

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, 1998

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 9, 1999 -----
Common Shares, No Par Value	20,243,863

MAXIMUS, INC.

QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED DECEMBER 31, 1998

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MAXIMUS, INC.
CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	SEPTEMBER 30, 1998 -----	DECEMBER 31, 1998 ----- (UNAUDITED) <C>
<S> ASSETS	<C>	<C>
Current assets:		
Cash and cash equivalents.....	\$ 19,400	\$ 18,943
Marketable securities.....	13,577	68,483
Accounts receivable, net.....	72,345	81,557
Costs and estimated earnings in excess of billings.....	5,924	6,579
Prepaid expenses and other current assets.....	1,166	1,288
	-----	-----
Total current assets.....	112,412	176,850
Property and equipment at cost:		
Land.....	662	662
Building and improvements.....	1,721	1,721
Office furniture and equipment.....	6,421	6,955
Leasehold improvements.....	214	215
	-----	-----
	9,018	9,553
Less: Accumulated depreciation and amortization.....	(4,504)	(4,751)
	-----	-----
Total property and equipment, net.....	4,514	4,802
Deferred income taxes.....	1,434	1,434
Other assets.....	2,183	2,058
	-----	-----
Total assets.....	\$120,543 =====	\$185,144 =====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 9,724	\$ 7,796
Accrued compensation and benefits.....	14,446	10,805
Billings in excess of costs and estimated earnings.....	10,316	11,534
Income taxes payable.....	3	2,358
Deferred income taxes.....	901	901
	-----	-----
Total current liabilities.....	35,390	33,394
Long-term debt, less current portion.....	454	454
Total liabilities.....	35,844	33,848
Contingencies		
Shareholders' equity:		
Common stock, no par value; 30,000,000 shares authorized; 18,225,390 and 20,237,832 shares issued and outstanding at September 30, 1998 and December 31, 1998, at stated amount.....	66,535	127,652
Retained earnings.....	18,164	23,644
	-----	-----
Total shareholders' equity.....	84,699	151,296
	-----	-----
Total liabilities and shareholders' equity.....	\$120,543	\$185,144

</TABLE>

See notes to consolidated financial statements.

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

<TABLE>
<CAPTION>

	THREE MONTHS ENDED DECEMBER 31,	
	1997	1998
	-----	-----
<S>	<C>	<C>
Revenues.....	\$47,647	\$70,175
Cost of revenues.....	35,452	50,499
	-----	-----
Gross profit.....	12,195	19,676
Selling, general and administrative expenses.....	8,172	10,929
Deferred compensation and ESOP.....	467	-
	-----	-----
Income from operations.....	3,556	8,747
Interest and other income.....	527	386
	-----	-----
Income before income taxes.....	4,083	9,133
Provision for income taxes.....	1,592	3,653
	-----	-----
Net income.....	\$ 2,491	\$ 5,480
	=====	=====
Earnings per share:		
Basic.....	\$.16	\$.30
	=====	=====
Diluted.....	\$.15	\$.29
	=====	=====
Shares used in computing basic net income per share.....	15,992	18,576
	=====	=====
Shares used in computing diluted net income per share	16,383	19,046
	=====	=====

</TABLE>

See notes to consolidated financial statements.

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

<TABLE>
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	THREE MONTHS ENDED DECEMBER 31,	
	1997	1998
	-----	-----
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		

Net income.....	\$2,491	\$5,480
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization.....	335	573
Change in assets and liabilities:		
Accounts receivable, net.....	(91)	(9,078)
Costs and estimated earnings in excess of billings.....	(941)	(655)
Prepaid expenses and other current assets.....	391	(122)
Other assets.....	84	32
Accounts payable.....	619	(1,943)
Accrued compensation and benefits.....	(1,496)	(3,641)
Billings in excess of costs and estimated earnings.....	(1,856)	1,217
Income taxes payable.....	(3,385)	2,355
Other assets and liabilities	642	15
	-----	-----
Net cash used in operating activities.....	(3,207)	(5,767)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of business assets.....	-	(707)
Purchase of property and equipment.....	(203)	(194)
Sale (purchase) of marketable securities.....	9,367	(54,906)
	-----	-----
Net cash provided (used in) by investing activities.....	9,164	(55,807)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from secondary offering, net of expenses.....	(5,748)	-
S Corporation distributions.....	-	107
Common stock issued.....	(102)	-
Payment for purchase of redeemable common stock.....		
Net (payments) proceeds from borrowings.....	(955)	-
	-----	-----
Net cash (used in) provided by financing activities.....	(6,805)	61,117
	-----	-----
Net decrease in cash and cash equivalents.....	(848)	(457)
Cash and cash equivalents, beginning of period.....	11,467	19,400
	-----	-----
Cash and cash equivalents, end of period.....	\$10,619	\$18,943
	=====	=====

</TABLE>

See notes to consolidated financial statements.

