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 June 30, 2019

OR

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

For the transition period from to

Commission File Number: 1-12997

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

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

(703) 251-8500
(Registrant's telephone number, including 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 definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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 Exchange Act). Yes No

As of August 5, 2019, there were 63,810,845 shares of the registrant's common stock (no par value) outstanding.

MAXIMUS, Inc.

Quarterly Report on Form 10-Q
For the Quarter Ended June 30, 2019

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PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

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

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 are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the 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;
- the effects of future legislative or government budgetary and spending changes;
- our failure to successfully bid for and accurately price contracts to generate our desired profit;
- 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;
- our ability to manage capital investments and startup costs incurred before receiving related contract payments;
- our ability to manage our growth, including acquired businesses;
- 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;
- the outcome of reviews or audits, which might result in financial penalties and impair our ability to respond to invitations for new work;
- 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;
- difficulties in integrating or achieving projected revenues, earnings and other benefits associated with acquired businesses;
- 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 have disposed of or divested; and
- other factors set forth in Exhibit 99.1, under the caption "Special Considerations and Risk Factors," in our Annual Report on Form 10-K for the year ended September 30, 2018, which was filed with the Securities and Exchange Commission on November 20, 2018.

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. Consolidated Financial Statements.

MAXIMUS, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2019	2018	2019	2018
Revenue	$ 730,710	$ 597,855	$ 2,131,849	$ 1,833,790
Cost of revenue	556,463	443,171	1,628,915	1,378,343
Gross profit	174,247	154,684	502,934	455,447
Selling, general and administrative expenses	81,604	69,588	239,377	214,026
Amortization of intangible assets	9,049	2,525	24,026	7,846
Operating income	83,594	82,571	239,531	233,575
Interest expense	420	85	2,614	410
Other income, net	556	2,249	3,048	3,928
Income before income taxes	83,730	84,735	239,965	237,093
Provision for income taxes	20,765	24,493	59,511	61,793
Net income	62,965	60,242	180,454	175,300
Income/(loss) attributable to noncontrolling interests	67	381	(281)	856
Net income attributable to MAXIMUS	$ 62,898	$ 59,861	$ 180,735	$ 174,444
Basic earnings per share attributable to MAXIMUS	$ 0.98	$ 0.91	$ 2.80	$ 2.65
Diluted earnings per share attributable to MAXIMUS	$ 0.97	$ 0.91	$ 2.79	$ 2.64
Dividends paid per share	$ 0.25	$ 0.045	$ 0.75	$ 0.135
Weighted average shares outstanding:				
Basic	64,405	65,630	64,534	65,777
Diluted	64,759	65,925	64,800	66,131

See notes to unaudited consolidated financial statements.

MAXIMUS, Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands)
(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2019	2018	2019	2018
Net income	$ 62,965	$ 60,242	$ 180,454	$ 175,300
Foreign currency translation adjustments	(1,974)	(10,459)	(4,157)	(7,275)
Comprehensive income	60,991	49,783	176,297	168,025
Comprehensive income/(loss) attributable to noncontrolling interests	67	381	(281)	856
Comprehensive income attributable to MAXIMUS	$ 60,924	$ 49,402	$ 176,578	$ 167,169

See notes to unaudited consolidated financial statements.

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

	June 30, 2019 (unaudited)	September 30, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 71,084	$ 349,245
Short-term investments	—	20,264
Accounts receivable — billed and billable, net of reserves of $ 6,560 and $4,285	525,882	357,613
Accounts receivable — unbilled	94,102	31,536
Income taxes receivable	693	5,979
Prepaid expenses and other current assets	47,617	43,995
Total current assets	739,378	808,632
Property and equipment, net	84,694	77,544
Capitalized software, net	30,761	22,429
Goodwill	583,703	399,882
Intangible assets, net	185,965	88,035
Deferred contract costs, net	22,477	14,380
Deferred compensation plan assets	33,114	34,305
Deferred income taxes	617	6,834
Other assets	10,197	9,959
Total assets	$ 1,690,906	$ 1,462,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 182,551	$ 114,378
Accrued compensation and benefits	103,990	95,555
Deferred revenue	40,951	51,182
Income taxes payable	5,109	4,438
Current portion of long-term debt and other borrowings	3,648	136
Other liabilities	20,450	11,760
Total current liabilities	356,699	277,449
Deferred revenue, less current portion	26,435	20,394
Deferred income taxes	44,769	26,377
Long-term debt	268	374
Deferred compensation plan liabilities, less current portion	34,689	33,497
Other liabilities	13,147	17,490
Total liabilities	476,007	375,581
Shareholders' equity:		
Common stock, no par value; 100,000 shares authorized; 63,811 and 64,371 shares issued and outstanding at June 30, 2019, and September 30, 2018, at stated amount, respectively	503,184	487,539
Accumulated other comprehensive loss	(41,110)	(36,953)
Retained earnings	752,370	633,281
Total MAXIMUS shareholders' equity	1,214,444	1,083,867
Noncontrolling interests	455	2,552
Total equity	1,214,899	1,086,419
Total liabilities and equity	$ 1,690,906	$ 1,462,000

See notes to unaudited consolidated financial statements.

MAXIMUS, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	Nine Months Ended June 30,	
	2019	**2018 (As adjusted - see Note 1)**
Cash flows from operations:		
Net income	$ 180,454	$ 175,300
Adjustments to reconcile net income to cash flows from operations:		
Depreciation and amortization of property and equipment and capitalized software	34,588	39,902
Amortization of intangible assets	24,026	7,846
Deferred income taxes	11,196	8,874
Stock compensation expense	15,323	15,713
Change in assets and liabilities excluding acquired assets and liabilities:		
Accounts receivable — billed and billable	(108,131)	(6,789)
Accounts receivable — unbilled	46,172	312
Prepaid expenses and other current assets	(2,933)	5,506
Deferred contract costs	(8,142)	2,240
Accounts payable and accrued liabilities	53,462	(23,696)
Accrued compensation and benefits	9,282	(15,835)
Deferred revenue	7,857	(25,728)
Income taxes	3,139	5,913
Other assets and liabilities	(2,582)	(1,242)
Cash flows from operations	263,711	188,316
Cash flows from investing activities:		
Purchases of property and equipment and capitalized software costs	(39,033)	(21,552)
Acquisitions	(422,049)	(157)
Short-term investments	19,996	(19,996)
Other	380	1,198
Cash used in investing activities	(440,706)	(40,507)
Cash flows from financing activities:		
Cash dividends paid to MAXIMUS shareholders	(47,936)	(8,801)
Purchases of MAXIMUS common stock	(46,068)	(61,987)
Tax withholding related to RSU vesting	(8,915)	(8,529)
Borrowings	320,048	134,683
Repayment of credit facility and other long-term debt	(316,597)	(134,786)
Other	(133)	(4,058)
Cash used in financing activities	(99,601)	(83,478)
Effect of exchange rate changes on cash and cash equivalents	(994)	(1,714)
Net (decrease)/increase in cash, cash equivalents and restricted cash	(277,590)	62,617
Cash, cash equivalents and restricted cash, beginning of period	356,559	179,727
Cash, cash equivalents and restricted cash, end of period	$ 78,969	$ 242,344

See notes to unaudited consolidated financial statements.

MAXIMUS, Inc.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Amounts in thousands)
(Unaudited)

	Common Shares Outstanding	Common Stock	Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Noncontrolling Interest	Total
Balance at March 31, 2019	63,811	$ 498,269	$ (39,136)	$ 705,824	$ 2,624	$ 1,167,581
Net income	—	—	—	62,898	67	62,965
Foreign currency translation	—	—	(1,974)	—	—	(1,974)
Cash dividends	—	—	—	(15,953)	(2,452)	(18,405)
Dividends on RSUs	—	399	—	(399)	—	—
Stock compensation expense	—	5,419	—	—	—	5,419
Acquisition of part of noncontrolling interest	—	(903)	—	—	216	(687)
Balance at June 30, 2019	63,811	$ 503,184	$ (41,110)	$ 752,370	$ 455	$ 1,214,899

	Common Shares Outstanding	Common Stock	Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Noncontrolling Interest	Total
Balance at September 30, 2018	64,371	$ 487,539	$ (36,953)	$ 633,281	$ 2,552	$ 1,086,419
Cumulative impact from adopting ASC Topic 606 on October 1, 2018	—	—	—	32,929	553	33,482
Net income	—	—	—	180,735	(281)	180,454
Foreign currency translation	—	—	(4,157)	—	—	(4,157)
Cash dividends	—	—	—	(47,936)	(2,585)	(50,521)
Dividends on RSUs	—	1,225	—	(1,225)	—	—
Purchases of common stock	(716)	—	—	(45,414)	—	(45,414)
Stock compensation expense	—	15,323	—	—	—	15,323
RSUs vested	156	—	—	—	—	—
Acquisition of part of noncontrolling interest	—	(903)	—	—	216	(687)
Balance at June 30, 2019	63,811	$ 503,184	$ (41,110)	$ 752,370	$ 455	$ 1,214,899

MAXIMUS, Inc.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Continued)
(Amounts in thousands)
(Unaudited)

	Common Shares Outstanding	Common Stock	Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Noncontrolling Interest	Total
Balance at March 31, 2018	65,243	$ 487,385	$ (24,435)	$ 599,630	$ 3,748	$ 1,066,328
Net income	—	—	—	59,861	381	60,242
Foreign currency translation	—	—	(10,459)	—	—	(10,459)
Cash dividends	—	—	—	(2,936)	(241)	(3,177)
Dividends on RSUs	—	78	—	(78)	—	—
Purchases of common stock	(995)	—	—	(61,576)	—	(61,576)
Stock compensation expense	—	4,389	—	—	—	4,389
Balance at June 30, 2018	64,248	$ 491,852	$ (34,894)	$ 594,901	$ 3,888	$ 1,055,747

	Common Shares Outstanding	Common Stock	Accumulated Other Comprehensive Income / (Loss)	Retained Earnings	Noncontrolling Interest	Total
Balance at September 30, 2017	65,137	$ 475,592	$ (27,619)	$ 492,112	$ 5,683	$ 945,768
Net income	—	—	—	174,444	856	175,300
Foreign currency translation	—	—	(7,275)	—	—	(7,275)
Cash dividends	—	—	—	(8,801)	(2,370)	(11,171)
Dividends on RSUs	—	240	—	(240)	—	—
Purchases of common stock	(1,012)	—	—	(62,614)	—	(62,614)
Stock compensation expense	—	15,713	—	—	—	15,713
Tax withholding related to RSU vesting	—	183	—	—	—	183
RSUs vested	123	—	—	—	—	—
Acquisition of part of noncontrolling interest	—	124	—	—	(281)	(157)
Balance at June 30, 2018	64,248	$ 491,852	$ (34,894)	$ 594,901	$ 3,888	$ 1,055,747

See notes to unaudited consolidated financial statements.

