

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, 1997

COMMISSION FILE NUMBER: 1-12997  
MAXIMUS, INC.  
(Exact name of Registrant as specified in its Charter)

VIRGINIA  
(State or other jurisdiction of incorporation)

54-1000588  
(I.R.S. Employer Identification Number)

1356 BEVERLY ROAD, MCLEAN, VIRGINIA 22101  
(Address of principal executive offices including zip code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (703) 734-4200

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

COMMON STOCK, NO PAR VALUE  
(Title of Class)

NEW YORK STOCK EXCHANGE  
(Name of each Exchange on which registered)

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

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 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 X NO

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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 [ ].

The approximate aggregate market value of voting stock held by non-affiliates of the Registrant as of December 1, 1997 was \$142,885,217 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. (On the same basis, the aggregate value of the voting stock including shares held by affiliates was \$347,576,045). There were 14,790,970 shares of the Registrant's Common Stock outstanding as of December 1, 1997.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement for its 1998 Annual Meeting of Shareholders to be held on February 16, 1998, which Definitive Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the Registrant's fiscal year-end of September 30, 1997, are incorporated by reference into Part III of this Form 10-K.

PART I

ITEM 1. BUSINESS

OVERVIEW

MAXIMUS provides program management and consulting services to government health and human services agencies in the United States. The Company believes that it has been at the forefront of innovation in "Helping Government Serve the

People(TM)" since its inception in 1975. The Company's services are designed to make government operations more efficient and cost effective while improving the quality of the services provided to program beneficiaries. The Company applies an entrepreneurial, private sector approach incorporating advanced technology in large scale projects in almost every state in the nation. The Company believes that its leading position in the emerging private sector health and human services industry is reflected by its continued success in being awarded competitively bid contracts by government health and human services agencies and a corresponding growth in annual revenues from \$19 million in fiscal 1990 to \$128 million in fiscal 1997.

MAXIMUS conducts its operations through two groups, the Government Operations Group and the Consulting Group. The Government Operations Group administers and manages government health and human services programs, including welfare-to-work and job readiness, child support enforcement, managed care enrollment and disability services. The Consulting Group provides health and human services planning, information technology consulting, strategic program evaluation, program improvement, communications planning and revenue maximization services.

MARKET OPPORTUNITY

The Company believes that providing program management and consulting services to government agencies in the health and human services sector represents a significant market opportunity for the Company. Federal, state and local government agencies in the United States spend over \$200 billion annually on the health and human services programs for which the Company markets its services, including welfare, child care, child support enforcement, food stamps, Social Security Disability Insurance, Supplemental Security Income and Medicaid. These programs cost an estimated \$21.0 billion in annual administrative costs. The following chart sets forth currently available data from U.S. government publications for programs served by the Company:

<TABLE>  
<CAPTION>

PROGRAM -----	ESTIMATED NUMBER OF BENEFICIARIES SERVED -----	ESTIMATED ANNUAL ADMINISTRATIVE EXPENDITURES -----
<S>	<C>	<C>
Social Security Disability Insurance...	5.9 million	\$ 1.1 billion
Supplemental Security Income.....	6.5 million	2.0 billion
Food Stamps.....	28.0 million	3.7 billion
Medicaid.....	35.1 million	7.7 billion
Temporary Assistance to Needy Families.....	13.6 million	3.5 billion
Child Support Enforcement.....	9.9 million	3.0 billion

</TABLE>

There has been a recent surge in legislation and initiatives to reform federal, state and local welfare and health and human services systems. The most significant of these legislative reforms is the Welfare Reform Act, which restructures the benefits available to welfare recipients, eliminates unconditional welfare entitlement and, most importantly, restructures the funding mechanisms that exist between federal and state governments. Under the Welfare Reform Act, states will receive block grant funding from the federal government and will no longer be able to seek reimbursement in the form of matching federal government funds for expenditures in excess of block grants. Accordingly, states will bear the financial risk for the operation of their welfare programs. A number of state governments are taking action to respond to the changes created by welfare reform. For example, in 1997 the State of Wisconsin awarded a performance-based contract to the Company to manage the welfare-to-work program in a section of Milwaukee.

The Company believes that political pressures, combined with the financial constraints imposed by the Welfare Reform Act, will accelerate the rate at which state and local health and human services agencies seek

new solutions to reduce costs and improve the effectiveness of entitlement programs. The Company believes that government agencies are increasingly turning to companies similar to MAXIMUS to administer programs more effectively. Government outsourcing ranges from the engagement of sophisticated private consulting firms working with government to improve the delivery of human services to the complete outsourcing of certain functions of government health and human services programs. The Company believes that many government agencies have concluded that private companies, similar to MAXIMUS, offer cost savings and increased efficiency due to their ability to: (i) accept contracts where compensation is based on performance; (ii) attract and compensate experienced, high-level management personnel; (iii) rapidly procure and utilize advanced technology; (iv) vary the number of personnel on a project to match fluctuating work loads; (v) increase productivity by providing employees with financial incentives and performance awards and more readily terminating non-productive employees; (vi) provide employees with ongoing training and career development assistance; and (vii) maintain a professional work environment that is more

conducive to employee productivity.

#### STRENGTHS AND DIFFERENTIATIONS

MAXIMUS believes that it has been a pioneer in offering state and local government agencies a private sector alternative to the internal administration of government health and human services programs and has been innovative in developing new business and market opportunities for the Company's services. The Company believes that the following business strengths and differentiating characteristics position it to capitalize on the significant market opportunities presented by the environment of changing health and human services program regulation and evolving technologies.

**Single Market Focus.** The Company believes that it is the largest company dedicated exclusively to providing program management and consulting services to government health and human services agencies. The Company has accumulated a detailed knowledge base and understanding of the regulation and operation of health and human services programs that allows it to apply proven methodologies, skills and solutions to new projects in a cost-effective and timely fashion. The Company believes that its exclusive focus, size and broad range of health and human services program expertise differentiate it from both small 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 understand the complex nature of serving government agencies.

**Proven Track Record.** Since 1975, MAXIMUS has successfully applied its entrepreneurial private sector approach to assisting government health and human services agencies. Over the last five years, MAXIMUS has successfully completed approximately 100 program management and consulting services projects for state and local health and human services agencies serving millions of beneficiaries in nearly every state. The Company believes that the successful execution of these projects has earned MAXIMUS a reputation for providing efficient and cost-effective services to government agencies while improving the quality of services provided to program beneficiaries. This reputation has contributed significantly to its ability to compete successfully for new contracts.

**Wide Range of Services.** Many of the Company's clients require their vendors to provide a broad array of service offerings, something many of the Company's competitors cannot provide. Engagements often require creative solutions that must be drawn from diverse areas of expertise. The Company's expertise in a wide range of services enables it to better pursue such opportunities and to offer itself as a single-source provider of program management, consulting and information technology services to government agencies.

**Proprietary Case Management Software Program.** MAXIMUS has developed a proprietary automated case management software program called the MAXSTAR(TM) Human Services Application Builder. MAXSTAR(TM) is a software platform that allows the Company to reduce project implementation time and cost. Because government agencies are required to manage vast amounts of data and large numbers of cases without access to advanced technology and experienced professionals, the Company believes that MAXSTAR(TM), together with the Company's information technology professionals, is a key element of its success.

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**Experienced Team of Professionals.** MAXIMUS has assembled an experienced management team of former government executives, state agency officials, information technology specialists and other professionals with backgrounds in the public health and human services industry. The Company's employees understand the problems and challenges faced in the marketing, assessment and delivery of government agency services. Furthermore, since state and local government administrators are subject to changing legislative and political mandates, MAXIMUS has developed strong relationships with experienced political consultants who inform and advise the Company with respect to strategic marketing and legislative initiatives.

#### GROWTH STRATEGY

The Company's goal is to be the leading provider of program management and consulting services to government health and human services programs. The Company's strategy to achieve this goal includes the following:

**Capitalize on Trends Toward Outsourcing Government Functions.** The Company believes that it is well-positioned to benefit from the expected increase in demand for new program management and consulting services that will arise in an environment characterized by changing regulation and evolving technology. The Company believes that fiscal pressures will compel state governments to rationalize program operations and upgrade existing technology to operate more cost-efficient and productive programs. To achieve these efficiencies, MAXIMUS believes that many government agencies will turn to outside experts for help.

**Aggressively Pursue New Business Opportunities.** The Company believes that throughout its 22-year history, it has been a leader in developing innovative solutions to meet the evolving needs of state and local health and human

services agencies. The Company plans to expand its revenue base by: (i) marketing new and innovative program management solutions to the Company's extensive client base; (ii) expanding the Company's client base by marketing the Company's experience and established methodologies and systems; (iii) investing in early identification of government bid opportunities; and (iv) submitting competitive bids that leverage the Company's proven solutions for past projects.

**Recruit Highly Skilled Professionals.** The Company continually strives to recruit top government management and information technology professionals with the experience, skills and innovation necessary to design and implement solutions to complex problems presented by resource-constrained government agencies. The Company also seeks to attract middle-level consultants with a proven track record in the health and human services field and a network of political contacts to leverage the Company's existing management infrastructure, client relationships and areas of expertise.

**Pursue Strategic Acquisitions.** Given the highly fragmented structure of the government services and consulting marketplace, MAXIMUS believes that numerous acquisition opportunities exist. Acquisitions can provide the Company with a rapid, cost-effective method to increase its number of consultants, broaden its client base, establish or expand its presence in a geographic region or obtain additional skill sets.

There can be no assurance that the Company will be successful in implementing any or all of its growth strategies or in achieving its goal, all of which are subject to various risks, including legislative change, requirements for significant up-front financial investment, continued ability to attract and retain qualified employees and risks related to acquisitions.

## SERVICES

The Company's services are designed to make government operations more efficient and cost effective while improving the quality of the services government agencies provide to program beneficiaries. The Company organizes its operations into two groups: (i) the Government Operations Group, specializing in the management of government health and human services operations; and (ii) the Consulting Group, providing health and human services planning, information technology consulting, strategic program evaluation, program improvement and revenue maximization services.

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### GOVERNMENT OPERATIONS GROUP

The Company's Government Operations Group is comprised of four divisions specializing in the administration and management of government health and human services programs.

**Welfare Reform Division.** The Company manages welfare-to-work programs by providing a wide range of services, including eligibility determination, emergency assistance, job referral and placement transition services such as child care and transportation, community work training services, job readiness preparation, case management services and selected educational and training services. The Company's typical welfare-to-work contract involves the engagement of the Company for a period of three to five years. The Company has served approximately 250,000 welfare recipients at 30 locations in nine states. In 1996, for example, Fairfax County, Virginia awarded the Company a one-year, \$2 million contract to place welfare recipients into unsubsidized employment. To date, the Company has achieved a placement rate in excess of 90% on this contract. In addition, in 1997, the State of Wisconsin awarded MAXIMUS a three-year, \$24 million contract to manage its welfare reform program in Milwaukee County.

**Child Support Enforcement Division.** The Company provides a full range of child support enforcement ("CSE") services, including: (i) outreach to and interview of parents of children entitled to child support; (ii) establishing paternity and obtaining, enforcing, reviewing and modifying child support orders; and (iii) payment processing. The Company operates statewide client service units, updates case arrears and demographic data for new CSE automated systems and provides training to CSE workers. The Company believes that it has one of the largest CSE staffs in the private sector with over 500 professionals. The Company has been performing these services since 1976, which the Company believes is longer than any other private sector firm in the United States. The Company is currently engaged in the management of CSE programs in 19 locations in eleven states providing full child support services for approximately 210,000 cases and specialized services for an additional 300,000 cases. For example, the Company currently is providing services under a five-year, \$12 million, full-service CSE program management contract in Nashville, Tennessee.

**Federal Services Division.** The Company provides a host of management services geared toward case management, client monitoring and innovative return-to-work strategies and program management and staffing. MAXIMUS became the first company to operate a national case management and monitoring program for disability beneficiaries in 1995 when it won a contract with the Social Security Administration (the "SSA Contract") to provide referral and monitoring

services to beneficiaries with drug or alcohol disabilities. The SSA Contract was the largest ever awarded by the SSA with potential revenues of \$350 million. Under the SSA Contract, the Company has successfully referred approximately 100,000 disabled beneficiaries into treatment as a first step to re-entering the work force. The Company believes the skills and tools it employed in the SSA Contract will be invaluable in pursuing large scale program management contracts in other agencies of the federal government. For example, the Company is currently pursuing opportunities at the Department of Justice and the Department of Veterans Affairs.

Managed Care Enrollment Services Division. MAXIMUS has obtained significant experience in managing certain aspects of Medicaid programs through projects in five states. In these projects, MAXIMUS provides recipient outreach, education and enrollment services; an automated information system customized for the state; data collection and reporting; outreach to community-based organizations and advocacy groups; design and development of program materials; collection of enrollment premiums for uninsured participants; encounter data reporting to health plans; and care coordination for Early and Periodic Screening, Diagnosis and Treatment services. MAXIMUS currently operates the California Options Project, a three-year managed care enrollment contract awarded to the Company in 1996. This project is one of the largest Medicaid managed care enrollment programs in the country with over two million program beneficiaries. Other states where MAXIMUS currently operates Medicaid managed care enrollment projects include Texas, Vermont, and Michigan.

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#### CONSULTING GROUP

The Company's Consulting Group is organized into four operational divisions: the Human Services Division, the Information Technology Solutions Division, the Systems Planning and Integration Division, and the International Division.

Human Services Division. Through its Human Services Division, the Company provides program planning and implementation, revenue maximization, and evaluation consulting assistance to human services, health and education agencies in state, local and federal government. The Company recently completed comprehensive welfare reform planning and implementation projects for the District of Columbia and the State of Nevada, and was recently engaged by the District of Columbia to provide planning and implementation assistance for a new Child Health Insurance Program. Revenue maximization projects, which involve increasing federal financial participation in state health and human services programs and are generally carried out on a contingency fee basis, have been completed or are on-going in more than a dozen states. The states have received more than \$150 million in additional federal revenue as a result of MAXIMUS efforts and expect current projects to yield another \$150 million in new federal revenue. The Company also is frequently engaged to conduct evaluations of government programs and demonstrations. Program evaluation contracts are often multi-year research projects involving the collection of extensive data using automated data merges as well as surveys and case record reviews. Since 1994, the Company has completed 55 welfare reform, revenue maximization and program evaluation projects for more than 25 states and localities.

Information Technology Solutions Division. The Company provides computer systems management and business process re-engineering services to state, county and local governments. MAXIMUS provides services associated with project management, assessments of current and future business needs, defining user requirements, designing automated systems, developing requests for proposals, and providing evaluation assistance, contract negotiations and quality assurance monitoring services. Since 1991, MAXIMUS has provided information technology systems and design services for projects in 42 states. MAXIMUS also specializes in providing management services to agencies administering criminal justice programs. The Company was selected by the State of Connecticut to provide project management and system integration services for the criminal justice information system Offender Based Tracking System for the Connecticut Office of Policy and Management. This \$5.5 million contract will run through September 2001. The Company also provides re-engineering services to such government authorities as the County of Los Angeles. MAXIMUS is assisting the County (Board of Supervisors, Auditor-Controller, Office of the Assessor, Registrar-Recorder/County Clerk, and the Treasurer and Tax Collector) in the development of the County's Property Tax System Business Process Re-engineering Project. In addition, the Company provides assistance in assessing, evaluating, testing and certifying government systems affected by the century date change / Year 2000 problem. The Company is currently engaged in a contract to provide Year 2000 project management services to the Department of Information Technology for the State of Connecticut.

Systems Planning and Integration Division. The Company believes its Systems Planning and Integration Division is a leading provider of strategic information management, procurement and contracting, systems quality assurance, and systems implementation services to the rapidly-expanding state health, human services, and child support enforcement agency market. Using an experienced team of skilled project managers and information technology professionals, MAXIMUS has, in 45 projects across 30 states, assisted clients in the planning, design,

procurement and implementation of information systems totalling nearly \$1 billion. These complex, high-profile systems -- which range from \$5 million to over \$100 million and from 200 to 2,000 users -- serve as the mission critical infrastructure for over \$30 billion in annual health and human services expenditures. Given the Company's successful track record, core competencies, and national market presence, MAXIMUS is well positioned to take advantage of the increased nationwide emphasis in state government on eligibility systems, managed care, child protective services, family court services and child support enforcement -- as well as to address welfare reform impacts on these programs. The division also includes the new MAXIMUS health finance and management consulting practice, with an emphasis on managed care, health delivery reform, and healthcare performance management, and a card technologies practice focused on electronic benefits transfer and driver's license applications. The synergies provided by our Consulting and Government Operations Groups, coupled with strategic hires, are expected to uniquely position MAXIMUS

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to take advantage of the new market opportunities created by the recently enacted changes to Medicare and Medicaid managed care and by the new Child Health Insurance Program.

International Division. The Company provides health care consulting and systems services to assist foreign government agencies and health care organizations responsible for the delivery of treatment services to large populations. The Company automates and restructures clinical information systems for large outpatient providers, hospital information systems, managed care information systems, beneficiary management systems, and treatment network management systems for managing large networks of health treatment facilities. In addition, MAXIMUS consults with foreign government agencies in developing health care policy reforms, treatment quality improvements and productivity enhancements. The Company's health care systems software, developed in ORACLE7(R), is a platform-independent and multi-language software package. The Company has developed an Arabic language version of this software for use in the Middle East. Currently, the division is engaged in a major automation project for the United States Agency for International Development in Egypt. The objective of the five-year, \$22 million contract is to install a national health care system database in 18 hospitals and 200 clinics throughout Egypt, allowing the Egyptian Health Insurance Organization to better manage its facilities. The Company also just signed a \$3.5 million, three-year contract for a second major automation project for the United States Agency for International Development in Egypt. This project will involve the installation of a health information system in three hospitals in Cairo. In Argentina, the Company recently signed a three-year, \$5 million contract pursuant to which it will provide organizational and management services to the health plan of an employee union with almost 500,000 members.

#### BACKLOG

The Company's backlog represents an estimate of the remaining future revenues from existing signed contracts and revenues from contracts which have been awarded but not yet signed. Using the best available information, the Company estimates backlog on a quarterly basis with respect to all executed contracts. The backlog estimate includes revenues expected under the current terms of executed contracts, revenues from contracts in which the scope and duration of the services required are not definite but estimable and does not assume any contract renewals or extensions.

Changes in the backlog calculation from quarter to quarter result from: (i) additional revenues from the execution of new contracts or extension or renewal of existing contracts; (ii) reduction in revenues from fulfilling contracts during the most recent quarter; (iii) reduction in revenues from the early termination of contracts; and (iv) adjustments to estimates of previously included contracts.

At September 30, 1997 and September 30, 1996, the Company's backlog for services pursuant to its contracts with federal, state and local health and human services agencies was approximately \$217 million and \$87 million, respectively.

#### MARKETING AND SALES

The Company's Government Operations Group obtains program management contracts from state and local authorities by responding to RFPs issued by such authorities. Whenever possible, prior to the issuance of an RFP, senior executives in the Government Operations Group work with senior government representatives, such as the governor, members of the governor's staff and the heads of health and human services agencies to encourage them to outsource certain health and human services functions. To identify opportunities to work with government officials at early stages and to optimize the government's receptivity to the Company's proposal to provide program management services, the Company establishes and maintains relationships with elected officials, political appointees and government employees. The Company occasionally engages marketing consultants, including lobbyists to establish and maintain relationships with these client representatives. The Company's consultants and

lobbyists provide introductions to government personnel and provide information to the Company regarding the status of legislative and executive decision-making.

Following the issuance of an RFP the Government Operations Group participates in formal discussions, if any, between the contracting government agency and the group of potential service providers seeking to

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modify the RFP and prepare the proposal. Upon the award of a government operations contract, the Company's representatives then negotiate the contract with representatives of the contracting government authority until all terms are agreed.