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MAXIMUS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIODS ENDED DECEMBER 31, 1998 AND 1997

1. ORGANIZATION AND BASIS OF PRESENTATION

The accompanying unaudited consolidated 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, 1998 are 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, 1997 and 1998 and for each of the three years in the period ended September 30, 1998, included in the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission.

2. SECONDARY PUBLIC OFFERING

The Company completed a secondary public offering ("secondary") of Common Stock during December 1998. Of the 4,200,000 shares of Common Stock sold in the secondary, 2,200,000 shares were sold by selling shareholders and 2,000,000 shares were sold by MAXIMUS, Inc. generating \$61,010,000 in proceeds to the Company, net of offering expenses.

3. BUSINESS COMBINATIONS

On May 12, 1998, the Company issued 1,166,179 shares of its common stock in exchange for all of the outstanding common stock of David M. Griffith and Associates, Ltd. ("DMG"). This merger was accounted for as a pooling of interests and accordingly, the Company's financial statements, including earnings per share, have been restated for all periods presented to include the financial position and results of operations of DMG.

On December 1, 1998, the Company acquired certain assets consisting primarily of computer equipment and office furniture from Interactive Web Systems, Inc. for \$707,000. In conjunction with this transaction, the company recorded intangibles assets of \$150,000.

4. 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

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have a material adverse effect on the Company's financial condition or results of operations, and it intends to vigorously defend this action.

In January 1997, a lawsuit was filed against a number of defendants, including DMG, by a purchaser of municipal bonds. DMG had prepared two reports rendering an opinion on the anticipated debt service coverage of the revenue bonds for the first five years of operation of the sewer project by Superstition Mountain Community Facilities District No. 1 (the "District"). The District was unable to meet its debt service obligations and filed bankruptcy. The purchaser of the Revenue Bonds, Allstate Insurance company, has sued a number of defendants, including DMG, for damages of \$32.1 million which is the face value of the revenue bonds, plus interest. The District also filed a lawsuit against DMG seeking damages, which suit has been consolidated with the purchaser's action. DMG intends to vigorously defend against these claims. However, given the early stage of litigation, legal counsel is unable to express an opinion concerning the ultimate resolution of either case or DMG's liability, if any, in connection therewith.

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.

5. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

<TABLE>
<CAPTION>

Three Months

	Ended December 31,	
	1997	1998

	(Thousands)	
<S>	<C>	<C>
Numerator:		
Net income.....	\$2,491	\$5,480
Denominator:		
Denominator for basic earnings per share:		
Weighted average shares outstanding.....	15,992	18,576
	-----	-----
Stock Options.....	391	470
	-----	-----
Denominator for diluted earnings per share.....	16,383	19,046
	=====	=====

</TABLE>

6. SUBSEQUENT EVENT

In December 1998 the Company entered into an agreement to purchase an office building consisting of approximately 60,000 square feet of office space for \$8 million. In January, 1999 the Company concluded the transaction and paid the seller in cash.

7. SEGMENT INFORMATION (QUARTER ENDED DECEMBER 31,)

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

<TABLE>			
<CAPTION>	Revenues:	1997	1998
		----	----
<S>		<C>	<C>
	Government Operations.....	27,772	38,817
	Consulting.....	19,875	31,358

</TABLE>

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<TABLE>			
<CAPTION>	Income From Operations:	1997	1998
		----	----
<S>		<C>	<C>
	Government Operations.....	1,575	2,568
	Consulting.....	1,981	6,179

</TABLE>

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.

RESULTS OF OPERATIONS

THREE MONTHS ENDED DECEMBER 31, 1998 COMPARED TO THREE MONTHS ENDED DECEMBER 31, 1997

Revenues. Total contract revenues increased 47.3% to \$70.2 million for the three months ended December 31, 1998 as compared to \$47.7 million for the same period in 1997. Government Operations Group revenues increased 39.8% to \$38.8 million for the three months ended December 31, 1998 from \$27.8 million for the same period in 1997. This increase was due to an increase in the number of contracts in all four divisions in the Government Operations Group. Consulting Group revenues increased 57.8% to \$31.4 million for the three months ended December 31, 1998 from \$19.9 million for the same period in 1997. Of the \$11.5 million increased revenue, \$10.0 million was from companies which combined with the Company

during fiscal year 1998 in transactions accounted for as immaterial poolings of interests