1. Organization and Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. As permitted by these instructions, they do not include all of the information and notes required by generally accepted accounting principles (GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. All intercompany balances and transactions have been eliminated in consolidation. The results of operations for the three and nine months ended June 30, 2019, are not necessarily indicative of the results that may be expected for the full fiscal year. The balance sheet at September 30, 2018, has been derived from the audited financial statements at that date, but does not include all of the information and notes required by GAAP for complete financial statements.

Certain financial results have been reclassified to conform with our current period presentation.

- Our consolidated statement of cash flows for the nine months ended June 30, 2018, includes a reclassification to reflect the effect of new accounting guidance.
- Our consolidated balance sheet at September 30, 2018, includes a reclassification to show a comparative balance for current and long-term debt, which were previously reported within "other liabilities."

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

These financial statements should be read in conjunction with the consolidated audited financial statements and the notes thereto at September 30, 2018 and 2017, and for each of the three years ended September 30, 2018, included in our Annual Report on Form 10-K which was filed with the Securities and Exchange Commission on November 20, 2018.

Changes in financial reporting

Segments

As previously reported, effective October 1, 2018, our Chief Executive Officer reorganized our reporting segments based on the way that management intends to allocate resources, manage performance and evaluate results. This reorganization of segments responds to recent changes in the markets in which we operate, the increasing integration of health and human services programs worldwide and the evolving needs of our government clients as they aim to deliver services in a more holistic manner to their citizens. Our results for the three and nine months ended June 30, 2018, were recast to conform with these new segments. See "Note 2. Segment Information" for more details of this change.

Revenue recognition

We adopted Accounting Standard Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* on October 1, 2018, using the modified retrospective method and, accordingly, we recognized the cumulative effect of adoption as an adjustment of $32.9 million to our opening retained earnings balance on October 1, 2018. We applied this standard only to contracts that had not been completed as of the date of adoption. For contracts that had been modified prior to October 1, 2018, we calculated the cumulative effect of Topic 606 on each contract based upon the aggregate effect of all of the modifications at that date.

Topic 606 applies to all of our contracts with customers and supersedes all previous standards on revenue recognition. In adopting Topic 606, we are required to follow a five-step process in order to identify and recognize revenue based upon a principle that revenue should be recognized as goods and services are transferred to customers in amounts that reflect the consideration to which we expect to be entitled for those goods and services. It did not change the actual amount of revenue being recognized for the majority of our contracts but did change the methodology by which we identified that revenue.

In the most significant change under Topic 606, we are required to estimate and recognize revenue on contracts over the period where we provide a service. This affects contracts where performance outcomes are achieved over time, most notably for welfare-to-work contracts where we are compensated for placing individuals in sustained employment. Under our former methodology of recognizing revenue, we deferred recognizing this outcome-based revenue until the outcome was achieved. Under Topic 606, we estimate our anticipated future fees and recognize them over the expected period of performance. As a result, more judgments and estimates are required within the process of recognizing revenue than were required under the former methodology.

The adoption of Topic 606 resulted in the following changes to our opening balance sheet:

(dollars in thousands)	**Balance at September 30, 2018**	**Adjustments due to adoption of new standard**	**Opening balance at October 1, 2018**
Assets			
Accounts receivable - unbilled	$ 31,536	$ 35,414	$ 66,950
Deferred income taxes	6,834	(6,625)	209
Liabilities and shareholders' equity			
Deferred revenue - current	51,182	(11,767)	39,415
Deferred income taxes - long-term	26,377	7,074	33,451
Retained earnings	633,281	32,929	666,210
Noncontrolling interests	2,552	553	3,105

The table below shows the effects of the adoption of Topic 606 on our consolidated statement of operations for the three and nine months ended June 30, 2019.

	Three months ended June 30, 2019			**Nine months ended June 30, 2019**		
(dollars in thousands)	**Balance under previous accounting guidance**	**Adjustments due to adoption of new standard**	**Balance as reported**	**Balance under previous accounting guidance**	**Adjustments due to adoption of new standard**	**Balance as reported**
Revenue	$ 728,420	$ 2,290	$ 730,710	$ 2,127,792	$ 4,057	$ 2,131,849
Income before income taxes	81,440	2,290	83,730	235,908	4,057	239,965
Provision for income taxes	20,031	734	20,765	58,008	1,503	59,511
Net income	61,409	1,556	62,965	177,900	2,554	180,454
(Loss)/income attributable to noncontrolling interests	(91)	158	67	(929)	648	(281)
Net income attributable to MAXIMUS	$ 61,500	$ 1,398	$ 62,898	$ 178,829	$ 1,906	$ 180,735

The effect on our balance sheet would have been as follows:

(dollars in thousands)	Balance at June 30, 2019 under previous accounting guidance	Adjustments due to adoption of new standard	Balance at June 30, 2019 as reported
Assets			
Accounts receivable - unbilled	$ 56,341	$ 37,761	$ 94,102
Deferred income taxes	7,199	(6,582)	617
Liabilities and shareholders' equity			
Deferred revenue - current	53,032	(12,081)	40,951
Deferred income taxes - long-term	37,195	7,574	44,769
Common stock	501,983	1,201	503,184
Accumulated other comprehensive loss	(40,112)	(998)	(41,110)
Retained earnings	716,887	35,483	752,370
Noncontrolling interests	455	—	455

Additional information and disclosures relating to this change are included within "Note 3. Revenue recognition."

Statement of cash flows

We adopted ASU No. 2016-15 *Statement of Cash Flows (Topic 230)*: *Classification of Certain Cash Receipts and Cash Payments* and ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* on October 1, 2018, using the retrospective method. The most notable change relates to the treatment of balances we consider to be "restricted cash." Restricted cash represents funds which are held in our bank accounts but which we are precluded from using for general business needs through contractual requirements; these requirements include serving as collateral for lease, credit card or letter of credit arrangements or where we hold funds on behalf of clients. As we did not consider these restricted cash balances to be cash or cash equivalents, we did not previously include them within our cash flow statement except where restrictions over cash were imposed or lapsed. Beginning on October 1, 2018, we are required to include movements in cash, cash equivalents and restricted cash within our consolidated statements of cash flows.

Accordingly, we have presented our consolidated statement of cash flows using the new rules for all periods shown. Our balances for cash, cash equivalents and restricted cash are as follows:

	Balance as of			
(dollars in thousands)	June 30, 2019	September 30, 2018	June 30, 2018	September 30, 2017
Cash and cash equivalents	$ 71,084	$ 349,245	$ 229,021	$ 166,252
Restricted cash (recorded within "other current assets")	7,885	7,314	13,323	13,475
Cash, cash equivalents and restricted cash	$ 78,969	$ 356,559	$ 242,344	$ 179,727

Consolidated Statements of Changes in Shareholders' Equity

In August 2018, the United States Securities and Exchange Commission (SEC) adopted the final rule under SEC Release No. 33-10532, *Disclosure Update and Simplification*, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of shareholders' equity presented in the balance sheet must be provided in a note or separate statement. The amendments became effective on November 5, 2018, and did not have a material effect on the Company's consolidated financial statements for fiscal year 2019. We adopted these changes to the Consolidated Statements of Changes in Shareholders’ Equity during this current year.

2. Segment Information

The table below provides certain financial information for each of our business segments.

As noted in "Note 1. Organization and Basis of Presentation," we made changes to our business segments in fiscal year 2019. Accordingly, the comparative results shown for the three and nine months ended June 30, 2018, are presented differently from those shown in previous filings.

From October 1, 2018, we operated our business through three segments.

- Our U.S. Health and Human Services Segment provides a variety of business process services such as program administration, appeals and assessments work, and related consulting work for U.S. state and local government programs. These services support a variety of programs including Medicaid, the Children's Health Insurance Program, the Affordable Care Act and Temporary Assistance for Needy Families.
- Our U.S. Federal Services Segment provides business process solutions, including program administration, appeals and assessment services, as well as system and software development and maintenance services for various U.S. federal civilian programs. This segment also contains certain state-based assessments and appeals work that is part of the segment's heritage within the Medicare Appeals portfolio and continues to be managed within this segment.
- Our Outside the U.S. Segment provides business process solutions for governments and commercial clients outside the U.S., including health and disability assessments, program administration for welfare-to-work services and other related services. We support programs and deliver services in the United Kingdom, including the Health Assessment Advisory Service, the Work & Health Programme and Fair Start; Australia, including jobactive and the Disability Employment Service; Canada, including Health Insurance British Columbia and the Employment Program of British Columbia; Saudi Arabia and Singapore.

