

MAXIMUS INC
Form 10-K
December 13, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 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)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, no par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES NO

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Act).

YES NO

The aggregate market value of outstanding voting stock held by non-affiliates of the registrant as of March 31, 2006 was \$585,895,046 based on the last reported sale price of the registrant's Common Stock on The New York Stock Exchange as of the close of business on that day.

There were 21,592,742 shares of the registrant's Common Stock outstanding as of November 30, 2006.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2007 Annual Meeting of Shareholders to be held on March 20, 2007, which definitive Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the end of the registrant's fiscal year, are incorporated by reference into Part III of this Form 10-K.

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PART I

ITEM 1. Business.

General

We are a leading provider of consulting, systems solutions, and operations program management primarily to government. Since our inception in 1975, we have been at the forefront of innovation in meeting our mission of Helping Government Serve the People®. We use our expertise, experience and advanced information technology to make government operations more efficient and cost-effective while improving the quality of services provided to program beneficiaries. We operate primarily in the United States and have had contracts with government agencies in all 50 states, Canada, Australia, Israel and the United Kingdom.

Over the last five years, our business has experienced fluctuations in demand for certain services, primarily resulting from the budgetary and fiscal challenges that many states faced during 2002 and 2003. As a result, we experienced weakness in certain divisions primarily within our Consulting Segment and in the human services area of our Operations Segment. Beginning in 2004, state financial conditions returned to healthier levels resulting from increased tax receipts and consequently our business has experienced increases in opportunities and new work.

While overall market demand at the state level has returned to more normalized levels, our fiscal 2006 results were impacted by a \$49.4 million operating loss on the Texas Integrated Eligibility project, which included a \$17.1 million write-off of deferred contract costs. Under this project, we serve as a subcontractor to Accenture as part of the Texas Access Alliance which provides services under the Texas Health and Human Services Commissions Integrated Eligibility Program. We were awarded the five-year, \$370 million subcontract in June 2005. In June 2006, we amended our subcontract with Accenture to reduce scope and realign responsibilities. On November 15, 2006, we announced that we have commenced negotiations with Accenture which may further reduce our overall scope on the project.

For the fiscal year ended September 30, 2006, we had revenue of \$700.9 million and net income of \$2.5 million.

Market Overview

Our primary customers are state and local government agencies, but a portion of our business also comes from a variety of federal agencies and commercial customers. In fiscal 2006, approximately 77% of our total revenue was derived from state and local government agencies, 7% from federal government agencies, 11% from foreign customers, and 5% from other sources (such as commercial customers).

We believe we are well positioned to benefit from the continuing demand for consulting, systems solutions and operations program management in an environment where governments are required to maintain or improve services to an increasing number of constituents. We believe governments will continue to review current program operations and seek improved operating capability and cost savings through the use of outsourcing. For example, many states are in the process of considering changes to how they administer entitlement programs and are seeking new ways to find cost savings by implementing new systems and business process reengineering. Much of our program management and outsourcing work is related to federally-mandated and federally-funded programs such as Medicaid and Temporary Assistance to Needy Families (TANF). As a result, we expect the underlying demand for our existing outsourcing programs to remain stable due to the fundamental need and federal mandate for governments to provide these services to beneficiaries. In addition, we believe governments will continue to upgrade technology in order to increase cost efficiency and program productivity. To achieve these results, many government agencies are engaging outsourcing business services firms, such as MAXIMUS, for help.

We deliver valued-added services to government agencies by providing consulting, systems solutions, and operations program management that help governments operate more efficiently and effectively. Demand for each of our services is contingent upon specific market factors related to our vertical markets and we believe that several factors which impact government spending will drive increased demand for our services, including:

- The need for states running federally-mandated and federally-funded programs to efficiently and cost-effectively meet minimum federal requirements in order to maintain federal funding levels.
- The requirement of state governments to implement federal initiatives such as the *Medicare Prescription Drug, Improvement, and Modernization Act of 2003*, which established prescription drug benefits as part of the Medicare program beginning January 1, 2006, and the *Deficit Reduction Act*, which reauthorizes Temporary Assistance for Needy Families (TANF) and touches upon a number of key health and human service issues including Medicaid program reforms and requires states to engage more TANF cases in productive activities leading to self-sufficiency.
- The desire by governments to continue to implement comprehensive solutions to drive efficiency and process improvements with the use of new technology offered by a single-source service provider that can offer long-term maintenance support.
- The need for governments to operate more programs with the same level of resources. Consequently, government clients possess the desire to outsource programs to companies that have greater flexibility in balancing resources (such as workforce) with demand.
- The impact of continued budgetary pressures on governments, including the need for the vast majority of states to maintain balanced budgets. These budgetary requirements increase the desire by governments to seek and maximize federal funding to which they are entitled.

As a result, governments seek to utilize outside companies such as MAXIMUS that possess the knowledge and resources to efficiently operate federally-funded programs, maintain minimum federal requirements in order to achieve the maximum federal funding as well as to secure additional federal dollars, in areas such as Medicaid, on their behalf.

