

MAXIMUS INC  
Form 10-Q  
February 08, 2007

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

**For the quarterly period ended December 31, 2006**

**Commission File Number: 1-12997**

**MAXIMUS, INC.**

(Exact name of registrant as specified in its charter)

**Virginia**

(State or other jurisdiction of  
incorporation or organization)

**11419 Sunset Hills Road**  
**Reston, Virginia**  
(Address of principal executive offices)

**54-1000588**

(I.R.S. Employer  
Identification No.)

**20190**  
(Zip Code)

**(703) 251-8500**

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(Registrant's telephone number, including area code)

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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 January 31, 2007, there were 21,713,802 shares of the registrant's common stock (no par value) outstanding.

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MAXIMUS, Inc.

Quarterly Report on Form 10-Q

For the Quarter Ended December 31, 2006

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Signature.

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

**PART I. FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements.**

MAXIMUS, Inc.

**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands)

	September 30, 2006 (Note 1)	December 31, 2006 (unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 39,545	\$ 21,964
Marketable securities	117,315	141,811
Restricted cash	1,512	312
Accounts receivable billed, net of reserves of \$5,830 and \$16,816	153,399	126,912
Accounts receivable unbilled	47,728	39,949
Income taxes receivable	9,003	11,018
Deferred income taxes	6,844	10,690
Prepaid expenses and other current assets	8,334	8,498
Total current assets	383,680	361,154
Property and equipment, at cost	71,078	72,558
Less accumulated depreciation and amortization	(37,649)	(39,631)
Property and equipment, net	33,429	32,927
Capitalized software	57,260	57,351
Less accumulated amortization	(23,335)	(25,655)
Capitalized software, net	33,925	31,696
Deferred contract costs, net	11,165	9,758
Goodwill	86,688	86,019
Intangible assets, net	5,720	4,892
Other assets, net	3,894	2,967
Total assets	\$ 558,501	\$ 529,413
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 54,484	\$ 44,350
Accrued compensation and benefits	24,426	22,172
Deferred revenue	54,414	48,264
Current portion of capital lease obligations	1,690	1,707
Other accrued liabilities	1,600	1,122
Total current liabilities	136,614	117,615
Capital lease obligations, less current portion	2,044	1,643
Deferred income taxes	14,944	13,692
Total liabilities	153,602	132,950
Shareholders' equity:		
Common stock, no par value; 60,000,000 shares authorized; 21,544,964 and 21,652,730 shares issued and outstanding at September 30, 2006 and December 31, 2006, at stated amount, respectively	156,349	159,250
Accumulated other comprehensive income (loss)	(916)	300
Retained earnings	249,466	236,913
Total shareholders' equity	404,899	396,463
Total liabilities and shareholders' equity	\$ 558,501	\$ 529,413

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*See notes to unaudited condensed consolidated financial statements.*

MAXIMUS, Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)

(Unaudited)

	Three Months Ended December 31,	
	2005	2006
Revenue	\$ 162,726	\$ 161,138
Cost of revenue	117,980	140,860
Gross profit	44,746	20,278
Selling, general and administrative expenses	31,564	34,653
Legal expense (Note 12)	500	3,000
Income (loss) from operations	12,682	(17,375)
Interest and other income, net	2,038	477
Gain on sale of business (Note 13)		684
Income (loss) before income taxes	14,720	(16,214)
Provision (benefit) for income taxes	5,814	(5,819)
Net income (loss)	\$ 8,906	\$ (10,395)
Earnings (loss) per share (Note 6):		
Basic	\$ 0.42	\$ (0.48)
Diluted	\$ 0.41	\$ (0.48)
Dividends per share	\$ 0.10	\$ 0.10
Weighted average shares outstanding:		
Basic	21,432	21,590
Diluted	21,908	21,590

See notes to unaudited condensed consolidated financial statements.

MAXIMUS, Inc.  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollars in thousands)  
(Unaudited)

	Three Months Ended December 31,	
	2005	2006
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 8,906	\$ (10,395 )
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,202	2,284
Amortization	1,942	2,769
Deferred income taxes	(130 )	(5,098 )
Non-cash equity based compensation	1,333	1,020
Gain on sale of business		(684 )
Change in assets and liabilities, net of effects from divestiture:		
Accounts receivable - billed	897	26,486
Accounts receivable - unbilled	(3,421 )	6,734
Prepaid expenses and other current assets	(192 )	(151 )
Deferred contract costs	(7,073 )	1,407
Other assets	(707 )	2,065
Accounts payable	2,548	(9,641 )
Accrued compensation and benefits	(5,457 )	(2,254 )
Deferred revenue	5,417	(5,745 )
Income taxes	(62 )	(2,015 )
Other liabilities	(1,127 )	844
Net cash provided by operating activities	5,076	7,626
<b>Cash flows from investing activities:</b>		
Proceeds from sale of business, net of transaction costs		2,171
Purchases of property and equipment	(3,651 )	(1,918 )
Capitalized software costs	(1,880 )	(304 )
Increase in marketable securities	(16,525 )	(24,496 )
Net cash used in investing activities	(22,056 )	(24,547 )
<b>Cash flows from financing activities:</b>		
Employee stock transactions	1,532	1,526
Repurchases of common stock	(4,315)	
Payments on capital lease obligations	(370)	(384 )
Tax benefit due to option exercises and restricted stock units vesting	(87)	357
Cash dividends paid	(2,146)	(2,159 )
Net cash used in financing activities	(5,386 )	(660 )
Net decrease in cash and cash equivalents	(22,366 )	(17,581 )
Cash and cash equivalents, beginning of period	59,073	39,545

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Cash and cash equivalents, end of period	\$	36,707	\$	21,964

*See notes to unaudited condensed consolidated financial statements.*



MAXIMUS, Inc.

