
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): **May 8, 2008**

MAXIMUS, INC.

(Exact name of registrant as specified in its charter)

Virginia

(State or other jurisdiction of incorporation)

1-12997

(Commission File Number)

54-1000588

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

**11419 Sunset Hills Road,
Reston, Virginia**

(Address of principal executive offices)

20190-5207
(Zip Code)

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

Not Applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-
-

Item 2.02 Results of Operations and Financial Condition.

On May 8, 2008, the Company issued a press release announcing its financial results for the quarter ended March 31, 2008. The full text of the press release is furnished as Exhibit 99.1 to this Current Report on Form 8-K and incorporated by reference into this Item 2.02.

On May 8, 2008, the Company held a conference call with respect to these financial results. The conference call was open to the public. The transcript and slide presentation that accompanied the call are furnished as Exhibit 99.2 to this Current Report on Form 8-K and incorporated by reference into this Item 2.02.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits. The following exhibits are being furnished pursuant to Item 2.02 above.

Exhibit No.	Description
99.1	Press release dated May 8, 2008
99.2	Conference call transcript and slide presentation for Earnings Call – May 8, 2008

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 hereunto duly authorized.

MAXIMUS, Inc.

Date: May 13, 2008

By: /s/ David R. Francis

David R. Francis
General Counsel and Secretary

EXHIBIT INDEX

Exhibit No.	Description
99.1	Press release dated May 8, 2008
99.2	Conference call transcript and slide presentation for Earnings Call – May 8, 2008

MAXIMUS REPORTS SECOND QUARTER RESULTS**– Reports Record Revenue of \$210.6 million, Diluted EPS of \$0.51 and Sells Two Non-Core Businesses –**

(RESTON, Va. – May 8, 2008) – MAXIMUS (NYSE: MMS), a leading provider of government services, today reported results for its second fiscal quarter ended March 31, 2008.

Highlights include:

- Revenue of \$210.6 million, an increase of 18%, compared to the same period last year,
- Net income of \$9.6 million and diluted earnings per share of \$0.51,
- Cash and cash equivalents at March 31, 2008, totaling \$63.4 million and cash flow from operations of \$4.5 million,
- Days Sales Outstanding of 76 days at March 31, 2008,
- New sales awards of \$615 million and total pipeline of \$1.6 billion at May 5, 2008, and,
- Subsequent to the March 31, 2008 quarter end, the Company closed the sale of two non-core businesses including the Security Solutions division and Unison-MAXIMUS subsidiary for after-tax gains totaling \$2.2 million.

Revenue for the second quarter increased 18% to \$210.6 million compared to \$179.1 million reported for the same period last year. All revenue growth in the quarter was organic and driven by the Operations Segment. Net income increased to \$9.6 million, or \$0.51 per diluted share, compared to net income of \$2.4 million, or \$0.11 per diluted share, for the same period last year.

Second quarter net income was impacted by approximately \$5.4 million, or \$0.17 per diluted share in charges which include a \$2.2 million charge related to the contract modification on a large Systems project, a \$2.3 million charge related to a legacy claiming project which may be recovered pending the outcome of the client's recovery appeal, and approximately \$0.9 million of legal expense principally related to ongoing arbitration. Year-over-year revenue and margin expansion was driven by the continuing strong performance of the Operations Segment. This Segment benefited from the Company's optimization efforts, new work with favorable margins, and the transformation of the Texas project to a direct service agreement.

Richard Montoni, Chief Executive Officer of MAXIMUS, commented, “The Operations Segment, which represented more than 75% of our revenue in the quarter, again delivered strong financial results on the success of our disciplined go-to-market approach and the optimization of our business portfolio. We are committed to replicating this progress in other areas of our business, including Systems, where we are focused on resolving remaining challenges and improving the Segment’s overall performance. In addition, we are also pursuing a parallel path of continuing to divest certain non-core assets as we further solidify our position as the leading pure-play solution in our core government health and human services outsourcing.”