(dollars in thousands)	Three Months Ended June 30, 2019	% (1)	2018	% (1)	Nine Months Ended June 30, 2019	% (1)	2018	% (1)
Revenue:								
U.S. Health & Human Services	$ 291,132		$ 314,477		$ 876,082		$ 924,967	
U.S. Federal Services	292,295		112,226		799,018		361,536	
Outside the U.S.	147,283		171,152		456,749		547,287	
Total	$ 730,710		$ 597,855		$ 2,131,849		$ 1,833,790	
Gross profit:								
U.S. Health & Human Services	$ 86,664	29.8%	$ 101,425	32.3%	$ 260,955	29.8%	$ 272,242	29.4%
U.S. Federal Services	66,803	22.9%	32,276	28.8%	175,484	22.0%	93,008	25.7%
Outside the U.S.	20,780	14.1%	20,983	12.3%	66,495	14.6%	90,197	16.5%
Total	$ 174,247	23.8%	$ 154,684	25.9%	$ 502,934	23.6%	$ 455,447	24.8%
Selling, general & administrative expense:								
U.S. Health & Human Services	$ 32,414	11.1%	$ 34,382	10.9%	$ 93,953	10.7%	$ 105,803	11.4%
U.S. Federal Services	32,896	11.3%	17,399	15.5%	90,632	11.3%	51,587	14.3%
Outside the U.S.	15,791	10.7%	16,775	9.8%	52,591	11.5%	53,284	9.7%
Restructuring costs	—	NM	—	NM	—	NM	2,320	NM
Other	503	NM	1,032	NM	2,201	NM	1,032	NM
Total	$ 81,604	11.2%	$ 69,588	11.6%	$ 239,377	11.2%	$ 214,026	11.7%
Operating income:								
U.S. Health & Human Services	$ 54,250	18.6%	$ 67,043	21.3%	$ 167,002	19.1%	$ 166,439	18.0%
U.S. Federal Services	33,907	11.6%	14,877	13.3%	84,852	10.6%	41,421	11.5%
Outside the U.S.	4,989	3.4%	4,208	2.5%	13,904	3.0%	36,913	6.7%
Amortization of intangible assets	(9,049)	NM	(2,525)	NM	(24,026)	NM	(7,846)	NM
Restructuring costs (2)	—	NM	—	NM	—	NM	(2,320)	NM
Other (3)	(503)	NM	(1,032)	NM	(2,201)	NM	(1,032)	NM
Total	$ 83,594	11.4%	$ 82,571	13.8%	$ 239,531	11.2%	$ 233,575	12.7%

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

(2) During fiscal year 2018, we incurred costs in restructuring our United Kingdom business.

(3) Other selling, general & administrative expenses includes credits and costs not directly allocated to a particular segment. In the nine month periods ended June 30, 2019, these include $2.7 million of costs directly related to the acquisition of the citizen engagement centers business. Refer to "Note 5. Acquisition of Citizen Engagement Centers Business" for more details.

Identifiable assets for the segments are shown below (in thousands):

	June 30, 2019	September 30, 2018
U.S. Health & Human Services	$ 456,293	$ 442,063
U.S. Federal Services	877,263	375,807
Outside the U.S.	212,959	184,872
Corporate	144,391	459,258
Total	$ 1,690,906	$ 1,462,000

3. Revenue Recognition

Beginning October 1, 2018, we recognize revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers*. We adopted this standard on October 1, 2018, using the modified retrospective method; accordingly, only periods after October 1, 2018, utilize ASC Topic 606.

Under ASC Topic 606, we recognize revenue as, or when, we satisfy performance obligations under a contract. We account for a contract when the parties have approved the contract and are committed to perform on it, the rights of each party and the payment terms are identified, the contract has commercial substance and it is probable that we will collect substantially all of the consideration. A performance obligation is a promise in a contract to transfer a distinct good or service, or a series of distinct goods or services, to a customer. The transaction price of a contract must be allocated to each performance obligation and recognized as the performance obligation is satisfied.

Although our services may have many components, these components are not necessarily distinct performance obligations as they may be interdependent on or interrelated to each other. Where our contracts contain more than one performance obligation, we allocate the contract’s transaction price to each performance obligation using our best estimate of the standalone selling price of each component. This method will vary from contract to contract. Where available, we utilize standalone selling prices of similar components. If this information is unavailable, we utilize a suitable metric to allocate selling price, such as costs incurred.

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 customer that are substantially the same and which have the same pattern of service. We recognize revenue over the performance period as a customer receives the benefits of our services. This continuous transfer of control is supported by the unilateral right of many of our customers to terminate contracts for convenience, without having to provide justification for this decision. Where we are reimbursed on a cost-plus basis, we recognize revenue based upon our costs incurred to date; where we are reimbursed on a fixed price basis, we recognize revenue based upon an appropriate output measure which may be time elapsed or another measure within the contract. When we have variable fees, such as revenue related to the volume of work or award fees, we allocate that revenue to the distinct periods of service to which they relate. In estimating our variable fees, we are required to constrain our estimates to the extent that it is probable that there will not be a significant reversal of cumulative revenue when the uncertainty is resolved.

Other performance obligations are satisfied at a point in time, rather than over time. We recognize revenue only when the customer has received control over the goods provided. Revenue recognition on these performance obligations does not require a significant level of judgment or estimation.

Where we have contract modifications, these are reviewed to determine whether they should be accounted for as part of the original performance obligation or as a separate contract. Where the modification changes the scope or price and the additional performance obligations are at their standalone selling price, these services are considered as a separate contract. Where there is a modification and the additional performance obligations are not at their standalone selling price, we consider whether those performance obligations are distinct from those already delivered. If services are distinct from those already provided, the contract is accounted for prospectively, as though the original contract had been terminated and a new arrangement entered into. Where the modification includes goods or services which are not distinct from those already provided, we record a cumulative adjustment to revenue based upon a remeasurement of progress towards the complete satisfaction of performance obligations not yet fully delivered.

Disaggregation of revenue

In addition to our segment reporting, we disaggregate our revenues by product, 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 2. Segment information."

By operating segment and service

(dollars in thousands)	Three Months Ended June 30, 2019	Nine Months Ended June 30, 2019
Program administration	$ 212,638	$ 651,343
Assessments and appeals	35,657	106,209
Workforce and children services	29,146	76,947
Other	13,691	41,583
Total U.S. Health and Human Services	291,132	876,082
Program administration	204,622	554,739
Technology solutions	39,994	116,870
Assessments and appeals	47,679	127,409
Total U.S. Federal Services	292,295	799,018
Workforce and children services	65,819	208,856
Assessments and appeals	62,152	192,233
Program administration	16,767	48,009
Other	2,545	7,651
Total Outside the U.S.	147,283	456,749
Total revenue	$ 730,710	$ 2,131,849

By contract type

(dollars in thousands)	Three Months Ended June 30, 2019	Nine Months Ended June 30, 2019
Performance-based	$ 260,052	$ 834,531
Cost-plus	282,795	756,227
Fixed price	142,940	429,962
Time and materials	44,923	111,129
Total revenue	$ 730,710	$ 2,131,849

By customer type

(dollars in thousands)	Three Months Ended June 30, 2019	Nine Months Ended June 30, 2019
New York State government agencies	$ 90,295	$ 271,865
Other U.S. state government agencies	204,272	601,044
Total U.S. state government agencies	294,567	872,909
United States Federal Government agencies	276,294	745,195
International government agencies	136,848	425,921
Other, including local municipalities and commercial customers	23,001	87,824
Total revenue	$ 730,710	$ 2,131,849

By geography

(dollars in thousands)	Three Months Ended June 30, 2019	Nine Months Ended June 30, 2019
United States of America	$ 583,428	$ 1,675,101
United Kingdom	72,265	224,017
Australia	48,744	153,114
Rest of world	26,273	79,617
Total revenue	$ 730,710	$ 2,131,849

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 and the liabilities 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. Funds 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 will 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 rate is higher than our actual rate, we record a liability.
- Certain contracts include retainage balances, whereby revenue is earned but cash payments are held back by the customer for a period of time, typically to allow the customer to evaluate the quality of our performance.
- In certain contracts, notably our welfare-to-work contracts, we earn revenue from program participants achieving outcomes such as sustained employment for periods up to 24 months. This revenue may only be invoiced at the conclusion of this period of performance. Since we are required to recognize revenue over the period where the customer receives the benefit, we record an unbilled receivable.

- 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.

During the nine months ended June 30, 2019, we recognized revenue of $ 35.0 million included in our deferred revenue balances at September 30, 2018. During the three months ended June 30, 2019, we recognized $23.2 million included in our deferred revenue at March 31, 2019.

Contract estimates

We are required to use estimates in recognizing certain revenue. Our most significant estimates relate to:

- Our welfare-to work contracts, where we estimate our future variable consideration by estimating the volume and timing of our caseload reaching employment milestones;
- Our transaction-based contracts where we provide a significant discount to our customer in future periods, where we must calculate an average rate of revenue per transaction based upon our estimates of the total revenue and anticipated volume of work from the contract; and
- Our cost-plus contracts, which require us to prepare an estimate of our indirect costs which are allocated to our contracts.

Where we have changes to our estimates, these are recognized on a cumulative catch-up basis. In the nine months ended June 30, 2019, our revenue included a reduction of $10.3 million from changes in estimates.

Deferred contract costs

For many contracts, we incur significant incremental costs at the beginning of an arrangement. Typically, these costs relate to the establishment of infrastructure which we utilize to satisfy our performance obligations with the contract. We report these costs as deferred contract costs and amortize them on a straight-line basis over the shorter of the useful economic life of the asset or the anticipated term of the contract.

