 196,144 | 194,638 |
| Long-term debt, non-current portion | 1,515,089 | 1,429,137 |
| Deferred compensation plan liabilities, non-current portion | 53,013 | 47,405 |
| Operating lease liabilities, non-current portion | 119,654 | 121,771 |
| Other liabilities | 29,678 | 20,320 |
| Total liabilities | 2,653,442 | 2,638,636 |
| Commitments and contingencies (Note 14) | | |
| Shareholders' equity: | | |
| Common stock, no par value; 100,000 shares authorized; 61,936 and 61,954 shares issued and outstanding as of December 31, 2021 and September 30, 2021, respectively (shares in thousands) | 543,032 | 532,411 |
| Accumulated other comprehensive loss | (36,764) | (39,908) |
| Retained earnings | 1,022,158 | 987,826 |
| Total shareholders' equity | 1,528,426 | 1,480,329 |
| Total liabilities and shareholders' equity | $ 4,181,868 | $ 4,118,965 |

See accompanying notes to unaudited consolidated financial statements.

**Maximus, Inc.**
**Consolidated Statements of Cash Flows**
*(Unaudited)*

| | For the Three Months Ended | |
|---|---|---|
| | December 31, 2021 | December 31, 2020 |
| | *(in thousands)* | |
| Cash flows from operating activities: | | |
| Net income | $ 53,330 | $ 64,077 |
| Adjustments to reconcile net income to cash flows from operating activities: | | |
| Depreciation and amortization of property, equipment and capitalized software | 11,365 | 11,817 |
| Amortization of intangible assets | 22,405 | 6,516 |
| Amortization of debt issuance costs and debt discount | 649 | — |
| Deferred income taxes | (229) | 1,298 |
| Stock compensation expense | 8,248 | 6,062 |
| Change in assets and liabilities, net of effects of business combinations: | | |
| Accounts receivable | (14,114) | 7,809 |
| Prepaid expenses and other current assets | (5,115) | 4,893 |
| Deferred contract costs | (6,811) | (205) |
| Accounts payable and accrued liabilities | (32,452) | 11,199 |
| Accrued compensation and benefits | (56,305) | (35,682) |
| Deferred revenue | 5,929 | 5,757 |
| Income taxes | 10,321 | 16,947 |
| Operating lease right-of-use assets and liabilities | (6,370) | (4,927) |
| Other assets and liabilities | 6,230 | 2,554 |
| Net cash (used in)/provided by operating activities | (2,919) | 98,115 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment and capitalized software | (6,327) | (9,094) |
| Other | — | (159) |
| Net cash used in investing activities | (6,327) | (9,253) |
| Cash flows from financing activities: | | |
| Cash dividends paid to Maximus shareholders | (17,347) | (17,207) |
| Purchases of Maximus common stock | (1,379) | (3,363) |
| Tax withholding related to RSU vesting | (9,673) | (9,818) |
| Proceeds from borrowings | 100,000 | 147,852 |
| Principal payments for debt | (16,685) | (146,188) |
| Other | — | (2,763) |
| Net cash provided by/(used in) financing activities | 54,916 | (31,487) |
| Effect of exchange rate changes on cash, cash equivalents, and restricted cash | 372 | 3,882 |
| Net change in cash, cash equivalents, and restricted cash | 46,042 | 61,257 |
| Cash, cash equivalents and restricted cash, beginning of period | 156,570 | 88,561 |
| Cash, cash equivalents and restricted cash, end of period | $ 202,612 | $ 149,818 |

See accompanying notes to unaudited consolidated financial statements.

**Maximus, Inc.**

**Consolidated Statements of Changes in Shareholders' Equity**

*(Unaudited)*

| | Common Stock | | Accumulated Other Comprehensive Loss | Retained Earnings | Total Equity |
|---|---|---|---|---|---|
| | Shares | Amount | | | |
| | | | *(in thousands)* | | |
| Balance at September 30, 2021 | 61,954 | $ 532,411 | $ (39,908) | $ 987,826 | $ 1,480,329 |
| Net income | — | — | — | 53,330 | 53,330 |
| Foreign currency translation | — | — | 459 | — | 459 |
| Cash flow hedge, net of tax | — | — | 2,685 | — | 2,685 |
| Cash dividends | — | — | — | (17,347) | (17,347) |
| Dividends on RSUs | — | 272 | — | (272) | — |
| Purchases of Maximus common stock | (18) | — | — | (1,379) | (1,379) |
| Stock compensation expense | — | 8,248 | — | — | 8,248 |
| Tax withholding adjustment related to RSU vesting | — | 2,101 | — | — | 2,101 |
| Balance as of December 31, 2021 | 61,936 | $ 543,032 | $ (36,764) | $ 1,022,158 | $ 1,528,426 |

| | Common Stock | | Accumulated Other Comprehensive Loss | Retained Earnings | Total Equity |
|---|---|---|---|---|---|
| | Shares | Amount | | | |
| | | | *(in thousands)* | | |
| Balance at September 30, 2020 | 61,504 | $ 513,959 | $ (42,638) | $ 770,498 | $ 1,241,819 |
| Net income | — | — | — | 64,077 | 64,077 |
| Foreign currency translation | — | — | 6,923 | — | 6,923 |
| Cash dividends | — | — | — | (17,207) | (17,207) |
| Dividends on RSUs | — | 336 | — | (336) | — |
| Purchases of Maximus common stock | (52) | — | — | (3,363) | (3,363) |
| Stock compensation expense | — | 6,062 | — | — | 6,062 |
| Balance as of December 31, 2020 | 61,452 | $ 520,357 | $ (35,715) | $ 813,669 | $ 1,298,311 |

See accompanying notes to unaudited consolidated financial statements.

**Maximus, Inc.**
**Notes to the Unaudited Consolidated Financial Statements**

1. ORGANIZATION

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

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

(b) Basis of Presentation for Interim Periods

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

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

(c) Estimates

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

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

## 3. BUSINESS SEGMENTS

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

*U.S. Services*

Our U.S. Services Segment provides a variety of business process services ("BPS") such as program administration, appeals and assessments, and related consulting work for U.S. state and local government programs. These services support a variety of programs, including the Affordable Care Act ("ACA"), Medicaid, the Children's Health Insurance Program ("CHIP"), Temporary Assistance to Needy Families ("TANF"), and child support programs. Addressing societal macro trends such as aging populations and rising costs, the segment continues to execute on its clinical evolution strategy by expanding its clinical offerings in public health with new work in contact tracing, disease investigation, and vaccine distribution support services as part of the governments' COVID-19 response efforts. The segment also successfully expanded into the unemployment insurance market, supporting more than 15 states in their unemployment insurance programs.