The Consulting Group generates leads for consulting contracts by employing lobbyists, maintaining relationships with government personnel in charge of health and human services operations and communicating directly with current and prospective clients. The Consulting Group participates in professional associations of government administrators and industry seminars featuring presentations by MAXIMUS personnel. Senior executives from the Consulting Group develop leads through on-site presentations to the decision-makers. In most cases, consulting contracts, like program management contracts, are obtained after responding to a formal RFP. The Consulting Group's efforts in generating a lead prior to the RFP can facilitate the Company's insight in responding to a particular RFP. A portion of the Consulting Group's new business arises from prior client engagements, in which case the Company may be the sole source of services. In addition, clients frequently expand the scope of engagements during delivery to include follow-on activities.

#### COMPETITION

The market for providing program management and consulting services to state and local health and human services agencies is competitive and subject to rapid change. The Company's Government Operations Group competes for program management contracts with local non-profit organizations such as the United Way and Goodwill Industries, government services divisions of large companies such as Lockheed Martin Corp. and Electronic Data Systems, Inc., managed care enrollment companies such as Foundation Health Corporation and specialized service providers such as Andersen Consulting, America Works, Inc., Policy Studies Incorporated and GC Services, Inc. The Company's Consulting Group competes with the consulting divisions of the "Big 6" accounting firms as well as Electronic Data Systems, Inc. Many of these companies are national and international in scope and have greater financial, technical, marketing and personnel resources than the Company. The Company anticipates that it will face increased competition in the future as new companies enter the market. The Company believes that its experience, reputation, industry focus and broad range of services will enable it to compete effectively in its marketplace.

#### GOVERNMENT REGULATION

The market for the Company's services exists under a United States federal regulatory framework of social programs which are largely implemented at the state or local level. The following summarizes this framework:

Welfare Programs. Under Title IV-A of the federal Social Security Act, the federal government provides financial assistance to underprivileged families under several programs known as "Welfare," which have included the Aid to Families with Dependent Children Program ("AFDC") and the Job Opportunities and Basic Skills Training Program ("JOBS"). Under the AFDC program, cash welfare payments are provided to needy children who have been deprived of parental support or care and certain others in the household of the child. State governments are required to define "need," set their own benefit levels, establish (within federal limitations) income and resource limits and administer the program or supervise its administration. Beginning in October 1990, the federal government required each state to implement a JOBS program, which is designed to help needy families with children to avoid long-term Welfare dependency by providing education, training, job placement and other supportive services, including child care.

Under the recently enacted Welfare Reform Act, AFDC and JOBS have been combined into a single program, known as "Temporary Assistance to Needy Families" or "TANF." Under TANF the federal government will make "block grants" of funds to the states, to be administered at the state level in programs that include certain mandatory work, education and job-related activities, including job training and job search for the purposes of: (i) providing needy families with time-limited assistance in order to end their dependency on government benefits and achieve self-sufficiency; (ii) preventing and reducing out-of-wedlock pregnancies, especially teenage pregnancies; and (iii) encouraging the formation and maintenance of two-parent families. While the federal act provides general requirements, states must determine how these requirements will be met.

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Child Support Enforcement. The federal Child Support Enforcement ("CSE") program, authorized under Title IV-D of the Social Security Act, was established in 1975 in response to the increasing failure of many parents to provide financial support to their children. The purpose of the CSE program is to help strengthen families and reduce Welfare dependency by placing the responsibility for supporting children on the parents rather than on the government. State governments are generally required to locate absent parents, establish paternity if necessary, obtain judicial support orders and collect the support payments required by those orders. Child Support Enforcement has been the subject of close scrutiny in recent years and is an area of health and human services where government has sought significant private sector involvement including full service program management efforts.

The Child Support Enforcement Amendments of 1984 mandated that state CSE information systems, in order to receive matching federal funding, must meet certain federal functional requirements covering case initiation, case management, database linkage, financial management, enforcement, security, privacy and reporting. The Family Support Act of 1988, effective October 1992, mandated enhanced functional requirements for state CSE systems, including the implementation of automated systems able to interface electronically with other state systems such as Welfare, driver and vehicle registration and Medicaid systems.

Social Security Disability Insurance and Supplemental Social Security Income. Titles II and XVI of the federal Social Security Act provide for the administration and distribution of financial assistance to disabled individuals whose impairments make them unemployable. These benefits fall into two categories: (i) Social Security Disability Insurance (Title II) provides financial benefits to individuals who have contributed to Social Security during a prior period of employment; and (ii) Supplemental Security Income or SSI (Title XVI) provides financial benefits to individuals who meet all the disability criteria used to determine eligibility under Title II, but who have not made a sufficient contribution to Social Security. Recently, there has been political pressure on the Social Security Administration (the "SSA") to review the caseload of Title II and Title XVI beneficiaries to ensure that each individual's disability still exists and that the extent of such disability remains sufficient to preclude employment. In addition, the SSA has been under pressure to increase and improve vocational rehabilitation efforts focused on returning disabled beneficiaries to work and self-sufficiency.

Medicaid and Medicare. Medicaid and Medicare were implemented under Title XVIII and XIX of the Social Security Act. Medicaid is a federal-state matching entitlement program, that provides reimbursement for the cost of medical care to low-income individuals who are aged, blind, disabled or AFDC beneficiaries, and to certain pregnant woman and children. Within broad federal guidelines, each state designs and administers its own program. Eligibility and claims processing systems are automated by each state to handle this program, which is typically the largest line item in a state budget. Federal assistance is also available on a waiver basis for managed care enrollment for Medicaid recipients and similar populations. Medicare is a federal entitlement program providing reimbursement of a portion of the cost of medical care provided to the elderly.

#### HUMAN RESOURCES

As of November 30, 1997 the Company had 1,577 employees, consisting of 1,368 employees in the Government Operations Group, 108 employees in the Consulting Group and 101 administrative employees. The Company's success depends in large part on attracting, retaining and motivating talented, innovative and experienced professionals at all levels. In connection with its hiring efforts, the Company employs a full-time human resources coordinator, retains several executive search firms and relies on personal and business contacts to recruit senior level employees for senior management positions in the Government Operations Group and the Consulting Group and for senior administrative positions. When the Company's Government Operations Group is awarded a contract by state or local government, the Company is often under a tight timetable to hire project leaders and case management personnel to meet the needs of the new project. To meet such needs, the Company engages in intensive short-term hiring efforts at the project's location.

The Company's hiring focus is to identify candidates who are well suited by background and temperament to serve the Company's government clients. The Company's Government Operations employees are

largely drawn from government employment positions, while the Consulting Group employees are largely selected from other consulting organizations and government agencies.

MAXIMUS offers employees an internal training program designed to enhance professional skills and knowledge. Offered twice a year, the three-day program includes human resources topics such as cultural sensitivity, sexual harassment and wrongful termination; marketing, proposal writing and public relations; project administration topics, such as contract negotiations, project management, deliverable preparation and client management; and technology



updates. In addition, MAXIMUS offers partial tuition reimbursement for employees pursuing relevant degree programs and fully reimburses employees for relevant training seminars and short courses.

The Company promotes loyalty and continuity of its employees by offering packages of base and incentive compensation and benefits that it believes are significantly more attractive than those offered by the government or other government consulting firms in general. In addition, to attract and retain employees, the Company has established several employee benefit plans, including a 401(k) savings and retirement plan and the Company's 1997 Equity Incentive Plan.

#### ITEM 2. PROPERTIES

The Company is headquartered in McLean, Virginia, in a 21,000 square foot office building which is owned by the Company. The Company leases office space for other management and administrative functions in connection with the performance of its contracts in various states and foreign countries. On November 30, 1997, the Company conducted operations from thirty-six leased office facilities totaling approximately 318,000 square feet. See Note 6 of Notes to Financial Statements. The lease terms vary from month-to-month to three-year leases and are at market rates. The Company believes that additional space will be required as the business expands and believes that it will be able to obtain such space as needed.

#### ITEM 3. LEGAL PROCEEDINGS

On March 12, 1997, Network Six, Inc. ("Network Six") served MAXIMUS with a First Amended Third-Party Complaint filed in the State of Hawaii Circuit Court of the First Circuit. In this complaint, Network Six named the Company and other parties as third party defendants in an action by the State of Hawaii against Network Six. In 1991, the Company's Consulting Group was engaged by the State of Hawaii to provide assistance in planning for and monitoring the development and implementation by Hawaii of a statewide automated child support system. In 1993, Hawaii contracted with Network Six to provide systems development and implementation services for this project. In 1996, the state terminated the Network Six contract for cause and filed an action against Network Six. Network Six counterclaimed against Hawaii that the state breached its obligations under the contract with Network Six. In the Third Party Complaint, Network Six alleges that the Company is liable to Network Six on grounds that: (i) Network Six was an intended third party beneficiary under the contract between the Company and Hawaii; (ii) the Company engaged in bad faith conduct and tortiously interfered with the contract and relationship between Network Six and Hawaii; (iii) the Company negligently breached duties to Network Six; and (iv) the Company aided and abetted Hawaii in Hawaii's breach of contract. Network Six's complaint seeks damages, including punitive damages, from the third party defendants in an amount to be proven at trial. The Company believes that Network Six was not an intended third party beneficiary under its contract with Hawaii and that Network Six's claims are without factual or legal merit. The Company does not believe this action will have a material adverse effect on the Company's business, and it intends to vigorously defend this action. However, given the early stage of this litigation, no assurance may be given that the Company will be successful in its defense. A decision by the court in Network Six's favor or any other conclusion of this litigation in a manner adverse to the Company could have a material adverse effect on the Company's business, financial condition and results of operations.

On November 28, 1997, an individual who was a former officer, director and shareholder of the Company, filed a complaint in the United States District Court for the District of Massachusetts, alleging that at the time he resigned from the Company in 1996, thereby triggering the repurchase of his shares, the Company and certain of its officers and directors had failed to disclose material information to him relating to the potential

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value of the shares. He further alleges that the Company and its officers and directors violated Sections 10(b) and 20(a) of the Securities and Exchange Act of 1934 and breached various fiduciary duties owed to him and claims damages in excess of \$10 million. The Company does not believe that this action will have a material adverse effect on the Company's business, and it intends to vigorously defend this action. However, given the early stage of this litigation, no assurance may be given that the Company will be successful in its defense.

The Company is not a party to any material legal proceedings, except as set forth above.

#### 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.

#### EXECUTIVE OFFICERS OF THE REGISTRANT

The current executive officers of the Company are as follows:

<TABLE>  
<CAPTION>

NAME	AGE	POSITION
<S>	<C>	<C>
David V. Mastran.....	55	President and Chief Executive Officer
Raymond B. Ruddy.....	54	Vice President of the Company and President of Consulting Group
Russell A. Beliveau.....	50	President of Government Operations Group
F. Arthur Nerret.....	50	Vice President, Finance, Treasurer and Chief Financial Officer
Donna J. Muldoon.....	55	Vice President of Administrative Services and Secretary
Susan D. Pepin.....	43	President of Systems Planning and Integration Division
Lynn P. Davenport.....	50	President of Human Services Division
Robert J. Muzzio.....	63	Executive Vice President
Ilene R. Baylinson.....	41	President of Federal Services Division

</TABLE>

David V. Mastran has served as President and Chief Executive Officer since he founded the Company in 1975. Dr. Mastran received his Sc. D. in Operations Research from George Washington University in 1973, his M.S. in Industrial Engineering from Stanford University in 1966 and his B.S. from the United States Military Academy at West Point in 1965.

Raymond B. Ruddy has served as the Chairman of the Board of Directors since 1985 and President of the Company's Consulting Group since 1986. From 1969 until he joined the Company, Mr. Ruddy served in various capacities with Touche Ross & Co., including, Associate National Director of Consulting from 1982 until 1984 and Director of Management Consulting (Boston, Massachusetts office) from 1978 until 1983. Mr. Ruddy received his M.B.A. from the Wharton School of Business of the University of Pennsylvania and his B.S. in Economics from Holy Cross College.

Russell A. Beliveau has served as the President of the Company's Government Operations Group since 1995. Mr. Beliveau has more than 20 years experience in the Health and Human Services Industry during which he has worked in both government and private sector positions at the senior executive level. Mr. Beliveau's past positions include Vice President of Operations at Foundation Health Corporation of Sacramento, California from 1988 through 1994 and Deputy Associate Commissioner (Medicaid) for the Massachusetts Department of Public Welfare from 1983 until 1988. Mr. Beliveau received his M.B.A. in Business Administration and Management Information Systems from Boston College in 1980 and his B.A. in Psychology from Bridgewater State College in 1974.

F. Arthur Nerret has served as Treasurer and Chief Financial Officer of the Company since 1994 and serves as Trustee of the Company's 401(k) Plan. He has over 24 years of accounting experience as a CPA. From 1981 until he joined the Company, Mr. Nerret held a variety of positions at Frank E. Basil, Inc. in

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Washington, D.C. including Vice President, Finance from 1991 to 1994 and Director of Finance from 1989 until 1991. Mr. Nerret received his B.S. in Accounting from the University of Maryland in 1970.

Donna J. Muldoon has served as the Vice President of the Company's Administrative Services Division since 1989 and has served in various administrative capacities since 1978. Before joining the Company, Ms. Muldoon was an Administrative/Top Secret Control Officer with the Department of the Air Force, Logistic Plans and Programs, from 1973 until joining the Company.

Susan D. Pepin has served as the President of the Company's Systems Planning and Integration Division since 1994 and has been with the Company since 1988. She has over 17 years experience in technical management and consulting with a focus on health and human services management information systems. Before joining the Company, Ms. Pepin served as Director of Eligibility Systems for the Massachusetts Department of Public Welfare from 1984 until 1987 and a Project Leader for Wang Laboratories, Inc. from 1979 until 1984. Ms. Pepin received her B.S. in Home Economics with a concentration in Consumer Studies and a minor in Business from the University of New Hampshire in 1976.

Lynn P. Davenport has served as the President of the Company's Human Services Division since he joined the Company in 1991 after 17 years of health and human services experience in the areas of administration, productivity improvement, management consulting, revenue maximization and management information systems. Prior to joining the Company, Mr. Davenport was employed by Deloitte & Touche, and its predecessor, Touche Ross & Co., in Boston, Massachusetts, where he became a partner in 1987. Mr. Davenport received his

M.P.A. in Public Administration from New York University in 1971 and his B.A. in Political Science and Economics from Hartwick College in 1969.

Robert J. Muzzio has served in various positions with the Company since 1979, including Executive Vice President since 1987, and has more than 30 years of experience as a health care administrator, health systems researcher, and personnel and manpower analyst. Prior to joining the Company, Mr. Muzzio held many public and private sector positions in the health care industry, including Life Support Coordinator for the Morrison Knudsen Saudi Arabia Consortium in 1978 and 1979 and Director of the Personnel Policies Division of the Office of the Surgeon General, Department of the Army, from 1976 until 1978. Mr. Muzzio received his M.A. in Health Care Administration from Baylor University in 1967 and his B.A. in Public Health from San Jose State College in 1956.

Ilene R. Baylinson has served as the President of the Company's Federal Services Division since 1995 and as Chief Operating Officer from 1991 to 1995. She has more than 17 years of experience in health and human services program administration. After obtaining her B.A. from John Hopkins University in 1978, Ms. Baylinson worked in a variety of positions for Koba Associates, Inc. of Washington, D.C., including Senior Vice President for Corporate Management, Marketing and Operations from 1989 until her departure and Corporate Vice President/Director, Law and Justice Division from 1985 through 1991.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS

The Company's Common Stock commenced trading on June 13, 1997 on the New York Stock Exchange under the symbol "MMS." As of December 1, 1997, there were 123 holders of record of the Company's Common Stock, and the Company's registrar and transfer agent estimates that as of November 30, 1997 there were approximately 2,000 beneficial owners of the Company's Common Stock. Prior to June 13, 1997, there was no public market for the Common Stock or any other securities of the Company.

The following table sets forth, for the fiscal periods indicated, the range of high and low closing prices for the Company's Common Stock on the New York Stock Exchange.

<TABLE>  
<CAPTION>

	HIGH	LOW
	-----	-----
<S>	<C>	<C>
YEAR ENDED SEPTEMBER 30, 1997		
Third Quarter (from June 13, 1997).....	\$18.37	\$17.00
Fourth Quarter.....	\$32.88	\$17.88

</TABLE>

As of September 30, 1997, the Company has granted options for 527,975 shares of the Company's Common Stock under the Company's 1997 Equity Incentive Plan ("Equity Plan") and options for 4,000 shares under its 1997 Director Stock Option Plan. As of such date, 3,025 options had been exercised under the Equity Plan at an exercise price of \$1.46 per share.

Prior to its initial public offering, the Company and its shareholders elected to be treated as an S corporation under the Internal Revenue Code. Under the provisions of the tax code, the Company's shareholders included their pro rata share of the Company's income in their personal income tax returns. Accordingly, the Company was not subject to federal and most state income taxes during the periods prior to the initial public offering. The completion of the Company's initial public offering during June 1997 resulted in the termination of the Company's S corporation status for income tax purposes. In connection therewith, the Company recorded a deferred tax charge against income of \$2,566,000 for the cumulative differences between the financial reporting and income tax basis of certain assets and liabilities at June 12, 1997.

During 1997, the Company made cash distributions totaling \$1,212,000 to its then existing shareholders prior to the initial public offering (referred to herein as "S Corporation Shareholders"). In connection with the initial public offering, the Company made an additional distribution of \$20,500,000 to its S Corporation Shareholders and accrued an additional distribution at September 30, 1997 in the amount of \$5,748,000, such aggregate amount representing the undistributed earnings of the Company taxed or taxable to shareholders through the date of the initial public offering.

The Company currently anticipates that it will retain all of its earnings for development of the Company's business and does not anticipate paying any cash dividends in the foreseeable future. Future cash dividends, if any, will be paid at the discretion of the Company's Board of Directors and will depend, among other things, upon the Company's future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions

and such other factors as the Board of Directors may deem relevant.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below should be read in conjunction "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 and the financial statements and related footnotes included as Item 8 in this Form 10-K. The historical results are not necessarily indicative of the results of operations to be expected in the future.

<TABLE>  
<CAPTION>

	YEAR ENDED SEPTEMBER 30,				
	1993	1994	1995	1996	1997
	(IN THOUSANDS, EXCEPT FOR PER SHARE DATA)				
	<C>	<C>	<C>	<C>	<C>
STATEMENT OF INCOME DATA:					
Revenues:					
Government Operations Group(1).....	\$18,071	\$11,779	\$16,951	\$20,681	\$65,757
Consulting Group.....	12,522	15,138	20,698	25,902	30,578
SSA Contract(2).....	--	2,943	14,314	56,530	31,612
	-----	-----	-----	-----	-----
Total revenues.....	30,593	29,860	51,963	103,113	127,947
Cost of revenues.....	15,388	21,716	36,071	78,429	94,254
	-----	-----	-----	-----	-----
Gross profit.....	15,205	8,144	15,892	24,684	33,693
Selling, general and administrative expenses.....	10,178	6,979	9,078	13,104	16,782
Stock option compensation expense(3).....	--	--	--	--	5,874
	-----	-----	-----	-----	-----
Income from operations.....	5,027	1,165	6,814	11,580	11,037
Interest and other income.....	80	80	169	264	928
	-----	-----	-----	-----	-----
Income before income taxes.....	5,107	1,245	6,983	11,844	11,965
Provision (benefit) for income taxes(4).....	114	(5)	124	225	3,376
	-----	-----	-----	-----	-----
Net income(4).....	\$ 4,993	\$ 1,250	\$ 6,859	\$11,619	\$ 8,589
	=====	=====	=====	=====	=====
PRO FORMA STATEMENT OF INCOME DATA: (5)					
Historical income before income taxes.....					\$11,965
Pro forma income tax expense.....					4,786
					-----
Pro forma net income.....					\$ 7,179
					=====
Pro forma net income per share.....					\$ 0.54
					=====
Shares used in computing pro forma net income per share(6).....					13,249

<TABLE>  
<CAPTION>

	SEPTEMBER 30,				
	1993	1994	1995	1996	1997
	<C>	<C>	<C>	<C>	<C>
BALANCE SHEET DATA:					
Cash and cash equivalents and short-term investments.....					
	\$ 1,093	\$ 326	\$ 2,502	\$ 3,333	\$51,829
Working capital.....	6,818	6,855	13,184	22,700	62,567
Total assets.....	12,745	15,049	22,670	35,493	96,825
Redeemable common stock.....	6,971	6,889	10,578	16,757	--
Common Stock.....	--	--	--	--	66,730
Total shareholders' equity.....	2,484	2,921	5,706	9,197	66,139

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- (1) In fiscal year 1993, the Company's Government Operations Group had revenues of \$10.4 million related to a significant contract that expired in July 1993. No further revenues were received under this contract after its expiration.
- (2) Represents revenues under a significant contract with the federal Social Security Administration, which terminated pursuant to legislative action and under which no revenues were earned after March 31, 1997. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."
- (3) In January 1997, the Company issued options to various employees to purchase 403,975 shares of the Company's common stock at a formula price based on

book value. During 1997, the Company recorded a non-recurring charge against income of \$5,874,000 for the difference between the initial public offering price and the formula price for all options outstanding. The Company recorded a deferred tax benefit

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relating to the charge in the amount of \$2,055,000. The option exercise price is a formula price based on the adjusted book value of the Common Stock at September 30, 1996, and was established pursuant to the pre-existing shareholder agreement.