Since September 30, 2018, we have deferred $ 13.0 million of costs. During the three and nine months ended June 30, 2019, we amortized $ 1.9 million and $4.7 million of deferred contract costs. This amortization was recorded within our "cost of revenue" on our consolidated statement of operations.

Remaining performance obligations

At June 30, 2019, we had approximately $ 355 million of remaining performance obligations. We anticipate that we will recognize revenue on approximately 55% of this balance within the next twelve 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.

4. Earnings Per Share

The weighted average number of shares outstanding used to compute earnings per share was as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(shares in thousands)	2019	2018	2019	2018
Basic weighted average shares outstanding	64,405	65,630	64,534	65,777
Dilutive effect of unvested RSUs	354	295	266	354
Denominator for diluted earnings per share	64,759	65,925	64,800	66,131

5. Acquisition of Citizen Engagement Centers Business

On November 16, 2018, we acquired General Dynamics Information Technology's citizen engagement centers business, pursuant to an asset purchase agreement dated October 5, 2018. The assets acquired included existing contracts, contractual relationships and bids for contracts submitted prior to the acquisition date, as well as interests in leased properties, fixed assets, working capital and intangible assets. This acquisition strengthens our position in the administration of federal government programs. This business has been integrated into our U.S. Federal Services Segment. The contract provides for a purchase price of $400.0 million adjusted for the net working capital in excess of or less than an agreed upon target representing an estimate of normalized net working capital. The estimated working capital balance at November 16, 2018, was higher than this estimate and, accordingly, we incurred a purchase price of $430.7 million. We paid $421.8 million in November 2018 and the remaining balance in July 2019. To fund the acquisition, we utilized $ 150 million of borrowings from our credit facility with the balance from our cash on our balance sheet.

As part of the acquisition, we incurred acquisition-related expenses, including legal, accounting and other consultant services. During the fiscal year ended September 30, 2018, we incurred $0.5 million of such costs; during the nine months ended June 30, 2019, we incurred an additional $ 2.7 million. We also incurred additional investing cash outflows of $4.5 million from the acquisition of software licenses needed for newly-acquired employees.

We considered this transaction to be an acquisition of a business. We have completed our valuation of most of the assets acquired and liabilities assumed but our assessment of the unbilled accounts receivable balance remains open at this time. We will complete our valuation by September 30, 2019. Our current estimate of the allocation of the purchase price, updated from March 31, 2019, is shown below.

(dollars in thousands)	**Estimated purchase price allocation at March 31, 2019**	**Adjustments**	**Estimated purchase price allocation at June 30, 2019**
Cash consideration	$ 430,573	$ 126	$ 430,699
Billed and unbilled receivables	141,869	296	142,165
Property and equipment	6,454	2,520	8,974
Other assets	4,093	415	4,508
Intangible assets	122,300	—	122,300
Total identifiable assets acquired	274,716	3,231	277,947
Accounts payable and other liabilities	32,205	(343)	31,862
Net identifiable assets acquired	242,511	3,574	246,085
Goodwill	188,062	(3,448)	184,614
Net assets acquired	$ 430,573	$ 126	$ 430,699

The fair value of the goodwill is estimated to be $ 184.6 million. This goodwill represents the value of the assembled workforce and the enhanced knowledge, capabilities and qualifications held by the business. This goodwill balance is expected to be deductible for tax purposes.

The fair value of the intangible assets acquired is estimated to be $ 122.3 million, representing customer relationships. We have assumed a useful economic life of ten years for most contracts, representing our expectation of the period over which we will receive the benefit. Typically, our customer relationships are based upon the provision of services to our customers on a daily or monthly basis and, although contracts are frequently rebid, we believe that an incumbent provider typically enjoys significant competitive advantages. In reviewing the contract portfolio, we allocated a shorter life to a contract which pertains to the United States decennial census. This contract requires managing a significant ramp-up and ramp-down of work over the census cycle. As much of the benefit from this contract is anticipated to occur within the next two years, we have utilized a shorter asset life for this customer relationship. The average weighted intangible asset life is 7.6 years and amortization will be recorded on a straight-line basis.

(dollars in thousands)	Useful life	Fair value
Customer relationships - all contracts except U.S. Census	10 years	$ 85,300
Customer relationships - U.S. Census	2 years	37,000
Total intangible assets		$ 122,300

The contribution of the acquired business for the three and nine months ended June 30, 2019, is shown below. Given the integration of the acquired business into our cost structure, it is impracticable to calculate the effect of the acquisition on operating income.

	Acquisition Contribution for	
(dollars in thousands)	Three Months Ended June 30, 2019	Nine Months Ended June 30, 2019
Revenue	$ 163,381	$ 440,647
Gross profit	31,943	83,563

The following table presents certain results for the three and nine months ended June 30, 2019 and 2018, as though the acquisition had occurred on October 1, 2017. The pro forma results below eliminate intercompany transactions, include amortization charges for acquired intangible assets, eliminate pre-acquisition transaction costs and include estimates of interest expense, as well as corresponding changes in our tax charge. This pro forma information is presented for information only. For example, this pro forma information does not include any of our anticipated synergies but does include, for each of the three and nine month periods shown, charges of $4.6 million and $13.9 million, respectively, related to the amortization of the U.S. Census customer relationship intangible asset. Although the U.S. Census contract commenced prior to October 1, 2017, most of the benefit will be recorded in fiscal year 2020. For these and other reasons, this pro forma information is not necessarily indicative of the results if the acquisition had taken place on that date.

	Pro forma results for the three months ended June 30,		Pro forma results for the nine months ended June 30,	
(dollars in thousands, except per share amounts)	2019	2018	2019	2018
Revenue	$ 730,710	$ 731,755	$ 2,230,278	$ 2,324,478
Net income	62,965	56,886	183,927	176,877
Basic earnings per share attributable to MAXIMUS	0.98	0.86	2.85	2.68
Diluted earnings per share attributed to MAXIMUS	0.97	0.86	2.84	2.66

Changes in goodwill for the nine months ended June 30, 2019, were as follows:

(dollars in thousands)	U.S. Health & Human Services	U.S. Federal Services	Outside the United States	Total
Balance as of September 30, 2018	$ 139,588	$ 228,148	$ 32,146	$ 399,882
Estimated effect of the acquisition of citizen engagement centers business	19,703	162,465	2,446	184,614
Foreign currency translation	—	—	(793)	(793)
Balance as of June 30, 2019	$ 159,291	$ 390,613	$ 33,799	$ 583,703

Although the citizen engagement center business has been integrated into our U.S. Federal Services Segment, the acquisition provides benefits across all three segments. The most significant contracts acquired are cost-plus arrangements, which allow us to recover a greater share of our shared corporate overhead. Accordingly, we have allocated the goodwill based on an estimate of the relative fair value of the benefit to each segment.

With the reorganization of the business on October 1, 2018, we reallocated our goodwill to our new reporting segments. This reallocation was based upon the relative fair values of the operating segments on the date of the reorganization.

There have been no impairment charges to our goodwill.

The following table sets forth the components of intangible assets:

	As of June 30, 2019			As of September 30, 2018		
(dollars in thousands)	Cost	Accumulated Amortization	Intangible Assets, net	Cost	Accumulated Amortization	Intangible Assets, net
Customer contracts and relationships	$ 248,324	$ 63,684	$ 184,640	$ 129,113	$ 42,683	$ 86,430
Technology based intangible assets	5,680	4,385	1,295	5,750	4,212	1,538
Trademarks and trade names	4,489	4,459	30	4,496	4,429	67
Total	$ 258,493	$ 72,528	$ 185,965	$ 139,359	$ 51,324	$ 88,035

As of June 30, 2019, our intangible assets have a weighted average remaining life of 9.1 years, comprising 9.2 years for customer contracts and relationships, 4.3 years for technology-based intangible assets, and 0.6 years for trademarks and trade names. The estimated future amortization expense for the remainder of the current fiscal year and the future fiscal years for the intangible assets held by the Company as of June 30, 2019, is as follows (in thousands):

Nine months ended September 30, 2019	$ 8,984
2020	35,279
2021	18,230
2022	15,857
2023	15,760

6. Income Tax

Our effective income tax rate was 24.8% for both the three and nine months ended June 30, 2019, and 28.9% and 26.1% for the comparable prior year periods, respectively.

Our results for the three and nine months ended June 30, 2018, included the estimated effects of the Tax Cuts and Jobs Act (the Act), which was signed on December 22, 2017, and was effective from January 1, 2018. We recorded a one-time "toll tax" on our undistributed and previously untaxed earnings in foreign locations of approximately $9.5 million and a one-time benefit from the reduction of our deferred tax liabilities of $ 10.6 million. We completed our analysis of these items in the first quarter of fiscal year 2019.

During the nine months ended June 30, 2019 and 2018, we made income tax payments of $ 45.9 million and $48.1 million, respectively.

7. Supplemental Disclosures

Under a resolution adopted in June 2018, the Board of Directors authorized the purchase, at management's discretion, of up to $ 200 million of our common stock. During the nine months ended June 30, 2019, we purchased 0.7 million of our common shares at a cost of $ 45.4 million. During the nine months ended June 30, 2018, we acquired approximately 1.0 million common shares at a cost of $ 62.6 million. At June 30, 2019, $147.4 million remained available for future stock purchases.

During the nine months ended June 30, 2019, we granted 355,000 restricted stock units to our board of directors and employees. These awards will vest ratably over one and five years, respectively.