*U.S. Federal Services*

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

*Outside the U.S.*

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

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***Table 3: Results of Operation by Business Segment (1)***

| | For the Three Months Ended | | | |
|---|---|---|---|---|
| | December 31, 2021 | | December 31, 2020 | |
| | Amount | % (2) | Amount | % (2) |
| | *(dollars in thousands)* | | | |
| **Revenue:** | | | | |
| U.S. Services | $ 386,417 | | $ 384,934 | |
| U.S. Federal Services | 581,871 | | 405,245 | |
| Outside the U.S. | 182,588 | | 155,375 | |
| Revenue | $ 1,150,876 | | $ 945,554 | |
| **Gross profit:** | | | | |
| U.S. Services | $ 89,699 | 23.2 % | $ 99,002 | 25.7 % |
| U.S. Federal Services | 126,576 | 21.8 % | 82,496 | 20.4 % |
| Outside the U.S. | 11,880 | 6.5 % | 24,557 | 15.8 % |
| Gross profit | $ 228,155 | 19.8 % | $ 206,055 | 21.8 % |
| **Selling, general, and administrative expenses:** | | | | |
| U.S. Services | $ 35,102 | 9.1 % | $ 37,456 | 9.7 % |
| U.S. Federal Services | 64,925 | 11.2 % | 52,252 | 12.9 % |
| Outside the U.S. | 21,340 | 11.7 % | 20,032 | 12.9 % |
| Other (3) | 2,854 | NM | 2,227 | NM |
| Selling, general, and administrative expenses | $ 124,221 | 10.8 % | $ 111,967 | 11.8 % |
| **Operating income:** | | | | |
| U.S. Services | $ 54,597 | 14.1 % | $ 61,546 | 16.0 % |
| U.S. Federal Services | 61,651 | 10.6 % | 30,244 | 7.5 % |
| Outside the U.S. | (9,460) | (5.2) % | 4,525 | 2.9 % |
| Amortization of intangible assets | (22,405) | NM | (6,516) | NM |
| Other (3) | (2,854) | NM | (2,227) | NM |
| Operating income | $ 81,529 | 7.1 % | $ 87,572 | 9.3 % |

(1) Expenses that are not specifically included in the segments are included in other categories, including amortization of intangible assets and the direct costs of acquisitions. These costs are excluded from measuring each segment's operating performance.

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

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

## 4. REVENUE RECOGNITION

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

*Disaggregation of Revenue*

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

***Table 4.1: Revenue by Contract Type***

| | For the Three Months Ended | |
|---|---|---|
| | December 31, 2021 | December 31, 2020 |
| | *(in thousands)* | |
| Performance-based | $ 490,956 | $ 293,960 |
| Cost-plus | 340,081 | 384,483 |
| Fixed price | 151,505 | 120,777 |
| Time and materials | 168,334 | 146,334 |
| Total revenue | $ 1,150,876 | $ 945,554 |

***Table 4.2: Revenue by Customer Type***

| | For the Three Months Ended | |
|---|---|---|
| | December 31, 2021 | December 31, 2020 |
| | *(in thousands)* | |
| U.S. state government agencies | $ 371,547 | $ 388,114 |
| United States Federal Government agencies | 564,094 | 385,573 |
| International government agencies | 171,375 | 147,342 |
| Other, including local municipalities and commercial customers | 43,860 | 24,525 |
| Total revenue | $ 1,150,876 | $ 945,554 |

***Table 4.3: Revenue by Geography***

| | For the Three Months Ended | |
|---|---|---|
| | December 31, 2021 | December 31, 2020 |
| | *(in thousands)* | |
| United States | $ 968,288 | $ 790,179 |
| United Kingdom | 85,807 | 64,786 |
| Australia | 52,814 | 55,932 |
| Rest of world | 43,967 | 34,657 |
| Total revenue | $ 1,150,876 | $ 945,554 |

*Contract balances*

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

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

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

- Under cost-plus contracts, we are typically required to estimate a contract's share of our general and administrative expenses. This share is based upon estimates of total costs which may vary over time. We typically invoice our customers at an agreed provisional billing rate which may differ from actual rates incurred. If our actual rates are higher than the provisional billing rates, an asset is recorded for this variance; if the provisional billing rates are higher than our actual rates, we record a liability.
- Certain contracts include retainage balances, whereby revenue is earned but some portion of cash payments are held back by the customer for a period of time, typically to allow the customer to confirm the objective criteria laid out by the contract have been met. This balance is classified as accounts receivable — unbilled until restrictions on billing are lifted. As of December 31, 2021 and September 30, 2021, $12.5 million and $10.4 million, respectively, of our unbilled receivables related to amounts pursuant to contractual retainage provisions.
- In certain contracts, we may receive funds from our customers prior to performing operations. These funds are typically referred to as "set-up costs" and reflect the need for us to make investments in infrastructure prior to providing a service. This investment in infrastructure is not a performance obligation which is distinct from the service that is subsequently provided and, as a result, revenue is not recognized based upon the establishment of this infrastructure, but rather over the course of the contractual relationship. The funds are initially recorded as deferred revenue and recognized over the term of the contract. Other contracts may not include set-up fees but will provide higher fees in earlier periods of the contract. The premium on these fees is deferred.
- Some of our contracts, notably our employment services contracts in the Outside the U.S. Segment, include payments for desired outcomes, such as job placement and job retention, and these outcome payments occur over several months. We are required to estimate these outcome fees ahead of their realization and recognize this estimated fee over the period of delivery.

During the three months ended December 31, 2021, we recognized revenue of $ 41.2 million included in our deferred revenue balances as of September 30, 2021. During the three months ended December 31, 2020, we recognized revenue of $14.0 million included in our deferred revenue balances at September 30, 2020.

*Contract estimates*

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

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

Changes to our estimates are recognized on a cumulative catch-up basis. For the three months ended December 31, 2021, we reported a reduction in revenue and diluted earnings per share of $4.7 million and $0.05, respectively, from changes in estimates. The corresponding change for the three months ended December 31, 2020, was a benefit to revenue and diluted earnings per share of $10.2 million and $0.12, respectively.