Our Business Segments

The following discussion describes our business segments and each of our operating divisions within the business segments, as they existed as of September 30, 2006. From time to time, we implement certain organizational or management changes that realign our internal infrastructure and enable us to better manage our business.

Consulting Segment:

Our Consulting Segment generated approximately 15% of our total revenue in fiscal 2006. Financial information with respect to this segment is provided in Notes 16 and 17 of our consolidated financial statements (See Item 8 below). The Consulting Segment provides specialized financial consulting services such as assisting state and local agencies in obtaining federal funding reimbursements for their programs. The Consulting Segment also offers educational services that assist schools in obtaining federal funding reimbursements and reducing costs. These services are provided through the following divisions:

Financial Services Division. Our Financial Services Division provides three main services:

- Assisting states in meeting their financial objectives through reducing costs related to fraud, waste, and abuse and through increasing federal funding reimbursements for health and human services expenditures. Our program integrity projects focus on health and human services eligibility, vendor payments, and beneficiary payments and include fraud and waste detection, recovery, and prevention services. We help states appropriately claim federal reimbursement and appropriately allocate costs to federal and state programs. These efforts often lead to increased federal revenues and are often carried out on a contingency-fee basis determined as a percentage of funds recovered. We also assist states in minimizing expenditures for high cost health care cases and recovering expenditures from commercial health care payers.
- Providing consulting services that help state, county, and community-based child welfare agencies improve the outcomes for children and their families. These services include children's safety, attainment of permanent families, physical health, mental health, education of children in the child welfare system, and improving the functioning of families so that parents can care for their own children. As part of our services, we work to ensure that agencies achieve incentives and avoid penalties by complying with federal regulations. We also assist clients in building the necessary child welfare infrastructure to ensure the effective execution of core functions such as eligibility determination, rate setting, contracting, licensing, case tracking and quality assurance. We are often called upon to directly provide and manage these core functions including eligibility determination, support for adoption assistance and quality assurance. Services are typically on a payment-for-deliverable basis.
- Assisting local governments in their efforts to appropriately recover available funding from state and federal agencies, enhance revenue, and operate efficiently. Service areas include cost allocation services, user fee efforts, management studies, and engagements which mandate specific claiming requirements under certain programs, such as the State Criminal Alien Assistance Program (SCAAP) for housing illegal aliens, FEMA Disaster Claiming Assistance, and California SB-90, which requires California to reimburse counties for state mandated activities.

UNISON MAXIMUS, Inc. (Unison). Unison, one of our subsidiaries, provides a wide range of management consulting services to airports and local government entities. Unison has assisted more than 80 small, medium and large hub airports across the United States, Canada and South America by conducting various studies and providing recommendations to enhance airport operations and plan for future development. The division provides consulting services under the following major practice areas: (1) Airport Finance and Economics; (2) Airport Retail Concessions Planning and Management; and (3) Airport Planning, Programming and Implementation Oversight.

Educational Services Division. Our Educational Services Division provides financial analysis, fiscal management and billing services to help schools maximize federal funding from Medicaid claiming for qualified special education students. This division also provides school districts with software to provide electronic Individualized Educational Plans and special education case management software to ensure compliance with federal and state laws, to reduce the paperwork requirements on educators, and to improve the effectiveness of their special education programs. The division also provides instructional management software and consulting to schools in order for them to improve student performance and comply with the federal No Child Left Behind Act of 2001 (NCLB) requirements including reporting and data warehousing. We have provided school-related revenue maximization projects for more than 2,000 school districts nationwide. This division supports four educational suites of services including revenue enhancement, cost reduction, compliance, and student performance improvement. The division also licenses specialized software systems and consulting to higher education research institutions across the country to assist them in managing their research grants efficiently and effectively, enhancing their administrative effectiveness, and reducing and reallocating costs.

Technical Services Division. The Technical Services Division provides strategic management and information technology consulting services to state, county and local government agencies. Our experienced team of project management and information technology professionals applies industry-recognized standards and methodologies throughout the system development life cycle. The division has assisted customers in planning, procuring, and implementing information systems in multiple projects across numerous states. The division's services include operational and performance audits, organization and staffing analysis, industry best practice analysis, business process transformation, change management, and the application of information technology to improve service delivery. The division's services also include the application of standards-based project management, quality assurance, and independent verification and validation services to assist our customers in successfully managing the development, implementation and deployment of automated systems.

Systems Segment:

Our Systems Segment generated approximately 18% of our total revenue in fiscal 2006. Financial information with respect to this segment is provided in Notes 16 and 17 of our consolidated financial statements. The Systems Segment designs and implements our proprietary software and third party software solutions to improve the efficiency and cost-effectiveness of program administration and offers proprietary systems products in the areas of justice, education and asset solutions. These products and services are provided through the following divisions:

Asset Solutions Division. The Asset Solutions Division is a leading provider of software solutions that enable organizations to more effectively manage their asset infrastructure, including facilities and fleet and transit assets, as well as fuel management and distribution for fleet and transit organizations. The Asset Solutions Division serves over 600 customers including government agencies, public utilities, mass transit, educational institutions and commercial enterprises. The division offers a broad range of fleet consulting services such as competitiveness assessments, business planning, and information technology. Its software and industry expertise helps organizations streamline operations, achieve cost savings, and improve service levels. The division also assists entities in complying with the Government Accounting Standards Board reporting requirements for asset evaluation and management, and provides physical inventory control, regulatory compliance and reporting, and asset valuation services.