Our deferred compensation plan uses both mutual fund and life insurance investments to fund its obligations. The mutual funds are recorded at fair value, based upon quoted prices in active markets, and the life insurance investments at cash surrender value; changes in value are reported in the Consolidated Statement of Operations. At June 30, 2019, the deferred compensation plan held $20.7 million of the mutual fund investments.

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and other amounts included within current assets and liabilities that meet the definition of a financial instrument are shown at values equivalent to fair value due to the short-term nature of these items. Our accounts receivable billed and billable balance includes both amounts invoiced and amounts that are ready to be invoiced where the funds are collectible within standard invoice terms. Our accounts receivable unbilled balance includes balances where revenue has been earned but no invoice was issued on or before June 30, 2019.

As noted above, we utilized our credit facility in November 2018 to fund part of the citizen engagement centers acquisition. During the nine months ended June 30, 2019 and 2018, we made interest payments of $2.3 million and less than $0.1 million, respectively. At June 30, 2019, we had no outstanding borrowings on the facility.

Litigation

In August 2017, the Company and certain officers were named as defendants in a putative class action lawsuit filed in the U.S. District Court for the Eastern District of Virginia. The plaintiff alleged the defendants made a variety of materially false and misleading statements, or failed to disclose material information, concerning the status of the Company’s Health Assessment Advisory Service project for the U.K. Department for Work and Pensions from the period of October 20, 2014, through February 3, 2016. In August 2018, our motion to dismiss the case was granted, and the case was dismissed. In October 2018, the plaintiffs filed a notice of appeal to the U.S. Circuit Court for the Fourth Circuit. In June 2019, the appeals court affirmed the decision of the District Court, and the matter has concluded.

A state Medicaid agency has been notified of two proposed disallowances by the Centers for Medicare and Medicaid Services (CMS) totaling approximately $31.0 million. 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 reserved 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. No legal action has been initiated against us.

8. Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. The new standard requires that assets and liabilities arising under leases be recognized on the balance sheet. The standard also requires additional quantitative and qualitative disclosures that provide the amount, timing and uncertainty of cash flows relating to lease arrangements. Additionally, the modified retrospective adoption approach provides practical expedients related to leases that commenced prior to the effective date and allows the use of hindsight when evaluating lease options. Further, in July 2018, the FASB issued ASU No. 2018-11 *Leases (Topic 842), Targeted Improvements*, which provided an alternative transition method permitting the recognition of a cumulative adjustment to the balance sheet on the date of adoption rather than restating comparative periods in transition.

This standard is effective for us on October 1, 2019. We will adopt this standard using a modified retrospective approach while recording a cumulative adjustment to the balance sheet. We plan to elect the package of practical expedients which, among other things, allows us to carry forward the historical lease classification. We plan to also elect the practical expedient not to separate lease and non-lease components, which allows us to combine the components if certain criteria are met. Further, we plan to elect the optional transition method, which allows us to recognize a cumulative adjustment to the balance sheet at the date of adoption and to not recast our comparative periods. We do not plan to elect the hindsight practical expedients, which would have allowed us to use hindsight in determining the reasonably certain lease term.

We continue to work towards the adoption of the standard including an evaluation of our existing lease portfolio, designing and implementing internal controls over both the implementation of the change and the ongoing transactions and the implementation of a new software solution. We expect the adoption of the standard to have a significant effect on our balance sheet but less effect on our other consolidated financial statements. We do not anticipate that the standard will affect our compliance with our existing contracts, including our credit facility.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) - Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This accounting guidance requires customers in cloud-computing arrangements to identify and defer certain implementation costs in a manner broadly consistent with that of existing guidance on the costs to develop or obtain internal-use software. We are required to adopt this guidance on October 1, 2020. The guidance may be adopted early and we may adopt using either a prospective or retroactive methodology. We are currently assessing the future impact of this update on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13 *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This update introduces a new model for recognizing credit losses on financial instruments, including losses on accounts receivable. We will adopt this guidance on October 1, 2020 and any changes will be recorded as a cumulative adjustment to retained earnings. We are still assessing the effect of this standard on our financial statements.

Other recent accounting pronouncements are not expected to have a material effect on our financial statements.

9. Subsequent Events

On July 5, 2019, our Board of Directors declared a quarterly cash dividend of $ 0.25 for each share of our common stock outstanding. The dividend is payable on August 30, 2019, to shareholders of record on August 15, 2019. Based upon the number of shares outstanding, we anticipate a cash payment of approximately $16 million.

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

The following discussion and analysis of financial condition and results of operations is provided to enhance the understanding of, and should be read in conjunction with, our Consolidated Financial Statements and related Notes included both herein and in our Annual Report on Form 10-K for the year ended September 30, 2018, which was filed with the Securities and Exchange Commission on November 20, 2018.

Business Overview

We are a leading operator of government health and human services programs worldwide. We act as a partner to governments under our mission of *Helping Government Serve the People®*. We use our experience, business process management expertise, innovation and technology solutions to help government agencies run effective, efficient and accountable programs.

Our company was founded in 1975 and grew both organically and through acquisitions during the early 2000s. Beginning in 2006, we narrowed our service offerings to focus in the area of business process services (BPS) primarily in the health services and human services markets. In parallel, we divested or exited a number of non-core businesses that fell outside these two areas. Our subsequent growth was driven by the expansion of our health services business around the globe, new welfare-to-work contracts outside the United States and the growth of our business with the United States Federal Government.

Most of our business depends upon government demand for our support services, their propensity to outsource and their procurement processes. These may be affected, both positively and detrimentally, by changes in administrations, the balance of power within a coalition government or legislative body, by the relative priorities of a government and the processes followed by a government in tendering, procuring and awarding contracts.

We believe the ongoing demand for our services, driven by demographic, economic and legislative trends, coupled with our strong position within our industry, will continue to foster future growth. Our long-term growth thesis is based on the following factors:

- Demographic trends, including increased longevity and more complex health needs, place an increased burden on government social benefit and safety-net programs. At the same time, programs that address societal needs must be a good use of taxpayer dollars and achieve their intended outcomes. We believe the macro-economic trends of demographics and government needs, coupled with the need to achieve value for money, will continue to drive demand for our services.

- Our contract portfolio offers us good revenue visibility. Our contracts are typically multi-year arrangements and we have customer relationships which have lasted decades. Because of this longevity, our contract portfolio at any point in time can typically be used to identify approximately 90% of our anticipated revenue for the next twelve months.

- We maintain a strong reputation within the government health and human services industry. Our deep client relationships and reputation for delivering outcomes and efficiencies creates a strong barrier to entry in a risk-averse environment. Entering our markets typically requires expertise in complex procurement processes, operation of multi-faceted government programs and an ability to serve and engage with diverse populations.

- We have a portfolio target operating profit margin that ranges between 10% and 15% with high cash conversion, a healthy balance sheet and a $400 million credit facility. Our financial flexibility allows us to fund investments in the business, complete strategic acquisitions to further supplement our core capabilities and seek new adjacent platforms. We believe that our financial strength offers government clients reliability and dependability that we can deliver on program objectives and achieve contractual targets.

- We have an active program to identify potential strategic acquisitions. Our acquisitions have successfully enabled us to expand our business processes, knowledge and client relationships into adjacent markets and new geographies. During fiscal year 2019, we acquired a citizen engagement center business which had previously been owned by General Dynamics Information Technology. This acquisition strengthens our position in the administration of government programs.

Financial Overview

Since October 1, 2018, we operated our business through three segments, U.S. Health and Human Services, U.S. Federal Services and Outside the U.S. The results for each of these segments for the three and nine months ended June 30, 2019, compared to the comparative periods in fiscal year 2018, were affected by different factors.

- Our U.S. Health & Human Services Segment reported a decline in revenue and gross profit. This segment has been affected by a number of contract rebids and extensions which have resulted in lower revenues in the near term. In addition, the three month period ended June 30, 2018 included out of period revenue which caused unusual fluctuations in revenue, profit and profit margins.

- Our U.S. Federal Services Segment reported revenue growth driven by the acquisition of the citizen engagement centers business which contributed $163.4 million and $440.6 million in revenue in the three and nine months ended June 30, 2019, respectively. Organic revenues in the three months ended June 30, 2019 received the benefit of new work, partially offsetting declines from the first half of the year.

- Our Outside the U.S. Segment reported declines in revenue and profit due primarily to expected declines in our welfare-to-work business in Australia and the United Kingdom, including the Work Programme and Work Choice contracts in the United Kingdom that ended. This segment also includes some discretionary spending which is passed across to the customer with no added margin, resulting in diluted profit margins. We were also affected by declines in the value of local currencies against the United States Dollar, resulting in reduced revenues and profits.

Other effects of the citizen engagement centers acquisition on our U.S. Federal Services Segment for the nine months ended June 30, 2019, are listed below.

- In addition to an initial payment of $421.8 million to acquire the business, the increase in our workforce required significant additional investment in software licenses resulting in an increase of $4.5 million in property and equipment and a corresponding investing cash outflow. We agreed the purchase price in July 2019 and made a final payment of $8.9 million.

- We closed the transaction using existing cash balances and borrowed funds of $150 million. This resulted in an increase in interest expense and a decline in our interest income.

- Our cash flows from operations received the benefits of the increased business. At the acquisition date, the business was in a seasonally high period of the year and, accordingly, had higher than average receivables from customers. In addition, the payroll obligation was lower than that at quarter end.

- Although our administrative cost base has grown to cover the needs of supporting a larger organization, our existing cost base is being spread across a larger revenue base. As our general and administrative costs are allocated to our operating segments, the acquisition is providing a benefit to our profit margins in all of our segments. We estimate that the full fiscal year benefit to operating margin will be approximately 1.25% in our U.S. Health and Human Services Segment and approximately 0.5% in our Outside the U.S. Segment.