*Remaining performance obligations*

As of December 31, 2021, we had approximately $ 570 million of remaining performance obligations. We anticipate that we will recognize revenue on approximately 50% of this balance within the next 12 months. This balance excludes contracts with an original duration of twelve months or less, including contracts with a penalty-free termination for convenience clause, and any variable consideration which is allocated entirely to future performance obligations, including variable transaction fees or fees tied directly to costs incurred.

## 5. EARNINGS PER SHARE

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

| | For the Three Months Ended | |
|---|---|---|
| | December 31, 2021 | December 31, 2020 |
| | *(in thousands)* | |
| Basic weighted average shares outstanding | 62,262 | 62,038 |
| Dilutive effect of unvested RSUs and PSUs | 183 | 97 |
| Denominator for diluted earnings per share | 62,445 | 62,135 |

The diluted earnings per share calculation for the three months December 31, 2021 and 2020, excludes approximately 135,490 and 595,000 unvested anti-dilutive stock units, respectively.

## 6. BUSINESS COMBINATIONS

*VES Group, Inc. (VES)*

On May 28, 2021, the Company acquired 100% of VES for an estimated cash purchase price of $ 1.36 billion (the "VES Acquisition"). The final purchase price is subject to adjustment and is expected to be finalized during 2022. This business was integrated into our U.S. Federal Services Segment and is expected to increase revenue attributable to providing independent and conflict-free clinical business process services ("BPS"). The VES Acquisition also supports our ongoing strategic priority of expansion into the U.S. Federal market and accelerates our clinical evolution to meet long-term demand for BPS with a clinical dimension. As of December 31, 2021, we have completed our assessment of all acquired assets and liabilities assumed, except income taxes and working capital true-up.

***Table 6.1: VES Valuation***

| | Allocation of Assets and Liabilities as of September 30, 2021 | Adjustments | Estimated Allocation of Assets and Liabilities as of December 31, 2021 |
|---|---|---|---|
| | | *(in thousands)* | |
| *Consideration paid:* | | | |
| Cash consideration paid, net of cash acquired | $ 1,360,231 | $ — | $ 1,360,231 |
| Estimated additional cash payments | 4,635 | — | 4,635 |
| Estimated cash consideration, net of cash acquired | 1,364,866 | — | 1,364,866 |
| *Assets acquired:* | | | |
| Accounts receivable - billed, billable and unbilled | $ 44,078 | $ — | $ 44,078 |
| Prepaid expenses and other current assets | 7,955 | — | 7,955 |
| Property and equipment, net | 9,113 | (1,092) | 8,021 |
| Operating lease right-of-use assets | 18,898 | — | 18,898 |
| Intangible assets | 664,000 | — | 664,000 |
| Other assets | 7,166 | — | 7,166 |
| Total identifiable assets acquired | 751,210 | (1,092) | 750,118 |
| *Liabilities assumed:* | | | |
| Accounts payable and accrued compensation | 42,182 | — | 42,182 |
| Operating lease liabilities | 18,898 | — | 18,898 |
| Income taxes payable, current | 5,673 | — | 5,673 |
| Deferred income taxes | 171,497 | — | 171,497 |
| Other long-term liabilities | 12,270 | — | 12,270 |
| Total identifiable liabilities assumed | 250,520 | — | 250,520 |
| Net identifiable assets acquired | 500,690 | (1,092) | 499,598 |
| Goodwill | 864,176 | 1,092 | 865,268 |
| Net assets acquired | $ 1,364,866 | $ — | $ 1,364,866 |

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

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

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

***Table 6.2: VES Intangible Asset Values and Useful Lives***

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

In connection with certain liabilities acquired in the VES acquisition, we established a liability of $ 12.0 million for a billing dispute between VES and its customer relating to prior year billings. Our exposure is partially offset by an indemnification asset of $6.0 million. During the first quarter of fiscal year 2022, the liability has been agreed as $12.0 million. We expect to settle the liability in the second quarter of fiscal year 2022 and recover the indemnification balance from the escrow fund. In addition, we have established a tax liability of $12.3 million for uncertain tax positions within VES, partially offset by another indemnification asset of $7.2 million.

*Connect Assist Holdings Limited ("Connect Assist")*

On September 14, 2021, we acquired 100% of the share capital of Connect Assist for an estimated purchase price of $ 21.1 million (£15.5 million British Pounds). We acquired this business to improve our contact center services and qualifications within the United Kingdom. The business was integrated into our Outside the U.S. Segment. We have completed a preliminary assessment of all acquired assets and liabilities assumed. We recorded estimated goodwill and intangible assets of $11.3 million and $7.7 million, respectively, related to the acquisition. During the three months ended December 31, 2021, we reported $5.8 million and $2.2 million of revenue and gross profit, respectively, from Connect Assist.

*Aidvantage*

On October 6, 2021, we completed the acquisition of the student loan servicing business from Navient, rebranded as Aidvantage. The purchase price consideration is contingent upon future operating performance, up to a maximum payment of $65.0 million. At this time, we estimate that total payments will total approximately $15.3 million; this will increase if the number of student loans we are servicing increases or if the contractual relationship we have acquired is extended beyond its current anticipated end date of December 31, 2023. In the event that our anticipated future expense exceeds $15.3 million, we will record any difference as a charge to our statement of operating income. We recorded intangible assets related to the customer relationship of $ 14.9 million, which we are amortizing over 27 months. This business is a part of our U.S. Federal Services Segment and supplements our existing portfolio of services to the U.S. Department of Education. We are still in the process of completing our valuation of the assets acquired and the contingent consideration.

During the three months ended December 31, 2021, we reported $ 34.7 million and $2.0 million of revenue and gross profit, respectively, from Aidvantage.