- (4) For each of the four fiscal years ended September 30, 1996, and during fiscal year 1997 up to June 12, 1997, no federal income taxes have been recorded due to the Company's S corporation status. For these periods, the tax provision consists of state taxes for those states in which the Company, rather than the shareholders, is liable for income taxes. Upon completion of the initial public offering, the Company's S Corporation status terminated for federal and state taxation purposes, and the Company recorded a deferred tax charge against income of \$2,566,000 for the cumulative differences between the financial reporting and income tax basis of certain assets and liabilities at June 12, 1997.
- (5) Pro forma net income and pro forma net income per share reflect federal and state income taxes (assuming a 40% combined effective tax rate) as if the Company had been taxed as a C corporation during the full fiscal year ended September 30, 1997 .
- (6) Assumes 13,249,000 shares were issued and outstanding during the fiscal year ended September 30, 1997 consisting of 12,305,500 weighted average shares outstanding, the shares issuable upon the exercise of options granted in January and June 1997, and the shares necessary to replace equity distributed as a result of the S Corporation Dividend. See Note 3 of Notes to Financial Statements.

#### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

##### OVERVIEW

MAXIMUS provides program management and consulting services to government health and human services agencies in the United States. Founded in 1975, the Company has been profitable every year since inception. The Company conducts its operations through two groups, the Government Operations Group and the Consulting Group. The Government Operations Group administers and manages government health and human services programs, including welfare-to-work and job readiness, child support enforcement, managed care enrollment and disability services. The Consulting Group provides health and human services planning, information technology consulting, strategic program evaluation, program improvement, communications planning and revenue maximization services.

The Company's revenues are generated from contracts with various payment arrangements, including: (i) costs incurred plus a fixed fee ("cost-plus"); (ii) fixed price; (iii) performance-based criteria; and (iv) time and materials reimbursement (utilized primarily by the Consulting Group). For the fiscal year ended September 30, 1997, revenues from these contract types were approximately 39%, 40%, 17% and 4%, respectively, of total revenues. Traditionally, federal government contracts have been cost-plus and a majority of the contracts with state and local government agencies have been fixed price and performance-based. Fixed price and performance-based contracts generally offer higher margins but typically involve more risk than cost-plus or time and materials reimbursement contracts because the Company is subject to potential cost overruns or inaccurate revenue estimates. As discussed further below, the SSA Contract was terminated in December 1996 as a result of legislative action. Excluding the SSA Contract, fiscal 1997 revenues from the above contract types were approximately 20%, 53%, 23% and 4%, respectively, of total revenues.

In October 1996, President Clinton signed into law an amendment to the Social Security Act of 1935, effective January 1, 1997, that eliminated Social Security Income and Supplemental Security Disability Insurance benefits based solely on drug and alcohol disabilities. As a result of this legislative act, the Social Security Administration terminated the SSA Contract effective at the end of February 1997. All services provided to the Social Security Administration were completed in the quarter ended March 31, 1997. The SSA Contract contributed \$31.6 million, \$56.5 million, \$14.3 million and \$2.9 million to the Company's revenues in the fiscal years 1997, 1996, 1995 and 1994, respectively.

The Government Operations Group's contracts generally contain base periods of one or more years as well as one or more option periods that may cover more than half of the potential contract duration. As of September 30 1997, the Company's average Government Operations contract duration was 3 1/2 years. The

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Company's Consulting Group is typically engaged for periods in excess of 24 months. Indicative of the long-term nature of the Company's engagements, approximately 59% of the Company's fiscal 1997 revenues were in backlog as of September 30, 1996.

The Company's most significant expense is cost of revenues, which consists primarily of project related employee salaries and benefits, subcontractors, computer equipment and travel expenses. The Company's ability to accurately predict personnel requirements, salaries and other costs as well as to effectively manage a project or achieve certain levels of performance can have a significant impact on the service costs related to the Company's fixed price and performance-based contracts. Service cost variability has little impact on cost-plus arrangements because allowable costs are reimbursed by the client. The profitability of the Consulting Group's contracts is largely dependent upon the utilization rates of its consultants and the success of its performance-based contracts.

Selling, general and administrative expenses consist of management, marketing and administration costs including salaries, benefits, travel, recruiting, continuing education and training, facilities costs, printing, reproduction, communications and equipment depreciation. Selling, general and administrative expenses as a percentage of revenues have decreased in recent years as these costs have been absorbed by a larger revenue base.

During its third fiscal 1997 quarter, the Company recognized two significant charges against income. The completion of its initial public offering resulted in the termination of the Company's S corporation status. As a result the Company recorded a non-recurring deferred tax charge of \$2.6 million for the cumulative differences between the financial reporting and income tax basis of certain assets and liabilities at June 12, 1997, the day prior to the initial public offering. In connection with the offering, on January 31, 1997, certain key employees of the Company surrendered rights to purchase shares of Common Stock of the Company in exchange for options to purchase shares of Common Stock at an exercise price of \$1.46 per share. The Company recognized a non-cash compensation charge against income equal to the difference between the initial public offering price and the option exercise price for all outstanding options. Compensation expense totaling \$150,000 had been recognized through March 31, 1997, and, in the third fiscal quarter, the Company recognized an additional charge against income of \$5.7 million. The option exercise price was based on the adjusted book value of the Common Stock at September 30, 1996, and was established pursuant to the pre-existing shareholder agreement with these employees.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, selected statements of income data as a percentage of revenues:

<TABLE>  
<CAPTION>

	YEARS ENDED SEPTEMBER 30,		
	1995	1996	1997
<S>	<C>	<C>	<C>
Revenues:			
Government Operations Group.....	32.6%	20.1%	51.4%
Consulting Group.....	39.8	25.1	23.9
SSA Contract.....	27.6	54.8	24.7
	-----	-----	-----
Total revenues.....	100.0	100.0	100.0
	=====	=====	=====
Gross profit:			
Government Operations Group.....	22.7	20.3	22.3
Consulting Group.....	48.0	46.9	47.8
SSA Contract.....	14.8	14.7	13.9
Gross profit as percentage of total revenues.....	30.6	23.9	26.3
Selling, general and administrative expenses.....	17.5	12.7	13.1
Stock option compensation expense.....	--	--	4.6
	-----	-----	-----
Income from operations.....	13.1	11.2	8.7
Interest and other income.....	0.3	0.3	0.7
	-----	-----	-----
Income before income taxes.....	13.4	11.5	9.4
Provision for income taxes.....	0.2	0.2	2.6
	-----	-----	-----
Net income.....	13.2%	11.3%	6.7%
	=====	=====	=====

</TABLE>

Revenues. Total revenues increased 24.1% to \$127.9 million in fiscal 1997 from \$103.1 million in fiscal 1996. Government Operations Group revenues increased 26.1% to \$97.4 million in fiscal 1997 from \$77.2 million in fiscal 1996 due to an increase in the number of projects offset by a decrease in revenue from the SSA Contract, which was terminated in February 1997. The SSA Contract contributed \$31.6 million to fiscal 1997 revenues as compared to \$56.5 million to fiscal 1996 revenues. Excluding the SSA Contract, Government Operations Group revenues increased 218.0% to \$65.8 million in fiscal 1997 from \$20.7 million in fiscal 1996 due to increases in the numbers of contracts in the Welfare Reform, Managed Care Enrollment Services, and Child Support Enforcement divisions of the group. Consulting Group revenues increased 18.1% to \$30.6 million in fiscal 1997 from \$25.9 million in fiscal 1996 due to an increase in the number of contracts and increased revenues from revenue maximization contracts and international business. Revenues attributable to revenue maximization contracts grew to \$7.4 million in fiscal 1997 from \$5.1 million in fiscal 1996.

Gross Profit. Total gross profit increased 36.5% to \$33.7 million in fiscal 1997 from \$24.7 million in fiscal 1996. Government Operations Group gross profit increased 52.1% to \$19.1 million in fiscal 1997 from \$12.5 million in fiscal 1996. As a percentage of revenues, Government Operations Group gross profit increased to 19.6% in fiscal 1997 from 16.2% in fiscal 1996 primarily due to the decreased revenue volume of the SSA contract in fiscal 1997, which had a lower gross profit margin than other contracts in the Group, and to favorable profit recognition adjustments on two large projects. Excluding the SSA contract, Government Operations Group gross profit as a percentage of revenues increased to 22.3% in fiscal 1997 from 20.3% in fiscal 1996. Consulting Group gross profit increased 20.4% to \$14.6 million in fiscal 1997 from \$12.1 million in fiscal 1996 due principally to the increased revenues. As a percentage of revenues, Consulting Group gross profit increased to 47.8% in fiscal 1997 from 46.9% in fiscal 1996 which represents normal variability of gross profit from period to period.

Selling, General and Administrative Expenses. Total selling, general and administrative expenses increased 28.1% to \$16.8 million in fiscal 1997 from \$13.1 million in fiscal 1996. This increase in costs was due

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to increases in both professional and administrative personnel and professional fees necessary to support the Company's growth and marketing and proposal preparation expenditures incurred to pursue further growth. From September 30, 1996 to September 30, 1997, administrative and systems personnel increased 39.3% from 61 to 85. As a percent of revenues, selling, general and administrative expenses increased to 13.1% for fiscal 1997 from 12.7% for fiscal 1996 to support the growth of the Company from 754 total employees at September 30, 1996 to 1,421 total employees at September 30, 1997.

#### Provision for Income Taxes

For the years ended September 30, 1995 and 1996, no federal income taxes have been recorded due to the Company's S corporation status. For these years, the tax provision consists of state taxes for those states in which the Company, rather than the shareholders, is liable for income taxes. Upon completion of the IPO, the Company's S Corporation status terminated for federal and state taxation purposes, and the Company recorded a deferred tax charge against income of \$2,566,000 for the cumulative differences between the financial reporting and income tax basis of certain assets and liabilities at June 12, 1997. Income taxes at normal corporate rates have been provided for the period from June 13, 1997 to September 30, 1997.

#### Year Ended September 30, 1996 Compared to Year Ended September 30, 1995

Revenues. Total revenues increased 98.4% to \$103.1 million in fiscal 1996 from \$52.0 million in fiscal 1995. Government Operations Group revenues increased 147.0% to \$77.2 million in fiscal 1996 from \$31.3 million in fiscal 1995. This growth was due to an increase in the number of projects and an increase in revenues from the SSA Contract, which contributed \$56.5 million to fiscal 1996 revenues as compared to \$14.3 million to fiscal 1995 revenues. Excluding the SSA Contract, Government Operations Group revenues increased 22.0% to \$20.7 million in fiscal 1996 from \$17.0 million in fiscal 1995. Consulting Group revenues increased 25.1% to \$25.9 million in fiscal 1996 from \$20.7 million in fiscal 1995 primarily due to an increase in revenues from revenue maximization contracts. The Consulting Group's nine revenue maximization contracts in fiscal 1996 contributed \$5.1 million to fiscal 1996 revenues as compared to two revenue maximization contracts which contributed \$2.2 million to fiscal 1995 revenues.

Gross Profit. Total gross profit increased 55.3% to \$24.7 million in fiscal 1996 from \$15.9 million in fiscal 1995. Government Operations Group gross profit increased 110.6% to \$12.5 million in fiscal 1996 from \$6.0 million in fiscal 1995. As a percentage of revenues, Government Operations Group gross profit decreased to 16.2% in fiscal 1996 as compared to 19.0% in fiscal 1995, primarily due to the increased revenue contribution of the SSA Contract, which

had a lower gross margin. Excluding the SSA Contract, as a percentage of revenues, Government Operations Group gross profit decreased to 20.3% for fiscal 1996 from 22.7% for fiscal 1995. Consulting Group gross profit increased 22.2% to \$12.1 million in fiscal 1996 from \$9.9 million in fiscal 1995 as a result of higher revenues. As a percentage of revenues, Consulting Group gross profit decreased to 46.9% in fiscal 1996 from 48.0% in fiscal 1995, which represents normal variability of gross profit from year to year.

Selling, General and Administrative Expenses. Total selling, general and administrative expenses increased 44.3% to \$13.1 million in fiscal 1996 from \$9.1 million in fiscal 1995. This increase in costs was due to increases in both professional and administrative personnel necessary to support the Company's growth. The total number of employees increased to 754 at September 30, 1996 from 439 at September 30, 1995. Additionally, marketing and proposal preparation expenditures increased as the Company pursued further revenue growth. As a percentage of revenues, selling, general and administrative expenses decreased to 12.7% in fiscal 1996 from 17.5% in fiscal 1995 due to the Company's ability to support its growth without a proportionate increase in associated costs.

QUARTERLY RESULTS

Set forth below are selected income statement data for the eight quarters ended September 30, 1997. This information is derived from unaudited quarterly financial statements which include, in the opinion of management, all adjustments necessary for a fair presentation of the information for such periods. This information should be read in conjunction with the Financial Statements and related footnotes included as Item 8 in this Form 10-K. Results of operations for any fiscal quarter are not necessarily indicative of results for any future period.

<TABLE>  
<CAPTION>

	QUARTERS ENDED						
	DEC. 31, 1995	MAR. 31, 1996	JUN. 30, 1996	SEP. 30, 1996	DEC. 31, 1996	MAR. 31, 1997	JUN. 1997
30, SEP. 30, 1997							
	(IN THOUSANDS)						
<S> <C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues:							
Government Operations Group..... \$23,019	\$ 4,102	\$ 4,947	\$ 4,896	\$ 6,736	\$ 8,029	\$15,551	\$19,158
Consulting Group..... 8,851	5,152	7,333	5,832	7,585	6,704	6,885	8,138
SSA Contract..... --	7,446	10,606	17,170	21,308	22,511	9,082	19
Total Revenues..... 31,870	16,700	22,886	27,898	35,629	37,244	31,518	27,315
Cost of revenues..... 22,836	12,027	16,962	21,577	27,863	29,534	23,323	18,561
Gross profit..... 9,034	4,673	5,924	6,321	7,766	7,710	8,195	8,754
Selling, general and administrative expenses..... 4,473	2,742	3,144	3,343	3,875	4,039	3,972	4,298
Stock option compensation expense..... --	--	--	--	--	--	150	5,724
Income (loss) from operations..... (1,268) 4,561	1,931	2,780	2,978	3,891	3,671	4,073	
Interest and other income..... 595	53	46	63	102	84	64	185
Income (loss) before income taxes..... (1,083) 5,156	1,984	2,826	3,041	3,993	3,755	4,137	
Provision for income taxes..... 2,215	39	55	60	71	57	93	1,011
Net income (loss)..... (\$2,094) \$ 2,941	\$ 1,945	\$ 2,771	\$ 2,981	\$ 3,922	\$ 3,698	\$ 4,044	



=====  
</TABLE>

The Company's revenues and operating results are subject to significant variation from quarter to quarter depending on a number of factors, including the progress of contracts, revenues earned on contracts, the commencement and completion of contracts during any particular quarter, the schedule of the government agencies for awarding contracts, the term of each contract that the Company has been awarded and general economic conditions. Because a significant portion of the Company's expenses are relatively fixed, successful contract performance and variation in the volume of activity as well as in the number of contracts commencing or completed during any quarter may cause significant variations in operating results from quarter to quarter. Furthermore, the Company has on occasion experienced a pattern in its results of operations pursuant to which it incurs greater operating expenses during the start-up and early stages of significant contracts. In addition, the termination of the SSA Contract and the absence of revenues thereunder after March 31, 1997, significantly reduced the Company's revenue base as compared to previous quarters. See previous discussion for the significant difference in the provision for income taxes for the periods. No assurances can be given that quarterly results will not fluctuate, causing a material adverse effect on the Company's operating results and financial condition.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company's primary source of liquidity has been cash flows from operations. The Company's cash flows from operations were \$17.3 million, \$3.1 million and \$2.7 million for the fiscal years ended September 30, 1997, 1996 and 1995, respectively. The increase in cash from operations in fiscal 1997 as compared to fiscal 1996 is due primarily to higher net income earned during fiscal 1997, after adjusting for the \$5.9 million non-cash compensation charge related to the Company's initial public offering, a net increase in current and deferred income taxes payable of \$2.9 million due to the termination of the Company's S corporation status during fiscal 1997, and an increase in accrued compensation and employee benefits payable at September 30, 1997 of \$4.0 million principally due to the increased number of employees, and an increase in billings in excess of costs and estimated earnings of \$6.5 million. The timing of receipt of contract payments can vary and, combined with the requirement to provide start-up funding for new projects, cash flows fluctuate from period to period.

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Of the \$40.3 million of cash flow used for investing activities for the year ended September 30, 1997, \$39.9 million was used to purchase short-term municipal and commercial bonds, which can be readily converted to cash if needed. The Company has no material commitments for capital expenditures and, as a services company, does not anticipate making any significant capital expenditures during fiscal year 1998.

Cash flows from financing activities were \$31.7 million in fiscal 1997. The Company received proceeds of \$53.8 million for the sale of stock in its initial public offering, net of underwriters fees and other expenses. The Company made S corporation distributions of \$21.7 million, representing a portion of the estimated income taxed or taxable to the S Corporation Shareholders through the date of the initial public offering. Based upon the fiscal year 1997 income allocated to the Company's S Corporation Shareholders, an additional \$5.7 million of S Corporation Dividend was accrued at September 30, 1997, which is anticipated to be paid during the fiscal quarter ending December 31, 1997. The Company does not anticipate the payment of dividends in fiscal year 1998, other than the remaining S Corporation Dividend payable to S Corporation Shareholders.

The Company has a \$10.0 million revolving credit facility (the "Credit Facility") with a bank, which may be used for borrowing and the issuance of letters of credit. Outstanding letters of credit totaled \$0.5 million at September 30, 1997. The Credit Facility bears interest at a rate equal to LIBOR plus an amount which ranges from 0.65% to 1.25% depending on the Company's debt to equity ratio. The Credit Facility contains certain restrictive covenants and financial ratio requirements, including a minimum net worth requirement of \$60 million. The Company has not used the Credit Facility to finance its working capital needs and, at September 30, 1997, the Company had \$9.5 million available under the Credit Facility.

In November 1997, the Company entered into a non-binding letter of intent with another corporation to acquire 100% of the stock of such other corporation in exchange for stock of MAXIMUS. In addition, in November 1997, the Company entered into a non-binding letter of intent to purchase certain Medicaid enrollment contracts and operations for a cash amount of \$5.7 million, subject to adjustments. It is anticipated that both of these transactions will be finalized in the fiscal quarter ending March 31, 1998. It is not anticipated that these acquisitions will have a material effect on the liquidity of the Company.

The Company believes its current cash resources and marketable securities, together with funds generated by operations, will be adequate to fund its

anticipated cash needs during the next 12 months, which may include start-up costs associated with new contract awards, obtaining additional office space, establishing new offices, expansion of international operations, investment in upgraded systems infrastructure or acquisitions of other businesses, technologies, product rights or distribution rights.

#### RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS

See Note 2 of Notes to the Financial Statements appearing elsewhere in this Form 10-K.

#### FORWARD LOOKING STATEMENTS

Statements that are not historical facts, including statements about the Company's confidence and strategies and the Company's expectations regarding its ability to obtain future contracts, expand its market opportunities or attract highly-skilled employees, are forward looking statements that involve risks and uncertainties. These risks and uncertainties include legislative changes and political developments adverse to the privatization of the provision of government services; opposition from government employee unions; reliance on key executives; impact of competition from similar companies; risks related to possible acquisitions; and legal, economic and other risks detailed in Exhibit 99.1 to this Annual Report on Form 10-K.

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#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements and supplementary data are included as part of this Annual Report on Form 10-K:

Report of Independent Auditors

Balance Sheets as of September 30, 1996 and 1997

Statements of Income for the years ended September 30, 1995, 1996 and 1997

Statements of Changes in Redeemable Common Stock and Shareholders' Equity for the years ended September 30, 1995, 1996 and 1997

Statements of Cash Flows for the years ended September 30, 1995, 1996 and 1997

Notes to Financial Statements

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#### REPORT OF INDEPENDENT AUDITORS

To the Board of Directors  
MAXIMUS, Inc.

We have audited the accompanying balance sheets of MAXIMUS, Inc. as of September 30, 1996 and 1997, and the related statements of income, changes in redeemable common stock and shareholders' equity, and cash flows for each of the three years in the period ended September 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MAXIMUS, Inc. at September 30, 1996 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 1997, in conformity with generally accepted accounting principles.

/S/ ERNST & YOUNG LLP

Washington, D.C.  
November 28, 1997

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MAXIMUS, INC.

BALANCE SHEETS  
(DOLLARS IN THOUSANDS)

<TABLE>  
<CAPTION>

	SEPTEMBER 30,	
	1996	1997
<S>	<C>	<C>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents.....	\$ 2,326	\$10,960
Marketable securities.....	1,007	40,869
Accounts receivable.....	25,352	33,651
Costs and estimated earnings in excess of billings (Note 4).....	2,949	5,605
Prepaid expenses and other current assets.....	605	1,292
Deferred income taxes (Note 8).....	--	729
	-----	-----
Total current assets.....	32,239	93,106
Property and equipment at cost:		
Land.....	662	662
Building and improvements.....	1,676	1,721
Office furniture and equipment.....	1,206	1,645
Leasehold improvements.....	188	188
	-----	-----
	3,732	4,216
Less: Accumulated depreciation and amortization.....	(1,096)	(1,346)
	-----	-----
Total property and equipment, net.....	2,636	2,870
Other assets.....	618	849
	-----	-----
Total assets.....	\$35,493	\$96,825
	=====	=====
<b>LIABILITIES, REDEEMABLE COMMON STOCK AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable.....	\$ 2,043	\$ 3,099
Accrued compensation and benefits.....	1,912	5,874
Billings in excess of costs and estimated earnings (Note 4).....	5,208	11,749
Note payable.....	--	188
Income taxes payable.....	19	3,881
Deferred income taxes.....	357	--
S corporation distribution payable (Note 9).....	--	5,748
	-----	-----
Total current liabilities.....	9,539	30,539
Deferred income taxes (Note 8).....	--	147
	-----	-----
Total liabilities.....	9,539	30,686
Commitments and contingencies (Notes 6 and 10)		
Redeemable common stock (Note 9):		
No par value; 30,000,000 shares authorized; 11,453,145 shares issued and outstanding at September 30, 1996, at redemption amount.....	16,757	--
Shareholders' equity (Note 9):		
Common stock:		
No par value; 30,000,000 shares authorized; 14,790,470 shares issued and outstanding at September 30, 1997.....	--	66,730
Retained earnings (deficit).....	9,197	(591)
	-----	-----
Total shareholders' equity.....	9,197	66,139
	-----	-----
Total liabilities, redeemable common stock and shareholders' equity...	\$35,493	\$96,825
	=====	=====

</TABLE>

See notes to financial statements.

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MAXIMUS, INC.

STATEMENTS OF INCOME  
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>  
<CAPTION>

	YEAR ENDED SEPTEMBER 30,		
	1995	1996	1997
<S>	<C>	<C>	<C>
Revenues.....	\$ 51,963	\$ 103,113	\$ 127,947
Cost of revenues.....	36,071	78,429	94,254
	-----	-----	-----
Gross profit.....	15,892	24,684	33,693
Selling, general and administrative expenses.....	9,078	13,104	16,782

Stock option compensation expense (Note 9).....	--	--	5,874
Income from operations.....	6,814	11,580	11,037
Interest and other income.....	169	264	928
Income before income taxes.....	6,983	11,844	11,965
Provision for income taxes (Note 8).....	124	225	3,376
Net income.....	\$ 6,859	\$ 11,619	\$ 8,589
Pro forma data (unaudited) (Note 3):			
Historical income before taxes.....			\$ 11,965
Pro forma income tax expense.....			4,786
Pro forma net income.....			\$ 7,179
Pro forma net income per share.....			\$ 0.54
Shares used in computing pro forma net income per share...			13,249

</TABLE>

See notes to financial statements.

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MAXIMUS, INC.

STATEMENTS OF CHANGES IN REDEEMABLE COMMON STOCK AND SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED SEPTEMBER 30, 1995, 1996 AND 1997  
(DOLLARS IN THOUSANDS)

<TABLE>  
<CAPTION>

	REDEEMABLE COMMON STOCK	SHAREHOLDERS' EQUITY	
		COMMON STOCK	RETAINED EARNINGS (DEFICIT)
<S>	<C>	<C>	<C>
Balance at September 30, 1994.....	\$ 6,889	--	\$ 2,921
Purchase of redeemable common stock from employees.....	(548)	--	--
Issuance of redeemable common stock to employees.....	277	--	--
Net income.....	--	--	6,859
Adjustment to redemption value of redeemable common stock.....	3,957	--	(3,957)
S Corporation distributions.....	--	--	(117)
Balance at September 30, 1995.....	10,575	--	5,706
Issuance of redeemable common stock to employees.....	229	--	--
Net income.....	--	--	11,619
Adjustment to redemption value of redeemable common stock.....	5,953	--	(5,935)
S Corporation distributions.....	--	--	(2,175)
Balance at September 30, 1996.....	16,757	--	9,197
Purchase of redeemable common stock from employees.....	(626)	--	--
Issuance of common stock to employees.....	--	4	--
Compensation charge for stock options.....	--	5,874	--
Net income.....	--	--	8,589
Adjustment to retained earnings upon termination of S Corporation status.....	--	(9,083)	9,083
Reclassification of redeemable common stock upon initial public offering.....	(16,131)	16,131	--
Net proceeds from sale of common stock in initial public offering.....	--	53,804	--
S Corporation distributions.....	--	--	(27,460)
Balance at September 30, 1997.....	\$ --	\$66,730	\$ (591)

</TABLE>

See notes to financial statements.

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MAXIMUS, INC.

STATEMENTS OF CASH FLOWS  
(DOLLARS IN THOUSANDS)

<TABLE>  
<CAPTION>

YEAR ENDED SEPTEMBER 30,

	1995	1996	1997
	-----	-----	-----
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income.....	\$ 6,859	\$11,619	\$ 8,589
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation.....	168	307	415
Stock option compensation expense.....	--	--	5,874
Other.....	(134)	(22)	(165)
Changes in assets and liabilities:			
Accounts receivable, net.....	(6,646)	(9,411)	(8,299)
Costs and estimated earnings in excess of billings....	1,587	(2,173)	(2,656)
Prepaid expenses and other current assets.....	245	(251)	(687)
Other assets.....	(124)	(101)	(231)
Accounts payable.....	1,680	(157)	1,056
Accrued compensation and benefits.....	161	1,119	3,962
Billings in excess of costs and estimated earnings....	(1,154)	2,090	6,541
Income taxes payable.....	41	(22)	3,862
Deferred income taxes.....	62	120	(939)
	-----	-----	-----
Net cash provided by operating activities.....	2,745	3,118	17,322
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment.....	(180)	(348)	(484)
Purchase of marketable securities.....	--	(1,000)	(39,862)
	-----	-----	-----
Net cash used in investing activities.....	(180)	(1,348)	(40,346)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from initial public offering, net of expenses....	--	--	53,804
S Corporation distributions.....	(117)	(2,175)	(21,712)
Payment for purchase of redeemable common stock.....	(548)	--	(438)
Issue of redeemable common stock to employees.....	277	229	--
Issue of common stock to employees.....	--	--	4
	-----	-----	-----
Net cash provided by (used in) financing activities.....	(388)	(1,946)	31,658
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents.....	2,177	(176)	8,634
Cash and cash equivalents, beginning of year.....	325	2,502	2,326
	-----	-----	-----
Cash and cash equivalents, end of year.....	\$ 2,502	\$ 2,326	\$ 10,960
	=====	=====	=====

</TABLE>

See notes to financial statements.

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MAXIMUS, INC.

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 1995, 1996 AND 1997  
(DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

1. DESCRIPTION OF BUSINESS

MAXIMUS, Inc. (the "Company") provides a wide range of program management and consulting services to federal, state and local government health and human services agencies. The Company conducts its operations through two groups. The Government Operations Group administers and manages government health and human services programs, including welfare-to-work and job readiness, child support enforcement, managed care enrollment and disability services. The Consulting Services Group provides health and human services planning, information technology consulting, strategic program evaluation, program improvement, communications planning and assistance to state and local governments in identifying and collecting previously unclaimed federal welfare revenues.

The Company operates predominantly in the United States. Revenues from foreign-based projects were less than 10% of total revenues for the year ended September 30, 1997.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a description of the Company's more significant accounting policies.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, in particular, estimates used in the earnings recognition process. Actual results could differ from those estimates.

## Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

## Revenue Recognition

The Company generates revenue under various arrangements, generally long-term contracts under which revenues are based on costs incurred plus a negotiated fee, a fixed price or various performance-based criteria. Revenues for cost-plus contracts are recorded as costs are incurred and include a pro rata amount of the negotiated fee. Revenues on long-term fixed price and performance-based contracts are recognized as costs are incurred. The timing of billing to clients varies based on individual contracts and often differs from the period of revenue recognition. These differences are included in costs and estimated earnings in excess of billings and billings in excess of costs and estimated earnings.

Management reviews the financial status of its contracts quarterly and adjusts revenues to reflect current expectations on realization of costs and estimated earnings in excess of billings. Provisions for estimated losses on incomplete contracts are provided in full in the period in which such losses become known. The Company has various fixed price and performance-based contracts that may generate profit in excess of the Company's expectations. The Company recognizes additional revenue and profit in these situations after management concludes that substantially all of the contractual risks have been eliminated, which generally is at task or contract completion.

## Marketable Securities

Marketable securities are classified as available-for-sale and are recorded at fair market value with unrealized gains and losses, net of taxes, reported as a separate component of shareholders' equity, if material.

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MAXIMUS, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 1995, 1996 AND 1997  
(DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

Realized gains and losses and declines in market value judged to be other than temporary are included in investment income. Interest and dividends are included in investment income. There are no material unrealized gains or losses on marketable securities at September 30, 1997. At September 30, 1997 the marketable securities consisted primarily of short-term municipal and commercial bonds.

## Property and Equipment

Property and equipment is stated at cost and depreciated using the straight-line method based on estimated useful lives of 32 years for the Company's building and between three and ten years for office furniture and equipment. Amortization of leasehold improvements is provided using the straight-line method over the lesser of the life of the improvement or the remaining term of the lease.

## Income Taxes

Deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted rates expected to be in effect during the year in which the differences reverse.

Prior to its initial public offering, the Company and its shareholders elected to be treated as an S corporation under the Internal Revenue Code. Under the provisions of the tax code, the Company's shareholders included their pro rata share of the Company's income in their personal income tax returns. Accordingly, the Company was not subject to federal and most state income taxes during the periods prior to the initial public offering. The completion of the Company's initial public offering during June 1997 resulted in the termination of the Company's S corporation status for income tax purposes. In connection therewith, the Company recorded a deferred tax charge against income of \$2,566 for the cumulative differences between the financial reporting and income tax basis of certain assets and liabilities at June 12, 1997.

## Accounting Standards Not Adopted

In February 1997, the Financial Accounting Standards Board (FASB) issued Statement No. 128, "Earnings per Share" which is required to be adopted in the Company's quarter ending December 31, 1997. At that time, the Company will be required to change the method currently used to compute earnings per share and

to restate all prior periods. Under the new requirements for calculating primary basic earnings per share, the dilutive effect of stock options will be excluded.

In June 1997, the FASB issued Statement No. 130, "Reporting Comprehensive Income" which established standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. This statement requires that an enterprise classify items of other comprehensive income by their nature in a financial statement and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in-capital in the equity section of the balance sheet. This statement is effective for fiscal years beginning after December 15, 1997.

In June 1997, the FASB issued Statement No. 131, "Disclosure about Segments of an Enterprise and Related Information" which established standards for public business enterprises to report information about operating segments in annual financial statements and requires those enterprises to report selected information about operating segments in interim financial reports issued to shareholders. It also establishes the standards for related disclosures about products and services, geographic areas and major customers. This Statement requires that a public business enterprise report financial and descriptive information about its reportable

MAXIMUS, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)  
 FOR THE YEARS ENDED SEPTEMBER 30, 1995, 1996 AND 1997  
 (DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

operating segments. The financial information is required to be reported on the basis that it is used internally for evaluating segment performance and deciding how to allocate resources to segments. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. This statement is effective for financial statements for periods beginning after December 15, 1997.

The Company does not expect the impact of adopting these new accounting standards to be significant.

Fair Value of Financial Instruments

The Company considers the recorded value of its financial assets and liabilities, which consist primarily of cash and cash equivalents, marketable securities, accounts receivable and accounts payable, to approximate the fair value of the respective assets and liabilities at September 30, 1996 and 1997.

3. PRO FORMA NET INCOME PER SHARE (UNAUDITED)

The pro forma net income per share presentation in the accompanying statements of income has been computed giving effect to: (i) income tax expense as if the Company had been taxed as a C corporation at an estimated rate of 40% since the beginning of the period and (ii) the issuance, as of the beginning of the pro forma period presented, of the number of shares of common stock necessary to replace equity distributed as a result of the S corporation distributions to the extent that such distributions exceed earnings for the twelve months prior to the Company's initial public offering.

4. COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

Uncompleted contracts consist of the following components:

<TABLE>  
 <CAPTION>

	BALANCE SHEET CAPTION	
	COSTS AND ESTIMATED EARNINGS IN EXCESS OF BILLINGS	BILLINGS IN EXCESS OF COSTS AND ESTIMATED EARNINGS
<S>	<C>	<C>
September 30, 1996:		
Costs and estimated earnings.....	\$ 89,893	\$ 60,489
Billings.....	86,944	65,697
	-----	-----
	\$ 2,949	\$ 5,208
	=====	=====
September 30, 1997:		
Costs and estimated earnings.....	\$136,008	\$ 117,586
Billings.....	130,403	129,335

-----  
\$ 5,605  
=====

-----  
\$ 11,749  
=====

</TABLE>

Costs and estimated earnings in excess of billings relate primarily to performance-based contracts which provide for billings based on attainment of results specified in the contract and differences between actual and provisional billing rates on cost-based contracts.

#### 5. CREDIT FACILITIES

The Company maintained a \$10 million revolving line of credit with a bank during the years ended September 30, 1996 and 1997. Borrowings under this line bear interest at LIBOR plus an amount which

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MAXIMUS, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 1995, 1996 AND 1997  
(DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

#### 5. CREDIT FACILITIES -- (CONTINUED)

ranges from 0.65% to 1.25% depending on the Company's debt to equity ratio. Under the terms of the line, the Company is required to maintain at all times: (i) an excess of current assets to current liabilities of not less than 1.5 to 1, (ii) net worth of \$60 million, and (iii) a ratio of total liabilities to net worth of not more than 1.5 to 1. There were no outstanding borrowings under the line of credit facility at September 30, 1997. The line of credit expires on March 31, 1999. At September 30, 1996 and 1997, the Company had letters of credit outstanding amounting to \$1,210 and \$508, respectively.

#### 6. LEASES

The Company leases office space under various operating leases, the majority of which contain clauses permitting cancellation upon certain conditions. The terms of these leases provide for certain minimum payments as well as increases in lease payments based upon the operating cost of the facility and the consumer price index. Rent expense for the years ended September 30, 1995, 1996 and 1997 was \$1,150, \$2,282 and \$4,023, respectively.

Minimum future payments under these leases are as follows:

<S>	<C>
YEARS ENDED SEPTEMBER 30,	
1998.....	\$3,402
1999.....	2,895
2000.....	1,775
2001.....	1,018
2002.....	358
Thereafter.....	130
	-----
	\$9,578
	=====

</TABLE>

#### 7. EMPLOYEE 401(k) PLAN

The Company has a 401(k) plan for the benefit of all employees who meet certain eligibility requirements. In the year ended September 30, 1996, the Company implemented a program to match employee contributions. The plan also allows management to make discretionary contributions. The Company made no contributions to the plan during the year ended September 30, 1995. During the years ended September 30, 1996 and 1997, the Company contributed \$574 and \$690 to the plan, respectively.

#### 8. INCOME TAXES

For the years ended September 30, 1995 and 1996, no federal income taxes have been recorded due to the Company's S corporation status. For these years, the tax provision consists of state taxes for those states in which the Company, rather than the shareholders, is liable for income taxes.

Upon completion of the initial public offering, the Company's S Corporation status terminated for federal and state taxation purposes, and the Company recorded a deferred tax charge against income of \$2,566 for the cumulative differences between the financial reporting and income tax basis of certain assets and liabilities at June 12, 1997.

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NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)  
 FOR THE YEARS ENDED SEPTEMBER 30, 1995, 1996 AND 1997  
 (DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

## 8. INCOME TAXES -- (CONTINUED)

The Company's provision for income taxes is as follows:

<TABLE>  
 <CAPTION>

	YEAR ENDED SEPTEMBER 30,		
	1995	1996	1997
<S>	<C>	<C>	<C>
Current provision:			
State.....	\$ 62	\$ 105	\$ 593
Federal.....	--	--	\$ 3,722
Deferred tax expense (benefit).....	62	120	(939)
	-----	-----	-----
	\$ 124	\$ 225	\$ 3,376
	=====	=====	=====

</TABLE>

The provision for income taxes resulted in effective tax rates that varied from the federal statutory income tax rate as follows:

<TABLE>  
 <CAPTION>

	YEAR ENDED SEPTEMBER 30,		
	1995	1996	1997
<S>	<C>	<C>	<C>
Expected federal income tax provision.....	\$ 2,374	\$ 4,027	\$ 4,068
Effect of income taxed directly to S Corporation Shareholders.....	(2,374)	(4,027)	(3,893)
State income taxes.....	124	225	503
Cumulative deferred income taxes recognized....	--	--	2,566
Other.....	--	--	132
	-----	-----	-----
	\$ 124	\$ 225	\$ 3,376
	=====	=====	=====

</TABLE>

The significant items comprising the Company's deferred tax assets and liabilities as of September 30, 1997 are as follows:

<TABLE>

<S>	<C>
Deferred tax assets-current:	
Liabilities for costs deductible in future periods.....	\$ 425
Billings in excess of costs and estimated earnings.....	4,699
	-----
Total deferred tax assets - current.....	5,124
Deferred tax liabilities - current:	
Cash versus accrual accounting.....	2,153
Costs and estimated earnings and excess of billing.....	2,242
	-----
Total deferred tax liabilities - current.....	4,395
	-----
Net deferred tax asset - current.....	729
	=====
Deferred tax assets (liabilities) non-current:	
Stock option compensation.....	2,056
Cash versus accrual accounting.....	(2,203)
	-----
Net deferred tax (liability) - non-current.....	\$ (147)
	=====

</TABLE>

Cash paid for income taxes during the years ended September 30, 1995, 1996 and 1997 was \$9, \$110 and \$218, respectively.