Operations Segment

Operations Segment revenue accounted for 76% of total Company revenue in the second quarter and increased 33% to \$159.8 million compared to \$120.4 million for the second quarter of last year. Second quarter operating income for the Operations Segment totaled \$23.6 million, compared to \$7.1 million reported for the same period of last year. The year-over-year improvements in revenue and profitability continue to reflect the optimization of the Company’s project portfolio, new organic growth, and the transformation of the Texas project. As a result, the Company now believes the Segment can deliver ongoing operating margins in the range of 10% to 15% on an annualized basis.

Consulting Segment

For the second quarter, Consulting Segment revenue was \$20.2 million, or 10% of total Company revenue, compared to \$23.2 million reported for the same period last year. Second quarter financial results were impacted by a \$2.3 million charge related to a legacy claiming project which may be recovered pending the outcome of the client’s recovery appeal. As a result, the Segment lost approximately \$0.8 million in the quarter. The Segment continues to make investments and gain traction in new markets, such as Medicaid Fraud, Waste and Abuse, as it transitions away from contingent-based claiming work. In addition, the Company announced today the sale of Unison-MAXIMUS through a division management-led buyout. Unison-MAXIMUS is an airport, retail, and financial consulting business that, while a profitable contributor, was outside the Company’s core health and human services focus.

Systems Segment

Systems Segment revenue, which represented 14% of total Company revenue, totaled \$30.5 million in the second quarter versus \$35.4 million in the prior-year period. The Systems Segment reported a second quarter operating loss of \$5.9 million compared to a gain of \$0.1 million for the same period last year. Included in Segment results was a \$2.2 million charge necessary to modify a large Education Systems contract which now outlines terms and conditions needed to achieve project completion. Strong financial results from the Asset Solutions and ERP divisions were offset by weakness in the Justice and Education divisions. In a separate announcement, MAXIMUS announced the sale of its Security Solutions division to Cogent Systems as part of its efforts to divest non-core assets.

Sales and Pipeline

Year-to-date signed contract wins at May 5, 2008, totaled \$615 million, compared to \$302 million reported last year. New contracts pending at May 5, 2008, (awarded but unsigned) totaled \$149 million compared to \$82 million reported last year. Sales opportunities (pipeline) at May 5, 2008, totaled \$1.6 billion (consisting of \$581 million in proposals pending, \$121 million in proposals in preparation, and \$908 million in proposals tracking) compared to \$1.2 billion the prior year.

Balance Sheet and Cash Flows

At March 31, 2008, cash and cash equivalents totaled \$63.4 million. MAXIMUS generated net cash from operations of \$4.5 million and free cash flow of \$1.5 million (the Company defines free cash flow as cash from operations less purchased property and equipment and capitalized software costs). Days Sales Outstanding (DSOs) were 76 days at March 31, 2008. MAXIMUS paid a quarterly cash dividend of \$0.10 per share on February 29, 2008.

Outlook

The sale of two businesses and ongoing softness in the Systems Segment has resulted in the revision of the Company's financial outlook for fiscal 2008. The Company now expects revenue in the range of \$830 million to \$850 million and GAAP basis diluted earnings per share in the range of \$2.55 to \$2.70. This GAAP basis guidance includes an expected gain of approximately \$0.21 to \$0.24 from the sale of the Security Solutions division and the Unison-MAXIMUS Subsidiary, as well as the pending sale of the Company's McLean, Virginia property. Additionally, GAAP basis guidance also includes \$0.07 of anticipated future legal expenses. This guidance excludes any gains or losses from potential future divestiture or restructuring activities.

Mr. Montoni concluded, "Today's announced sale of our Security Solutions and Unison-MAXIMUS businesses underscores our commitment and progress towards sharpening our focus around our health and human services operations. Our core business operations are generating growth in revenue and income and have an improved sustainable margin outlook. We are keenly focused on improving or divesting underperforming areas of our business and we intend to drive sustainable improvement as expeditiously as possible. The prospects for outsourced government health and human services, both domestically and internationally, are encouraging. Through our highly regarded brand and renowned domain expertise, we have fortified our position as the leading government health and human services outsourcing provider."