## 7. DEBT

***Table 7.1: Details of Debt***

| | December 31, 2021 | September 30, 2021 |
|---|---|---|
| | *(in thousands)* | |
| Term Loan A, due 2026 | $ 1,072,500 | $ 1,086,250 |
| Term Loan B, due 2028 | 398,000 | 399,000 |
| Subsidiary loan agreements | 36,564 | 38,281 |
| Revolver | 100,000 | — |
| Total debt principal | 1,607,064 | 1,523,531 |
| Less: Unamortized debt-issuance costs and discounts | (13,272) | (13,839) |
| Total debt | 1,593,792 | 1,509,692 |
| Less: Current portion of long-term debt | (78,703) | (80,555) |
| Long-term debt | $ 1,515,089 | $ 1,429,137 |

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

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

The interest rates applicable to loans under the Credit Agreement are floating rates based upon the London Interbank Offered Rate ("LIBOR") plus a margin. Term Loan A and the Revolver margins are dependent upon our leverage ratio. Term Loan B is set to LIBOR plus 2.00% subject to a floor of 0.50%. At execution of the Credit Agreement, the interest rates for Term Loan A and the Revolver was LIBOR plus 1.75%. During the first quarter of fiscal quarter 2022, we were able to lower our interest rates on both Term Loan A and the Revolver to LIBOR plus 1.50% based on the attainment of a total leverage ratio of 2.50 or better. As of December 31, 2021 the net total leverage ratio was 2.47. If the Company is able to achieve a net total leverage ratio of 2.00, the interest rates for Term Loan A and the Revolver could be further lowered to LIBOR plus 1.375%, conversely if the net leverage ratio increases to 2.50 or greater, the rate would revert back to LIBOR plus 1.75%. LIBOR is anticipated to be phased out over the next 18 months, and alternative benchmark rates have been identified in this agreement. This is the only significant arrangement within the Company that utilizes LIBOR. As of December 31, 2021, the annual effective interest rate, including original issue discount and amortization of debt issuance costs, was 2.3%.

The Credit Agreement is available for general corporate purposes, including the funding of working capital, capital expenditures, and possible future acquisitions. In addition to borrowings, it allows us to continue to issue letters of credit when necessary. As of December 31, 2021, the Company had $100.0 million outstanding balance on the corporate Revolver.

Under the terms of the Credit Agreement, the Company is required to comply with certain covenants, the terms of which are customary and include a net total leverage ratio and a net interest coverage ratio. The net total leverage ratio is calculated as total outstanding debt and contingent consideration liabilities less the lower of (a) unrestricted cash or (b) $75.0 million. With certain exceptions, the covenant requires the net total leverage ratio, as defined by the Credit Agreement to be less than 4.0, calculated over the previous twelve months. The net interest coverage ratio is calculated as earnings before interest, depreciation, and amortization ("EBITDA") divided by interest expense, over the previous twelve months, all defined by the Credit Agreement. The covenant requires a net interest coverage ratio of 3.0 or greater. As of December 31, 2021, as defined by the Credit Agreement, the Company calculated a net total leverage ratio of 2.47 and net interest coverage ratio of 16.4. The Company was in compliance with all applicable covenants under the Credit Agreement as of December 31, 2021 and September 30, 2021. We do not believe that the covenants represent a significant restriction to our ability to successfully operate the business or to pay our dividends.

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

***Table 7.2: Details of Future Minimum Principal Payments Due***

| | Amount Due |
|---|---|
| | *(in thousands)* |
| January 1, 2022 through September 30, 2022 | $ 65,035 |
| Year ended September 30, 2023 | 72,927 |
| Year ended September 30, 2024 | 93,482 |
| Year ended September 30, 2025 | 95,120 |
| Year ended September 30, 2026 | 901,500 |
| Thereafter | 379,000 |
| Total payments | $ 1,607,064 |

8. DERIVATIVES

*Interest Rate Derivative Instrument*

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

As this cash flow hedge is considered effective, any future gains and losses are reflected within Accumulated Other Comprehensive Income in the Consolidated Statements of Comprehensive Income. Derivatives in a net asset position are recorded in "Prepaid expenses and other current assets" on our Consolidated Balance Sheets and derivatives in a net liability position are recorded in "Other current liabilities" on our Consolidated Balance Sheets. No ineffectiveness was recorded on this contract during the three months ended December 31, 2021.

***Table 8.1: Details of Derivatives Fair Value***

| | December 31, 2021 | September 30, 2021 |
|---|---|---|
| | *(in thousands)* | |
| Assets: | | |
| Interest rate swap | $ 3,233 | $ — |
| Total assets | $ 3,233 | $ — |
| Liabilities: | | |
| Interest rate swap | $ — | $ 410 |
| Total liabilities | $ — | $ 410 |

***Table 8.2: Gains on Derivatives***

| | For the Three Months Ended | |
|---|---|---|
| | December 31, 2021 | December 31, 2020 |
| | *(in thousands)* | |
| Net gains recognized in AOCI on derivatives, net of tax (1) | $ 2,177 | $ — |
| Amounts reclassified to earnings from accumulated other comprehensive loss (2) | 508 | — |
| Net current period other comprehensive income | $ 2,685 | $ — |

(1) Amount is net of tax expense of $0.8 million for the three months ended December 31, 2021.

(2) Amount is net of tax benefit for $0.2 million for the three months ended December 31, 2021.

*Counterparty Risk*

The Company is exposed to credit losses in the event of nonperformance by the counterparty to our derivative instrument. Our counterparty has investment grade credit ratings; accordingly, we anticipate that the counterparty will be able to fully satisfy its obligations under the contracts. Our agreements outline the conditions upon which it or the counterparty are required to post collateral. As of December 31, 2021, there was no collateral posted with its counterparty related to the derivatives.

9. FAIR VALUE

The Company had two assets recorded at fair value on a recurring basis as of December 31, 2021, the deferred compensation asset, related to the portion invested in mutual funds and the interest rate swap. For the deferred compensation asset, the mutual funds prices are quoted in active markets and therefore are classified as Level 1. For the interest rate swap, the Company obtains its Level 2 pricing inputs from its counterparty for the interest rate swap. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace. As of December 31, 2021, the Company had one liability recorded at fair value on a recurring basis for contingent consideration related to acquisitions. The contingent consideration liability is considered Level 3, as the inputs are not observable and based on internal assumptions about forecasted revenues, margins, volumes, and probability of contract extensions on businesses acquired.

The fair values of receivables, prepaids, other assets, accounts payable, accrued costs, and other current liabilities approximate the carrying values as a result of the short-term nature of these instruments. The carrying value of debt was $1.59 billion and $1.51 billion as of December 31, 2021 and September 30, 2021, respectively, approximates the fair value as the stated interest rates in the agreements are consistent with the current market rates used in notes with similar terms in the markets (Level 2 inputs).