- We incurred acquisition-related expenses of $2.7 million. These costs represent the incremental costs incurred in completing the transaction, including legal and advisory costs, integration expenses, valuation services and other consultancy costs.

- We recorded amortization for intangible assets acquired of $6.8 million and $16.9 million for the three and nine months ended June 30, 2019, respectively. We anticipate a full fiscal year expense of approximately $23.7 million related to the acquisition for fiscal year 2019.

Our Outside the U.S. Segment was affected by declines in the value of local currencies against the United States Dollar, resulting in reduced revenues and profits.

On October 1, 2018, we adopted the requirements of the Financial Accounting Standards Board's Accounting Standard Update 2014-09, *Revenue from Contracts with Customers,* which changed the manner in which we recognize revenue on contracts with our customers. The adoption of this new standard resulted in a catch-up of revenue and net income attributable to our shareholders of $47.2 million and $32.9 million, respectively, which was recorded in retained earnings as of October 1, 2018. If we had applied our previous accounting policies in the current period, our revenue for the three and nine months ended June 30, 2019, would have been lower by approximately $2.3 million and $4.1 million, respectively.

Results of Operations

Consolidated

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
(dollars in thousands, except per share data)	2019	2018	2019	2018
Revenue	$ 730,710	$ 597,855	$ 2,131,849	$ 1,833,790
Cost of revenue	556,463	443,171	1,628,915	1,378,343
Gross profit	174,247	154,684	502,934	455,447
Gross profit percentage	23.8 %	25.9 %	23.6 %	24.8 %
Selling, general and administrative expenses	81,604	69,588	239,377	214,026
Selling, general and administrative expense as a percentage of revenue	11.2 %	11.6 %	11.2 %	11.7 %
Amortization of intangible assets	9,049	2,525	24,026	7,846
Operating income	83,594	82,571	239,531	233,575
Operating margin	11.4 %	13.8 %	11.2 %	12.7 %
Interest expense	420	85	2,614	410
Other income, net	556	2,249	3,048	3,928
Income before income taxes	83,730	84,735	239,965	237,093
Provision for income taxes	20,765	24,493	59,511	61,793
Effective income tax rate	24.8 %	28.9 %	24.8 %	26.1 %
Net income	62,965	60,242	180,454	175,300
Income/(loss) attributable to noncontrolling interests	67	381	(281)	856
Net income attributable to MAXIMUS	$ 62,898	$ 59,861	$ 180,735	$ 174,444
Basic earnings per share attributable to MAXIMUS	$ 0.98	$ 0.91	$ 2.80	$ 2.65
Diluted earnings per share attributable to MAXIMUS	$ 0.97	$ 0.91	$ 2.79	$ 2.64

As our business segments have different factors driving revenue fluctuations and profitability, the sections that follow cover these segments in greater detail.

Changes in revenue, cost of revenue and gross profit for the three months ended June 30, 2019, are summarized below.

	Revenue		Cost of Revenue		Gross Profit	
(dollars in thousands)	Dollars	Percentage change	Dollars	Percentage change	Dollars	Percentage change
Balance for respective period in fiscal year 2018	$ 597,855		$ 443,171		$ 154,684	
Organic effect	(21,394)	(3.6) %	(10,382)	(2.3) %	(11,012)	(7.1) %
Acquired growth	163,381	27.3 %	131,438	29.7 %	31,943	20.7 %
Currency effect compared to the prior period	(9,132)	(1.5) %	(7,764)	(1.8) %	(1,368)	(0.9) %
Balance for respective period in fiscal year 2019	$ 730,710	22.2 %	$ 556,463	25.6 %	$ 174,247	12.6 %

Revenue and cost of revenue for the three months ended June 30, 2019, increased compared to the same period in fiscal year 2018, driven by the citizen engagement centers business acquisition. This was offset by organic revenue declines and the detrimental effects of currency fluctuations in our Outside the U.S. Segment. The factors driving these changes are discussed in more detail below.

Our cost of revenue includes direct costs related to labor, subcontractor labor, outside vendors, rent and other direct costs.

Our acquired growth represents the citizen engagement centers business, which was acquired on November 16, 2018. The two largest contracts included in the transaction are both cost-plus type contracts. Cost-plus contracts typically have lower financial risk but typically earn margins in the mid-single digits.

We operate in a number of locations where the functional currency is not the U.S. Dollar. During the three months ended June 30, 2019, the value of all of these currencies was lower than in the comparative period in fiscal year 2018. This had a negative impact on revenue and costs.

Changes in revenue, cost of revenue and gross profit for the nine months ended June 30, 2019, are summarized below.

	Revenue		Cost of Revenue		Gross Profit	
(dollars in thousands)	Dollars	Percentage change	Dollars	Percentage change	Dollars	Percentage change
Balance for respective period in fiscal year 2018	$ 1,833,790		$ 1,378,343		$ 455,447	
Organic effect	(114,417)	(6.2) %	(82,315)	(6.0) %	(32,102)	(7.0) %
Acquired growth	440,647	24.0 %	357,084	25.9 %	83,563	18.3 %
Currency effect compared to the prior period	(28,171)	(1.5) %	(24,197)	(1.8) %	(3,974)	(0.9) %
Balance for respective period in fiscal year 2019	$ 2,131,849	16.3 %	$ 1,628,915	18.2 %	$ 502,934	10.4 %

The factors impacting revenue and cost of revenue for the nine months ended June 30, 2019, are similar to those affecting the three month period.

Selling, general and administrative expense (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, 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 United States Federal Government and many states, we allocate these costs using a methodology driven by the Federal Cost Accounting Standards. Our SG&A expense has increased year-over-year due primarily to the acquisition of the citizen engagement centers business, which has added an additional level of infrastructure as well as approximately $2.7 million of one-time expenses directly related to the transaction. In the first quarter of the current fiscal year, we introduced an early retirement program for employees that met certain criteria. As a result, severance payments in the nine months ended June 30, 2019, were unusually high and raised SG&A by approximately $4 million.

Our results for the nine months ended June 30, 2019, include $16.9 million of amortization from assets acquired with the citizen engagement centers business.

Our interest expense is primarily driven by borrowings from our credit facility. In November 2018, we borrowed $150.0 million to partially fund the acquisition of the citizen engagement centers business, which was fully repaid in the third quarter of this fiscal year.

Our effective tax rate for the nine months ended June 30, 2019, was 24.8%, compared to 26.1% in the same period in fiscal year 2018. Our results in fiscal year 2019 benefited from the effects of the Tax Cuts and Jobs Act (the Act), which reduced the U.S. federal income tax rate to 21%. We recognized the effects of the Act during fiscal year 2018, specifically the re-measurement of our deferred tax assets and liabilities as well as impact of the one-time "toll tax" on the undistributed, non-previously taxed foreign earnings of our subsidiaries, resulting in a net benefit of approximately $1.1 million. We have completed our analysis of these items and have not recorded any adjustments in this period.

Our effective income tax rate for fiscal year 2019 is projected to be approximately 25%.

U.S. Health & Human Services Segment

Our U.S. Health and Human Services Segment provides a variety of business process services such as program administration, appeals and assessments work and related consulting work for U.S. state and local government programs. These services support a variety of programs including Medicaid, the Children's Health Insurance Program, the Affordable Care Act and Temporary Assistance for Needy Families.

	Three Months Ended June 30,		Nine Months Ended June 30,	
(dollars in thousands)	**2019**	**2018**	**2019**	**2018**
Revenue	$ 291,132	$ 314,477	$ 876,082	$ 924,967
Cost of revenue	204,468	213,052	615,127	652,725
Gross profit	86,664	101,425	260,955	272,242
Operating income	54,250	67,043	167,002	166,439
Gross profit percentage	29.8 %	32.3 %	29.8 %	29.4 %
Operating margin percentage	18.6 %	21.3 %	19.1 %	18.0 %

Our revenue and cost of revenue for the three month period ended June 30, 2019, decreased 7.4% and 4.0%, respectively, compared to the same period in fiscal year 2018. Our revenue and cost of revenue for the nine month period ended June 30, 2019, decreased by 5.3% and 5.8%, respectively, compared to the same period in fiscal year 2018. All movements were organic.

The declines in fiscal year 2019 compared to the prior year are principally driven by two factors.

- Revenue was tempered from contracts that were rebid or extended over the past year. It is not unusual that during a rebid or sole-source extension of a contract, we negotiate a revenue reduction in order to retain the business. This may be short-term and, over the life of the contract, we strive to improve revenue and profit through scope increases and operating efficiencies. These actions, as well as several new work opportunities, should result in organic growth in fiscal year 2020.
- Our revenue and profit during the three months ended June 30, 2018, include approximately $13.7 million related to change orders. On a number of contracts, we had agreed to contract amendments and scope changes but delays in signing these agreements had resulted in us working at risk and being precluded from recognizing revenue. Accordingly, our results in the comparable quarter received a significant benefit; if the contract amendments had been signed prior to the work being performed, our gross and operating profit margins would have been 29.2% and 17.7%, respectively.

We anticipate operating margin for the segment will be between 18% and 19% for fiscal year 2019.

U.S. Federal Services Segment

Our U.S. Federal Services Segment provides business process solutions, including program administration, appeals and assessment services as well as system and software development and maintenance services for various U.S. federal civilian programs. This segment also contains certain state-based assessments and appeals work that is part of the segment's heritage within the Medicare Appeals portfolio and continues to be managed within this segment.

