

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 1997

OR

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

COMMISSION FILE NUMBER 1-12997

MAXIMUS, INC.

(Exact name of registrant as specified in its charter)

VIRGINIA
(State or other jurisdiction of
incorporation or organization)

54-1000588
(I.R.S. Employer
Identification No.)

1356 BEVERLY ROAD
MCLEAN, VIRGINIA
(Address of principal executive offices)

22101
(Zip Code)

Registrant's telephone number, including area code: (703) 734-4200

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

Yes No

Class -----	Outstanding at February 2, 1998 -----
Common Shares, No Par Value	14,804,970

MAXIMUS, INC.

QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED DECEMBER 31, 1997

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 MAXIMUS, INC.
 BALANCE SHEETS
 (DOLLARS IN THOUSANDS)

<TABLE> <CAPTION>	SEPTEMBER 30,	DECEMBER 31,
	1997	1997
	-----	-----
(UNAUDITED)		
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$10,960	
\$10,579		
Marketable securities.....	40,869	
31,502		
Accounts receivable, net.....	33,651	
33,920		
Costs and estimated earnings in excess of billings.....	5,605	
6,546		
Prepaid expenses and other current assets.....	1,292	
877		
Deferred income taxes	729	
-		
-----		---
Total current assets.....	93,106	
83,424		
Property and equipment at cost:		
Land.....	662	
662		
Building and improvements.....	1,721	
1,721		
Office furniture and equipment.....	1,645	
1,731		
Leasehold improvements.....	188	
188		
-----		---
	4,216	
4,302		
Less: Accumulated depreciation and amortization.....	(1,346)	
(1,430)		
-----		---
Total property and equipment, net.....	2,870	
2,872		
Deferred income taxes.....	-	
404		
Other assets.....	849	
752		
-----		---
Total assets.....	\$96,825	
\$87,452		
=====		
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$3,099	
\$3,508		
Accrued compensation and benefits.....	5,874	
4,384		
Billings in excess of costs and estimated earnings.....	11,749	
9,663		

188	Note payable.....	188	
445	Income taxes payable.....	3,881	
531	Deferred income taxes.....	-	
-	S Corporation distribution payable	5,748	
----		-----	---
	Total current liabilities.....	30,539	
18,719	Deferred income taxes.....	147	
-		-----	---

	Total liabilities.....	\$30,686	
\$18,719		-----	---

	Contingencies (Note 3)		
	Shareholders' equity:		
	Common stock, no par value; 30,000,000 shares authorized; 14,790,470 and 14,790,970 shares issued and outstanding at September 30, 1997 and December 31, 1997, at stated amount.....	66,730	
66,731	Retained earnings (deficit).....	(591)	
2,002		-----	---

	Total shareholders' equity.....	66,139	
68,733		-----	---

	Total liabilities and shareholders' equity.....	\$96,825	
\$87,452		=====	
=====			

</TABLE>

See notes to financial statements.

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MAXIMUS, INC.
STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED DECEMBER 31,	
	----- 1996 -----	----- 1997 -----
<S>	<C>	<C>
Revenues.....	\$37,244	\$36,356
Cost of revenues.....	29,534	27,300
	-----	-----
Gross profit.....	7,710	9,056
Selling, general and administrative expenses.....	4,039	5,346
	-----	-----
Income from operations.....	3,671	
3,710		
Interest and other income.....	84	575
	-----	-----
Income before income taxes.....	3,755	
4,285		
Provision for income taxes.....	57	1,692
	-----	-----
Net income.....	\$ 3,698	\$ 2,593
	=====	
=====		
Historical basic net income per share.....		\$
.18		
=====		

Historical diluted net income per share..... \$
 .17

=====

Pro forma data:

Historical income before income taxes.....	\$ 3,755
Pro forma income tax expense.....	1,502

Pro forma net income.....	\$ 2,253
	=====
Pro forma diluted net income per share.....	\$ 0.18
	=====

Shares used in computing basic net income per share.....
 14,791

=====

Shares used in computing diluted net income per share	12,627
15,182	
	=====

=====

</TABLE>

See notes to financial statements.