***Table 9: Fair Value***

| | As of December 31, 2021 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Balance |
| | *(in thousands)* | | | |
| Assets: | | | | |
| Deferred compensation assets - Rabbi Trust | $ 30,065 | $ — | $ — | $ 30,065 |
| Interest rate swap | — | 3,233 | — | 3,233 |
| Total assets | $ 30,065 | $ 3,233 | $ — | $ 33,298 |
| Liabilities: | | | | |
| Contingent consideration | $ — | $ — | $ 15,602 | $ 15,602 |
| Total liabilities | $ — | $ — | $ 15,602 | $ 15,602 |

10. EQUITY

*Stock Compensation*

The Company grants restricted stock units ("RSUs") and performance stock units ("PSUs") to eligible participants under its 2017 Stock Incentive Plan, which was approved by the Board of Directors and stockholders. The RSUs granted to employees vest ratably over three to five years and one year for members of the board of directors, in each case from the grant date. PSU vesting is subject to the achievement of certain performance and market conditions and the number of PSUs earned could vary from 0% to 200% of the number of PSUs awarded. The PSUs will vest at the end of a three year-performance period. We issue new shares to satisfy our obligations under these plans. The fair value of each RSU and PSU is calculated at the date of the grant.

During the three months ended December 31, 2021, we issued approximately 287,000 RSUs, which will vest ratably over three or four years, and approximately 87,000 PSUs, which will vest ratably over three years.

*Accumulated Other Comprehensive Income*

***Table 10: Details of Changes in Accumulated Other Comprehensive Loss by Category***

| | Foreign currency translation adjustment | Net unrealized (loss)/gain on derivatives, net of tax | Total |
|---|---|---|---|
| | | *(in thousands)* | |
| Balance as of September 30, 2021 | $ (39,605) | $ (303) | $ (39,908) |
| Other comprehensive income before reclassifications | 459 | 2,177 | 2,636 |
| Amounts reclassified from accumulated other comprehensive loss | — | 508 | 508 |
| Net current period other comprehensive income | 459 | 2,685 | 3,144 |
| Balance as of December 31, 2021 | $ (39,146) | $ 2,382 | $ (36,764) |

*Stock Repurchase Programs*

Under a resolution adopted in March 2020, the Board of Directors authorized the purchase, at management's discretion, of up to $ 200.0 million of our common stock. This supplemented a similar resolution adopted in June 2018. During the three months ended December 31, 2021 and 2020, the Company purchased 18,403 and 51,735 common shares at a cost of $ 1.4 million and $3.4 million, respectively. As of December 31, 2021, $ 145.3 million remained available for future stock repurchases.

## 11. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

***Table 11.1: Details of Cash and Cash Equivalents and Restricted Cash***

| | December 31, 2021 | September 30, 2021 |
|---|---|---|
| | *(in thousands)* | |
| Cash and cash equivalents | $ 181,790 | $ 135,061 |
| Restricted cash (1) | 20,822 | 21,509 |
| Cash, cash equivalents, and restricted cash | $ 202,612 | $ 156,570 |

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

***Table 11.2: Supplemental Disclosures of Cash Flow Information***

| | For the Three Months Ended | |
|---|---|---|
| | December 31, 2021 | December 31, 2020 |
| | *(in thousands)* | |
| Interest payments | $ 8,943 | $ 203 |
| Income tax payments | 8,009 | 4,093 |

## 12. ACCOUNTS RECEIVABLE, NET

***Table 12: Details of Accounts Receivable, Net***

| | December 31, 2021 | September 30, 2021 |
|---|---|---|
| | *(in thousands)* | |
| Billed and billable receivables | $ 717,804 | $ 718,728 |
| Unbilled receivables | 139,348 | 124,135 |
| Allowance for credit losses | (7,742) | (8,044) |
| Accounts receivable, net | $ 849,410 | $ 834,819 |

13. PROPERTY AND EQUIPMENT, NET

***Table 13: Details of Property and Equipment, Net***

| | December 31, 2021 | September 30, 2021 |
|---|---|---|
| | *(in thousands)* | |
| Land | $ — | $ 1,738 |
| Building and improvements | — | 11,981 |
| Office furniture and equipment | 245,110 | 254,102 |
| Leasehold improvements | 79,613 | 79,938 |
| Property and equipment, at cost | 324,723 | 347,759 |
| Accumulated depreciation | (271,096) | (285,132) |
| Property and equipment, net | $ 53,627 | $ 62,627 |

As of December 31, 2021, we classified as held for sale one building and the associated land with a carrying value of $ 5.4 million within "Prepaid expenses and other current assets" on our Consolidated Balance Sheets. As of December 31, 2021, we concluded the fair value less the costs to sell exceeds the carrying value of this asset.

14. COMMITMENTS AND CONTINGENCIES

*Litigation*

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

*Medicaid claims*

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

15. SUBSEQUENT EVENT

On January 7, 2022, our Board of Directors declared a quarterly cash dividend of $ 0.28 for each share of our common stock outstanding. The dividend is payable on February 28, 2022, to shareholders of record on February 15, 2022. Based upon the number of shares outstanding, we anticipate a cash payment of approximately $17.3 million.

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

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

**Business Overview**

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

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

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

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

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

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

**Financial Overview**

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

- During fiscal year 2021, we acquired VES Group, Inc. ("VES"), the Federal Division of Attain, LLC ("Attain") and Connect Assist Holdings Limited ("Connect Assist"). At the start of fiscal year 2022, we acquired the student loan servicing business from Navient, rebranded as Aidvantage. From the date of each acquisition, we have received the benefit of additional revenue, as well as additional operating costs. In completing these acquisitions, we have allocated a portion of each purchase price to identifiable intangible assets, which we are amortizing over the estimated useful lives of each asset.
- To fund the acquisition of VES, we entered into a new credit facility comprised of fixed term debt and a new revolving credit facility. The cost of servicing this debt, as well as the cost of the debt facilities, has resulted in an increase in our interest expense.
- Our services in fiscal years 2022 and 2021 were affected by the COVID-19 pandemic. We have received the benefit from new, short-term work, assisting governments with their responses to the pandemic. This has mitigated the effect of declines in established programs where our transaction volume has been reduced. We anticipate that our core programs will begin returning to capacity in the latter half of this year, as our COVID related work is expected to decline.
- As anticipated, the Census Questionnaire Assistance ("CQA") contract ended in the first quarter of fiscal year 2021.