Educational Systems Division. Our Educational Systems Division provides school management services, technical support, and software tools primarily to K-12 school districts, charter schools, state departments of education, and not-for-profit organizations. The division licenses or provides hosting services using SchoolMAX® Enterprise (our proprietary student information system). SchoolMAX® Enterprise captures, retrieves, and aggregates all relevant student, family, and school information regarding enrollment, student demographics, class scheduling, grades, attendance, healthcare, discipline, special education, parental notifications, textbook management, and other critical school management functions. In addition, the division works with school districts and state governments (1) to provide state compliance reporting, (2) to help satisfy certain requirements under NCLB, and (3) to facilitate integration with decision support and other major educational systems such as student assessment, curriculum management, asset and facilities management, and food services.

Security Solutions Division. The Security Solutions Division leverages technology, software product solutions and systems integration to provide security solutions to federal and state customers that are fully compliant with the latest federally driven standards and policies. The division includes software developers, systems integrators, network and data security professionals, and analysts who develop methodologies and tools to support eligibility determinations. The division's ID Management and Credentialing capability includes enrolling citizens, storing and managing identity information including biometrics and security clearances, and issuing credentials. MAXIMUS creates turn-key systems that integrate physical access security systems to facilities and logical access security systems to web-enabled software applications using these credentials.

ERP Solutions Division. The Enterprise Resource Planning (ERP) Solutions Division works primarily with government and educational entities to implement Oracle's PeopleSoft Enterprise suite of applications, which includes Financial Management, Human Resource Management, Supply Chain Management, Budgeting, and Enterprise Performance Management systems. Recently, the division's primary focus has been on large state and local government ERP implementations including the States of Delaware, New Mexico, and Tennessee. In addition to PeopleSoft Enterprise implementations, this division conducts return-on-investment assessments for major IT projects.

Justice Solutions Division. The Justice Solutions Division develops, implements, and supports solutions that assist the justice community in managing operations and sharing information to support the delivery of justice and enhance public safety. Our solutions include complex integrated justice initiatives that provide criminal data repositories and facilitate the exchange of critical data among agencies involved in administering the judicial process and safeguarding the public. We also provide product-centric solutions such as our CourtView® case management, JuryView™ juror management, RecordView® records management, and JailView® jail management systems that serve as the information backbone of courts and corrections organizations. From city and county to statewide and country-wide organizations, our justice solutions have been selected by entities of all sizes serving populations of 40,000 to more than 6,000,000 citizens.

Operations Segment:

Our Operations Segment generated approximately 67% of our total revenue in fiscal 2006. Financial information with respect to this segment is provided in Notes 16 and 17 of our consolidated financial statements. The Operations Segment provides a variety of program management and outsourcing services for federal and state funded public programs, and focuses on the delivery of administrative services for government health and human services programs including integrated eligibility programs, TANF-funded workforce services programs, child support enforcement programs, State Children's Health Insurance Programs (SCHIP), and Medicaid programs. Our Operations Segment provides these services through the following divisions:

Child Support Division. The Child Support Division provides outsourcing, consulting, and system support services to state and local child support programs. These services include full and specialized child support case-management services, call center operations, and program and systems consulting services. The division works with the child support agencies to optimize their ability to meet their programs' goals, including maximizing collections. The Child Support Division has provided child support services and consultation in all 50 states and several Canadian provinces.

Federal Operations. The Federal Operations group provides a variety of services to federal agencies, primarily in the health and human services arena. Our services include health dispute resolution, which is an important safeguard for individuals who, as members of managed care plans or participation in certain government-sponsored health programs, have the right to appeal health care decisions. Using an experienced staff of legal and clinical professionals, we conduct health care reconsideration reviews on behalf of the Centers for Medicare and Medicaid Services (CMS) (for Medicare Parts A, C, and D), for the U.S. Office of Personnel Management (OPM), and for more than 30 state health regulatory agencies. We are designated by CMS as a Qualified Independent Contractor (QIC) as well as a Medicare Drug Integrity Contractor (MEDIC). The Federal Operations group also provides health care quality review to government agencies. We currently serve as the National Quality Monitoring Contractor for TRICARE, which is the managed healthcare program for the Department of Defense, and we also perform medical peer review for the Department of Veterans Affairs and the U.S. Coast Guard. Additionally, under contract with the Social Security Administration, we operate the agency's Ticket to Work Program, providing access to workforce services, skills assessment, job training, and placement assistance nationally for persons with disabilities.