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 MAXIMUS, INC.
 STATEMENTS OF CASH FLOWS
 (DOLLARS IN THOUSANDS)
 (UNAUDITED)

<TABLE>
 <CAPTION>

		THREE MONTHS
ENDED		DECEMBER
31,		-----
-----		1996
1997		-----
-----		<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income.....	\$2,593	\$3,698
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation.....	84	70
Change in assets and liabilities:		
Accounts receivable, net.....	(269)	(4,584)
Costs and estimated earnings in excess of billings.....	(941)	(1,898)
Prepaid expenses and other current assets.....	415	(50)
Deferred income taxes.....	709	30
Other assets.....	97	59
Accounts payable.....	409	2,370
Accrued compensation and benefits.....	(1,490)	833
Billings in excess of costs and estimated earnings.....	(2,086)	1,319
Income taxes payable.....	(3,436)	-

Net cash provided by (used in) operating activities.....	(3,915)	1,847
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment.....	(86)	(9)
Sale of marketable securities.....	9,367	-

Net cash (used in) provided by investing activities.....		(9)

9,281

CASH FLOWS FROM FINANCING ACTIVITIES:

S Corporation distributions.....	-
(5,748)	
Issuance of common stock	-
1	
-----	-----
Net cash used in financing activities.....	-
(5,747)	
-----	-----
Net increase (decrease) in cash and cash equivalents.....	1,838
(381)	
Cash and cash equivalents, beginning of period.....	2,326
10,960	
-----	-----
Cash and cash equivalents, end of period.....	\$4,164
\$10,579	
=====	=====

</TABLE>

See notes to financial statements.

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MAXIMUS, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIODS ENDED DECEMBER 31, 1997 AND 1996
(DOLLARS IN THOUSANDS)

1. ORGANIZATION AND BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normally recurring accruals considered necessary for a fair presentation have been included. The results of operations for the three month period ended December 31, 1997 is not necessarily indicative of the results that may be expected for the full fiscal year. These financial statements should be read in conjunction with the audited financial statements as of September 30, 1996 and 1997 and for each of the three years in the period ended September 30, 1997, included in the Company's Annual Report on Form 10-K (No. 1-12997), as filed with the Securities and Exchange Commission.

2. INITIAL PUBLIC OFFERING

The Company completed an initial public offering ("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.

The Company made cash payments of S corporation distributions (the "S Corporation Dividend") to shareholders totaling \$21,712 and accrued \$5,748 during the year ended September 30, 1997. The S Corporation Dividend represented the undistributed earnings of the Company taxed or taxable to the shareholders through the date of the IPO. During the quarter ended December 31, 1997, the Company paid the remaining \$5,748 of S Corporation Dividend.

See also note 5.

3. CONTINGENCIES

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.

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.

The Company also is involved in various other legal proceedings in the ordinary course of 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.

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4. REVENUES FROM SIGNIFICANT CONTRACT

Government Operations Group revenues for the three month periods ended December 31, 1997 and 1996 include \$0 and \$22,511, respectively, from a significant contract with the U.S. Government Social Security Administration which was terminated in February 1997 pursuant to legislative action.

5. INCOME TAX PROVISION AND PRO FORMA FINANCIAL DATA

Prior to the IPO, 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 tax returns. Accordingly, the Company was not subject to federal and most state income taxes.

Pro forma net income and diluted pro forma net income per share are presented as if the Company had been taxed as a C corporation for the periods presented. The pro forma tax provision has been calculated assuming a 40% combined effective tax rate.

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ITEM 2. 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.

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 a significant contract with the Company (the "SSA Contract") effective at the end of February 1997. All services to be provided to the Social Security Administration were completed in the quarter ended March 31, 1997. The SSA Contract contributed \$0 million and \$22.5 million in the three months ended December 31, 1997 and December 31, 1996.

RESULTS OF OPERATIONS

THREE MONTHS ENDED DECEMBER 31, 1997 COMPARED TO THREE MONTHS ENDED DECEMBER 31, 1996

Revenues. Total contract revenues decreased 2.4% to \$36.4 million for the three months ended December 31, 1997 as compared to \$37.2 million for the same period in 1996. Government Operations Group revenues decreased 9.2% to \$27.8 million for the three months ended December 31, 1997 from \$30.6 million for the same period in 1996 in part due to the termination of the SSA Contract in February 1997 (see Overview). For the three months ended December 31, 1997, revenues from the SSA Contract were \$0 as compared to \$22.5 million for the same period in 1996. Excluding the SSA Contract, Government Operations Group revenues increased 245.9% to \$27.8 million in the three months ended December 31, 1997 from \$8.1 million for the same period in 1996. This increase was due to a 58% increase in the number of contracts in the Child Support Enforcement, Managed Care, and Welfare Reform divisions of the Government Operations Group. Consulting Group revenues increased 28.0% to \$8.6 million for the three months

ended December 31, 1997 from \$6.7 million for the same period in 1996 due to an increase in the number of contracts.