**Results of Operations**

***Table MD&A 1: Consolidated Results of Operations***

| | For the Three Months Ended | |
|---|---|---|
| | December 31, 2021 | December 31, 2020 |
| | *(dollars in thousands, except per share data)* | |
| Revenue | $ 1,150,876 | $ 945,554 |
| Cost of revenue | 922,721 | 739,499 |
| Gross profit | 228,155 | 206,055 |
| ***Gross profit percentage*** | ***19.8 %*** | ***21.8 %*** |
| Selling, general, and administrative expenses | 124,221 | 111,967 |
| ***Selling, general, and administrative expenses as a percentage of revenue*** | ***10.8 %*** | ***11.8 %*** |
| Amortization of intangible assets | 22,405 | 6,516 |
| Operating income | 81,529 | 87,572 |
| ***Operating income margin*** | ***7.1 %*** | ***9.3 %*** |
| Interest expense | (9,638) | (206) |
| Other expense, net | (311) | (775) |
| Income before income taxes | 71,580 | 86,591 |
| Provision for income taxes | 18,250 | 22,514 |
| ***Effective tax rate*** | ***25.5 %*** | ***26.0 %*** |
| Net income | $ 53,330 | $ 64,077 |
| Earnings per share: | | |
| Basic | $ 0.86 | $ 1.03 |
| Diluted | $ 0.85 | $ 1.03 |

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

***Table MD&A 2: Changes in Revenue, Cost of Revenue, and Gross Profit for the Three Months Ended December 31, 2021***

| | Revenue | | Cost of Revenue | | Gross Profit | |
|---|---|---|---|---|---|---|
| | Dollars | % Change | Dollars | % Change | Dollars | % Change |
| | | | *(dollars in thousands)* | | | |
| Three Months Ended December 31, 2020 | $ 945,554 | | $ 739,499 | | $ 206,055 | |
| Organic effect | (32,764) | (3.5) % | 10,844 | 1.5 % | (43,608) | (21.2) % |
| Acquired growth | 235,766 | 24.9 % | 170,187 | 23.0 % | 65,579 | 31.8 % |
| Currency effect compared to the prior period | 2,320 | 0.2 % | 2,191 | 0.3 % | 129 | 0.1 % |
| Three Months Ended December 31, 2021 | $ 1,150,876 | 21.7 % | $ 922,721 | 24.8 % | $ 228,155 | 10.7 % |

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

Our SG&A expense has increased year-over-year due primarily to the additional cost base from our acquisitions.

Our amortization of intangible assets increased by $15.9 million from three months ended December 31, 2020 to three months ended December 31, 2021.

- The intangible assets associated with the VES acquisition increased our amortization expense by $13.8 million.
- The intangible assets associated with the Attain acquisition increased our amortization expense by $2.6 million.
- The intangible assets associated with the Aidvantage acquisition increased our amortization expense by $1.7 million.
- Our acquisition of the Citizen Engagement Centers business in fiscal year 2019 included an intangible asset with a value of $37.0 million and an asset life concurrent with the CQA contract. This asset was fully amortized in November 2020, and this reduced our year-over-year charge by $2.3 million.
- The balance of the difference was derived from the Connect Assist acquisition and the effects of foreign currency translation.

***Table MD&A 3: Non-GAAP Adjusted Results Excluding Amortization of Intangible Assets***

| | For the Three Months Ended | |
|---|---|---|
| | December 31, 2021 | December 31, 2020 |
| | *(dollars in thousands, except per share data)* | |
| Operating income | $ 81,529 | $ 87,572 |
| Add back: Amortization of intangible assets | 22,405 | 6,516 |
| Adjusted operating income excluding amortization of intangible assets (Non-GAAP) | $ 103,934 | $ 94,088 |
| Adjusted operating income margin excluding amortization of intangible assets (Non-GAAP) | 9.0 % | 10.0 % |
| | | |
| Net income | $ 53,330 | $ 64,077 |
| Add back: Amortization of intangible assets, net of tax | 16,530 | 4,822 |
| Adjusted net income excluding amortization of intangible assets (Non-GAAP) | $ 69,860 | $ 68,899 |
| | | |
| Diluted earnings per share | $ 0.85 | $ 1.03 |
| Add back: Effect of amortization of intangible assets on diluted earnings per share | 0.27 | 0.08 |
| Adjusted diluted earnings per share excluding amortization of intangible assets (Non-GAAP) | $ 1.12 | $ 1.11 |

Our intangible asset amortization is based upon our assumptions of the value and economic life, typically established at the acquisition date. If these assumptions change, the pattern of future expense may be accelerated. At this time, we have a significant asset related to a large contract relationship on a contract which is subject to a rebid in June 2022. If this rebid is unsuccessful, the asset life of this asset may need to be reduced.

Our interest expense increased from $0.2 million for the three months ended December 31, 2020 to $9.6 million for the same period in 2021. This increase is driven by the costs of our cash borrowings utilized to acquire VES. Interest expense is expected to be in the range of $33 million to $35 million for fiscal year 2022 due to the debt being outstanding for the entire fiscal year. Our interest rate will vary based upon both prevailing interest rates and our leverage ratio. Additional details on our borrowings are including within the "Liquidity and Capital Resources" section.

Our effective income tax rate for the three months ended December 31, 2021 and 2020, was 25.5% and 26.0%, respectively. For fiscal year 2022, we expect the effective tax rate to be between 25% and 26%.

***U.S. Services Segment***

Our U.S. Services Segment provides a variety of business process services ("BPS") such as program administration, appeals and assessments, and related consulting work for U.S. state and local government programs. These services support a variety of programs, including the Affordable Care Act ("ACA"), Medicaid, the Children's Health Insurance Program ("CHIP"), Temporary Assistance to Needy Families ("TANF"), and child support programs. Addressing societal macro trends such as aging populations and rising costs, the segment continues to execute on its clinical evolution strategy by expanding its clinical offerings in public health with new work in contact tracing, disease investigation, and vaccine distribution support services as part of the governments' COVID-19 response efforts. The segment also successfully expanded into the unemployment insurance market, supporting more than 15 states in their unemployment insurance programs.

***Table MD&A 4: U.S. Services Segment - Financial Results***

| | For the Three Months Ended | |
|---|---|---|
| | December 31, 2021 | December 31, 2020 |
| | *(dollars in thousands)* | |
| Revenue | $ 386,417 | $ 384,934 |
| Cost of revenue | 296,718 | 285,932 |
| Gross profit | 89,699 | 99,002 |
| Selling, general, and administrative expenses | 35,102 | 37,456 |
| Operating income | 54,597 | 61,546 |
| Gross profit percentage | 23.2 % | 25.7 % |
| Operating margin percentage | 14.1 % | 16.0 % |

Our revenue and cost of revenue for the three months ended December 31, 2021, increased 0.4% and 3.8%, respectively, compared to the same period 2021. All growth was organic.