## Initial Public Offering

The Company completed an initial public offering (the "IPO") of common stock during June 1997. Of the 6,037,500 shares of common stock sold in the IPO, 2,360,000 shares were sold by selling shareholders and 3,677,500 shares were sold by MAXIMUS, Inc. generating \$53,804 in proceeds to the Company, net of offering expenses.

## S Corporation distributions

During fiscal year 1997, the Company made cash distributions to its S Corporation Shareholders prior to the IPO totaling \$1,212. In connection with the IPO, the Company made an additional distribution of \$20,500 to its S Corporation Shareholders and accrued an additional distribution at September 30, 1997 in the amount of \$5,748, such aggregate amount representing the undistributed earnings of the Company taxed or taxable to shareholders through the date of the IPO.

## Redeemable Common Stock

Prior to the IPO, a shareholders' agreement obligated the Company to purchase all shares offered for sale by the Company's shareholders at a formula price based on the book value of the Company. In addition, shareholders were obligated to sell and the Company was obligated to purchase at the formula price all of the shares owned by the shareholders upon the shareholder's death, disability or termination of employment. Accordingly, the redemption obligation was reflected as redeemable common stock in the balance sheet at September 30, 1996. The Company's obligation to purchase common shares from shareholders terminated upon completion of the IPO. Accordingly, amounts classified previously as redeemable common stock were reclassified into shareholder's equity.

## Employee Stock Purchases

The Company entered into employee stock purchase agreements at various times with certain employees that provided for the employee to purchase common stock of the Company at the formula price. During the years ended September 30, 1995 and 1996, the Company sold 277,000 and 229,000 shares, respectively, under these arrangements.

## Stock Option Plans

The Company's Board of Directors established stock option plans during 1997 pursuant to which the Company may grant incentive and 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.

The vesting period and share price for awards are determined by the Company's Board of Directors at the date of grant. Options granted during 1997 include those which were fully vested on issuance and others which vest over periods from two to four years. The Company's Board of Directors has reserved 1.1 million shares of common stock for issuance under the Company's stock option plans.

In January 1997, the Company issued options to various employees to purchase 403,975 shares of the Company's common stock at a formula price based on book value. During 1997, the Company recorded a non-recurring charge against income of \$5,874 for the difference between the IPO price and the formula price for all options outstanding. The Company recorded a deferred tax benefit relating to the charge in the amount of \$2,055.

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MAXIMUS, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 1995, 1996 AND 1997  
(DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

## 9. SHAREHOLDERS' EQUITY -- (CONTINUED)

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 123, "Accounting and Disclosure for Stock-Based Compensation," which provides for a fair value based methodology of accounting for all stock option plans. Under SFAS No. 123, companies may account for stock options under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations and provide pro forma disclosure of net income, as if the fair value based method of accounting defined in SFAS No. 123 had been applied. The Company has elected to follow APB 25 and related interpretations in accounting for its employee stock options and provide pro forma fair value disclosure under SFAS 123.

Pro forma information regarding net income is required by SFAS No. 123, and has been determined as if the Company had accounted for its stock options under

the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a minimal valuation method with the following assumptions - risk free interest rate 6.3%, dividend yield 0% and an expected life of the option of four years.

For purposes of the pro forma disclosure, the estimated fair value of the options is amortized to reflect such expense over the options' vesting period. For the year ended September 30, 1997 pro forma net income and pro forma net income per share resulting from the adjustment for stock option compensation was as follows:

<TABLE>	
<S>	<C>
Pro forma net income.....	\$7,179
FAS 123 compensation expense.....	(972)
	-----
Pro forma net income, as adjusted.....	\$6,207
	=====
Pro forma net income per share, as adjusted.....	\$ 0.47
	=====

</TABLE>

A summary of the Company's stock option activity for the year ended September 30, 1997 is as follows:

<TABLE>			
<CAPTION>			
		WEIGHTED-	WEIGHTED-
		AVERAGE	AVERAGE
		EXERCISE	FAIR
	OPTIONS	PRICE	VALUE
	-----	-----	-----
<S>	<C>	<C>	<C>
Granted.....	531,975	\$5.05	\$3.58
Exercised.....	(3,025)	1.46	3.56
	-----		
Outstanding at September 30, 1997.....	528,950	5.07	3.58
	=====		

</TABLE>

The Company had approximately 434,000 options exercisable at September 30, 1997. The average contractual life of outstanding options at December 31, 1996 is ten years. Of the 528,950 options outstanding at September 30, 1997, 395,450 options have an exercise price of \$1.46, 124,000 options have an exercise price of \$16.00, 5,500 options have an exercise price of \$0.01 and 4,000 options have an exercise price of \$27.94.

10. COMMITMENTS AND CONTINGENCIES

Litigation

On February 3, 1997, the Company was named as a third party defendant by Network Six, Inc. ("Network Six") in a legal action brought by the State of Hawaii against Network Six. Network Six alleges that the Company is liable to Network Six on various grounds. The Company believes Network Six's claims are without merit and intends to vigorously defend this action. The Company believes this action will not have a material adverse effect on its financial condition or results of operations and has not accrued for any loss related to this claim.

10. COMMITMENTS AND CONTINGENCIES -- (CONTINUED)

On November 28, 1997, an individual who was a former officer, director and shareholder of the Company, filed a complaint in the United States District Court for the District of Massachusetts, alleging that at the time he resigned from the Company in 1996, thereby triggering the repurchase of his shares, the Company and certain of its officers and directors had failed to disclose material information to him relating to the potential value of the shares. He further alleges that the Company and its officers and directors violated Sections 10(b) and 20(a) of the Securities and Exchange Act of 1934 and breached various fiduciary duties owed to him and claims damages in excess of \$10 million. The Company does not believe that this action will have a material adverse effect on the Company's business, and it intends to vigorously defend this action.

The Company also is involved in various other legal proceedings in the ordinary course of its business. In the opinion of management, these proceedings involve amounts that would not have a material effect on the financial position

or results of operations of the Company if such proceedings were disposed of unfavorably.

DCAA Audits

A substantial portion of payments to the Company from United States Government agencies is subject to adjustments upon audit by the Defense Contract Audit Agency. Audits through 1993 have been completed with no material adjustments. In the opinion of management, the audits of subsequent years are not expected to have a material adverse effect on the Company's financial position or results of operations.

11. CONCENTRATIONS OF CREDIT RISK AND MAJOR CUSTOMERS

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts. To date, these financial instruments have been derived from contract revenues earned primarily from federal, state and local government agencies located in the United States.

At September 30, 1996 and 1997, \$14,815 and \$1,436, respectively, of the Company's accounts receivable were due from the United States Government. Revenues under contracts with various agencies of the United States Government were \$17,851, \$61,317 and \$35,802 for the years ended September 30, 1995, 1996 and 1997, respectively. Of these amounts, \$14,314, \$56,530 and \$31,611 for the years ended September 30, 1995, 1996 and 1997, respectively, were revenues of the government operations segment. As a result of legislation that eliminated certain Social Security Administration program benefits, a contract with the United States Government that contributed substantially all of the revenues of the government operations segment for 1995, 1996 and 1997 was terminated by the United States Government. This contract concluded during the second quarter of 1997.

At September 30, 1997, \$10,482 of the Company's accounts receivable were due from one state government. Revenues from contracts with this state were \$26,189 for the year ended September 30, 1997.

MAXIMUS, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 1995, 1996 AND 1997  
(DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

12. BUSINESS SEGMENTS

The following table provides certain financial information for each business segment:

<TABLE>  
<CAPTION>

	1995	1996	1997
	-----	-----	-----
<S>	<C>	<C>	<C>
Revenues:			
Government Operations.....	\$31,265	\$ 77,211	\$ 97,369
Consulting.....	20,698	25,902	30,578
	-----	-----	-----
	\$51,963	\$103,113	\$127,947
	=====	=====	=====
Income (loss) from operations:			
Government Operations.....	\$ 1,636	\$ 4,936	\$ 6,164
Consulting.....	5,178	6,644	4,873
	-----	-----	-----
	\$ 6,814	\$ 11,580	\$ 11,037
	=====	=====	=====
Identifiable assets:			
Government Operations.....	\$ 8,962	\$ 19,369	\$ 26,610
Consulting.....	8,416	9,910	13,338
Corporate.....	5,292	6,214	56,877
	-----	-----	-----
	\$22,670	\$ 35,493	\$ 96,825
	=====	=====	=====
Capital expenditures:			
Government Operations.....	\$ 2	\$ 4	\$ 2
Consulting.....	19	73	67
Corporate.....	159	271	415
	-----	-----	-----
	\$ 180	\$ 348	\$ 484
	=====	=====	=====
Depreciation and amortization:			
Government Operations.....	\$ 5	\$ 99	\$ 204
Consulting.....	17	27	31

Corporate.....	146	181	180
	-----	-----	-----
	\$ 168	\$ 307	\$ 415
	=====	=====	=====

</TABLE>

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The response to this item is contained in part under the caption "Executive Officers of the Registrant" in Part I hereof and the remainder is incorporated herein by reference from the discussion responsive thereto under the caption "Election of Directors" in the Company's Proxy Statement relating to its Annual Meeting of Shareholders scheduled for February 16, 1998 (the "Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION

The response to this item is incorporated herein by reference from the discussion responsive thereto under the caption "Executive Compensation" the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The response to this item is incorporated herein by reference from the discussion responsive thereto under the caption "Security Ownership of Certain Beneficial Owners and Management" the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The response to this item is incorporated herein by reference from the discussion responsive thereto under the caption "Certain Relationships and Related Transactions" in the Proxy Statement.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. FINANCIAL STATEMENTS

The financial statements are listed under Item 8 of this report.

2. FINANCIAL STATEMENT SCHEDULES

None.

(b) REPORTS ON FORM 8-K

No reports on Form 8-K were filed during the fourth quarter of fiscal 1997.

(c) EXHIBITS

The Exhibits filed as part of this Form 10-K are listed on the Exhibit Index immediately preceding such Exhibits, which Exhibit Index is incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized in the city of McLean, Commonwealth of Virginia, on the 22nd day of December, 1997.

MAXIMUS, INC.

By: /s/ DAVID V. MASTRAN

-----  
 DAVID V. MASTRAN  
 President and Chief Executive  
 Officer

Each undersigned person hereby constitutes and appoints David V. Mastran, Raymond B. Ruddy, F. Arthur Nerret and Lynnette C. Fallon, and each of them singly, with full power of substitution and full power to act without the other, as his or her true and lawful attorney-in-fact and agent, with full power to

sign for use, in his or her name and in the capacity indicated below, any and all amendments to this Annual Report on Form 10-K of MAXIMUS, Inc. for the fiscal year ended September 30, 1997, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each said attorney-in-fact may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ DAVID V. MASTRAN DAVID V. MASTRAN	President, Chief Executive Officer and Director (Principal Executive Officer)	December 22, 1997
/s/ RAYMOND B. RUDDY RAYMOND B. RUDDY	Chairman of the Board of Directors	December 22, 1997
/s/ F. ARTHUR NERRET F. ARTHUR NERRET	Chief Financial Officer (Principal Financial and Accounting Officer)	December 22, 1997
/s/ RUSSELL A. BELIVEAU RUSSELL A. BELIVEAU	Director	December 22, 1997
/s/ JESSE BROWN JESSE BROWN	Director	December 22, 1997
/s/ LYNN P. DAVENPORT LYNN P. DAVENPORT	Director	December 22, 1997
/s/ ROBERT J. MUZZIO ROBERT J. MUZZIO	Director	December 22, 1997
/s/ DONNA J. MULDOON DONNA J. MULDOON	Director	December 22, 1997
/s/ SUSAN D. PEPIN SUSAN D. PEPIN	Director	December 22, 1997
/s/ PETER B. POND PETER B. POND	Director	December 22, 1997

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EXHIBIT INDEX

EXHIBIT NUMBER	EXHIBIT
3.1	Amended and Restated Articles of Incorporation of Company. (1)
3.2	Amended and Restated By-laws of Company. (1)
4.1	Specimen Common Stock Certificate. (1)
10.1	1997 Equity Incentive Plan. (2)
10.2	1997 Director Stock Option Plan, as amended. Filed herewith.
10.3	1997 Employee Stock Purchase Plan. (2)
10.4	Executive Employment, Non-Compete, Confidentiality and Stock Restriction Agreement by and between the Company and David V. Mastran. (2)
10.5	Executive Employment, Non-Compete, Confidentiality and Stock Restriction Agreement by and between the Company and Raymond B. Ruddy. (2)
10.6	Executive Employment, Non-Compete, Confidentiality and Stock Restriction Agreement by and between the Company and Russell A. Beliveau. (2)
10.7	Executive Employment, Non-Compete, Confidentiality and Stock Restriction Agreement by and between the Company and Susan D. Pepin. (2)
10.8	Executive Employment, Non-Compete, Confidentiality and Stock Restriction Agreement by and between the Company and Ilene R. Baylinson. (2)

10.9	Executive Employment, Non-Compete, Confidentiality and Stock Restriction Agreement by and between the Company and Lynn P. Davenport. (2)
10.10	Form of Indemnification Agreement by and between the Company and each of the directors of the Company. (2)
10.11.1	Letter Agreement, dated September 30, 1997, between the Company and Crestar Bank with respect to a \$10 million line of credit. Filed herewith.
10.11.2	Commercial Note, dated September 30, 1997, in the amount of \$10 million, issued by the Company to Crestar Bank. Filed herewith.
10.12	California Options Project Contract, dated October 1, 1996, by and between the Company and the Department of Health Services of the State of California. (2)
11.1	Statement re Computation of Pro Forma Net Income Per Share. Filed herewith.
23.1	Consent of Ernst & Young LLP, independent auditors. Filed herewith.
24.1	Power of Attorney. Contained on signature page hereto.
27.1	Financial Data Schedule. Filed herewith.
99.1	Important Factors Regarding Forward Looking Statements. Filed herewith.

</TABLE>

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- (1) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997 (File No. 1-12997) on August 14, 1997 and incorporated herein by reference.
- (2) Filed as an exhibit to the Company's Registration Statement on Form S-1 (File No. 333-21611) declared effective on June 12, 1997 and incorporated herein by reference.

1. Adopted by the Board of Directors on January 31, 1997; approved by the Shareholders on February 3, 1997.
2. Amended by the Board of Directors on December 11, 1997.

MAXIMUS, INC.

1997 DIRECTOR STOCK OPTION PLAN

The purpose of this 1997 Director Stock Option Plan (the "Plan") of MAXIMUS, Inc. (the "Company") is to attract and retain highly qualified non-employee directors of the Company and to encourage ownership of stock of the Company by such directors so as to provide additional incentives to promote the success of the Company.

1. ADMINISTRATION OF THE PLAN.

Grants of stock options under the Plan shall be automatic as provided in Section 6. However, all questions of interpretation with respect to the Plan and options granted under it shall be determined by the Board of Directors of the Company (the "Board") or by a committee consisting of one or more directors appointed by the Board and such determination shall be final and binding upon all persons having an interest in the Plan.

2. PERSONS ELIGIBLE TO PARTICIPATE IN THE PLAN.

Each director of the Company who is not an employee of the Company or of any subsidiary of the Company shall be eligible to participate in the Plan unless such director irrevocably elects not to participate.

3. SHARES SUBJECT TO THE PLAN.

(a) The aggregate number of shares of the Company's Common Stock which may be optioned under this Plan is 100,000 shares. Shares issued under the Plan may consist in whole or in part of authorized but unissued shares or treasury shares.

(b) In the event of a stock dividend, split-up, combination or reclassification of shares, recapitalization or other similar capital change relating to the Company's Common Stock, the maximum aggregate number and kind of shares or securities of the Company as to which options may be granted under this Plan and as to which options then outstanding shall be exercisable, and the exercise price of such options shall be appropriately adjusted so that the proportionate number of shares or other securities as to which options may be granted and the proportionate interest of holders of outstanding options shall be maintained as before the occurrence of such event.

(c) In the event of a consolidation or merger of the Company with another corporation where the Company's shareholders do not own a majority in interest of the surviving or resulting corporation, or the sale or exchange of all or substantially all of the assets of the Company, or a reorganization or liquidation of the Company, any deferred exercise period shall be automatically accelerated and each holder of an outstanding option shall be entitled to receive upon exercise and payment in accordance with the terms of the option the same shares, securities or property as he would have been entitled to receive upon the occurrence of such event if he had been, immediately prior to such event, the holder of the number of shares of Common Stock purchasable under his or her option; provided, however, that in lieu of the foregoing the Board may upon written notice to each holder of an outstanding option or right under the Plan, provide that such option or right shall terminate on a date not less than 20 days after the date of such notice unless theretofore exercised.

(d) Whenever options under this Plan lapse or terminate or otherwise become unexercisable the shares of Common Stock which were subject to such options may again be subjected to options under this Plan. The Company shall at all times while this Plan is in force reserve such number of shares of Common Stock as will be sufficient to satisfy the requirements of this Plan.

4. NON-STATUTORY STOCK OPTIONS.

All options granted under this Plan shall be non-statutory options not entitled to special tax treatment under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

5. FORM OF OPTIONS.

Options granted hereunder shall be in such form as the Board or any committee appointed pursuant to Section 1 above may from time to time



determine.

#### 6. GRANT OF OPTIONS AND OPTION TERMS.

(a) AUTOMATIC GRANT OF OPTIONS. Upon (i) the election of any eligible director after the adoption of this Plan by the Board (whether such election is by the Board or shareholders and whether to fill a vacancy or otherwise), (ii) election or re-election of any eligible director at the Company's 1998 annual meeting of shareholders, and (iii) election or re-election at any annual meeting thereafter, each eligible director shall automatically be granted an option (each, an "Option") to purchase 5,000 shares of Common Stock for each year of the term of office for which such director has been elected, treating partial years as full years for this purpose. Therefore, at each annual meeting occurring at a time the Company has a staggered Board of Directors which are re-elected every three years, Options shall be granted to all eligible directors being elected or re-elected to three year terms to purchase 15,000 shares. No Options shall be granted hereunder after ten years from the date on which this Plan was initially approved and adopted by the Board.

(b) GRANT OF OPTIONS DATED DECEMBER 11, 1997. Each director granted an Option under this Plan prior to December 11, 1997 shall be granted an Option on December

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11, 1997, to purchase that number of shares of Common Stock which, when aggregated with shares purchasable under all prior Options granted to such director under this Plan, equals the total number of shares such director would have received Options to purchase had this Plan, as amended on December 11, 1997, been in effect the date the directors was first elected to the Board.

(c) DATE OF GRANT. The "Date of Grant" for Options granted under this Plan shall be the date of election or re-election as a director, or for Options granted pursuant to Section 6(b), December 11, 1997, as the case may be.

(d) EXERCISE PRICE. The exercise price for each Option granted under this Plan shall be the current fair market value of a share of Common Stock of the Company as determined by the closing price for the Company's Common Stock as reported by the New York Stock Exchange, or the principal exchange on which the Common Stock is then traded, as the case may be, on the last trading day prior to Date of Grant.

(e) TERM OF OPTION. The term of each option granted under this Plan shall be ten years from the Date of Grant.

(f) EXERCISABILITY OF OPTIONS. (i) The Options granted under Section 6(a) shall become exercisable with respect to 5,000 shares on the Date of Grant, and if such Option is for more than 5,000 shares, such Option shall become exercisable as to 5,000 shares on the next, or each of the next two annual meetings of shareholders of the Company, as the case may be, (i.e., options to purchase 15,000 shares of Common Stock granted at the 1998 annual meeting will become exercisable with respect to 5,000 shares at each of the Date of Grant, the 1999 and 2000 annual meetings of shareholders), but in all cases if and only if the option holder is a member of the Board at the opening of business on that date.