Gross Profit. Gross profit consists of total revenues less cost of revenues. Total gross profit increased 17.5% to \$9.1 million for the three months ended December 31, 1997 as compared to \$7.7 million for the same period in 1996. Government Operations Group gross profit increased 7.1% to \$4.9 million for the three months ended December 31, 1997 from \$4.6 million for the three months ended December 31, 1996. As a percentage of revenues, Government Operations Group gross profit increased to 17.8% in the three months ended December 31, 1997 from 15.1% in the same period in 1996, primarily due to the absence of revenue from the SSA Contract in the December 1997 quarter, which contract had a lower gross profit margin than other contracts in the Group. The Consulting Group gross profit increased 32.8% to \$4.1 million for the three months ended December 31, 1997 from \$3.1 million for the same period in 1996 principally due to the increased revenues. As a percentage of revenues, Consulting Group gross profit increased to 48.0% for the three months ended December 31, 1997 from 46.3% for the same period in 1996.

Selling, General and Administrative Expenses. Total selling, general and administrative ("SG&A") expenses increased 32.4% to \$5.3 million for the three months ended December 31, 1997 as compared to \$4.0 million in the same period in 1996. As a percentage of revenues, selling, general and administrative expenses increased to 14.7% for the three months ended December 31, 1997 from 10.8% for the same period in 1996. This increase in costs was due to increases in both professional and administrative personnel necessary to support the Company's growth (a 58% increase in number of Government Operations Group contracts, see Revenues) and marketing and proposal preparation expenditures to pursue further growth.

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Provision for Income Taxes. Prior to the IPO, 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 tax returns. Accordingly, the Company was not subject to federal and most state income taxes during 1996 and the period to June 12, 1997. Upon completion of the IPO, the Company's S corporation status was terminated and the Company became subject to federal and state corporate income taxes.

The Company's income tax provision for the three months ended December 31, 1997 was \$1.7 million as compared to \$0.1 million for the three months ended December 31, 1996. The provision for income taxes for the three months ended December 31, 1996 consisted of state income taxes payable. The provision for income taxes for the three months ended December 31, 1997 consisted of state and federal income tax of \$1.7 million, which is based on an estimated annual income tax rate of 40%.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary source of liquidity is cash flows from operations. The Company's cash flows from operations for the three months ended December 31, 1997 was (\$3.9) million as compared to \$1.8 million for the three months ended December 31, 1996. The use of cash in operations for the three months ended December 31, 1997 was primarily due to the payment of income taxes totaling \$4.9 million and employee bonuses totaling \$2.9 million for the year ended September 30, 1997, which were paid October 1997.

Certain short-term investments were sold during the current quarterly period generating \$9.4 million in proceeds. These investments were sold to provide general operating capital and the necessary cash to make income tax payments and to pay the final S corporation distribution discussed below.

During the three months ended December 31, 1997, the Company made final S corporation distributions totaling \$5.7 million. The distributions to shareholders were based upon the income previously taxed to the S corporation shareholders and the fiscal 1997 income taxable to the S corporation shareholders. The amount of the fiscal 1997 taxable income was determined during the finalization of the Company's income for the full fiscal year ended September 30, 1997, and the liability for the \$5.7 million distribution was recognized on the September 30, 1997 balance sheet.

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 December 31, 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 December 31, 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 these transactions will be finalized during the next two fiscal quarters. It is not anticipated that these acquisitions will have a material effect on the liquidity of the Company.

Management believes that the Company will have sufficient resources to meet its cash needs over the next 12 months, which may include start-up costs associated with new contract awards, obtaining additional office space, establishing new offices, investment in upgraded systems infrastructure or acquisitions of other businesses and technologies. Cash requirements beyond the next 12 months depend on the Company's profitability, its ability to manage working capital requirements and its rate of growth.