Many of our core programs continue to run at reduced capacity as a response to the COVID-19 pandemic. Among other factors, we are reporting lower volumes of transactions on redetermination activities as states have paused Medicaid redeterminations as a condition for receiving enhanced U.S. Federal matching funds. In certain cases, redeterminations provide a significant part of our activity within volume-based contracts. We are anticipating that redeterminations will commence in the latter half of this fiscal year but the timing and the nature of the change is uncertain.

In fiscal year 2021, we received a large volume of short term COVID-19 related work, typically at a higher margin. This work has declined in 2022, tempering those margins.

***U.S. Federal Services Segment***

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

***Table MD&A 5: U.S. Federal Services Segment - Financial Results***

| | For the Three Months Ended | |
|---|---|---|
| | December 31, 2021 | December 31, 2020 |
| | *(dollars in thousands)* | |
| Revenue | $ 581,871 | $ 405,245 |
| Cost of revenue | 455,295 | 322,749 |
| Gross profit | 126,576 | 82,496 |
| Selling, general, and administrative expenses | 64,925 | 52,252 |
| Operating income | 61,651 | 30,244 |
| Gross profit percentage | 21.8 % | 20.4 % |
| Operating margin percentage | 10.6 % | 7.5 % |

***Table MD&A 6: U.S. Federal Services Segment - Changes in Revenue, Cost of Revenue, and Gross Profit***

| | Revenue | | Cost of Revenue | | Gross Profit | |
|---|---|---|---|---|---|---|
| | Amount | % Change | Amount | % Change | Amount | % Change |
| | | | *(dollars in thousands)* | | | |
| Three Months Ended December 31, 2020 | $ 405,245 | | $ 322,749 | | $ 82,496 | |
| Organic effect | (53,339) | (13.2) % | (34,064) | (10.6) % | (19,275) | (23.4) % |
| Acquired growth | 229,965 | 56.7 % | 166,610 | 51.6 % | 63,355 | 76.8 % |
| Three Months Ended December 31, 2021 | $ 581,871 | 43.6 % | $ 455,295 | 41.1 % | $ 126,576 | 53.4 % |

We received significant acquired growth from:

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

Our profit margins on VES and Attain are higher than our organic work, resulting in improvements to our profit margins. Our organic work tempered our margins. This was driven by a large contract we agreed to accept a lower margin in return for increased funding and future revenue.

In the first quarter of fiscal year 2021, we completed our work on the U.S. Census Questionnaire (CQA) contract, which did not recur in the first quarter of fiscal year 2022.

***Outside the U.S. Segment***

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

***Table MD&A 7: Outside the U.S. Segment - Financial Results***

| | For the Three Months Ended | |
|---|---|---|
| | December 31, 2021 | December 31, 2020 |
| | *(dollars in thousands)* | |
| Revenue | $ 182,588 | $ 155,375 |
| Cost of revenue | 170,708 | 130,818 |
| Gross profit | 11,880 | 24,557 |
| Selling, general, and administrative expenses | 21,340 | 20,032 |
| Operating (loss)/income | (9,460) | 4,525 |
| Gross profit percentage | 6.5 % | 15.8 % |
| Operating margin percentage | (5.2) % | 2.9 % |

***Table MD&A 8: Outside the U.S. Segment - Changes in Revenue, Cost of Revenue, and Gross Profit***

| | Revenue | | Cost of Revenue | | Gross Profit | |
|---|---|---|---|---|---|---|
| | Amount | % Change | Amount | % Change | Amount | % Change |
| | | | *(dollars in thousands)* | | | |
| Three Months Ended December 31, 2020 | $ 155,375 | | $ 130,818 | | $ 24,557 | |
| Organic effect | 19,092 | 12.3 % | 34,122 | 26.1 % | (15,030) | (61.2) % |
| Acquired growth | 5,801 | 3.7 % | 3,577 | 2.7 % | 2,224 | 9.1 % |
| Currency effect compared to the prior period | 2,320 | 1.5 % | 2,191 | 1.7 % | 129 | 0.5 % |
| Three Months Ended December 31, 2021 | $ 182,588 | 17.5 % | $ 170,708 | 30.5 % | $ 11,880 | (51.6) % |

This segment experienced organic growth in revenue and costs, as well as acquired growth and currency benefits during the three months ended December 31, 2021.

Revenue growth was principally from our United Kingdom business, where the Restart contract continued to ramp up. Margins on the Restart contract are tempered as we have not yet reached our full service capacity. Elsewhere, our margins have contracted as caseload has declined; in the first quarter of fiscal year 2021, our margins were higher as we received the benefit from the recovery of our employment contracts in Australia.

Acquired growth is from the Connect Assist acquisition.

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

**Liquidity and Capital Resources**

Our primary sources of liquidity are cash on hand, cash flows from operating activities, and availability under our revolving credit facilities. As of December 31, 2021, we had $181.8 million in cash and cash equivalents. We believe that our current cash position, access to our revolvers, and cash flow generated from operations should be not only sufficient for our operating requirements but also to enable us to fund share repurchases and any required long-term debt payments through the next several fiscal years. See Note 7 to the Consolidated Financial Statements for a more detailed discussion of our debt financing arrangements.

***Table MD&A 10: Net Change in Cash and Cash Equivalents and Restricted Cash***

| | For the Three Months Ended | |
|---|---|---|
| | December 31, 2021 | December 31, 2020 |
| | *(in thousands)* | |
| Operating activities: | | |
| Net income | $ 53,330 | $ 64,077 |
| Non-cash adjustments | 42,438 | 25,693 |
| Changes in working capital | (98,687) | 8,345 |
| Net cash (used in)/provided by operating activities | (2,919) | 98,115 |
| Net cash used in investing activities | (6,327) | (9,253) |
| Net cash provided by/(used in) financing activities | 54,916 | (31,487) |
| Effect of foreign exchange rates on cash and cash equivalents and restricted cash | 372 | 3,882 |
| Net change in cash and cash equivalents and restricted cash | $ 46,042 | $ 61,257 |

*Net Cash (Used In)/Provided By Operating Activities*

Net cash provided by operating activities decreased by $101.0 million for the three months ended December 31, 2021 compared to three months ended December 31, 2020. This decrease was primarily driven from a decrease in net income, increased working capital requirements, the timing of cash payments, including payments previously deferred in the United States under the CARES Act, and increased interest payments on our borrowings. Our Days Sales Outstanding ("DSO") as of both December 31, 2021 and September 30, 2021, were 67 days.