Gross Profit. Gross profit consists of total revenues less cost of revenues. Total gross profit increased 61.3% to \$19.7 million for the three months ended December 31, 1998 as compared to \$12.2 million for the same period in 1997. Government Operations Group gross profit increased 35.5% to \$6.7 million for the three months ended December 31, 1998 from \$4.9 million for the three months ended December 31, 1997. As a percentage of revenues, Government Operations Group gross profit decreased to 17.2% for the three months ended December 31, 1998 from 17.8% for the same period in 1997. The decrease was due to anticipated lower gross profit margins on certain Managed Care contracts. The Consulting Group gross profit increased 78.9% to \$13.0 million for the three months ended December 31, 1998 from \$7.3 million for the same period in 1997 due to the increased revenues and an increased gross profit percentage. As a percentage of revenues, Consulting Group gross profit increased to 41.4% for the three months ended December 31, 1998 from 36.5% for the same period in 1997, due primarily to an improved margin in the DMG division.

Selling, General and Administrative Expenses. Total selling, general and administrative ("SG&A") expenses increased 33.7% to \$10.9 million for the three months ended December 31, 1998 as compared to \$8.2 million for the same period in 1997. The increase in SG&A costs was due to the increased size of the Company, both in terms of revenue growth and the number of employees, which increased from 2,100 at December 31, 1997 to 2,900 at December 31, 1998. As a percentage of revenues, SG&A expenses decreased to 15.6% for the three months ended December 31, 1998 from 17.2% for the same period in 1997, reflecting some economy of scale.

Deferred Compensation and ESOP Expense. DMG, with which the Company merged in May 1998, had deferred compensation and employee stock option (ESOP) plans which were terminated after the merger. Therefore, no expense for those plans was incurred during the three months ended December 31, 1998.

Interest and Other Income. The decrease in interest and other income to \$0.4 million for the three months ended December 31, 1998 as compared to \$0.5 million for the same period in 1997 was due to the decrease in the average

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invested funds. The decrease can be attributed to the use of cash to grow the business, both internally and through acquisitions.

Provision for Income Taxes. The provision for income tax for the three months ended December 31, 1998 was 40.0% of income before income taxes as compared to 39.0% for the three months ended December 31, 1997. The difference in percentages was due to differences in the amounts of certain expense items which are not deductible for tax purposes between the two time periods.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash used in operations for the three months ended December 31, 1998 was \$5.9 million as compared to \$3.2 million cash used in operations for the three months ended December 31, 1997. The principal reason for the use of cash in operations for the three months ended December 31, 1998 was the increase in accounts receivable from \$72.3 million at September 30, 1998 to \$81.6 million at December 31, 1998. This increase of \$9.2 million was due primarily to increases in receivables of \$4.8 million related to three large contracts which were in the first months of performance, and a general slowness in payment on amounts totaling \$4.4 million by customers on ten other mid-to large-sized contracts. \$7.8 million of the increased receivables has been collected as of February 10, 1999, and the Company expects to collect the remainder in the near future.

Of the \$61.0 million of proceeds (net of expenses) from the secondary offering, the Company purchased marketable securities totaling \$54.9 million and the remainder, \$6.1 million, was invested in cash equivalents at the Company's bank to provide general funding for operations.

In December 1998 the Company entered into an agreement to purchase an office building consisting of approximately 60,000 square feet of office space for \$8 million. In January, 1999 the Company concluded the transaction and paid the seller in cash.

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 \$0.3 million at December 31, 1998. 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 for the three months ended December 31, 1998 and 1997. At December 31, 1998, the Company had \$9.7 million available under the Credit Facility.

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 will depend on the Company's profitability, its ability to manage working capital requirements and its rate of growth.

YEAR 2000

The Company is aware of the issues that many computer, telecommunication and other infrastructure systems will face as the millennium ("Year 2000") approaches. The Company is auditing its internal software and hardware and is implementing corrective actions where necessary to address Year 2000 problems. The Company is also currently reviewing the software and hardware, and implementing corrective actions where necessary, of DMG, Carrera Consulting Group, Spectrum Consulting Group and Phoenix Planning and Evaluation, all divisions which resulted from business combinations completed during 1998. The Company will continue to assess the need for Year 2000 contingency plans as its remediation efforts progress. The Company estimates that its remediation efforts will be completed by July 31, 1999. The Company does not believe that the cost of its remediation efforts will be material or that these efforts will have a material impact on its operations or financial results. However, there can be no assurance that those costs will not be greater than anticipated, or that corrective actions undertaken will be completed before any Year 2000 problems could occur.

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The Company also provides assistance in assessing, evaluating, testing and certifying government client systems affected by Year 2000 problems, as well as quality assurance monitoring of Year 2000 compliance conversions performed for clients by third parties. Although the Company has attempted to contract to provide such services in a manner that will minimize its liability for system failures, there can be no assurance that the Company would not become subject to legal proceedings which, if resolved in a manner adverse to the Company, could have a material adverse effect on its financial condition.