Health Services Division. The Health Services Division provides a range of administrative support for publicly funded health services and health insurance programs, with a particular emphasis on eligibility and enrollment for state programs such as Medicaid Managed Care and State Children's Health Insurance Programs (SCHIP). Under these public health programs we provide: beneficiary outreach, education, and enrollment counseling; customized automated information systems; design and development of print and web-based program educational materials; full-service call center customer services such as on-site multilingual assistance; program data collection and reporting; premium collection and processing; and program eligibility determination.

Workforce Services Division. The Workforce Services Division manages government workforce-centered service programs in the United States, Australia, and Israel. We help disadvantaged individuals transition from government assistance programs to employment and independence by providing comprehensive services, including eligibility determination, case management, job readiness preparation and search, job development and employer outreach, job retention and career advancement, and selected educational and training services. Additionally, we offer advocacy services for youth and disabled persons in the United States and rehabilitation services in Australia, and assistance to employers in accessing tax credit benefits.

Competitive Advantages

We offer a private sector alternative for the administration and management of critical government-funded programs as well as offering consulting and systems solutions. Our reputation and extensive experience over the last 30 years give us a competitive advantage as governments seek out and value the level of expertise and brand recognition that MAXIMUS brings to its customers. The following is a detailed discussion of the competitive advantages that allow us to capitalize on various market opportunities:

Single-market focus. We are one of the largest publicly traded companies whose primary focus is offering a portfolio of consulting, systems solutions, and operations program management specifically to government customers. This single-market concentration allows us to fully dedicate time and resources in providing quality, customized solutions to government customers. Our extensive experience and detailed understanding of the regulation and operation of government programs allows us to apply our methodologies, skills, and solutions to new projects in a cost-effective and timely fashion. We believe our government program expertise differentiates us from other firms and non-profit organizations with limited resources and skill sets, as well as from large consulting firms that serve multiple industries but lack the focus necessary to efficiently manage the complexities of serving government agencies.

Wide range of services. Many customers require a broad array of service capabilities. Engagements often require creative or complex solutions that must be drawn from diverse areas of expertise within our organization. Our broad range of capabilities, as described in the Our Business Segments discussion above, enables us to better pursue new business opportunities and positions us as a single-source provider of consulting, systems solutions, and operations program management to government agencies.

Proven track record. Since 1975, we have successfully and profitably assisted governments by offering efficient, cost-effective solutions. We have completed hundreds of large-scale consulting, technical systems engagements, and program management operations for government agencies serving millions of beneficiaries. The successful execution of these projects has enhanced our reputation with government agencies while improving the quality of services provided to program beneficiaries. Our track record and reputation have contributed significantly to our ability to compete successfully and win new contracts.

Expertise in competitive bidding. Government agencies typically award contracts to third-party providers through a comprehensive, complex, and competitive bidding process. With over 30 years of experience responding to Requests for Proposals (RFPs) and executing oral presentations, we have the necessary experience to navigate these government procurement processes. The complex nature of competitive bidding creates significant barriers to entry for potential new competitors unfamiliar with the nature of government procurement. We possess the expertise and experience to assess and allocate the appropriate resources necessary for successful project completion in accordance with contractual terms. Our proposals demonstrate our ability to meet all customer requirements at a price that is both attractive to the customer and profitable to MAXIMUS. Coupled with reluctance on the part of government agencies to award contracts to unproven companies, we believe that our expertise in the competitive bidding process has contributed significantly to our success.

Intellectual property. We have software products that enhance our consulting, systems solutions, and operations program management offerings. Further, our ability to focus our subject matter experts to aid in the support and enhancement of our product offerings provides advantages over pure service providers dependent on third-party software.

In addition to our Justice, Transportation and Facility Asset Management and Education software product lines, we have developed an open architecture system utilizing a Java 2 Enterprise Edition (J2EE) framework and components. (Java and J2EE are trademarks of Sun Microsystems, Inc.) Current e-Government initiatives are mandating open architecture systems that will provide greater interoperability among agencies, systems, and programs, as well as enhanced flexibility and scalability. Our J2EE framework gives us a competitive advantage by aligning our systems and services offerings with these critical government standards. The J2EE framework serves as the infrastructure for several MAXIMUS product offerings, such as our SchoolMAX® and MAXChild products, as well as a logical and cost-effective migration path for current customers who use our legacy MAXSTAR® Application Builder, an automated case management software product that interfaces with government databases, tracks program participant records and cases, and supports extraction and analysis of program data. We believe we enjoy a competitive advantage in re-bid situations since we can implement a state-of-the-art open standards system at lower risk and cost to the customer.

Our Operations Segment generated approximately 67% of our total revenue in fiscal 2006. Financial information with

Our MAXe3 proprietary system solution is an open architecture, web-based system for managing operations in enrollment and eligibility projects. MAXe3 uses an innovative task management design that is a departure from current case management designs. The task management design is more efficient and better at tracking and accountability than the older generation systems. MAXe3, which resides on an Oracle platform, is easily scalable from the smallest to the largest operations. It serves as an important and unique component for state health and human services re-engineering efforts for their eligibility and enrollment operations.