(ii) Any Option granted under Section 6(b) shall become immediately exercisable for that number of shares of Common Stock necessary for the director to hold in aggregate the number of exercisable Options such director would have held had this Plan, as amended on December 11, 1997, been in effect the date such director was first elected to the Board. At the 1998 annual meeting of shareholders, and each subsequent such annual meeting, any then remaining unexercised portion of an Option granted under Section 6(b) shall become exercisable for an amount equal to the difference between five thousand (5,000) and the number of shares for which the option held by the director immediately prior to December 11, 1997 becomes exercisable at such meeting.

(g) GENERAL EXERCISE TERMS. Directors holding exercisable Options under this Plan who cease to serve as members of the Board may, during their lifetime, exercise the rights they had under such Options at the time they ceased being a director for the full unexpired term of such Option. Any rights that have not yet become exercisable shall terminate upon cessation of membership on the Board. Upon the death of a director, those entitled to do so shall have the right, at any time within twelve months after the date of death, to exercise in whole or in part any rights which were available to the director at the time of his or her death. The rights of the Option holder may be exercised by the holder's guardian or legal representative in the case of disability and by the beneficiary designated by the holder in

writing delivered to the Company or, if none has been designated, by the holder's estate or his or her transferee on death in accordance with this Plan, in the case of death. Options granted under the Plan shall terminate, and no rights thereunder may be exercised, after the expiration of the applicable exercise period. Notwithstanding the foregoing provisions of this section, no rights under any Options may be exercised after the expiration of ten years from their Date of Grant.

(h) METHOD OF EXERCISE AND PAYMENT. Options may be exercised only by written notice to the Company at its head office accompanied by payment of the full exercise price for the shares of Common Stock as to which they are exercised. The exercise price shall be paid in cash or by check or in shares of Common Stock of the Company, or in any combination thereof. Shares of Common Stock surrendered in payment of the exercise price shall have been held by the person exercising the option for at least six months, unless otherwise permitted by the Board. The value of shares delivered in payment of the exercise price shall be their fair market value, as determined in accordance with Section 6(c) above, as of the date of exercise. Upon receipt of such notice and payment, the Company shall promptly issue and deliver to the optionee (or other person entitled to exercise the option) a certificate or certificates for the number of shares as to which the exercise is made.

(i) NON-TRANSFERABILITY. Options granted under this Plan shall not be transferable by the holder thereof otherwise than by will or the laws of descent and distribution and are exercisable during such person's lifetime only by such person or by such person's guardian or legal representative; provided that the Board or any committee appointed by the Board may in its discretion waive such restriction in any case.

#### 7. LIMITATION OF RIGHTS.

(a) NO RIGHT TO CONTINUE AS A DIRECTOR. Neither the Plan, nor the granting of an option or any other action taken pursuant to the Plan, shall constitute an agreement or understanding, express or implied, that the Company will retain an option holder as a director for any period of time or at any particular rate of compensation.

(b) NO SHAREHOLDERS' RIGHTS FOR OPTIONS. A director shall have no rights as a shareholder with respect to the shares covered by options until the date the director exercises such options and pays the exercise price to the Company, and no adjustment will be made for dividends or other rights for which the record date is prior to the date such option is exercised and paid for.

#### 8. AMENDMENT OR TERMINATION.

The Board may amend or terminate this Plan at any time. The Board may amend or modify any outstanding option in any respect, provided that the optionee's consent to such action shall be required unless the Board determines that the action, taking into account any related action, would not materially and adversely affect the optionee.

#### 9. SHAREHOLDER APPROVAL.

This Plan was approved by the shareholders of the Company on February 3, 1997 and amendments hereto adopted by the Board shall be subject to further shareholder approval only to the extent required by law or the New York Stock Exchange or otherwise deemed advisable by the Board of Directors. In the event such further approval by the shareholders is not obtained, all options granted under this Plan shall be void and without effect.

#### 10. GOVERNING LAW.

This Plan shall be governed by and interpreted in accordance with the laws of the Commonwealth of Virginia.

Crestar Bank  
8245 Boone Boulevard  
Vienna, VA 22182-3871

September 30, 1997

Mr. David V. Mastran  
Chief Executive Officer  
MAXIMUS, Inc.  
1356 Beverly Rd.  
McLean, VA 22101

Dear David:

Crestar Bank (the Bank) is pleased to advise you that it has renewed the \$10,000,000 revolving line of credit (the Line) for MAXIMUS, Inc., a Virginia corporation (the Borrower), subject to the terms, covenants and conditions set forth in this letter agreement (as amended from time to time, the Agreement). Certain capitalized terms used in this Agreement are defined on the attached Schedule of Definitions. This Agreement is a renewal and replacement of the Agreement dated June 29, 1995 and accepted by the Borrower on July 10, 1995, as amended.

**Amount.** The aggregate principal amount of Advances under the Line outstanding at any time shall not exceed \$10,000,000. Within this limit, the Borrower may borrow, repay and reborrow until March 31, 1999 (the Termination Date). The Bank may in its sole discretion continue to make Advances after the Termination Date, but it shall have no obligation to do so. Advances made after the Termination Date on any one or more occasions shall not be deemed to be an extension of the Termination Date and shall not obligate the Bank to make Advances on any subsequent occasion.

**Cancellation.** The Bank shall have the right to cancel the Line at any time upon written notice to the Borrower given at least 30 days prior to the effective date of such cancellation. Any Advances subsequent to the giving of such notice shall be made in the sole and absolute discretion of the Bank.

**Interest.** Advances shall bear interest at a per annum rate equal to the Applicable Spread plus LIBOR. Accrued interest shall be payable monthly, in arrears, on the 1st day of each month, and on the Termination Date. Interest shall be calculated on the basis of a year of 360 days and for actual days elapsed.

**Use of Proceeds.** The proceeds of Advances shall be used to pay current operating expenses, carry accounts receivable and for other short-term working capital needs of the Borrower.

**LC Subfacility.** The Borrower may request that the Bank issue letters of credit for the account of the Borrower from time to time prior to the Termination Date, the aggregate principal face amounts of which shall not exceed \$5,000,000 at any one time outstanding; provided, however, that no Letter of Credit will be issued by the Bank if, after such issuance, the aggregate principal amount of the outstanding Advances and the aggregate outstanding face amounts of the Letters of Credit would exceed \$10,000,000. The purpose, form and substance of each letter of credit must be acceptable to the Bank. Unless otherwise approved by the Bank, no letter of credit shall have a term of more than one year and may be renewable annually thereafter, subject to the Bank's prior cancellation of such Letter of Credit, in its sole discretion, within 30 days prior to the anniversary date of the issuance of such Letter of Credit. At least three days prior to the issuance of a letter of credit, the Borrower shall execute and deliver an Application and Agreement for Irrevocable Standby Letter of Credit on the Bank's standard form. The Bank shall be reimbursed on demand by the Borrower for any draws paid by the Bank under a letter of credit, together with interest from the date of such demand at the Prime Rate. Subject to the terms of this Agreement, the Borrower may use the proceeds of an Advance to pay any Indebtedness arising out of a Letter of Credit. The Borrower shall pay a nonrefundable annual commission to the Bank for each letter of credit equal to the Applicable LC Commission multiplied by the face amount, payable quarterly in advance starting on the date of issuance and each quarterly thereafter for the number of days the letter of credit is to be outstanding (calculated on the basis of a year of 360 days) and an opening fee of \$200.

**Payments.** Advances shall be repaid on demand, or if demand is not sooner made, on the Termination Date. The Borrower agrees that the Bank may demand payment even if an Event of Default has not occurred. The Borrower agrees that it shall repay the Line immediately if the outstanding Line balance exceeds the Borrowing Base in an amount equal to the excess.

Administrative Fee. The Borrower agrees to pay to the Bank an audit and administrative fee of \$5,000 per annum, due at closing and on any renewal or extension of the Termination Date. If any such renewal or extension is not for a one year period, the fee will be pro rated accordingly.

Conditions. The following are conditions precedent to each Advance:

- (a) Loan Documents. Receipt by the Bank of all Loan Documents, duly executed by all applicable parties;
- (b) Organizational Documents. Receipt by the Bank of certified copies of resolutions and organizational documents of the Borrower, a certificate as to the incumbency and signatures of the authorized officers or representatives of the Borrower, and current good standing certificates issued by the appropriate public officials in the Borrower's state of formation and each jurisdiction in which it does business;
- (c) Insurance. Receipt by the Bank of certificates or policies of insurance confirming that all insurance required by the Loan Documents has been obtained;
- (d) Systems Report. If required by the Bank, completion by the Bank of a satisfactory examination report of the Borrower's systems (the Systems Report);
- (e) Satisfactory Documents. All documents, certificates and opinions delivered under this Agreement must be in form and substance satisfactory to the Bank and its counsel; and
- (f) No Defaults. No Default shall be continuing.

Representations and Warranties. In order to induce the Bank to extend credit to the Borrower, the Borrower represents and warrants as follows:

- (a) Execution of Documents. The Borrower has the power and has taken all of the necessary actions to execute, deliver and perform the terms of the Loan Documents. When executed and delivered, the Loan Documents will be binding obligations of the Borrower, enforceable in accordance with their terms and will not violate any provisions of law or conflict with, result in a breach of or constitute a default under the organizational documents of the Borrower or under any other agreement to which the Borrower is a party.
- (b) Financial Statements. All financial statements and information delivered to the Bank by the Borrower in connection with this Agreement are correct and complete and present fairly the financial condition, and reflect all known liabilities, contingent or otherwise, of the Borrower as of the dates of such statements and information, were prepared in accordance with GAAP in the case of the Borrower and, since such dates, no material adverse change in the assets, liabilities, financial condition, business or operations of the Borrower has occurred.
- (c) No Litigation. There is no action, suit or proceeding pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower that may, either in any case or in the aggregate, result in any material adverse change in the business, properties or assets or in the condition, financial or otherwise, of the Borrower, or that may result in any material liability on the part of the Borrower. This representation is exclusive of the suit brought by Network Six, Inc. against the Borrower as disclosed in the Borrower's 10-Q dated June 30, 1997.
- (d) Debarment. No event has occurred and no condition exists that is likely to result in the debarment or suspension of the Borrower from any Government Contracts, and the Borrower has not, nor has any Affiliate, been subject to any such debarment or suspension.
- (e) Compliance with Laws. The Borrower is in compliance in all material respects with all federal, state and local laws, regulations and ordinances.

MAXIMUS, Inc.  
September 30, 1997  
Page 3

- (f) Debt. The Borrower is not in default with respect to any debt.
- (g) Subsidiaries. The Borrower does not have any subsidiaries.

Covenants. In consideration of credit extended or to be extended by

the Bank, the Borrower covenants and agrees that, unless the Bank otherwise consents in writing:

(a) Financial Reporting Requirements. The Borrower shall deliver to the Bank (1) within 120 days after the close of each of its fiscal years, audited financial statements of the Borrower, prepared in accordance with GAAP, including a balance sheet, income statement, statements of stockholders' equity and of cash flows, prepared by an independent certified public accounting firm acceptable to the Bank and accompanied by an unqualified opinion of such firm; (2) within 45 days after the end of each quarter of each of its fiscal years, (i) Form 10-Q including unaudited financial statements of the Borrower, a balance sheet and income statement, prepared in accordance with GAAP, (ii) a Covenant Compliance Certificate of the Borrower's chief financial officer, and (iii) status and backlog reports relating to the Borrower's contracts; (3) promptly upon receipt, copies of any reports submitted to the Borrower by its independent certified public accountants in connection with examinations of the Borrower's financial statements; and (4) such other information concerning the financial condition of the Borrower as the Bank from time to time may reasonably request. All financial statements and reports shall be in form and detail acceptable to the Bank and shall be certified to be accurate by a duly authorized officer of the Borrower.

(b) Notices. The Borrower shall furnish to the Bank prompt written notice of (1) the occurrence of each Default or an Event of Default, (2) the institution of any material litigation concerning the Borrower, and (3) any final decision of a contracting officer disallowing costs aggregating more than \$250,000 with respect to a Government Contract.

(c) Systems Examinations. The Bank shall have the right to perform systems examinations from time to time in accordance with its standard procedures.

(d) Compliance with Laws. The Borrower shall comply with all applicable laws and regulations and shall pay all taxes, assessments or government charges lawfully levied or imposed on or against it or any of its properties. The Borrower shall not take any action that would result in the debarment or suspension of the Borrower from contracting with the Government.

(e) Liens. The Borrower shall not permit any Lien to attach to any of its assets other than Permitted Liens.

(f) Guaranties. The Borrower shall not guarantee, endorse, become contingently liable upon or assume the obligations of any Person, except by the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business.

(g) Debt. The Borrower shall not permit to exist any debt other than Permitted Debt.

(h) Dividends and Distributions. The Borrower shall notify the Bank in writing 60 days prior to (1) the declaration or payment of any dividends or distributions to its equity owners or (2) the issuance, redemption, repurchase or retirement of any of its equity interests.

(i) Loans and Investments. The Borrower shall not make or permit to exist any loans to, or debt or equity investments in, acquire all or substantially all of the assets of, or merge or consolidate with any Person, other than accounts receivable that arise in the ordinary course of business. The Borrower shall not acquire or form any subsidiary, enter into any joint venture agreement, or become a partner in any partnership; provided that with the consent of the Bank, the Borrower may enter into joint venture or teaming agreements with other Persons to perform contracts. This notwithstanding, the Borrower may make investments in or acquire the assets of any Person in a complimentary line of business to the Borrower as long as the total consideration for such investments or acquisitions, in the aggregate, is less than \$20,000,000 during the term of this facility.

MAXIMUS, Inc.  
September 30, 1997  
Page 4

(j) Financial Covenants. The Borrower shall maintain at all times (1) an excess of current assets to current liabilities of not less than 1.5 to 1, (2) Tangible Net Worth of not less than \$60,000,000, and (3) a ratio of total liabilities to Tangible Net Worth of not more than 1.5 to 1.

Default. Upon the occurrence of an Event of Default, any obligation of the Bank to make Advances shall terminate and the Bank, at its option, by written notice to the Borrower, may declare all Indebtedness to the Bank to be immediately due and payable.

Accounting Terms. Each accounting term used in this Agreement, not otherwise defined, will have the meaning given to it under GAAP as in effect on the date of this Agreement, applied on a consistent basis.

Notices. All notices, requests, demands or other communications provided for this Agreement or any other Loan Document shall be in writing and shall be delivered by hand, sent prepaid by a recognized overnight delivery service or sent by the United States mail, certified, postage prepaid, return receipt requested, to the Bank or to the Borrower at their addresses set forth in this Agreement.

Successors and Assigns. This Agreement will be binding upon and inure to the benefit of the Bank and the Borrower, and their respective successors and assigns, provided that the Borrower may not assign or transfer its rights under this Agreement.

Sole Agreement. This Agreement and the other Loan Documents represent the entire agreement between the Bank and the Borrower, and supersede all prior commitments and may be modified only by an agreement in writing. The other Loan Documents shall contain such terms as the Bank customarily requires for financings of the type described in this Agreement.

Survival of Agreement. All terms contained in this Agreement shall survive the delivery of this Agreement and the other Loan Documents and the making of the Advances and shall remain in full force and effect until the Indebtedness is fully discharged.

Governing Law. This Agreement will be governed by the laws of the Commonwealth of Virginia, without reference to conflict of laws principles.

Expenses. Whether or not any Advances are made under this Agreement, the Borrower shall pay all out-of-pocket expenses (including reasonable attorneys' fees) incurred by the Bank in connection with the preparation of this Agreement and the other Loan Documents and the transactions contemplated by this Agreement.

Counterparts. This Agreement may be executed in counterparts, and all such counterparts together shall constitute one and the same Agreement.

The Borrower may accept this Agreement by signing below and returning an executed copy to the Bank prior to November 21, 1997. Upon receipt by the Bank of such executed copy prior to such date, this Agreement will become a binding agreement between the Bank and the Borrower.

Sincerely yours,

CRESTAR BANK

By: /s/ John M. Cannon

-----  
John M. Cannon, VP

SIGNATURES CONTINUE ON FOLLOWING PAGE

MAXIMUS, Inc.  
September 30, 1997  
Page 5

ACCEPTED: September 30, 1997

BORROWER

MAXIMUS, Inc.

By: /s/ David V. Mastran

-----  
David V. Mastran, Chief Executive Officer

By: /s/ Raymond B. Ruddy

-----  
Raymond B. Ruddy, Chairman of the Board

SCHEDULE OF DEFINITIONS

The following terms shall have the meanings set forth below when such terms are used in the Loan Documents:

"Advance" means any advance of funds under the Line.

"Affiliate" means any Person in which the Borrower has an ownership interest, whether direct or indirect, and any joint venture to which the Borrower is a party.

"Applicable LC Commission" means as of the date of the Agreement, 0.8%. Based on the Leverage Ratio in effect on the last day of each fiscal quarter of the Borrower, beginning on September 30, 1997, the Applicable LC Commission shall be adjusted to the percentage corresponding to the applicable Leverage Ratio:

<TABLE>		
<CAPTION>		
Leverage Ratio	Applicable LC Commission	
-----	-----	-----
<S>	<C>	<C>
Less than 0.8 to 1		0.8%
Greater than or equal to 0:8 to 1 and less than or equal to 1.25 to 1	1.0%	
Greater than 1.25 to 1	1.25%	

</TABLE>

The Applicable LC Commission shall be adjusted as of the first day of the calendar month following receipt by the Bank of the Borrower's quarterly financial statements. If such statements are not received within the required time limits, the Applicable Spread shall be equal to the highest percentage until the next adjustment date at the option of the Bank.

"Applicable Spread" means as of the date of the Agreement, 0.65%. Based on the Leverage Ratio in effect on the last day of each fiscal quarter of the Borrower, beginning on September 30, 1997, the Applicable Spread shall be adjusted to the percentage corresponding to the applicable Leverage Ratio:

<TABLE>		
<CAPTION>		
Leverage Ratio	Applicable Spread	
-----	-----	-----
<S>	<C>	<C>
Less than 0.8 to 1		0.65%
Greater than or equal to 0:8 to 1 and less than or equal to 1.25 to 1	0.95%	
Greater than 1.25 to 1	1.25%	

</TABLE>

The Applicable Spread shall be adjusted as of the first day of the calendar month following receipt by the Bank of the Borrower's quarterly financial statements. If such statements are not received within the required time limits, the Applicable Spread shall be equal to the highest percentage until the next adjustment date at the option of the Bank.

"Customer" means any Person obligated on an account receivable of the Borrower.

"Default" means any Event of Default or any event that with the giving of notice, or lapse of time, or both, would constitute an Event of Default.

"Event of Default" means the occurrence of a default or event of default under any Loan Document after the expiration of all applicable grace periods.

"GAAP" means generally accepted accounting principles consistently applied.

"Government" means the United States of America and any of its departments and agencies.

"Government Contract" means any contract with the Government under which the Borrower is the prime contractor or a subcontractor.

"Indebtedness" means all indebtedness, liabilities and obligations of the Borrower to the Bank, whether now existing or arising in the future, direct or indirect, fixed or contingent, whether related or unrelated to the Line, and whether of a similar or different class, including, without limitation, overdrafts, guaranties and obligations to reimburse the Bank for amounts paid

by it under letters of credit issued by the Bank for the account of the Borrower.

"Leverage Ratio" means at any time, the ratio of total liabilities of the Borrower, as determined in accordance with GAAP, to Tangible Net Worth.

"LIBOR" means the rate at which United States Dollar deposits with maturities of one month are offered to leading banks in the London interbank market.

"Lien" means any mortgage, deed of trust, assignment, pledge, lien, security interest, charge or encumbrance of any kind or nature, including the interest of the lessor under a capitalized lease.

"Loan Documents" means the Agreement, the Note and any other document that evidences, secures, governs or otherwise relates to any of the Indebtedness, including, without limitation, any letter of credit application and agreement, subordination agreement, negative pledge agreement, deed of trust, mortgage, security agreement, pledge agreement or assignment.

"Note" means a promissory note, on the Bank's standard form, in the principal amount of the Line, made by the Borrower and evidencing the obligation of the Borrower to repay the Advances, together with accrued interest, and any amendments to or replacements of such promissory note.