	Three Months Ended June 30,		Nine Months Ended June 30,	
(dollars in thousands)	**2019**	**2018**	**2019**	**2018**
Revenue	$ 292,295	$ 112,226	$ 799,018	$ 361,536
Cost of revenue	225,492	79,950	623,534	268,528
Gross profit	66,803	32,276	175,484	93,008
Operating income	33,907	14,877	84,852	41,421
Gross profit percentage	22.9 %	28.8 %	22.0 %	25.7 %
Operating margin percentage	11.6 %	13.3 %	10.6 %	11.5 %

Changes in revenue, cost of revenue and gross profit for the three months ended June 30, 2019, are summarized below.

	Revenue		Cost of Revenue		Gross Profit	
(dollars in thousands)	**Dollars**	**Percentage change**	**Dollars**	**Percentage change**	**Dollars**	**Percentage change**
Balance for respective period in fiscal year 2018	$ 112,226		$ 79,950		$ 32,276	
Organic effect	16,688	14.9 %	14,104	17.6 %	2,584	8.0 %
Acquired growth	163,381	145.6 %	131,438	164.4 %	31,943	99.0 %
Balance for respective period in fiscal year 2019	$ 292,295	160.5 %	$ 225,492	182.0 %	$ 66,803	107.0 %

Changes in revenue, cost of revenue and gross profit for the nine months ended June 30, 2019, are summarized below.

	Revenue		Cost of Revenue		Gross Profit	
(dollars in thousands)	**Dollars**	**Percentage change**	**Dollars**	**Percentage change**	**Dollars**	**Percentage change**
Balance for respective period in fiscal year 2018	$ 361,536		$ 268,528		$ 93,008	
Organic effect	(3,165)	(0.9) %	(2,078)	(0.8) %	(1,087)	(1.2) %
Acquired growth	440,647	121.9 %	357,084	133.0 %	83,563	89.8 %
Balance for respective period in fiscal year 2019	$ 799,018	121.0 %	$ 623,534	132.2 %	$ 175,484	88.7 %

Growth was driven by the citizen engagement centers business, which was acquired on November 16, 2018. The two largest acquired contracts which are cost-plus arrangements and, accordingly, the profit margin is lower than the existing business which includes fixed fee and transaction-based work. We anticipate that operating margin will be between 10% and 11% for the full fiscal year.

One of the contracts noted above covers the operation of the United States Decennial Census under the contract Census Questionnaire Assistance 2020 (CQA). The CQA contract is ramping slower than expected but the Company expects no material change to its expected revenue over the life of the contract. The contract continues through June 2021 and we do not anticipate a material amount of revenue in fiscal year 2021. These estimates are based upon our expectations of the contract at this time which may change through contract performance or changes to the contract.

Our organic business for the nine months ended June 30, 2019, has declined slightly against the comparative period. This was caused primarily by:

- The anticipated ending of certain contracts;
- The rebid of contracts acquired in 2015 under the small business rules which we were not eligible to rebid for; and
- The absence of some short-term disaster relief work which had improved our results in fiscal year 2018.

Our organic growth for the three months ended June 30, 2019, received the benefit of a number of new contracts, including an arrangement with the Universal Service Administrative Company (USAC) administering the E-rate program.

Outside the United States Segment

Our Outside the U.S. Segment provides business process solutions for governments and commercial clients outside the United States, including health and disability assessments, program administration for welfare-to-work services and other related services. We support programs and deliver services in the United Kingdom, including the Health Assessment Advisory Service, the Work & Health Programme and Fair Start; Australia, including jobactive and the Disability Employment Service; Canada, including Health Insurance British Columbia (BC) and the Employment Program of British Columbia; Saudi Arabia and Singapore.

	Three Months Ended June 30,		Nine Months Ended June 30,	
(dollars in thousands)	2019	2018	2019	2018
Revenue	$ 147,283	$ 171,152	$ 456,749	$ 547,287
Cost of revenue	126,503	150,169	390,254	457,090
Gross profit	20,780	20,983	66,495	90,197
Operating income	4,989	4,208	13,904	36,913
Gross profit percentage	14.1 %	12.3 %	14.6 %	16.5 %
Operating margin percentage	3.4 %	2.5 %	3.0 %	6.7 %

Changes in revenue, cost of revenue and gross profit for the three months ended June 30, 2019, are summarized below.

	Revenue		Cost of Revenue		Gross Profit	
(dollars in thousands)	Dollars	Percentage change	Dollars	Percentage change	Dollars	Percentage change
Balance for respective period in fiscal year 2018	$ 171,152		$ 150,169		$ 20,983	
Organic effect	(14,737)	(8.6) %	(15,902)	(10.6) %	1,165	5.6 %
Currency effect compared to the prior period	(9,132)	(5.3) %	(7,764)	(5.2) %	(1,368)	(6.5) %
Balance for respective period in fiscal year 2019	$ 147,283	(13.9) %	$ 126,503	(15.8) %	$ 20,780	(1.0) %

Changes in revenue, cost of revenue and gross profit for the nine months ended June 30, 2019, are summarized below.

	Revenue		Cost of Revenue		Gross Profit	
(dollars in thousands)	Dollars	Percentage change	Dollars	Percentage change	Dollars	Percentage change
Balance for respective period in fiscal year 2018	$ 547,287		$ 457,090		$ 90,197	
Organic effect	(62,367)	(11.4) %	(42,639)	(9.3) %	(19,728)	(21.9) %
Currency effect compared to the prior period	(28,171)	(5.1) %	(24,197)	(5.3) %	(3,974)	(4.4) %
Balance for respective period in fiscal year 2019	$ 456,749	(16.5) %	$ 390,254	(14.6) %	$ 66,495	(26.3) %

Our revenue for the three month period ended June 30, 2019, decreased by 14% compared to the same period in fiscal year 2018. On a constant currency basis revenue decreased by 8.6%. Cost of revenue decreased by 16% compared to the same period in fiscal year 2018.

In fiscal year 2019, the Work Programme and Work Choice Programme contracts in the United Kingdom are ending. As a result, revenue from these contracts was expected to be lower in fiscal year 2019 by approximately $35 million compared to fiscal year 2018. These contracts have been replaced by new programs and smaller contracts that were devolved to the local authorities. In fiscal year 2018, we began operations in Wales, East London and Scotland to provide health and employment services to vulnerable populations with disabilities and complex health conditions. The contracts are progressing towards profitability but remain unfavorable in the near-term, and in aggregate, we now expect them to break even during fiscal year 2020. Our results in the third quarter of fiscal year 2018 included a charge of approximately $1.3 million related to the termination of the United Kingdom Fit for Work contract.

During the third quarter, the segment was also unfavorably impacted by the discontinuation of a component of a Canadian contract as the client considers a new approach. This work was highly accretive and, accordingly, we anticipate an operating margin of approximately 3% for this segment for the full fiscal year.

Our results for the three months ended June 30, 2018, received the benefit of a change order which was signed in the period after much of the work had been completed. This resulted in a benefit to revenue and profit of approximately $1.8 million.

The continued strength of the United States Dollar against the currencies in which we do business outside the U.S. has resulted in significant year-over-year declines in our revenue and costs.

Approximately half of our revenue within the Outside the U.S. Segment is generated through contracts within the United Kingdom, most of which are with government agencies. As such, we are closely monitoring developments as the United Kingdom Government negotiates a withdrawal from the European Union. We do not anticipate the withdrawal to have a material direct effect on our business in the United Kingdom due to the nature of our customer base and the absence of cross-border operations. However, regardless of the nature and timing of the withdrawal, the uncertainty over the process and the eventual outcome is affecting us indirectly. We anticipate we will continue to be subject to political risks, as legislative priorities may change, the economic risks from the pre- and post-withdrawal environment, and we may, along with other businesses, experience difficulty in recruiting and retaining employees.

Liquidity and Capital Resources

Our principal source of liquidity remains our cash flows from operations. These cash flows are used to fund our ongoing operations and working capital needs as well as investments in capital infrastructure and purchases of our own common stock. These operating cash flows are driven by our contracts and their payment terms. For many contracts, we are reimbursed for the costs of startup operations, although there may be a gap between incurring and receiving these funds. Other factors which may cause shortfalls in cash flows include contract terms where payments are tied to outcome deliveries, which may not correspond with the costs incurred to achieve these outcomes and short-term delays where government budgets are constrained.

To supplement our operating cash flows, we maintain and utilize our credit facility which allows us to borrow up to $400 million, subject to standard covenants. In November 2018, we utilized $150 million of borrowing to acquire the citizen engagement centers business, with the balance from existing cash balances. We have since repaid this balance in full. Our international locations have access to borrowing facilities which they may use to cover short-term working capital needs.

Our priorities for cash utilization are to actively pursue new growth opportunities, to maintain our quarterly dividend program and, where opportunities arise, to make purchases of our own shares.

We have no requirement to remit funds from our foreign locations back to the United States. However, where remitting these funds is possible and can be performed in a tax-efficient manner, we will do so. With the passage of the Tax Cuts and Jobs Act in the United States, we are able to transfer a significant amount of funds from our foreign locations on a tax-free basis. We will continue to explore opportunities to make funds available for investment, taking into consideration the working capital requirements and relevant tax rules in each jurisdiction. Where we are unable to remit funds 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 which 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. At June 30, 2019, we held $37.9 million in cash or cash equivalents held in foreign locations in local currencies.

Cash Flows

The following table provides a summary of our cash flow information for the nine months ended June 30, 2019 and 2018.

	Nine Months Ended June 30,	
(dollars in thousands)	**2019**	**2018**
Net cash provided by/(used in):		
Operations	$ 263,711	$ 188,316
Investing activities	(440,706)	(40,507)
Financing activities	(99,601)	(83,478)
Effect of exchange rate changes on cash and cash equivalents	(994)	(1,714)
Net (decrease)/increase in cash, cash equivalents and restricted cash	$ (277,590)	$ 62,617

The largest single driver of our cash flow growth has been our acquisition of the citizen engagement centers business, which has increased both our cash collections from customers and our cash payments to vendors.