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YEAR 2000

The Company is aware of the issues that many computer systems will face as the millennium ("Year 2000") approaches. The Company believes that its own internal software and hardware is Year 2000 compliant. In addition, in order to perform on its government contracts, the Company relies to varying extents on information processing performed by the governmental agencies and entities with which it contracts. The Company has inquired where necessary of such agencies and entities of potential Year 2000 problems, and, based on responses to such inquiries, management believes that the Company will be able to continue to perform on such contracts without material negative financial impact.

FORWARD LOOKING STATEMENTS

Statements that are not historical facts, including statements about the Company's confidence and strategies and the Company's expectations about future contracts, market opportunities, market demand or acceptance of the Company's products are forward looking statements that involve risks and uncertainties. These uncertainties include reliance on government clients; risks associated with government contracting; risks involved in managing government projects; legislative change and political developments; opposition from government unions; challenges resulting from growth; adverse publicity; and legal, economic and other risks detailed in Exhibit 99 to the Company's Quarterly Report on Form 10-Q for the period ended December 31, 1997.

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Part II. Other Information.

Item 1. 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 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 2.

(a) Changes in Securities.

Pursuant to the Company's 1997 Equity Incentive Plan, the Company granted to certain employees options to purchase an aggregate of 176,411 shares of Common Stock consisting of (a) options to purchase an aggregate of 166,411 shares granted to employees on October 28, 1997, at an exercise price per share of \$26.50 and (b) options to purchase an aggregate of 10,000 shares granted to new employees on the various hire dates of such employees during the three months ended December 31, 1997, at an exercise price equal to the closing price of the Company's Common Stock as reported on the New York Stock Exchange on the day prior to the commencement of employment. Generally, each of the foregoing options may be exercised on a cumulative basis with respect to one-fourth of the shares underlying the option on each of the first, second, third and fourth anniversaries of the date of grant. Each option expires upon the earlier of the termination of the holder's employment with the Company or the tenth anniversary of the date of grant. On December 11, 1997, pursuant to the Company's 1997 Director Stock Option Plan, the Company granted to two directors options to purchase 5,000 and 6,000 shares of Common Stock, respectively, at an exercise price per share of \$23.81. The former option became fully exercisable upon the date of grant, and the latter option became immediately exercisable with respect to 3,000 shares upon the date of grant and will become exercisable with respect to the remaining 3,000 shares on the date of the 1998 Annual Meeting of Shareholders of the Company provided that the option holder is still a director on such date. Both options expire on December 11, 2008.

No underwriter was engaged in connection with the foregoing issuance of securities. Such issuance was made in reliance upon the exemption for the registration requirements afforded by Section 4(2) of the Securities Act of 1933, as amended. The Company has reason to believe that all of the optionees were familiar with or had access to information concerning the operations and financial condition of the Company, and all of those individuals acquired their options for investment and not with a view to the distribution of such options or the underlying shares of Common Stock.

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(b) Use of Proceeds from Registered Securities.

A Registration Statement on Form S-1 (File No. 333-29115) registering 6,037,500 shares of the Company's Common Stock, filed in connection with the Company's IPO, was declared effective by the Securities and Exchange Commission on June 12, 1997. The IPO closed on June 18, 1997 and the offering has terminated.

The Company and its selling shareholders sold, in the aggregate, all 6,037,500 shares registered in the IPO, with an aggregate offering price to the public of \$96,600,000. The managing underwriters of the IPO were Donaldson, Lufkin & Jenrette Securities Corporation and Lehman Brothers Inc.

In connection with the IPO, the Company incurred total expenses from June 12, 1997 through December 31, 1997 of \$7,677,000, including underwriting discounts and commissions of \$6,762,000 and other expenses of \$915,000. After such expenses, the Company's net proceeds from the IPO were \$53,804,000. From June 12, 1997 through December 31, 1997, the amount of net offering proceeds used by the Company was as follows: \$10,138,000 for the payment of the S corporation distributions (which was paid to shareholders who were shareholders of the Company prior to the IPO, some of whom are directors and officers of the Company); and \$1,584,000 for general working capital, which included payment of income taxes, which were accelerated due to the conversion from a cash basis S corporation to an accrual basis C corporation as a result of the IPO.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits. The Exhibits filed as part of this Form 10-Q are listed

on the Exhibit Index immediately preceding such Exhibits, which Exhibit Index is incorporated herein by reference.