Experienced Management Team and Subject Matter Expertise. Because we are principally focused on serving government clients, we can recruit, hire and retain skilled staff that often possesses significant government experience. We have assembled an experienced team of industry executives, former government executives, state agency officials, information technology specialists, and other professionals, many of whom have considerable experience in the public services industry. We have also developed strong relationships with experienced consultants who inform and advise us with respect to strategic marketing opportunities and legislative initiatives.

Competition

The market for providing our services to government agencies is competitive and subject to rapid change. Our principal methods of competition are quality of service and pricing, and we have identified certain positive factors relating to us in *Competitive Advantages* above. Our Consulting Segment typically competes against large consulting firms such as Accenture Ltd., as well as smaller and niche players, such as Public Consulting Group. Our Systems Segment competes with a large number of competitors including Unisys Corporation, SAP America, Inc., Oracle Corporation, BearingPoint, Inc., Accenture Ltd., Deloitte & Touche LLP, Northrop Grumman Corporation, and Electronic Data Systems Corporation. Our Operations Segment, which primarily serves health and human services departments and agencies, competes for program management contracts with the government services divisions of large organizations such as Affiliated Computer Services, Inc., Electronic Data Systems Corporation, and International Business Machines Corporation, as well as more specialized private service providers and local non-profit organizations such as the United Way of America, Goodwill Industries, and Catholic Charities USA.

Business Growth Strategy

Our goal is to enable future growth by remaining a leading provider of consulting, systems solutions, and operations program management to government agencies. The key components of our business growth strategy include the following:

- *Optimize our current operations and mitigate losses in underperforming businesses.* During fiscal 2006, we realigned our sales strategy away from a volume-driven sales approach towards a tighter focus on more profitable business. This includes current work and initiatives to improve performance in certain underperforming projects and divisions. We will also continue to evaluate new business as well as the current portfolio of projects in a manner that is more aligned with increasing our overall profitability. Along these lines, we discontinued operation of our student loan collections business and divested the Corrections Services business in October 2006. We will continue to evaluate the businesses within the organization and will act accordingly on other underperforming practice and project areas that we view as non-core or non-strategic to future growth.

- *Pursue new business opportunities and expand our customer base.* With 30 years of business expertise in the state and local government market, we continue to be a leader in developing innovative solutions to meet the evolving needs of government agencies. We believe our capabilities and brand recognition are our most critical assets and we continue to identify, respond to and secure new business opportunities in an effort to grow our existing revenue base.
- *Focus on core offerings and expand customer base.* Our fundamental services to state and local government are consulting, systems solutions, and operations program management. We seek to broaden our customer base by delivering our core offerings, such as our health services, to new clients such as the federal government and state customers. As a result, we have placed a considerable amount of emphasis on further developing these core practice areas and expanding our customer base by leveraging existing resources to better serve clients.
- *Grow long-term, recurring revenue streams.* We seek to enter into long-term relationships with clients to meet their on-going and long-term business objectives. As a result, long-term contracts (three to five years with additional option years) are often the preferred method of delivery for customers and are mutually beneficial to them and the Company.
- *Recruit and retain highly skilled professionals.* We continually strive to recruit motivated individuals including top managers from larger organizations, former government officials, consultants experienced in our service areas, and information technology professionals. We believe we can continue to attract and retain experienced personnel by capitalizing on our single market focus and our reputation as a premier government services consultant.
- *Pursue strategic acquisitions.* We will selectively identify and pursue strategic acquisition opportunities. Acquisitions can provide us with a rapid, cost-effective method to enhance our services, obtain additional skill sets, expand our customer base, cross-sell additional services, enhance our technical capabilities, and establish or expand our geographic presence.

See Exhibit 99.1 of this Annual Report on Form 10-K under the caption *Special Considerations and Risk Factors* for information on risks and uncertainties that could affect our business growth strategy.

Marketing and Sales

We generate new business opportunities by establishing and maintaining relationships with key government officials, policy makers, and decision makers. We have a team of business development professionals who ensure that we understand the needs, requirements, and legislative initiatives and priorities of our current and prospective customers. In conjunction with our subject matter experts and marketing consultants, our business development professionals create and identify new business opportunities and ensure that we proactively introduce our solutions and services early in the procurement cycle. We also subscribe to government procurement databases that track government bid activity and make every effort to ensure that we are on bidders' lists as well as approved vendor lists for government procurement offices. We participate in professional associations of government administrators and industry seminars featuring presentations by our executives and employees. Senior executives also develop leads through on-site presentations to decision-makers.

Because we obtain much of our work by responding to RFPs issued by government agencies, we have developed and implemented a sophisticated RFP tracking and capture plan system which provides us critical information about the status of existing RFPs, actions to date and deliverables with respect to those RFPs.

For the year ended September 30, 2006, we derived approximately 14% of our consolidated revenue from contracts with the state of California, principally within our Operations segment.

Legislative Initiatives

During the last several years, federal and state legislative initiatives have created new growth opportunities and potential markets for MAXIMUS. Legislation passed in Congress has large public policy implications for state and local government and presents viable business opportunities, notably in the health and human services arena. MAXIMUS is well positioned to meet the consulting, systems and operations program management needs resulting from legislative actions and subsequent regulatory efforts. MAXIMUS is actively monitoring these initiatives in order to respond to opportunities that may develop.