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 inquires, management believes that the Company would be able to continue to perform on such contracts without material negative financial impact. However, the Company cannot be certain that Year 2000 related systems failures in the information systems of clients will not occur and, if such failures occur, that they will not interfere with the Company's ability to properly manage a contracted project and result in a material adverse effect on the Company's business, financial condition and results of operations.

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; risks related to possible acquisitions; opposition from government employee unions; reliance on key executives; impact of competition from similar companies; and legal, economic and other risks detailed in Exhibit 99 to this Quarterly Report on Form 10-Q for the period ended December 31, 1998.

Part II. Other Information.

Item 2. 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's net proceeds from the IPO were \$53,804,000. Cumulatively through September 30, 1998, the Company used \$22,422,000 of the net proceeds, which was reported in previous Form 10-Q's and 10-K's filed with the SEC. During the quarter ended December 31, 1998, the Company used \$17,378,000 of the net proceeds from the IPO. Of that amount, \$2,436,000 was payment on three Managed Care contracts purchased from another company in February 1998, \$1,314,000 was merger related expenses incurred in connection with business combinations and \$557,000 was the purchase price for certain assets purchased from Interactive Web Systems, Inc., both discussed in the footnotes to the financial statements contained in this Form 10-Q, and \$13,071,000 was used to provide general operating capital.

Item 5. Other Information

The Company's 1999 Proxy Statement for the Annual Meeting of Shareholders, dated December 30, 1998 (the "Proxy Statement") was first mailed to shareholders on December 31, 1998. Accordingly, notwithstanding anything to the contrary in the Proxy Statement, proposals of shareholders intended to be presented at the 2000 Annual Meeting of Shareholders must be received by the Company at its principal office at 1356 Beverly Road, McLean, Virginia 22101, Attention: Secretary, not later than September 2, 1999 for inclusion in the proxy statement for that meeting. Furthermore, if a shareholder proposal to be considered at the 2000 Annual Meeting of Shareholders is not received by the Company by November 16, 1999, then the management proxies will be permitted to use their discretionary voting authority when such proposal is raised at the annual meeting, without advising the shareholders of the matter in the Proxy Statement.

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, 1998.

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 12, 1999 By: /s/ F. Arthur Nerret

F. Arthur Nerret
Vice President, Finance, Chief Financial Officer
(Principal Financial Officer, Principal Accounting
Officer and duly authorized officer of the
Registrant)

EXHIBIT INDEX

<TABLE> <CAPTION> Exhibit No. -----	Description -----
<S> 27	<C> Financial Data Schedules (EDGAR)
99 </TABLE>	Important Factors Regarding Forward Looking Statements

<TABLE> <S> <C>

<ARTICLE> 5

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</TABLE>

IMPORTANT FACTORS REGARDING FORWARD LOOKING STATEMENTS

February 1999

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 our clients are state or local government authorities. To market our services to government clients, we are largely required to respond to government requests for proposals ("RFPs"). To do so effectively, we must estimate accurately our cost structure for servicing a proposed contract, the time required to establish operations and likely terms of the proposals submitted by competitors. We must also assemble and submit a large volume of information within a RFP's rigid timetable. Our ability to respond successfully to RFPs will greatly impact our business, and we cannot guarantee that we will be awarded contracts through the RFP process or that our proposals will result in profitable contracts.

RISKS ASSOCIATED WITH GOVERNMENT CONTRACTING

Early Termination of Contracts. Many of our government contracts contain base periods of one or more years, as well as option periods covering more than half of the contract's potential duration. Government agencies generally have the right not to exercise these option periods. A decision not to exercise option periods could impact the profitability of some of our contracts. Our contracts typically also contain provisions permitting a government client to terminate the contract on short notice, with or without cause. The unexpected termination of one or more significant contracts could result in significant revenue shortfalls. The natural expiration of especially large contracts can also present management challenges. If revenue shortfalls occur and are not offset by corresponding reductions in expenses, our business could be adversely affected. We cannot be certain if, when or to what extent a client might terminate any or all of its contracts with us.

Contracts Subject to Audit. The Defense Contract Audit Agency ("DCAA"), and certain other government agencies, have the authority to audit and investigate any government contracts. These agencies review a contractor's performance on its contract, its pricing practices, its cost structure and

its compliance with applicable laws, regulations and standards. Any costs found to be improperly allocated to a specific contract will not be reimbursed, while costs already reimbursed must be refunded. Therefore, a DCAA audit could result in a substantial adjustment to our revenue. No material adjustments resulted from audits completed through 1993, and we believe that adjustments resulting from subsequent audits will not adversely affect our business. If a government audit uncovers improper or illegal activities, a contractor may be subject to 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.