*Net Cash Used In Investing Activities*

The net cash used in investing activities were $6.3 million and $9.3 million for the three months ended December 31, 2021 and 2020, respectively. These cash outflows were primarily for capital expenditures to support our operations.

*Net Cash Provided By/(Used In) Financing Activities*

The $54.9 million cash provided by financing activities during the three months ended December 31, 2021, is primarily the result of a $100.0 million draw on our revolving credit line to fund operations, partially offset by $16.7 million of required debt payments on our term loans. Additionally, offsetting the cash flows related to debt, the Company also made $17.3 million in dividend payments, $9.7 million in tax payments for stock compensation, and $1.4 million for share repurchases. During the three months ended December 31, 2020, we had $31.5 million of cash used by financing activities, primarily being driven by dividend payments of $17.2 million, tax payments made related to stock compensation, and shares repurchases of $3.4 million.

With the acquisition of Aidvantage, we have incurred a liability to the seller based upon future performance, which we have estimated at $15.3 million. We expect these payments to be made through fiscal year 2024.

**Cash in Foreign Locations**

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

### Free Cash Flow (Non-GAAP)

***Table MD&A 11: Free Cash Flow (Non-GAAP)***

| | For the Three Months Ended | |
|---|---|---|
| | December 31, 2021 | December 31, 2020 |
| | *(in thousands)* | |
| Net cash (used in)/provided by operating activities | $ (2,919) | $ 98,115 |
| Purchases of property and equipment and capitalized software | (6,327) | (9,094) |
| Free cash flow (Non-GAAP) | $ (9,246) | $ 89,021 |

### Critical Accounting Policies and Estimates

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

### Non-GAAP and Other Measures

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

In fiscal year 2021, 16% of our revenue was generated outside the U.S. We believe that users of our financial statements wish to understand the performance of our foreign operations using a methodology which excludes the effect of year-over-year exchange rate fluctuations. To calculate year-over-year currency movement, we determine the current fiscal year's results for all foreign businesses using the exchange rates in the prior fiscal year. We refer to this adjusted revenue on a "constant currency basis."

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

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

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

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

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

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

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

***Table MD&A 12: Reconciliation of Net Income to Non-GAAP Adjusted EBITA, Non-GAAP Adjusted EBITDA, and Non-GAAP Pro Forma Adjusted EBITDA***

| | For the Three Months Ended December 31, 2021 | For the Trailing Twelve Months Ended December 31, 2021 |
|---|---|---|
| | *(in thousands)* | |
| Net income | $ 53,330 | $ 280,453 |
| Adjustments: | | |
| Interest expense | 9,638 | 24,176 |
| Other expense, net | 311 | 9,641 |
| Provision for income taxes | 18,250 | 88,216 |
| Amortization of intangibles | 22,405 | 60,247 |
| Stock compensation expense | 8,248 | 30,741 |
| Acquisition-related expenses | 2,490 | 12,661 |
| Adjusted EBITA - Non-GAAP measure | 114,672 | 506,135 |
| Depreciation and amortization of property, equipment, and capitalized software | 11,365 | 45,909 |
| Adjusted EBITDA - Non-GAAP measure | $ 126,037 | $ 552,044 |
| Pro forma adjusted EBITDA related to acquisitions - Non-GAAP measure | | 75,031 |
| Pro forma adjusted EBITDA - Non-GAAP measure | | $ 627,075 |

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

**Item 4. Controls and Procedures**

Management's Evaluation of Disclosure Controls and Procedures. The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in its periodic filings under the Securities Exchange Act of 1934 ("Exchange Act"), including this Quarterly Report on Form 10-Q, is recorded, processed, summarized, and reported on a timely basis. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed under the Exchange Act is accumulated and communicated to the Company's management on a timely basis to allow decisions about required disclosure. Management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of Maximus' disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2021.

Maximus carried out the evaluation of the effectiveness of its disclosure controls and procedures, required by paragraph (b) of Exchange Act Rules 13a-15 and 15d-15, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2021.

Changes in Internal Control Over Financial Reporting. There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the three months ended December 31, 2021, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

Refer to our disclosures included in Note 14. Commitments and Contingencies included in Part 1, Item 1 of this Quarterly Report on Form 10-Q.

### Item 1A. Risk Factors

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

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

(a) None.

(b) None.

(c) Under a resolution adopted in March 2020, the Board of Directors authorized the purchase, at management's discretion, of up to $200.0 million of our common stock. This supplemented a similar resolution adopted in June 2018.

***Common Stock Repurchase Activity During the Three Months Ended December 31, 2021***

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of the Publicly Announced Plans or Programs | Maximum Dollar Value that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| | *(dollars in thousands, except per share data)* | | | |
| October 1 - October 31, 2021 | — | $ — | — | $ 146,665 |
| November 1 - November 30, 2021 | — | — | — | $ 146,665 |
| December 1 - December 31, 2021 | 18,403 | 74.87 | 18,403 | $ 145,286 |
| Total | 18,403 | $ 74.87 | 18,403 | |

### Item 3. Defaults Upon Senior Securities

(a) None.

(b) None.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

(a) None.

(b) None.

**Item 6. Exhibits**

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

❖ Filed herewith.
Φ Furnished herewith.

**SIGNATURES**

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

**Maximus, Inc.**

| | |
|---|---|
| /s/ Bruce L. Caswell | February 3, 2022 |
| By: Bruce L. Caswell<br>President and Chief Executive Officer<br>(Principal Executive Officer) | |
| /s/ David. W. Mutryn | February 3, 2022 |
| By: David W. Mutryn<br>Chief Financial Officer<br>(Principal Financial Officer) | |

**EXHIBIT 31.1**

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

I, Bruce L. Caswell, certify that:

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

/s/ Bruce L. Caswell — February 3, 2022

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

**EXHIBIT 31.2**

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

I, David W. Mutryn, certify that:

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

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|---|---|
| /s/ David W. Mutryn | February 3, 2022 |

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

**EXHIBIT 32.1**

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

In connection with the Quarterly Report of Maximus, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Bruce Caswell, President and Chief Executive Officer of the Company, and David Mutryn, Chief Financial Officer of the Company, each certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that to his knowledge:

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

/s/ Bruce L. Caswell — February 3, 2022

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

/s/ David W. Mutryn — February 3, 2022

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