Some recent federal legislative initiatives that have created new growth opportunities for us in the government market include the following:

Deficit Reduction Act of 2005 (DRA). Enacted in the spring of 2006, the DRA reauthorized the TANF program of 1996, and provides states with additional flexibility to make reforms to their Medicaid Programs. This legislation touches upon a number of key health and human service issues important to the MAXIMUS base business. In reauthorizing TANF, the DRA requires states to engage more TANF cases in productive activities leading to self-sufficiency. The law recalibrates a caseload reduction credit, increases childcare funding, retains maintenance of level of effort, and promotes healthy marriage and responsible fatherhood initiatives. States are also required to establish and maintain work participation and verification procedures with new penalties of one to five percent for failure to comply.

The DRA allows states to change their Medicaid benefit packages to mirror certain commercial insurance packages (termed alternative or benchmark packages) and allows states to vary the premiums and cost sharing they charge and gives them the option to require payment of alternative premiums as a condition of eligibility. The Long-Term Care Partnership under the DRA is a unique program combining private long-term care insurance and special access to Medicaid, to allow individuals to financially prepare for the possibility of nursing home care, home care, or assisted living services in the future. The DRA also discourages the transfer of assets to protect individual wealth while allowing access to public benefits. Innovative Medicaid programs may be eligible for transformation grants. Evidence of citizenship and identity requirements are also required of states by the DRA.

These provisions, and many others in the DRA, are central to the MAXIMUS health and human service experience base in our operations and consulting area. The new requirements of the TANF program will create certain new challenges for states and localities, which in turn provide opportunities for companies like MAXIMUS. Additionally, the flexibility and encouragement offered in the DRA to innovate state Medicaid programs should be a catalyst for new consulting and operations opportunities.

Homeland Security Presidential Directive (HSPD-12). HSPD-12, dated August 27, 2004, titled Policy for a Common Identification Standard for Federal Employees and Contractors, is a Presidential mandate outlining common identification card and identity systems standards for federal employees and contractors. HSPD-12 directs the implementation of a new standardized identification and credentialing process, which is designed to enhance security, reduce identity fraud, and protect the personal privacy of those individuals issued government identification.

A Federal Information Processing Standard (FIPS 201) was signed by the Secretary of Commerce on February 25, 2005. Executive departments and agencies are required to use this new standard for identifying federal employees and contractors requesting access to federally-controlled facilities and logical access to federally-controlled information systems. All agencies were directed to come into compliance with the first part of FIPS 201, which outlines minimum requirements for a federal personal identity verification (PIV) system, by October 27, 2005. All agencies must have also come into compliance with the second part of FIPS 201, which requires agencies to meet detailed specifications that will support technical interoperability among PIV systems of federal departments and agencies, by October 27, 2006.

Our Systems Segment has specific expertise in security card technology, and has been hired by a number of federal agencies to assist with the design, development and deployment of such systems. HSPD-12 will drive the rapid adoption of these systems and we plan to pursue future work in providing assistance to agencies for the implementation of this initiative. In addition to the activity being driven by HSPD-12, there are a number of other homeland security initiatives being formulated at the federal, state, and local levels that offer opportunities for MAXIMUS.

Additionally, MAXIMUS has received qualification from the United States General Services Administration (GSA) as a system integrator to provide Personal Identity Verification (PIV) Integration Services for HSPD-12 programs for agencies and departments of the federal government.

No Child Left Behind Act of 2001 (NCLB). NCLB was signed into law on January 8, 2002. The act requires states to provide public school choice and supplemental services for students in failing schools; integrate scientifically-based research into comprehensive reading instruction for young children; set and monitor adequate yearly progress based on baseline 2001-02 data; issue annual report cards on school performance and statewide test results by the 2002-03 school year; implement annual, standards-based assessments in reading and math for grades 3-8 by the 2005-06 school year; and assure that all classes are taught by a qualified teacher by the 2005-06 school year. We believe that our SchoolMAX® Enterprise product, a comprehensive K-12 student information system, is an essential tool in helping the approximately 17,000 school districts in the country meet many of the requirements of NCLB.

Medicare Prescription Drug, Improvement, and Modernization Act of 2003. This law is one of the broadest changes to the Medicare program since its creation over 40 years ago. For the first time, a prescription drug benefit will be part of the Medicare program. The centerpiece of the legislation is the establishment of a prescription drug benefit program for Americans on Medicare. The government is introducing this benefit in two phases. Phase 1 is the introduction of an interim discount drug card; Phase 2, which began in January 2006, is a full-fledged prescription drug plan with numerous cost reimbursement and coverage thresholds. The provisions in the bill provide MAXIMUS with opportunities in core competency areas such as eligibility determination, appeals and grievance adjudication, as well as outreach and enrollment functions.