Discouragement of Revenue Consulting by Federal Officials. To avoid higher than anticipated demands for federal funds, federal government officials occasionally discourage state and local authorities from engaging private consultants to advise them on maximizing federal revenues. We cannot be certain that state and local officials will not be dissuaded from engaging us for revenue maximization services.

Relationships with Political Consultants. We occasionally engage marketing consultants, including lobbyists, to establish and maintain relationships with elected officials and appointed members of government agencies. The effectiveness of these consultants may be reduced or eliminated if a significant political change occurs. Implementation of term limits for certain elected officials, for instance, would require us to confront political change on a more regular basis. Because we cannot be certain that we will successfully manage our relationships with political consultants, our business may be adversely affected.

RISKS INVOLVED IN MANAGING GOVERNMENT PROJECTS

Risk of Fixed-Price and Performance-Based Contracts. We derived approximately 18% of our fiscal 1998 revenues from fixed-price contracts and approximately 46% of our fiscal 1998 revenues from performance-based contracts. For fixed-price contracts, we receive our fee if we meet specified objectives or achieve certain units of work. Those objectives might include placing a certain number of welfare recipients into jobs, collecting target amounts of child support payments, or completing a particular number of managed care enrollments. For performance-based contracts, we receive our fee on a per-transaction basis. Such contracts include, for example, child support enforcement contracts, in which we often receive a fee based on the amount of child support collected. To earn a profit on these contracts, we rely upon accurately estimating costs involved and assessing the probability of meeting the specified objectives, realizing the expected units of work, or completing individual transactions, within the contracted time period. We recognize revenues on these contracts on a "costs incurred" method. Therefore, we review these contracts quarterly and adjust revenues to reflect our current expectations. These adjustments affect the timing and amount of revenue recognized and could adversely affect our financial results. If we fail to estimate accurately the factors upon which we base our contract pricing, then we may have to report a decrease in revenues or incur losses on these contracts.

Failure to Meet Contract Performance Standards. Our inability to satisfy adequately our contractual obligations could adversely affect our financial condition. Our contracts often require us to indemnify clients for our failures to meet certain performance standards. Some contracts contain liquidated damages provisions and financial penalties related to performance failures. In addition, in order for our Government Operations Group to bid on certain contracts, we are required to secure our indemnification obligations by posting a cash performance bond or obtaining a letter of credit. If a claim is made against a performance bond or letter of credit, the issuer of the bond could demand higher premiums. Increased bond premiums would adversely affect our earnings and could limit our ability to bid for future contracts. In addition, a failure to meet our client's expectations when performing on a contract could materially and adversely affect our reputation, which, in turn, would impact our ability to compete for new contracts.

Termination of Large Contracts. Upon termination or expiration of a contract between our Government Operations Group and a state or local government, we have to evaluate whether, and in what capacity, we can continue employing persons that formerly serviced the contract. Unless we enter into a new contract using those same employees or otherwise re-assign them, their employment must be terminated. The reassignment or termination of a large number of employees makes significant demands on our management and administrative resources.

prepare bids in response to RFPs, we rely in part on establishing and maintaining relationships with officials of various government entities and agencies. These relationships enable us to provide informal input and advice to the government entities and agencies prior to the development of an RFP. Because we cannot be certain that we will successfully manage our relationships with government entities and agencies, our business may be adversely affected.

Significant Start Up Costs. When we are awarded a contract to manage a government program, our Government Operations Group can incur significant start-up expenses before we receive any contract payments. These expenses include leasing office space, purchasing office equipment and hiring personnel. As a result, in certain large contracts where the government does not fund program start-up costs, we are required to invest significant sums of money prior to receiving related contract payments.

LEGISLATIVE CHANGE AND POLITICAL DEVELOPMENTS

Dependence on Legislative Programs. The market for our services is dependent largely on federal and state legislative programs. These programs can be modified or amended at any time by acts of federal and state governments. For example, in 1996 Congress amended the Social Security Act to eliminate social security and supplemental income benefit payments based solely on drug and alcohol disabilities. That amendment resulted in the termination of our substantial contract with the federal Social Security Administration, which related to the referral and monitoring of the treatment of recipients of these benefits. Future legislative changes that we do not anticipate or respond to effectively could occur and adversely affect our business.