Website Presentation, Conference Call and Webcast Information

MAXIMUS will host a conference call this morning, May 8, 2008, at 8:30 a.m. (ET). The Company has also posted a presentation on its website, under the Investor Relations page, for analysts to follow along with during the conference call. The call is open to the public and can be accessed under the Investor Relations page of the Company's website at www.maximus.com or by calling:

877.407.8289 (Domestic)/201.689.8341 (International)

For those unable to listen to the live call, a replay will be available through May 16, 2008. Callers can access the replay by dialing:

1-877-660-6853 (Domestic)/ 1-201-612-7415

Replay account number: 316

Replay conference ID number: 283775

MAXIMUS is one of America's leading government services companies devoted to providing program management, consulting and information technology services. The Company has more than 6,000 employees located in more than 220 offices in the United States, Canada and Australia. In 1999, 2001, 2002, 2003, and 2005 MAXIMUS was selected by Forbes Magazine as one of the Best 200 Small Companies in America for that year. Additionally, MAXIMUS is included in the Russell 2000 Index and the S&P SmallCap 600 Index.

Statements that are not historical facts, including statements about the Company's confidence and strategies and the Company's expectations about revenues, results of operations, profitability, future contracts, market opportunities, market demand or acceptance of the Company's products are forward-looking statements that involve risks and uncertainties. These uncertainties could cause the Company's actual results to differ materially from those indicated by such forward-looking statements and include reliance on government clients; risks associated with government contracting; risks involved in managing government projects; legislative changes and political developments; opposition from government unions; challenges resulting from growth; adverse publicity; and legal, economic, and other risks detailed in Exhibit 99.1 to the Company's most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission (file number 001-12997).

Non-GAAP Financial Information

This press release includes certain non-GAAP financial information as defined by Securities and Exchange Commission Regulation G. Pursuant to the requirements of this regulation, reconciliations of this non-GAAP financial information to MAXIMUS financial statements as prepared under generally accepted accounting principles (GAAP) are included in this press release. MAXIMUS discloses certain financial results excluding certain items and provides certain additional information because management believes providing investors with this information gives additional insights into MAXIMUS results of operations. While MAXIMUS management believes that these non-GAAP financial measures are useful in evaluating MAXIMUS operations, this information should be considered as supplemental in nature and not as a substitute for the related financial information prepared in accordance with GAAP.

CONTACTS:

Lisa Miles
Investor Relations
703.251.8637

Rachael Rowland
Public/Media Relations
703.251.8688

MAXIMUS, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	<u>September 30,</u> <u>2007</u>	<u>March 31,</u> <u>2008</u> <u>(unaudited)</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 70,472	\$ 63,420
Marketable securities	126,210	—
Restricted cash	325	327
Accounts receivable — billed, net of reserves of \$29,939 and \$31,721	132,962	122,692
Accounts receivable — unbilled	42,200	52,314
Income taxes receivable	—	6,307
Deferred income taxes	17,409	9,490
Prepaid expenses and other current assets	9,159	9,412
Total current assets	398,737	263,962
Property and equipment, at cost		
Less accumulated depreciation and amortization	(47,922)	(53,419)
Property and equipment, net	35,901	34,333
Capitalized software		
Less accumulated amortization	(31,919)	(35,485)
Capitalized software, net	29,540	29,183
Deferred contract costs, net	8,116	6,273
Goodwill	86,086	86,086
Intangible assets, net	3,603	2,827
Other assets, net	2,481	3,605
Total assets	\$ 564,464	\$ 426,269
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 54,425	\$ 53,391
Accrued compensation and benefits	29,449	28,390
Current portion of deferred revenue	38,545	33,151
Current portion of income taxes payable	5,487	—
Current portion of capital lease obligations	1,627	1,238
Other accrued liabilities	2,059	998
Total current liabilities	131,592	117,168
Capital lease obligations, less current portion	417	—
Deferred revenue, less current portion	10,143	9,361
Income taxes payable, less current portion	—	2,109
Deferred income taxes	12,912	12,752
Total liabilities	155,064	141,390
Shareholders' equity:		
Common stock, no par value; 60,000,000 shares authorized; 22,194,489 and 18,646,607 shares issued and outstanding at September 30, 2007 and March 31, 2008, at stated amount, respectively	299,846	309,450
Treasury stock, at cost; 4,490,073 and 8,248,530 shares at September 30, 2007 and March 31, 2008, respectively	(124,637)	(275,025)
Accumulated other comprehensive income	1,730	2,089
Retained earnings	232,461	248,365
Total shareholders' equity	409,400	284,879
Total liabilities and shareholders' equity	\$ 564,464	\$ 426,269