Our Days Sales Outstanding (DSO) at June 30, 2019, were 77 days; the balance at September 30, 2018, was 63 days. Our DSO calculation now includes unbilled balances due to the adoption of ASC 606. Absent this effect, our DSO would have been 73 days. Our receivable balances at June 30, 2019, include receivables from our Census contract, which is undergoing a quick ramp-up to prepare for activities, and, accordingly, will continue to experience growing receivable balances. We use DSO to evaluate our performance in collecting our receivable balances, both billed and unbilled. We have a target range for DSO of 65 to 80 days and in recent years, we have typically maintained the lower end of this range.

Cash used in investing activities for the nine months ended June 30, 2019, was $440.7 million compared to $40.5 million in the same period last year. This includes our initial payment of $421.8 million for the acquisition of the citizen engagement centers business. We made the final payment of $8.9 million in July 2019 following settlement of the working capital true-up. Our capital expenditures also included investments in infrastructure for our Census contract, as well as $4.5 million in one-time payments to cover software licenses required for employees joining us from the citizen engagement centers acquisition.

Cash used in financing activities in the nine months ended June 30, 2019, was $99.6 million, compared to $83.5 million in the comparative period. During the current year, we returned $94.0 million to our shareholders in the form of dividends and stock purchases; through the same period in fiscal year 2018, we returned $70.8 million. This includes the increase in our quarterly dividend from $0.045 to $0.25 per share.

To supplement our statements of cash flows presented on a GAAP basis, we use the measure of free cash flow to analyze the funds generated from operations.

	Nine Months Ended June 30,	
(dollars in thousands)	**2019**	**2018**
Cash flows from operations	$ 263,711	$ 188,316
Purchases of property and equipment and capitalized software costs	(39,033)	(21,552)
Capital expenditure as a result of acquisition (1)	4,542	—
Free cash flow	$ 229,220	$ 166,764

(1) Purchases of property and equipment and capitalized software costs included $4.5 million in one time payments to cover software licenses required for employees joining us through the citizen engagement centers acquisition.

Critical Accounting Policies and Estimates

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

During the nine months ended June 30, 2019, we made changes to the manner in which we recognize revenue. This has resulted in a need for additional estimates. For additional information, please see "Note 3. Revenue recognition" in our "Notes to Unaudited Consolidated Financial Statements" in Item 1 of this Form 10-Q.

Non-GAAP Measures

We utilize non-GAAP measures where we believe it will assist the user 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 operations or net income 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 2018, 29% 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. We provide organic revenue growth as a useful basis for assessing this. To calculate organic revenue growth, we compare current fiscal year revenue excluding revenue from these acquisitions to our prior fiscal year revenue.

In order to sustain our cash flows from operations, we require regular refreshing of 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 own common stock, dividend payments and other financing transactions. We have provided a reconciliation of free cash flow to cash provided by operations.

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 $400 million 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 credit facility requires us to calculate Adjusted EBITDA on a pro forma basis as though we had owned any acquired business for a full twelve month period prior to the acquisition. We have provided a reconciliation from net income to Adjusted EBITA, Adjusted EBITDA and Pro Forma Adjusted EBITDA as follows:

	Nine Months Ended June 30,		Trailing Twelve Months Ended June 30,	
(dollars in thousands)	**2019**	**2018**	**2019**	**2018**
Net income attributable to MAXIMUS	$ 180,735	$ 174,444	$ 227,042	$ 227,773
Interest expense/(income), net	181	(2,132)	(278)	(2,392)
Provision of income taxes	59,511	61,793	76,111	85,203
Amortization of intangible assets	24,026	7,846	26,488	10,546
Stock compensation expense	15,323	15,713	19,848	21,256
Acquisition-related expenses	2,982	—	3,929	83
Adjusted EBITA	$ 282,758	$ 257,664	$ 353,140	$ 342,469
Depreciation and amortization of property, plant, equipment and capitalized software	34,588	39,902	46,570	52,255
Adjusted EBITDA	$ 317,346	$ 297,566	$ 399,710	$ 394,724
Additional adjusted EBITDA related to citizen engagement centers acquisition	6,695		11,131	
Pro Forma Adjusted EBITDA	$ 324,041		$ 410,841	

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Our exposure to market risks generally relates to changes in foreign currency exchange rates.

At June 30, 2019, and September 30, 2018, we held net assets denominated in currencies other than the U.S. Dollar of $90.2 million and $100.3 million, respectively. Of these balances, cash and cash equivalents comprised $37.9 million and $46.4 million, respectively. Accordingly, in the event of a 10% unfavorable exchange rate movement across these currencies, we would have reported the following incremental effects on our comprehensive income and our cash flow statement (in thousands).

	June 30, 2019	September 30, 2018
Comprehensive income attributable to MAXIMUS	$ (9,025)	$ (10,030)
Net decrease in cash and cash equivalents	(3,789)	(4,640)

Included within our net assets held in international currency are assets which we consider to be monetary assets — those which hold a fair value close to their book value and which represent a recent cash outflow or which will become a cash inflow or outflow within a short period of time. These assets and liabilities are typically cash, billed, billable and unbilled accounts receivable, current prepaid expenses, accounts payable, accrued compensation, deferred revenue and debt. At June 30, 2019, the net value of these assets and liabilities was $79.6 million.

Where possible, we identify surplus funds in foreign locations and place them into entities with the U.S. Dollar as their functional currency. This mitigates our exposure to foreign currencies. We mitigate our foreign currency exchange risks within our operating divisions through incurring costs and cash outflows in the same currency as our revenue.

We are exposed to interest rate risk through our revolving credit facility and other short term borrowings. Our interest rate for the revolving credit facility is based upon the one-month London Interbank Offering Rate (LIBOR) or equivalent plus a premium based upon our leverage; this premium is currently 1%. The one-month LIBOR at June 30, 2019, was approximately 2.5%. We had no borrowings under the facility at June 30, 2019. The majority of our outstanding debt at June 2019 was comprised of short-term borrowings in foreign locations to cover short-term working capital needs. The terms and rates under which we borrow in these jurisdictions varies from location to location. As these borrowings are relatively small and for brief periods, we do not anticipate significant interest rate exposure. In the event that longer-term borrowings were required or if the costs of borrowing became expensive, we would anticipate using our current cash balance to cover these obligations.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Control over Financial Reporting

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

From October 2018, we have made changes to our accounting for revenue based upon changes in accounting principles. These changes have required updates and additions to our existing controls which have been implemented in the current fiscal year.

In November 2018, we acquired the citizen engagement centers business from General Dynamics Information Technology. We are in the process of integrating this business into our existing control environment.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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 the United States Federal Government, 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 disbarment. 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 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.

Securities class action lawsuit

In August 2017, the Company and certain officers were named as defendants in a putative class action lawsuit filed in the U.S. District Court for the Eastern District of Virginia. The plaintiff alleged the defendants made a variety of materially false and misleading statements, or failed to disclose material information, concerning the status of the Company's Health Assessment Advisory Service project for the U.K. Department for Work and Pensions from the period of October 20, 2014, through February 3, 2016. In August 2018, our motion to dismiss the case was granted, and the plaintiff appealed the case to the U.S. Circuit Court for the Fourth Circuit. In June 2019, the Circuit Court affirmed the decision of the District Court, and the matter has concluded.

Medicaid claims

A state Medicaid agency has been notified of two proposed disallowances by the Centers for Medicare and Medicaid Services (CMS) totaling approximately $31 million. 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 reserved 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. No legal action has been initiated against us.

Item 1A. Risk Factors.

In connection with information set forth in this Form 10-Q, the factors discussed under "Risk Factors" in our Form 10-K for fiscal year ended September 30, 2018, should be considered. The risks included in the Form 10-K could materially and adversely affect our business, financial condition and results of operations. There have been no material changes to the factors discussed in our Annual Report on Form 10-K for the year ended September 30, 2018, which was filed with the Securities and Exchange Commission on November 20, 2018.

Item 6. Exhibits.

Exhibit No.		Description
31.1	⬩	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	⬩	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	❖	Section 906 Principal Executive Officer Certification.
32.2	❖	Section 906 Principal Financial Officer Certification.
101		The following materials from the MAXIMUS, Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statements of Changes in Shareholders' Equity and (vi) Notes to Consolidated Financial Statements. Filed electronically herewith.

⬩ Filed herewith.

❖ 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.

Date: August 8, 2019

By: /s/ Richard J. Nadeau

Richard J. Nadeau

Chief Financial Officer

(On behalf of the registrant and as Principal Financial and Accounting 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. for the period ended June 30, 2019;

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.

Date: August 8, 2019

/s/ Bruce L. Caswell

Bruce L. Caswell
Chief Executive Officer

EXHIBIT 31.2

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

I, Richard J. Nadeau, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of MAXIMUS, Inc. for the period ended June 30, 2019;

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.

Date: August 8, 2019

/s/ Richard J. Nadeau

Richard J. Nadeau
Chief Financial Officer

EXHIBIT 32.1

Section 906 CEO Certification

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

1. The Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2019 (the “Quarterly Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m or 78o(d)) and

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

Date: August 8, 2019

/s/ Bruce L. Caswell

Bruce L. Caswell

Chief Executive Officer

EXHIBIT 32.2

Section 906 CFO Certification

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

1. The Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2019 (the “Quarterly Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m or 78o(d)) and

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

Date: August 8, 2019

/s/ Richard J. Nadeau

Richard J. Nadeau

Chief Financial Officer