(b) Reports on Form 8-K. No reports were filed on Form 8-K during the quarter ended December 31, 1997.

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SIGNATURES

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

MAXIMUS, INC.

Date: February 13, 1998 By: /s/ F. Arthur Nerret

F. Arthur Nerret
Vice President, Finance, Chief Financial
Officer (Principal Financial Officer and
Principal Accounting Officer)

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EXHIBIT INDEX

<TABLE> <CAPTION> Exhibit No.	Description
- - - - -	- - - - -
<S> 11	<C> Computation of Earnings Per Share
27	Financial Data Schedules (EDGAR)
99	Important Factors Regarding Forward Looking Statements

</TABLE>

STATEMENT RE COMPUTATION OF NET INCOME PER SHARE
(In thousands, except per share data)

<TABLE>
<CAPTION>

Months December 31, 1997	Three Months Ended December 31,		Three Ended
	1996	1997	1996
-----	-----	-----	-----
<S>	<C>	<C>	<C>
<C>			
Historical net income.....			
\$2,593			
=====			
Pro forma net income.....			\$2,253
			=====
Shares used in computing net income per share:			
Weighted average shares outstanding for period.....			11,453
14,791			
Effect of options granted in January 1997:			
Options granted.....	401	401	
Options price.....	\$1.46	\$1.46	
	-----	-----	
Assumed proceeds.....	\$585	\$585	
Average market price.....	\$16.00	\$26.57	
	-----	-----	
Shares assumed repurchased.....	37	22	
	-----	-----	
Shares deemed outstanding.....	364	379	364
379			
Effect of options granted in June 1997:			
Options granted.....	31	31	
Option price.....	\$16.00	\$16.00	
	-----	-----	
Assumed proceeds.....	\$496	\$496	
Average market price per share.....	\$16.00	\$26.57	
	-----	-----	
Shares assumed repurchased.....	31	19	
	-----	-----	
Shares deemed outstanding.....	0	12	0
12			
Effect of distribution to stockholders:			
S Corporation Dividend.....	\$27,425		
Less: Net income for period from June 13, 1996 to June 12, 1997.....	15,954		

Dividend in excess of income.....	\$11,471		
Net IPO proceeds per share.....	\$14.66		

Shares deemed outstanding.....	783		783
0			
-----			-----
Shares used in computing diluted net income per share:.....			12,600
15,182			=====
=====			
Shares used in computing basic net income per share.....			
14,791			
=====			
Historical basic net income per share.....			
\$ 0.18			
=====			
Historical diluted net income per share.....			
\$ 0.17			
=====			
Pro forma diluted net income per share.....			\$ 0.18
			=====

</TABLE>

<TABLE> <S> <C>

<ARTICLE> 5

<S>	<C>
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<FISCAL-YEAR-END>	SEP-30-1998
<PERIOD-START>	OCT-01-1997
<PERIOD-END>	DEC-31-1997
<CASH>	10,579
<SECURITIES>	31,502
<RECEIVABLES>	33,920
<ALLOWANCES>	0
<INVENTORY>	0
<CURRENT-ASSETS>	83,424
<PP&E>	4,302
<DEPRECIATION>	(1,430)
<TOTAL-ASSETS>	87,452
<CURRENT-LIABILITIES>	18,719
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IMPORTANT FACTORS REGARDING FORWARD LOOKING STATEMENTS

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 informal 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.

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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 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 45% of the Company's total revenues for the quarter ended December 31, 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

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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 the first two quarters of the fiscal year ended September 30, 1997, the Company earned revenues of \$31.6 million from the SSA Contract, representing approximately 46% of the Company's total revenues for such fiscal quarters. 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 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.

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 entered into executive employment agreements with each of David V. Mastran, President and Chief Executive officer of 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 \$6,100,000 and \$3,950,000, respectively, with proceeds payable to the Company. Because the previous levels of insurance were established to fund stock redemption obligations of the Company that terminated upon the closing of the initial public offering in June 1997,

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the Company reduced the coverage levels from \$10,700,000 and \$7,250,000, respectively, in the quarter ended December 31, 1997.

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 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

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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 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.