MAXIMUS was selected by the Center for Medicare and Medicaid Services as the sole vendor to perform third party appeals for individuals who have applied to receive the Medicare discount drug card. The new law also replaces the Medicare+ Choice program that offered privately-managed insurance alternatives to seniors eligible for Medicare. The new program, named Medicare Advantage, increases beneficiaries' choices of plans and services, and it is anticipated that there will be an increase in the number of managed care providers participating in the plan. The new program, with its additional insurer options, opens up opportunities for MAXIMUS to provide enrollment brokering, auditing, and consulting services.

Backlog

Backlog represents an estimate of the remaining future revenue from existing signed contracts and revenue from contracts that have been awarded but not yet signed. Our backlog estimate includes revenue expected under the current terms of executed contracts and revenue from contracts in which the scope and duration of the services required are not definite but estimable (such as performance-based contracts), but does not assume any contract renewals or extensions. Management estimates that approximately 76% of forecasted fiscal 2007 revenue is in the form of backlog as of September 30, 2006, and will be realized as revenue in the following twelve months.

Changes in backlog result from additions to future revenue from the execution of new contracts or extension or renewal of existing contracts, reductions from fulfilling contracts, reductions from the early termination of contracts, and adjustments to estimates of previously-included contracts. Our contracts typically contain provisions permitting government customers to terminate the contract on short notice, with or without cause. We believe that period-to-period backlog comparisons are difficult and do not necessarily accurately reflect future revenue we may receive. The actual timing of revenue receipts, if any, on projects included in backlog could change for any of the aforementioned reasons. The dollar amount by segment of our backlog as of September 30, 2005 and 2006, were as follows:

	As of September 30,	
	2005	2006
	(In millions)	
Consulting	\$ 120.0	\$ 147.5
Systems	116.3	212.1
Operations	1,463.7	1,140.4
Total	\$ 1,700.0	\$ 1,500.0

Seasonal Nature of Business

We may experience seasonality in our operations segment in our third fiscal quarter as a result of open enrollments in certain large health-related contracts and in our fourth fiscal quarter as a result of tax credit work. In addition, the summer and winter holiday vacations can impact our financial results for all of our segments. Specifically, reductions in working days as a result of holidays and vacations may impact our sales and accounts receivable.

Employees

As of September 30, 2006, we had 5,735 employees, consisting of 354 employees in the Consulting Segment, 516 employees in the Systems Segment, 4,664 employees in the Operations Segment and 201 corporate administrative employees. Our success depends in large part on attracting, retaining and motivating talented, innovative and experienced professionals at all levels.

As of September 30, 2006, 404 of our employees in Canada were covered under three different collective bargaining agreements, each of which has different components and requirements. There are 236 employees covered by the MAXIMUS BC Health Benefits Operations Inc. collective bargaining agreement with the British Columbia Government and Services Employees Union (BCGEU). Within Themis Program Management and Consulting Limited, we have two agreements. Under the first agreement, 155 employees are covered by a collective bargaining agreement with the BCGEU and, under the second agreement, 13 employees are covered by a collective bargaining agreement with the Professional Employees Association (PEA). These collective bargaining agreements expire on March 31, 2010.

None of our other employees are covered under any such agreement. We consider our relations with our employees to be good.

Foreign Operations

We currently operate predominantly in the United States. Our revenues derived from operations in foreign countries for fiscal years 2004, 2005, and 2006 were \$30.0 million, \$49.7 million, and \$76.7 million respectively. We had \$22.5 million and \$26.7 million of long-lived assets located in foreign countries at September 30, 2005 and 2006, respectively.

Website Access to U.S. Securities and Exchange Commission Reports

Our Internet address is <http://www.maximus.com> and includes access to our code of ethics. Through our website, we make available, free of charge, access to all reports filed with the U.S. Securities and Exchange Commission (SEC) including our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K, Section 16 filings by our officers and directors, as well as amendments to these reports, as filed with or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, after we electronically file such material with, or furnish it to, the SEC. Copies of any materials we file with, or furnish to, the SEC can also be obtained free of charge through the SEC's website at <http://www.sec.gov> or at the SEC's Public Reference Room at 100 F St., N.E., Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

ITEM 1A. *Risk Factors.*

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

ITEM 1B. *Unresolved Staff Comments.*

None.

ITEM 2. *Properties.*

We own a 60,000 square foot office building in Reston, Virginia and a 21,000 square foot office building in McLean, Virginia. We also lease offices for management and administrative functions in connection with the performance of our services. At September 30, 2006, we leased 149 offices in the United States totaling approximately 988,000 square feet. In three countries outside the United States, we leased 41 offices containing approximately 176,000 square feet. The lease terms vary from month-to-month to six-year leases and are generally at market rates.

We believe that our properties are maintained in good operating condition and are suitable and adequate for our purposes.

ITEM 3. *Legal Proceedings.*

The Company is involved in various legal proceedings, including contract and employment claims, in the ordinary course of its business. Management does not expect the ultimate outcome of these legal proceedings to have either individually or in the aggregate a material adverse effect on the Company's financial condition or its results of operations. The matters reported on below involve significant pending or potential claims against us.