**Notes to Unaudited Condensed Consolidated Financial Statements**

**For the Three Months Ended December 31, 2006 and 2005**

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

**1. Organization and Basis of Presentation**

*General*

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the three months ended December 31, 2006 are not necessarily indicative of the results that may be expected for the full fiscal year. The balance sheet at September 30, 2006 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In addition to the Company's wholly owned subsidiaries, the financial statements as of and for the three months ended December 31, 2006 and 2005, and as of September 30, 2006, include a majority (55%) owned international subsidiary.

These financial statements should be read in conjunction with the audited financial statements and the notes thereto at September 30, 2006 and 2005 and for each of the three years in the period ended September 30, 2006, included in the Company's Annual Report on Form 10-K for the year ended September 30, 2006 (File No. 1-12997) filed with the Securities and Exchange Commission on December 13, 2006.

*Income Taxes*

During the three months ended December 31, 2006, our historical effective income tax rate was impacted by approximately 4 percentage points as a result of recording a \$0.7 million valuation allowance on certain deferred tax assets related to a foreign subsidiary's net operating losses recorded at September 30, 2006 that were considered more-likely-than-not to be realized at that time. As a result of events occurring during the first fiscal quarter of 2007 impacting the subsidiary's operating results for that period, the need for a valuation allowance was re-evaluated and it was determined that it was no longer more-likely-than-not that the net operating losses that existed at September 30, 2006 would be realized.

*Legal Expense*

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

*Stock-Based Compensation*

The Company's Board of Directors established stock option plans during 1997 pursuant to which the Company may grant non-qualified stock options to officers, employees and directors of the Company. Such plans also provide for stock awards and direct purchases of the Company's common stock. At December 31, 2006, the Board of Directors had reserved 8.1 million shares of common stock for issuance under the Company's stock option plans. At December 31, 2006, approximately 2.0 million shares remained available for grants under the Company's stock option plans.

Stock options are granted at exercise prices equal to the fair market value of the Company's common stock at the date of grant. Stock options generally vest ratably over a period of four years and, beginning in fiscal 2005, expire six years after date of grant. Options issued prior to fiscal 2005 expire ten years after date of grant. Compensation expense recognized related to stock options was \$0.9 million and \$1.0 million for the three months ended December 31, 2005 and 2006, respectively.

The Company also issues Restricted Stock Units (RSUs) to certain executive officers and employees under its 1997 Equity Incentive Plan (Plan). Generally, these RSUs vest ratably over six years with full vesting upon the sixth anniversary of the date of grant, provided, however, that the vesting will accelerate if the Company meets certain earnings targets determined by the Board of Directors. The fair value of the RSUs, based on the Company's stock price at the grant date, is expensed over the vesting period. Compensation expense recognized related to RSUs was \$0.4 million for the three months ended December 31, 2005. During the three months ended December 31, 2006, the Company increased its estimate of RSU forfeitures based upon historical data, which had the result of reducing compensation expense by \$0.8 million to less than \$0.1 million in the first quarter of fiscal 2007.

**2. Comprehensive Income (Loss)**

Comprehensive income (loss) includes net income (loss), plus changes in the net unrealized gains (losses) on investments, net of taxes, and changes in cumulative foreign currency translation adjustments. The components of comprehensive income (loss) for the three months ended December 31, 2005 and 2006 are as follows:

(in thousands)	Three months Ended December 31,	
	2005	2006
Net income (loss)	\$ 8,906	\$ (10,395 )
Foreign currency translation adjustments	(649 )	1,216
Unrealized investment gains (losses)	(7 )	
Reclassification adjustment for gains realized in net income, net of tax effect of \$93	(143 )	
Comprehensive income (loss)	\$ 8,107	\$ (9,179 )

**3. Deferred Contract Costs**

Deferred contract costs consist of contractually recoverable direct set-up costs relating to long-term service contracts in progress. These costs include direct and incremental costs incurred prior to the commencement of the Company providing contracted services to our customers. These costs totaled \$26.3 million and \$26.2 million at September 30, 2006 and December 31, 2006, respectively, of which \$7.6 million consisted of leased equipment. Deferred contract costs are expensed ratably as services are provided under the contracts. Accumulated amortization of deferred contract costs was \$15.1 million and \$16.4 million at September 30, 2006 and December 31, 2006, respectively.

**4. Goodwill and Intangible Assets**

The changes in the carrying amount of goodwill, by each of the Company's business segments, for the three months ended December 31, 2006 are as follows (in thousands):

	Consulting	Systems	Operations	Total