"Permitted Debt" means (a) the Indebtedness, (b) purchase money financing and capitalized lease obligations for fixed assets not exceeding \$250,000 in the aggregate outstanding at any time, (c) Subordinated Debt, and (d) ordinary and customary trade accounts payable.

"Permitted Liens" means (a) Liens securing the Indebtedness, and (b) Liens securing any purchase money financing or capitalized lease obligations described in the definition of Permitted Debt.

"Person" means any individual, partnership, limited liability company, joint venture, corporation, trust, governmental subdivision or agency or any other entity of any nature.

"Prime Rate" means the rate established by the Bank from time to time and recorded in its Credit Administration Division as a reference for fixing the lending rate on certain commercial loans. The Prime Rate is not necessarily the lowest or most favorable interest rate charged by the Bank.

"Security Agreement" means a security agreement from the Borrower on the Bank's standard form, creating a first priority security interest in any Collateral.

"Subordinated Debt" means debt of the Borrower subordinated to the Indebtedness or terms acceptable to the Bank.

"Tangible Net Worth" means, at any time, amounts that would be included under stockholders' equity on the balance sheet of the Borrower in accordance with GAAP consistently applied, provided that, in any event, such amounts are to be net of amounts carried on the books of the Borrower for (1) any write-up in the book value of any assets of the Borrower resulting from a revaluation subsequent to the date of this Agreement, (2) treasury stock, (3) unamortized debt discount expense, (4) any cost of investments in excess of net assets acquired at any time of acquisition by the Borrower, (5) loans, advances or other amounts owed to the Borrower by any Affiliate or investments in any Affiliate, (6) unmarketable securities, and (7) patents, patent applications, copyrights, trademarks, trade names, goodwill, research and development costs, organizational expenses, capitalized software costs and other like intangibles.





Subject to the above, interest per annum payable on this Note (the "Rate") will be the applicable Rate as outlined in Exhibit A, incorporated herein by reference. Adjustments to the Rate shall be effective in accordance with Exhibit A.

IMPORTANT NOTICE

THIS INSTRUMENT CONTAINS A CONFESSION OF JUDGMENT PROVISION WHICH CONSTITUTES A WAIVER OF IMPORTANT RIGHTS YOU MAY HAVE AS A DEBTOR AND ALLOWS THE CREDITOR TO OBTAIN A JUDGMENT AGAINST YOU WITHOUT ANY FURTHER NOTICE.

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This Note represents a renewal and refinance of the balance owed on note number 043000223788424003 dated April 10, 1996, in the original principal amount of \$10,000,000.00.

COLLATERAL

Any collateral pledged to the Bank to secure any of the undersigned's existing or future liabilities to the Bank shall secure this Note. To the extent permitted by law, each of the undersigned grants to the Bank a security interest in and a lien upon all deposits or investments maintained by the undersigned with, and all indebtedness owed to the undersigned by, the Bank or any of its affiliates.

All of this security is referred to collectively as the "Collateral." The Collateral is security for the payment of this Note and any other liability (including overdrafts and future advances) of the undersigned to the Bank, however evidenced, now existing or hereafter incurred, matured or unmatured, direct or indirect, absolute or contingent, several, joint, or joint and several, including any extensions, modifications or renewals. The proceeds of any Collateral may be applied against the liabilities of the undersigned to the Bank in any order at the option of the Bank.

LOAN PURPOSE AND UPDATED FINANCIAL INFORMATION REQUIRED

The undersigned warrant and represent that the loan evidenced by this Note is being made solely for the purpose of acquiring or carrying on a business, professional or commercial activity or acquiring real or personal property as an investment (other than a personal investment) or for carrying on an investment activity (other than a personal investment activity). The undersigned agree to provide to the Bank updated financial information, including, but not limited to, tax returns, current financial statements in form satisfactory to the Bank, as well as additional information, reports or schedules (financial or otherwise), all as the Bank may from time to time request.

DEFAULT, ACCELERATION AND SETOFF

Any one of the following will constitute an event of default under the terms of this Note: (1) the failure to make when due any instalment or other payment, whether of principal, interest, late charges or other authorized charges due under this Note, or the failure to pay the amount demanded by the Bank if this Note is payable on demand; (2) the death, dissolution, merger, acquisition, consolidation or termination of existence of the undersigned, any guarantor of the indebtedness of any of the undersigned to the Bank, any endorser, or any other party to this Note (collectively called a "Party"); (3) the insolvency or inability to pay debts as they mature of any Party, or the application for the appointment of a receiver for any Party or the filing of a petition under any provision of the Bankruptcy Code or other insolvency law, statute or proceeding by or against any Party or any assignment for the benefit of creditors by or against any Party; (4) the entry of a judgment against any Party or the issuance or service of any attachment, levy or garnishment against any Party or the property of any Party, or the repossession or seizure of property of any Party; (5) a determination by the Bank that it deems itself insecure or that a material adverse change in the financial condition of any Party or decline

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or depreciation in the value or market value of any Collateral has occurred since the date of this Note or is reasonably anticipated; (6) the failure of any Party to perform any other obligation to the Bank under this Note or under any other agreement with the Bank; (7) the occurrence of an event of default

with respect to any existing or future indebtedness of any Party to the Bank or any other creditor of the Party; (8) a material change in the ownership, control or management of any Party that is an entity, unless such change is approved by the Bank in its sole discretion; (9) if any Party gives notice to the Bank purporting to terminate its obligations under or with respect to this Note; (10) the sale or transfer by a Party of all or substantially all of its assets other than in the ordinary Yourself business; or (11) any Party commits fraud or makes a material misrepresentation at any time in connection with this Note. If an event of default occurs, or in the event of non-payment of this Note in full at maturity, the entire unpaid balance of this Note will, at the option of the Bank, become immediately due and payable, without notice or demand. Upon the occurrence of an event of default, the Bank will be entitled to interest on the unpaid balance at the stated Rate plus 2.00% (the "Default Rate"), unless otherwise required by law, until paid in full. To the extent permitted by law, upon default, the Bank will have the right, in addition to all other remedies permitted by law, to set off the amount due under this Note or due under any other obligation to the Bank against any and all accounts, whether checking or savings or otherwise, credits, money, stocks, bonds or other security or property of any nature on deposit with, held by, owed by, or in the possession of, the Bank or any of its affiliates to the credit of or for the account of any Party, without notice to or consent by any Party. The remedies provided in this Note and any other agreement between the Bank and any Party are cumulative and not exclusive of any remedies provided by law.

#### CAPITAL ADEQUACY

Should the Bank, after the date of this Note, determine that the adoption of any law or regulation regarding capital adequacy, or any change in its interpretation or administration, has or would have the effect of reducing the Bank's rate of return under this Note to a level below that which the Bank could have achieved but for the adoption or change, by an amount which the Bank considers to be material, then, from time to time, 30 days after written demand by the Bank, the undersigned shall pay to the Bank such additional amounts as will compensate the Bank for the reduction. Each demand by the Bank will be made in good faith and accompanied by a certificate claiming compensation under this paragraph and stating the amounts to be paid to it and the basis for the payment.

#### LATE CHARGES AND OTHER AUTHORIZED CHARGES

If any portion of a payment is at least ten (10) days past due, the undersigned agree to pay a late charge of 5.00% of the amount which is past due. Unless prohibited by applicable law, the undersigned agree to pay the fee established by the Bank from time to time for returned checks if a payment is made on this Note with a check and the check is dishonored for any reason after the second presentment. In addition, as permitted by applicable law, the undersigned agree to pay the following: (1) all expenses, including, without limitation, all court or collection costs, and attorneys' fees of 25% of the unpaid balance of this Note, or actual attorneys' fees if in excess of such amount, whether suit be brought or not, incurred in collecting this Note; (2) all costs incurred in evaluating, preserving or disposing of any Collateral granted as security for the

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payment of this Note, including the cost of any audits, appraisals, appraisal updates, reappraisals or environmental inspections which the Bank from time to time in its sole discretion may deem necessary; (3) any premiums for property insurance purchased on behalf of the undersigned or on behalf of the owner(s) of the Collateral pursuant to any security instrument relating to the Collateral; (4) any expenses or costs incurred in defending any claim arising out of the execution of this Note or the obligation which it evidences, or otherwise involving the employment by the Bank of attorneys with respect to this Note and the obligations it evidences; and (5) any other charges permitted by applicable law. The undersigned agree to pay these authorized charges on demand or, at the Bank's option, the charges may be added to the unpaid balance of the Note and will accrue interest at the stated Rate. Upon the occurrence of an event of default, interest will accrue at the Default Rate.

#### WAIVERS

The undersigned and each other Party waive presentment, demand, protest, notice of protest and notice of dishonor and waive all exemptions, whether homestead or otherwise, as to the obligations evidenced by this Note. The undersigned and each other Party waive any rights to require the Bank to proceed against any other Party or person or any Collateral before proceeding against the undersigned or any of them, or any other Party, and agree that without notice to any Party and without affecting any Party's liability, the Bank, at any time or times, may grant extensions of the time for payment or other indulgences to any Party or permit the renewal or modification of this Note, or permit the

substitution, exchange or release of any Collateral for this Note and may add or release any Party primarily or secondarily liable. The undersigned and each other Party agree that the Bank may apply all monies made available to it from any part of the proceeds of the disposition of any Collateral or by exercise of the right of setoff either to the obligations under this Note or to any other obligations of any Party to the Bank, as the Bank may elect from time to time. The undersigned also waive any rights afforded to them by Sections 49-25 and 49-26 of the Code of Virginia of 1950 as amended.

TO THE EXTENT LEGALLY PERMISSIBLE, THE UNDERSIGNED WAIVE ANY RIGHT TO TRIAL BY JURY IN ANY LITIGATION RELATING TO TRANSACTIONS UNDER THIS NOTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE.

JUDGMENT BY CONFESSION

The undersigned hereby duly constitute and appoint Susan M. Banks or C. B. Bohannon or Brian C. Middleton as the true and lawful attorney-in-fact for them in any or all of their names, place and stead, and upon the occurrence of an event of default, to confess judgment against them, or any of them, in the Circuit Court for the County of Fairfax, Virginia, upon this Note and all amounts owed hereunder, including all costs of collection, attorneys' fees equal to 25% of the unpaid principal balance hereof and court costs, hereby ratifying and confirming the acts of said attorney-in-fact as if done by themselves, expressly waiving benefit of any homestead or other exemption laws.

SEVERABILITY, AMENDMENTS AND NO WAIVER BY BANK

Any provision of this Note which is prohibited or unenforceable will be ineffective to the extent

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of the prohibition or unenforceability without invalidating the remaining provisions of this Note. No amendment, modification, termination or waiver of any provision of this Note, nor consent to any departure by the undersigned from any term of this Note, will in any event be effective unless it is in writing and signed by an authorized employee of the Bank, and then the waiver or consent will be effective only in the specific instance and for the specific purpose for which given. If the interest Rate is tied to an external index and the index becomes unavailable during the term of this loan, the Bank may designate a substitute index with notice to the Borrower. No failure or delay on the part of the Bank to exercise any right, power or remedy under this Note may be construed as a waiver of the right to exercise the same or any other right at any time.

LIABILITY, SUCCESSORS AND ASSIGNS AND CHOICE OF LAW

Each of the undersigned shall be jointly and severally obligated and liable on this Note. This Note shall apply to and bind each of the undersigned's heirs, personal representatives, successors and assigns and shall inure to the benefit of the Bank, its successors and assigns. The undersigned agree that certain material events and occurrences relating to this Note bear a reasonable relationship to the Commonwealth of Virginia. The validity, terms, performance and enforcement of this Note shall be governed by applicable federal law and the internal laws of the Commonwealth of Virginia which are applicable to agreements which are negotiated, executed, delivered and performed solely in the Commonwealth of Virginia.

By signing below, the undersigned agree to the terms of this Note and acknowledge receipt of a loan in the Loan Amount shown above.

MAXIMUS, INC.

By: /s/ David V. Mastran (Seal)

-----  
David V. Mastran, Chief Executive  
Officer

By: /s/ Raymond B. Ruddy (Seal)

-----  
Raymond B. Ruddy, Chairman of  
the Board

## INTEREST RATE PROVISIONS

THIS EXHIBIT A is attached to and forms a part of that certain Commercial Note (as amended, modified, supplemented or replaced from time to time, the Note), dated September 30, 1997, in the principal amount of \$10,000,000, made by MAXIMUS, INC., a Virginia corporation (the Borrower), and payable to the order of CRESTAR BANK, a Virginia banking corporation (the Bank). Terms defined in the Note and not otherwise defined in Paragraph 5 below shall have the same defined meanings when such terms are used herein.

1. Interest Rate. On the terms and subject to the conditions set forth below and in the Agreement, any amounts outstanding, or to be disbursed, under the Note shall bear interest at a per annum rate equal to LIBOR plus the Applicable Spread (the LIBOR Option). Interest based on the LIBOR Option shall be adjusted on the first day of each calendar month, beginning on October 1, 1997, to reflect LIBOR then in effect (each, an Interest Period). Notwithstanding any contrary provision of the Note or this Exhibit A, interest shall be calculated on the basis of the Prime Rate if (i) the Bank, in good faith, is unable to ascertain the LIBOR Option by reason of circumstances then affecting the applicable money market or otherwise, (ii) dollar deposits are not available in the applicable money market or are not available in sufficient quantities for the Bank, in its sole discretion, to ascertain the LIBOR Option, (iii) in the sole judgment of the Bank, it becomes unlawful or impracticable for the Bank to maintain loans based upon the LIBOR Option for any reason, including, without limitation, the introduction of or any change in any applicable law, rule or regulation or in the interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof, or compliance by the Bank with any request or directive (whether or not having the force of law) of any such authority, or (iv) the Bank, in good faith, determines that it is impracticable to maintain loans based on the LIBOR Option because of increased taxes, regulatory costs, reserve requirements, expenses or any other costs or charges that affect such interest rate option. Upon the occurrence of any of the above events, the outstanding principal balance of the Note immediately (or at any time thereafter at the option of the Bank), without further action of the Borrower or the Bank, shall accrue interest at the Prime Rate, adjusted on the same days on which the Bank changes its Prime Rate.

2. Advances. The Borrower authorizes the Bank to make advances under the Note from time to time in amounts sufficient to pay checks drawn on the Borrower's operating account with the Bank, subject to the limitations set forth in the paragraph entitled, "Amount," in the Agreement. In addition, the Borrower may request an advance under the Note (each, a Request) by telephonic notice to the Bank no later than 10:00 a.m. (Washington, D.C. time) on the Business Day on which such advance is to be made. If required by the Bank, Requests made by telephone shall be confirmed in writing and delivered to the Bank within three Business Days after the date of the Request.

3. Prepayments. The Borrower may prepay amounts owing under the Note at any time and from time to time, without premium or penalty.

4. Indemnity. The Borrower agrees to indemnify the Bank and to hold the Bank harmless from, and to reimburse the Bank on demand for, any loss, cost, liability or expense

that the Bank may sustain or incur as a result of (a) any failure by the Borrower to make a borrowing or prepayment after the Borrower has given notice thereof, if applicable, including, without limitation, any loss incurred in liquidating or employing deposits from third parties and loss of profit for the period after failure to borrow or prepay, or (b) any domestic or foreign taxes, regulatory costs, reserve requirements, assessments, expenses or other costs or charges that increase the cost to the Bank of making available to the Borrower funds at the LIBOR Option. A written statement of the Bank to the Borrower of such loss or expense shall be conclusive and binding, absent manifest error, for all purposes. Notwithstanding the foregoing, the Bank may require by notice to the Borrower that the Borrower pay directly to the appropriate governmental authority any tax, levy, impost or any other charge of any nature whatsoever as set forth herein in lieu of reimbursing the Bank for said costs and expenses. This covenant shall survive repayment of the Note and payment by the Borrower of all obligations arising under this Exhibit A.

5. Defined Terms. The following terms as used in this Exhibit A shall have the following meanings:

Agreement means the letter agreement dated September 30, 1997 between the Borrower and the Bank, as the same may be amended, modified or supplemented from time to time.

Applicable Spread means as of the date of the Agreement, 0.65%. Based on the Leverage Ratio in effect on the last day of each fiscal quarter of the Borrower, beginning on September 30, 1997, the Applicable Spread shall be adjusted to the percentage corresponding to the applicable Leverage Ratio:

<TABLE>  
<CAPTION>

Leverage Ratio -----	Applicable Spread -----
<S>	<C>
Less than 0.8 to 1	0.65%
Greater than or equal to 0.8 to 1 and less than or equal to 1.25:1	0.95%
Greater than 1.25:1	1.25 %

</TABLE>

The Applicable Spread shall be adjusted as of the first day of the calendar month following receipt by the Bank of the Borrower's quarterly financial statements. If such statements are not received within the required time limits, the Applicable Spread shall be equal to the highest percentage until the next adjustment date at the option of the Bank.

Business Day shall mean a day on which commercial banks are open for business and dealing in deposits in Washington, D.C., Richmond, Virginia, and New York, New York.

LIBOR shall mean, for each calendar month, the per annum rate of interest at which dollar deposits with a one month maturity are offered to lending banks in the London interbank market at 11:00 a.m. (London time) on the first Business Day of such calendar month (with such determination to become effective as of the first day of such calendar month if not a Business Day), based on quotations provided by the British Bankers Association and published by an interest rate reporting service selected by the Bank as adjusted for Federal Reserve Board reserve requirements and similar assessments, if any, imposed upon the Bank. LIBOR shall be

set and adjusted on a monthly basis as of the first day of each calendar month hereafter, based on the LIBOR Rate in effect as of the first Business Day of each calendar month.

Prime Rate shall have the meaning ascribed to it in the Note.

6. Funding. The Bank shall be entitled, but not obligated, to fund all or any portion of the Note in any manner it may determine in its sole discretion, including, without limitation, in the Grand Cayman inter-bank market, the Nassau inter-bank market, the London inter-bank market and within the United States, but all calculations and transactions hereunder shall be conducted as though the Bank actually funds all such amounts through the purchase in London or Nassau, as the case may be, of one-month offshore dollar deposits in the relevant principal amount.

IN WITNESS WHEREOF, the Borrower has caused this Exhibit A to be executed by its duly authorized representatives as of September 30, 1997.

MAXIMUS, INC., a Virginia corporation

By: /s/ David V. Mastran  
-----  
David V. Mastran, Chief Executive  
Officer

By: /s/ Raymond B. Ruddy  
-----  
Raymond B. Ruddy  
Chairman of the Board

EXHIBIT 11.1

STATEMENT RE COMPUTATION OF PRO FORMA NET INCOME PER SHARE

<TABLE>  
<CAPTION>

	<C>	YEAR ENDED SEPTEMBER 30, 1997 -----
<S> Pro forma net income.....		<C> \$ 7,179 =====
Shares used in computing pro forma net income per share:		
Weighted average shares outstanding for period.....		12,306
Effect of options granted in January 1997:		
Options granted, net of exercised.....	401	
Option price.....	\$ 1.46	
	-----	
Assumed proceeds.....	\$ 585	
Market price at September 30, 1997.....	\$ 28.94	
	-----	
Shares assumed repurchased.....	20	
	-----	
Shares deemed outstanding.....	381	381
Effect of options granted in June 1997:		
Options granted.....	124	
Percentage vested.....	25%	
	-----	
Options vested.....	31	
Option price.....	\$ 16.00	
	-----	
Assumed proceeds.....	\$ 496	
Market price at September 30, 1997.....	\$ 28.94	
	-----	
Shares assumed repurchased.....	17	
	-----	
Shares deemed outstanding.....	14	14
Effect on distribution to stockholders:		
S Corporation Dividend.....	\$27,459	
Less: Net income for period from June 13, 1996 to June 12, 1997.....	15,954	
	-----	
Dividend in excess of income.....	\$11,505	
Net IPO proceeds per share.....	\$ 14.66	
	-----	
Shares deemed outstanding.....	784	
Ratio of S Corporation year to full year shares deemed outstanding.....	69.9%	
	-----	
Shares deemed outstanding.....	548	548
	-----	
Shares used in computing pro forma net income per share.....		13,249 =====
Pro forma net income per share.....		\$ 0.54 =====

</TABLE>

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement (Form S-8, No. 333-41869) pertaining to the 1997 Director Stock Option Plan, the Registration Statement (Form S-8, No. 333-41867) pertaining to the 1997 Employee Stock Purchase Plan and the Registration Statement (Form S-8, No. 333-41871) pertaining to the 1997 Equity Incentive Plan of MAXIMUS, Inc., of our report dated November 28, 1997 with respect to the financial statements of MAXIMUS, Inc. included in the Annual Report (Form 10-K) for the year ended September 30, 1997.