(a) In October 2004, MAXIMUS received a subpoena from the Criminal Division of the U.S. Department of Justice acting through the U.S. Attorney's Office for the District of Columbia. The subpoena requested records pertaining to the Company's work for the District of Columbia, primarily relating to the preparation and submission of federal Medicaid reimbursement claims on behalf of the District. The U.S. Attorney's Office is investigating issues pertaining to compliance with the federal laws governing Medicaid claims. We are fully cooperating with the U.S. Attorney's Office in producing documents in response to the subpoena and making employees available for interviews, and we have conducted an internal review of this matter through independent outside legal counsel. Based on the probable legal costs of the internal review, we recorded a charge of \$0.5 million in connection with this matter in the quarter ended December 31, 2005. We are unable to quantify the probability or magnitude of any other expenditure, fine, penalty, or settlement amount we may incur in connection with this matter at this time.

(b) In June 2005, MAXIMUS received a subpoena pursuant to the Illinois Whistleblower Reward and Protection Act from the Office of the Attorney General of Illinois in connection with a purported whistleblower investigation of potential false claims. The subpoena requested records pertaining to the Company's work for agencies of the Executive Branch of Illinois State Government. Discussions with the Attorney General's office have indicated that MAXIMUS was one of nine contractors that received such subpoenas and that the investigation is primarily focused at this time on the procurement and contracting activities of the Illinois Department of Central Management Services. Although there can be no assurance of a favorable outcome and we are unable to quantify the probability or magnitude of any expenditures we may incur in connection with this matter, the Company does not believe that this matter will have a material adverse effect on its financial condition or results of operations, and the Company has not accrued for any loss related to this matter.

ITEM 4. *Submission of Matters to a Vote of Security Holders.*

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II

ITEM 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.*

Our common stock trades on the New York Stock Exchange under the symbol MMS. The following table sets forth, for the fiscal periods indicated, the range of high and low sales prices for our common stock and the cash dividends per share declared on the common stock.

	Price Range		
	High	Low	Dividends
Year Ended September 30, 2005:			
First Quarter	\$ 32.00	\$ 26.35	
Second Quarter	35.19	28.59	\$ 0.10
Third Quarter	36.30	30.00	0.10
Fourth Quarter	38.85	35.22	0.10
Year Ended September 30, 2006:			
First Quarter	\$ 37.96	\$ 33.45	\$ 0.10
Second Quarter	39.46	33.89	0.10
Third Quarter	35.99	22.35	0.10
Fourth Quarter	30.95	23.15	0.10

As of November 30, 2006, there were 90 holders of record of our outstanding common stock. The number of holders of record is not representative of the number of beneficial owners due to the fact that many shares are held by depositories, brokers, or nominees. We estimate there are approximately 7,600 beneficial owners of our common stock.

We declared quarterly cash dividends on our common stock at the rate of \$0.10 per share beginning with the quarter ended March 31, 2005. We expect to continue our policy of paying regular cash dividends, although there is no assurance as to future dividends. Future cash dividends, if any, will be paid at the discretion of our Board of Directors and will depend, among other things, upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and such other factors as our Board of Directors may deem relevant.

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The following table sets forth the information required regarding repurchases of common stock that we made during the three months ended September 30, 2006 and cumulative repurchases under our share repurchase program:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan(1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan (in thousands)
Inception through June 30, 2006	4,490,073	\$ 27.72	4,490,073	\$ 26,319
July 1, 2006 July 31, 2006				\$ 26,394
August 1, 2006 August 31, 2006				\$ 26,556
September 1, 2006 September 30, 2006				\$ 26,559
Total Quarter ended September 30, 2006				
Inception through September 30, 2006	4,490,073	\$ 27.72	4,490,073	

(1) Under resolutions adopted and publicly announced on May 12, 2000, July 10, 2002, and April 2, 2003, our Board of Directors has authorized the repurchase, at management's discretion, of up to an aggregate of \$90.0 million of common stock under our 1997 Equity Incentive Plan. In addition, in June 2002, the Board of Directors authorized the use of option exercise proceeds for the repurchase of our common stock.

ITEM 6. Selected Financial Data.

We have derived the selected consolidated financial data presented below from our consolidated financial statements and the related notes. The revenue and operating results related to the acquisition of companies using the purchase accounting method are included from the respective acquisition dates. The selected financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included as Item 7 of this Annual Report on Form 10-K and with the Consolidated Financial Statements and related Notes included as Item 8 of this Annual Report on Form 10-K. The historical results set forth in this Item 6 are not necessarily indicative of the results of operations to be expected in the future.

	Year Ended September 30,				
	2002(1)	2003	2004	2005	2006(2)
	(In thousands, except per share data)				
Statement of Income Data:					
Revenue	\$ 518,698	\$ 558,283	\$ 603,774	\$ 647,538	\$ 700,894
Legal expense(3)				7,000	9,394
Write-off of deferred contract costs(4)					17,109
Income (loss) from operations	64,339	57,042	63,046	56,274	(2,826)
Net income	40,346	35,346	38,774	36,069	2,460
Earnings per share:					
Basic					