Dependence on Welfare Reform Act. We expect that the Welfare Reform Act and other federal and state initiatives will continue to encourage long-term changes in the nation's welfare system. Part of our growth strategy includes aggressively pursuing these opportunities by seeking new contracts to administer and new health and welfare programs to manage. However, there are many opponents of welfare reform. As a result, future progress in the area of welfare reform is uncertain. The repeal of the Welfare Reform Act, in whole or in part, could adversely affect our business. Also, we cannot be certain that additional reforms will be proposed or enacted, or that previously enacted reforms will not be challenged, repealed or invalidated.

Restrictions on Privatization. Under current law, in order to privatize certain functions of government programs, the federal government must grant a consent and/or waiver to the petitioning state or local agency. For example, in May 1997 the Department of Health and Human Services refused to grant a waiver to the State of Texas permitting private corporations, rather than public employees, to decide eligibility of applicants for Food Stamps and Medicaid benefits. Although MAXIMUS did not bid on the Texas projects, we may face similar obstacles in pursuing future health and human services contracts.

RISKS OF ACQUISITION STRATEGY; RISKS OF COMPLETED ACQUISITIONS

Our business strategy includes expanding our operations, breadth of service offerings and geographic scope by acquiring or combining with related businesses. To date, we have combined with four consulting firms and are still in the process of integrating their operations. We cannot be certain that we will be able to continue to identify, acquire and manage additional businesses profitably or integrate them successfully without incurring substantial expenses, delays or other problems. Furthermore, business combinations may involve special risks, including:

- - Diversion of management's attention
- - Loss of key personnel
- - Assumption of unanticipated legal liabilities
- - Amortization of acquired intangible assets
- - Dilution to our earnings per share

Also, client dissatisfaction or performance problems at an acquired firm could materially and adversely affect our reputation as a whole. Furthermore, we cannot be certain that acquired businesses will achieve anticipated revenues and earnings.

CHALLENGES RESULTING FROM GROWTH

Sustaining growth has placed significant demands on management as well as on our administrative, operational and financial resources. To manage our growth, we must continue to improve our operational, financial and management information systems and expand, motivate and manage our workforce. However, our growth and management of large-scale health and human services programs must not come at the expense of providing quality service and generating reasonable profits. We cannot be certain that we will continue to experience growth or successfully manage it.

OPPOSITION FROM GOVERNMENT UNIONS

Our success derives in part from our ability to win profitable contracts to administer and manage health and human services programs traditionally administered by government employees. Government employees, however, typically belong to labor unions with considerable financial resources and lobbying networks. Unions are likely to continue to apply political pressure on legislators and other officials seeking to outsource government programs. For example, union lobbying was instrumental in influencing the Department of Health and Human Services to deny a petition to allow private corporations to make Food Stamp and Medicaid eligibility determinations in Texas. Union opposition may slow welfare reform and result in fewer opportunities for MAXIMUS to service government agencies.

RELIANCE ON KEY EXECUTIVES

The abilities of our executive officers, including David V. Mastran and Raymond B. Ruddy, and our senior managers to generate business and execute projects successfully is important to our success. While we have employment agreements with certain of our executive officers, these agreements are terminable under certain conditions. The loss of a key executive could impair our ability to secure and manage engagements. To limit some of this risk, we have obtained key-man life insurance policies on Dr. Mastran and Mr. Ruddy in the amounts of \$6,100,000 and \$3,950,000, respectively.

ATTRACTION AND RETENTION OF EMPLOYEES

Delivery of the services provided by MAXIMUS is labor-intensive. When we are awarded a government contract, we must quickly hire project leaders and case management personnel. The additional staff also creates a concurrent demand for increased administrative personnel. The success of our Government Operations Group and Consulting Group requires that we 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
- - Information technology professionals who have designed or implemented complex information technology projects

Innovative, experienced and technically proficient individuals are in great demand and are likely to remain a limited resource. We cannot be certain that we can continue to attract and retain desirable executive officers and senior managers. A failure to hire sufficient personnel on a timely basis could adversely affect our business. The loss of significant numbers of executive officers and senior managers could produce similar adverse consequences.

COMPETITORS; EFFECTS OF COMPETITION

Intensification of Competition. Competition to provide certain program management and consulting services to state and local government agencies has intensified. Our Government Operations Group competes for program management contracts with the following:

- - Local non-profit organizations such as the United Way and Goodwill Industries
- - Government services divisions of large organizations such as Andersen Consulting, Lockheed Martin Corporation and Electronic Data Systems, Inc.
- - Specialized service providers such as America Works, Inc., Policy Studies Incorporated, and Benova, Inc.

MAXIMUS's Consulting Group competes with:

- - The consulting divisions of the "Big 5" accounting firms
- - Electronic Data Systems, Inc.