/s/ ERNST & YOUNG LLP

Washington, DC  
December 18, 1997



<TABLE> <S> <C>

<ARTICLE> 5

<MULTIPLIER> 1,000

<S>	<C>
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</TABLE>

## Important Factors Regarding Forward Looking Statements

December 1997

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

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

The Company will not undertake and specifically declines any obligation to publicly release any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events which may cause management to re-evaluate such forward-looking statements.

In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company is hereby filing cautionary statements identifying important factors that could cause the Company's actual results to differ materially from those projected in forward-looking statements of the Company made by or on behalf of the Company.

## RELIANCE ON GOVERNMENT CLIENTS

Substantially all of the Company's clients are federal, state or local government authorities. Effective marketing of the Company's services to government clients requires the ability to respond to government requests for proposals ("RFPs"). To succeed in the RFP process, the Company must estimate its cost structure for servicing the proposed contract, the time required to establish operations and the likely terms of the proposals submitted by competitors. The Company must assemble and submit a large volume of information on a rigid timetable set forth in the RFP. The Company's ability to successfully respond to the RFP process in the future will have an important impact on the Company's business, financial condition and results of operations. No assurance can be given that the Company will be awarded contracts through the RFP process.

## RISKS ASSOCIATED WITH GOVERNMENT CONTRACTING

Contracts awarded to the Company typically contain provisions that permit the government client to terminate the contract on short notice, with or without cause. The expiration of large contracts presents additional management challenges. Many contracts contain base periods of one or more years as well as one or more option periods that may cover more than half of the potential contract duration. Government agencies generally have the right not to exercise option periods and the failure to exercise such option periods could impact the profitability of certain of the Company's contracts. While the Company has experienced a limited number of early terminations since inception, the unexpected termination of one or more of the Company's more significant contracts could result in severe revenue shortfalls which, without corresponding reductions in expenses, could adversely affect the business, financial condition and results of operations of the Company. There can be no assurance that such government authorities will not terminate any or all of the Company's contracts to administer and manage health and human services programs.

In order to establish and maintain relationships with members of government agencies, the Company occasionally engages marketing consultants, including lobbyists. In the event of a significant political change, such consultants may lose their ability to effectively assist the Company. In addition, the implementation of term limits on certain elected officials will require the Company to confront political change on a regular basis. If the Company fails to manage its relationships effectively with political

consultants, its business, financial condition and results of operations could be materially and adversely affected. No assurance can be given that the Company will be successful in managing such relationships.

To avoid experiencing higher than anticipated demands for federal funds, federal government officials on occasion advise state and local authorities not to engage private consultants to advise on maximizing federal revenues. There can be no assurance that state and local officials will not be influenced by federal government officials and, therefore, not engage the Company for such services. To the extent that state and local officials determine not to seek the Company's services, the business, financial condition and results of operations of the Company could be adversely affected.

Government contracts generally are subject to audits and investigations by government agencies, including audits by the Defense Contract Audit Agency ("DCAA"). These audits and investigations involve a review of the government contractor's performance of its contracts as well as its pricing practices, cost structure and compliance with applicable laws, regulations and standards. A substantial portion of payments to the Company from U.S. Government agencies is subject to adjustment upon audit by the DCAA. Audits through 1993 have been completed with no material adjustments and the Company believes that

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adjustments resulting from audits of subsequent years will not have a material adverse effect on the Company's business, financial condition and results of operations. If any costs are improperly allocated to a contract, such costs are not reimbursable and, if already reimbursed, will be required to be refunded to the government. Furthermore, if improper or illegal activities are discovered in the course of any audits or investigations, the contractor may be subject to various civil and criminal penalties and administrative sanctions, including termination of contracts, forfeitures of profits, suspension of payments, fines and suspension or disqualification from doing business with the government. If the Company becomes subject to penalties or sanctions, such penalties or sanctions could have a material adverse effect on the Company's business, financial condition and results of operations.

#### RISKS INVOLVED IN MANAGING GOVERNMENT PROJECTS

Upon the receipt of a contract for the management of a health and human services program, the Company's Government Operations Group may incur significant start-up expenses prior to the receipt of any payments under such contract. Such expenses include the costs of leasing office space, purchasing necessary office equipment and hiring sufficient personnel. As a result, for large contracts, the Company may be required to make significant investments prior to the receipt of related contract payments.

Approximately 40% (20% after excluding a significant contract with the Social Security Administration) of the Company's total revenues for the year ended September 30, 1997 resulted from fixed price contracts pursuant to which the Company received its fee for meeting specified objectives or upon the achievement of specified units of work, such as the placement of welfare recipients into jobs, the collection of child support payments or the completion of managed care enrollment transfers. The Company's ability to earn a profit on these contracts is dependent upon accurate estimates of the costs involved as well as the probability of meeting the specified objectives or realizing the expected units of work within a certain period of time. In addition, the Company recognizes revenues on fixed price contracts based on costs incurred. The Company periodically reviews such contracts and adjusts revenues to reflect current expectations. Such adjustments will affect the timing and amount of revenue recognized and could have a material adverse effect on the Company's business, financial condition and results of operations. The Company's failure to accurately estimate the factors on which contract pricing is based could result in the Company reporting a decrease in revenues or incurring losses on such contracts and could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's inability or failure to satisfy its contractual obligations in a manner consistent with the terms of any contract could have a material adverse effect on the Company's financial condition because the Company is often required to indemnify clients for its failure to meet performance standards. Certain of the Company's contracts have liquidated damages provisions and financial penalties related to performance failures. In addition, in order for the Company's Government Operations Group to bid for certain contracts, the Company has been and will continue to be required to secure its indemnification obligations by obtaining a performance bond from an insurer, posting a cash performance bond or obtaining a letter of credit from a suitable financial institution. In the event that a government entity makes a claim against such performance bond or letter of

credit, the premiums demanded by the insurers for such bonds could increase, thereby limiting the Company's ability to bid for contracts in the future. In addition, the Company's failure to meet a client's expectations in the performance of its contractual obligations could have a material adverse effect on the Company's reputation, thereby adversely affecting its business, financial condition and results of operations.

When contracts between the Company's Government Operations Group and a state or local government expire or otherwise terminate, unless the Company can successfully enter into a new contract using the services of employees formerly engaged in servicing the terminated contract or otherwise re-assign such employees, the Company will need to terminate the employment of such employees. The termination of large Government Operations Group contracts and the subsequent re-assignment or termination of employees places significant demands on the Company's management and its administrative resources. If the Company is unable to manage these challenges, the Company's business could materially and adversely be affected.

#### LEGISLATIVE CHANGE AND POLITICAL DEVELOPMENTS

The market for the Company's services is largely dependent on federal and state legislative programs, any of which may be modified or terminated by acts of the legislative or executive branches of federal and state government. There can be no assurance that such legislative change will not occur or that the Company will be able to anticipate and respond in a timely manner to any such legislative change. The Company's failure to manage effectively its business in light of anticipated or unanticipated legislative change could have a material adverse effect on the Company's business, operating results and financial condition.

The Welfare Reform Act is expected to be a catalyst for sweeping changes in the administration and management of the welfare system in the United States. As part of its growth strategy, the Company plans to aggressively pursue the opportunities created by this legislation by seeking new contracts to administer and manage welfare programs of state and local government agencies. However, opponents of welfare reform continue to criticize the advances made by the current administration and continued progress in the welfare reform area is uncertain. The repeal of the Welfare Reform Act, in whole or in part, could have a material adverse effect on the future business, financial condition and results of operations of the Company. There can be no assurance that additional reforms will be proposed or enacted, or that previously enacted reforms will not be challenged, repealed or otherwise invalidated.

The adverse impact that legislative changes can have on the Company was recently evidenced by the termination of a significant contract with the federal Social Security Administration. This contract related to the referral and treatment monitoring of social security or supplemental income beneficiaries with drug or alcohol-related disabilities (the "SSA Contract"). In its fiscal year ended September 30, 1997, the Company earned revenues of \$31.6 million from the SSA Contract, representing approximately 25% of the Company's total revenues for such fiscal year. In October 1996, the President signed into law an amendment to the Social Security Act of 1935, effective January 1, 1997, that eliminated social security and supplemental income benefits based solely on drug and alcohol

disabilities. As a result of this amendment, the SSA Contract was terminated and no revenues were earned thereunder after March 31, 1997.

In addition, under current law the privatization of certain functions of government programs, such as determining eligibility for Food Stamps and Medicaid, requires the consent and/or waiver of the executive branch acting through the applicable administering government agency. In May 1997, in response to a request by the State of Texas for a waiver to allow private corporations to decide the eligibility of applicants for Food Stamps and Medicaid benefits, the Department of Health and Human Services determined not to grant a waiver to the existing requirement in these programs that only public employees may make such decisions. The Company did not bid for any contracts for these Texas projects, and the determination will not affect any of the Company's existing contracts. However, there can be no assurance that the Department of Health and Human Services or other health and human services agencies will not in the future narrow or eliminate certain future markets for health and human services contracts in which the Company intends to compete.

#### OPPOSITION FROM GOVERNMENT UNIONS

The Company's success depends in part on its ability to obtain contracts to profitably administer and manage health and human services programs that traditionally have been administered and managed by government employees. Many of these government employees are members of labor unions which have considerable financial resources and established lobbying networks that are effective in applying political pressure to legislators and other government officials who seek to contract with private companies to administer and manage government programs. Successful efforts to oppose private management of government programs by these unions may slow welfare reform and ultimately result in fewer opportunities for the Company to provide services to government agencies, thereby adversely affecting the business, financial condition and results of operations of the Company. A recent example of the influence of government unions is the role played by union lobbyists in promoting a May 1997 determination by the Department of Health and Human Services, in response to a waiver request by the State of Texas, that only public employees may make decisions on eligibility of applicants for Food Stamps and Medicaid benefits. There can be no assurance that these unions will not succeed in whole or in part in their efforts to oppose the outsourcing of government programs.

#### VARIABILITY OF QUARTERLY OPERATING RESULTS

Variations in the Company's revenues and operating results occur from quarter to quarter as a result of a number of factors, including the progress of contracts, levels of revenues earned on contracts (including any adjustments in expectations on revenue recognition on fixed price contracts), the commencement, completion or termination of contracts during any particular quarter, the schedules of government agencies for awarding contracts, the term of each contract that the Company has been awarded and general economic conditions. Because a significant portion of the Company's expenses are relatively fixed, successful contract performance and variation in the volume of activity as well as in the number of contracts commenced or completed during any quarter may cause significant variations in operating results from quarter to quarter. Furthermore, the Company has on

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occasion experienced a pattern in its results of operations in which it incurs greater operating expenses during the start-up and early stages of significant contracts. In addition, the Company's SSA Contract contributed \$31.6 million, \$56.5 million, \$14.3 million and \$2.9 million to the Company's revenues in the fiscal years 1997, 1996, 1995 and 1994, respectively. The termination of the SSA Contract will significantly reduce the Company's revenue base as compared to previous quarters. No assurance can be given that the Company will be able to generate additional revenues in future periods in amounts sufficient to replace the revenues received under the SSA Contract and as a result, the Company may experience materially lower revenues as compared to prior periods.

The Company recognized two significant charges against income during fiscal year 1997. The completion of the offering resulted in the termination of the Company's S corporation status. As a result the Company recorded a one-time income statement charge to operations of \$5.9 million to recognize the cumulative deferred tax liabilities as of June 13, 1997. In connection with the offering, on January 31, 1997, certain key employees of the Company surrendered rights to purchase shares of Common Stock of the Company in exchange for options to purchase shares of Common Stock at an exercise price of \$1.46 per share. The Company recognized a non-cash compensation charge against income equal to the difference between the initial public offering price of \$16.00 per share and the option exercise price for all outstanding options. Compensation expense totaling \$150,000 had been recognized through March 31, 1997, and upon completion of its initial public offering, the Company recognized an additional charge against income of \$5.7 million. The option exercise price is based on the book value of the Common Stock at September 30, 1996, and was established pursuant to pre-existing compensation arrangements with these employees.

#### RELIANCE ON KEY EXECUTIVES

The success of the Company is highly dependent upon the efforts, abilities, business generation and project execution capabilities of certain of its executive officers and senior managers. While the Company, Raymond B. Ruddy, Chairman of the Board of Directors and President of the Consulting Group, Russell A. Beliveau, President of the Government Operations Group, Ilene R. Baylinson, President of the Disability Services Division, Susan D. Pepin, President of the Systems Planning and Integration Division and Lynn P. Davenport, President of the Human Services Division, such agreements are terminable under certain conditions. Other than these six agreements with executive officers, the Company does not have employment agreements with any other senior employees. The loss of the services of any of these key executives could have a material adverse effect upon the Company's business, financial condition and results of operations, including its ability to secure and complete engagements. The Company maintains key-man life insurance policies on David V. Mastran and Raymond B. Ruddy in the amounts of \$10,700,000

and \$7,250,000, respectively, with proceeds payable to the Company. Because the levels of insurance were established to fund stock redemption obligations of the Company that will terminate upon the closing of this offering, the Company anticipates that it will substantially reduce these policies subsequent to this offering.

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#### ATTRACTION AND RETENTION OF EMPLOYEES

The Company's business involves the delivery of professional services and is labor-intensive. When the Company's Government Operations Group is awarded a contract by a government agency, the Company is often under a tight timetable to hire project leaders and case management personnel to meet the needs of the new project. In addition, the resulting large increases in the number of the Company's employees create demand for increased administrative personnel at the Company's headquarters. The Company's success in both the Government Operations Group and the Consulting Group depends in large part upon its ability to attract, develop, motivate and retain experienced and innovative executive officers, senior managers who have successfully managed or designed health and human services programs in the public sector and information technology professionals who have designed or implemented complex information technology projects. Such innovative, experienced and technically proficient individuals are in great demand and are likely to remain a limited resource for the foreseeable future. There can be no assurance that the Company will be able to continue to attract and retain desirable executive officers and senior managers in the future. The inability to hire sufficient personnel on a timely basis or the loss of a significant number of executive officers and senior managers could have a material adverse effect on the Company's business, financial condition and results of operations, including its ability to obtain and successfully complete service contracts.

#### CHALLENGES RESULTING FROM GROWTH

The Company's continued growth has placed significant demands on the Company's management as well as its administrative, operational and financial resources. The Company's ability to manage its growth will require the Company to continue to implement new and to improve existing operational, financial and management information systems and to continue to expand, motivate and manage its workforce. In addition, the Company's growth will depend in large part on its ability to manage large-scale health and human services programs while continuing to ensure quality service and reasonable profits. If the Company is unable to manage effectively any of these factors, the quality of the Company's services, its financial condition and results of operations could be materially and adversely affected. No assurance can be given that the Company will continue to experience growth or that the Company will be successful in managing its growth, if any.

#### ADVERSE PUBLICITY

The Company has received and expects to continue to receive media attention as a result of its contracts with state and local government authorities. In particular, the management of health and human services programs by the Company's Government Operations Group and the establishment of revenue maximization programs by the Company's Consulting Group have been the subject of highly controversial media coverage. Negative coverage of the types of program management services provided by the Company could influence government officials and slow the pace of welfare reform, thereby reducing the Company's growth prospects. In addition to media attention arising out of the types of services provided by the Company, the Company is also vulnerable to media attention as a result of the activities of political consultants engaged by the Company, even when such

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activities are unrelated to the Company. Such an event occurred in connection with a marketing representative hired by the Company to assist in responding to an RFP promulgated by the State of West Virginia. After learning that the marketing representative was also a state employee, the Company voluntarily withdrew from the bidding. Certain media coverage relating to this incident was inaccurate and incorrectly suggested wrongdoing by the Company. The Company has become aware that certain of its competitors have sought to exploit such suggestions in connection with other competitive-bidding situations. There can be no assurance that the Company will not receive adverse media attention as the result of activities of individuals not under the Company's control. In addition, there can be no assurance that media attention focused on the Company will be accurate or that the Company will be able to anticipate and respond in a timely manner to all media contacts. Inaccurate or misleading media coverage or the Company's failures to manage such coverage could have a material adverse

effect on the Company's reputation, thereby adversely affecting its business, financial condition and results of operations.

#### RISKS RELATED TO POSSIBLE ACQUISITIONS

A part of the Company's growth strategy is to expand its operations through the acquisition of additional businesses. The Company has no prior history of making acquisitions and there can be no assurance that the Company will be able to identify, acquire or profitably manage additional businesses or successfully integrate any acquired businesses into the Company without incurring substantial expenses, delays or other operational or financial problems. Furthermore, acquisitions may involve a number of special risks, including diversion of management's attention, failure to retain key personnel, unanticipated events or circumstances, legal liabilities and amortization of acquired intangible assets, some or all of which could have a material adverse effect on the Company's business, financial condition and results of operations. Client dissatisfaction or performance problems at a single acquired firm could have a material adverse effect on the reputation of the Company as a whole. In addition, there can be no assurance that acquired businesses, if any, will achieve anticipated revenues and earnings. The failure of the Company to manage its acquisition strategy successfully could have a material adverse effect on the Company's business, financial condition and results of operations.

#### LITIGATION

On March 12, 1997, Network Six, Inc. ("Network Six") served MAXIMUS with a First Amended Third-Party Complaint filed in the State of Hawaii Circuit Court of the First Circuit. In this complaint, Network Six named the Company and other parties as third party defendants in an action by the State of Hawaii against Network Six. In 1991, the Company's Consulting Group was engaged by the State of Hawaii to provide assistance in planning for and monitoring the development and implementation by Hawaii of a statewide automated child support system. In 1993, Hawaii contracted with Network Six to provide systems development and implementation services for this project. In 1996, the state terminated the Network Six contract for cause and filed an action against Network Six. Network Six counterclaimed against Hawaii that the state breached its obligations under the contract with Network Six. In the Third Party Complaint, Network Six alleges that the Company is liable to Network Six on grounds that: (i) Network Six was an intended third party beneficiary

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under the contract between the Company and Hawaii; (ii) the Company engaged in bad faith conduct and tortiously interfered with the contract and relationship between Network Six and Hawaii; (iii) the Company negligently breached duties to Network Six; and (iv) the Company aided and abetted Hawaii in Hawaii's breach of contract. Network Six's complaint seeks damages, including punitive damages, from the third party defendants in an amount to be proven at trial. The Company believes that Network Six was not an intended third party beneficiary under its contract with Hawaii and that Network Six's claims are without factual or legal merit. The Company does not believe this action will have a material adverse effect on its business and intends to vigorously defend this action. However, given the early stage of this litigation, no assurance may be given that the Company will be successful in its defense. A decision by the court in Network Six's favor or any other conclusion of this litigation in a manner adverse to the Company could have a material adverse effect on the Company's business, financial condition and results of operations.

On November 28, 1997, an individual who was a former officer, director and shareholder of the Company, filed a complaint in the United States District Court for the District of Massachusetts, alleging that at the time he resigned from the Company in 1996, thereby triggering the repurchase of his shares, the Company and certain of its officers and directors had failed to disclose material information to him relating to the potential value of the shares. He further alleges that the Company and its officers and directors violated Sections 10(b) and 20(a) of the Securities and Exchange Act of 1934 and breached various fiduciary duties owed to him and claims damages in excess of \$10 million. The Company does not believe that this action will have a material adverse effect on the Company's business, and it intends to vigorously defend this action. However, given the early stage of this litigation, no assurance may be given that the Company will be successful in its defense.

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