Many of these companies are national and international in scope and have greater resources than MAXIMUS. Substantial resources could enable certain competitors to initiate severe price cuts or take other measures in an effort to gain market share. In addition, we may be unable to compete for a limited number of large contracts because we may be not able to meet an RFP's requirement to obtain and post large cash performance bonds. Also, in certain geographic areas, we face competition from smaller consulting firms with established reputations and political relationships. We cannot be certain that we will compete successfully against our existing or any new competitors.

Competition from Former Employees. In addition to competition from existing competitors, we may experience competition from former employees. Although MAXIMUS has entered into non-competition agreements with some of its senior level employees, we cannot be certain that a court would enforce these contracts. Competition by former employees could adversely affect our business.

ADVERSE PUBLICITY

The nature of our contracts with state and local government authorities frequently generates media attention. In particular, our management of health and human services programs and revenue maximization services have occasionally received negative media coverage. This negative coverage could influence government officials and slow the pace of welfare reform. The media also focuses its attention on the activities of political consultants engaged by us, even when their activities are unrelated to our business. MAXIMUS may be subject to adverse media attention relating to the activities of individuals who are not under its control. In addition, we cannot assure that the media will accurately cover our activities or that MAXIMUS will be able to anticipate and respond in a timely manner to all media contacts. Inaccurate or misleading media coverage or our failure to manage adverse coverage could adversely affect our reputation.

LITIGATION

DMG Litigation. On May 12, 1998, we acquired DMG. DMG is currently defending against a lawsuit arising out of consultation services provided to underwriters of revenue bonds issued by Superstition Mountains Community Facilities District No. 1 (the "District") in 1994. The bonds were issued to finance construction of a water waste treatment plant in Arizona. However, the District was unable to service the bonds and eventually declared bankruptcy. The District voluntarily came out of bankruptcy and is currently operating under a forbearance agreement with the sole purchaser of the bonds, Allstate Insurance Company ("Allstate"). A consolidated action arising out of these events is pending in the U.S. District Court for the District of Arizona against DMG and thirteen other named defendants. The parties making claims against DMG in the lawsuit, Allstate and the District, allege that DMG made false and misleading representations in the reports DMG prepared included among the exhibits to the bond offering memoranda. DMG's reports concerned the accuracy of certain financial projections made by the District regarding its ability to service the bonds. Allstate seeks as damages \$32.1 million, the principal amount of bonds it purchased together with accrued and unpaid interest; the District seeks actual and special damages, prejudgment interest and costs. MAXIMUS intends to defend against these claims vigorously. However, given the preliminary stage of this litigation, we cannot assure that we will be successful in defending this lawsuit.

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Suit by Former Officer. We are currently defending a lawsuit brought by a former officer, director and shareholder of MAXIMUS alleging that, at the time he resigned from the Company in 1996 and became obligated to sell his MAXIMUS shares back to the Company, we failed to disclose to him material information regarding the potential value of his MAXIMUS shares. The former officer seeks damages in excess of \$10 million. We do not believe that this claim has merit and intend to oppose it vigorously. However, given the early stage of this litigation, we cannot assure that we will be successful in our defense.

Suit by Network Six. We are currently defending a lawsuit that was commenced against MAXIMUS and other parties by Network Six, Inc. ("Network Six"). MAXIMUS had been engaged by the State of Hawaii to monitor the implementation of a statewide automated child support system being performed by Network Six. Network Six alleges that we tortiously interfered with and abetted Hawaii in the alleged breach of its contract with Hawaii. We believe that Network Six's claims are without merit and intend to defend this action vigorously. We do not believe that this action will have a material adverse effect on our financial condition or results of operations. Because this action is in the early stages of discovery, we cannot assure that we will be successful in defending this lawsuit.

VARIABILITY OF QUARTERLY OPERATING RESULTS

A number of factors cause our revenues and operating results to vary from quarter to quarter. These factors include:

- - The progress of contracts
- - The 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 awarded contracts
- - The reactions of the market to announcements of potential acquisitions
- - General economic conditions

Changes in the volume of activity and the number of contracts commenced or completed during any quarter may cause significant variations in our operating results because a relatively large amount of our expenses are fixed. Furthermore, on occasion we incur greater operating expenses during the start-up and early stages of significant contracts.

CONCENTRATION OF OWNERSHIP BY PRINCIPAL SHAREHOLDERS

Our executive officers own beneficially 43.3% of MAXIMUS's common stock. Certain executive officers, who hold approximately 35.9% of the outstanding shares, have agreed to hold their shares until June 2001, subject to certain exceptions. In addition, Mr. Ruddy has agreed to vote his shares of common stock in a manner instructed by Dr. Mastran until September 30, 2001. Together, Dr. Mastran and Mr. Ruddy hold approximately 33.6% of MAXIMUS's common stock. As a result, these officers can exercise significant influence over the outcome of matters requiring a shareholder vote, including the election of the board of directors. This significant influence could delay or prevent a change in control of MAXIMUS, which could adversely affect the market price of our common stock.

POSSIBLE VOLATILITY OF STOCK PRICE

MAXIMUS issued common stock on June 13, 1997 at \$16.00 per share upon the closing of its initial public offering (the "IPO"). Between June 13, 1997 and February 5, 1999, the closing sale price has ranged from a high of

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\$41.50 per share to a low of \$17.00 per share. The market price of our common stock could continue to fluctuate substantially due to a variety of factors, including:

- - Quarterly fluctuations in results of operations
- - The failure to be awarded a significant contract on which we have bid
- - The termination by a government client of a material contract
- - The announcement of new services by competitors
- - Acquisitions and mergers
- - Political and legislative developments adverse to the privatization of government services

- - Changes in earnings estimates by securities analysts
- - Changes in accounting principles
- - Sales of common stock by existing shareholders
- - Negative publicity
- - Loss of key personnel

Our ability to meet securities analysts' quarterly expectations may also influence the market price of our common stock. In addition, overall volatility has often significantly affected the market prices of securities for reasons unrelated to a company's operating performance. In the past, securities class action litigation has often been commenced against companies that have experienced periods of volatility in the price of their stock. Securities litigation initiated against MAXIMUS could cause us to incur substantial costs and could lead to the diversion of management's attention and resources.

CERTAIN ANTI-TAKEOVER EFFECTS

Virginia law and our Articles of Incorporation and By-Laws include provisions that may be deemed to have anti-takeover effects. These provisions may delay, deter or prevent a takeover attempt that shareholders might consider desirable. Directors of MAXIMUS are divided into three classes and are elected to serve staggered three-year terms. This structure could impede or discourage an attempt to obtain control of the Company. Shareholders of MAXIMUS do not possess the power to take any action in writing without a meeting. In addition, Virginia law imposes certain limitations and special voting requirements on affiliated transactions. Furthermore, Virginia law denies voting rights to shares acquired in control share acquisitions, unless granted by a shareholder vote.

RISKS ASSOCIATED WITH YEAR 2000 COMPLIANCE

Internal Year 2000 Compliance. MAXIMUS is auditing its internal software and hardware and the systems of its acquired companies for Year 2000 compliance and is implementing corrective actions, where necessary, to address computer, telecommunication and other infrastructure system problems associated with the Year 2000. The MAXSTAR case management software used in all our major projects has been upgraded to be Year 2000 compliant. All MAXSTAR-based applications must also be reviewed and upgraded, where necessary, which is now scheduled to be completed by July 31, 1999. Our telephone systems must also be Year 2000 compliant, which is also scheduled for completion by July 31, 1999. We will continue to implement whatever remedial actions are necessary to make us Year 2000 compliant. We do not believe that remedial measures taken to correct any Year 2000 problems will materially impact our operations or financial results. However, if our remediation plans do not succeed, then we may experience adverse effects on our business. Furthermore, we cannot assure that the costs of remediation will not exceed our current estimates, or that our corrective actions will be completed before any Year 2000 problems occur.

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Services Provided by MAXIMUS Affecting Clients' Year 2000 Compliance. MAXIMUS assists in assessing, evaluating, testing and certifying government client systems affected by Year 2000 problems. In addition, we provide quality assurance of Year 2000 compliance conversions performed by third parties for our clients. Although MAXIMUS has attempted to minimize its liability for potential clients' system failures, we cannot assure that we will not become subject to legal action if a client sustains Year 2000 problems. If such legal action is brought and resolved against us, we could suffer adverse effects on our business.

Reliance on Vendors' and Clients' Year 2000 Compliance. In order to perform our government contracts, we rely to varying extents on information processing performed by vendors, governmental agencies and entities with which we contract. We have inquired about these parties' potential Year 2000 problems where necessary. Based on responses to these inquiries, our management believes that we would be able to continue to perform contracts without experiencing material negative financial impact. However, we cannot assure that Year 2000 related failures in the information systems of vendors or clients will not occur. Any system failures could interfere with our ability to properly manage contracted projects and could adversely affect our business.

UNCERTAINTIES RELATED TO INTERNATIONAL OPERATIONS

Most of our international operations are currently paid for by the World Bank and the U.S. Agency for International Development in U.S. dollars. However, as we expand our operations into developing countries we may encounter a number of additional risks. The risks to our potential expected international revenues include:

- - Adverse currency exchange rate fluctuations
- - Inability to collect receivables
- - Difficulty in enforcing contract terms through a foreign country's legal system

Foreign countries could also impose tariffs, impose additional withholding taxes or otherwise tax our foreign income.