MAXIMUS, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share data)
(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2007	2008	2007	2008
Revenue	\$ 179,077	\$ 210,584	\$ 340,215	\$ 412,534
Cost of revenue	136,202	156,694	277,062	305,877
Gross profit	42,875	53,890	63,153	106,657
Selling, general and administrative expenses	34,451	37,173	69,104	73,426
Legal and settlement expense	6,104	931	9,104	931
Income (loss) from operations	2,320	15,786	(15,055)	32,300
Interest and other income, net	1,615	107	2,092	1,608
Gain on sale of business	—	—	684	—
Income (loss) before income taxes	3,935	15,893	(12,279)	33,908
Provision (benefit) for income taxes	1,573	6,266	(4,246)	13,676
Net income (loss)	<u>\$ 2,362</u>	<u>\$ 9,627</u>	<u>\$ (8,033)</u>	<u>\$ 20,232</u>
Earnings (loss) per share :				
Basic	\$ 0.11	\$ 0.52	\$ (0.37)	\$ 1.04
Diluted	<u>\$ 0.11</u>	<u>\$ 0.51</u>	<u>\$ (0.37)</u>	<u>\$ 1.02</u>
Dividends per share	<u>\$ 0.10</u>	<u>\$ 0.10</u>	<u>\$ 0.20</u>	<u>\$ 0.20</u>
Weighted average shares outstanding:				
Basic	21,714	18,537	21,651	19,527
Diluted	<u>21,972</u>	<u>18,763</u>	<u>21,651</u>	<u>19,803</u>

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

	Six Months Ended March 31,	
	2007	2008
Cash flows from operating activities:		
Net income (loss)	\$ (8,033)	\$ 20,232
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,754	5,497
Amortization	5,271	4,341
Deferred income taxes	(7,930)	7,522
Gain on sale of business	(684)	—
Non-cash equity based compensation	1,401	5,754
Change in assets and liabilities, net of effects from sale of business:		
Accounts receivable – billed	26,726	10,270
Accounts receivable – unbilled	7,606	(10,114)
Prepaid expenses and other current assets	(264)	(253)
Deferred contract costs	2,683	1,843
Other assets	2,357	279
Accounts payable	(2,534)	(1,034)
Accrued compensation and benefits	(291)	(1,059)
Deferred revenue	(12,577)	(6,176)
Income taxes	5,325	(11,107)
Other liabilities	1,218	(702)
Net cash provided by operating activities	25,028	25,293
Cash flows from investing activities:		
Proceeds from sale of business, net of transactions costs	2,171	—
Purchases of property and equipment	(4,242)	(3,929)
Capitalized software costs	(1,485)	(3,209)
(Increase) decrease in marketable securities	(17,094)	126,210
Net cash provided by (used in) investing activities	(20,650)	119,072
Cash flows from financing activities:		
Employee stock transactions	3,418	3,274
Repurchases of common stock	—	(150,388)
Payments on capital lease obligations	(901)	(805)
Tax benefit due to option exercises and restricted stock units vesting	762	576
Cash dividends paid	(4,331)	(4,074)
Net cash used in financing activities	(1,052)	(151,417)
Net increase (decrease) in cash and cash equivalents	3,326	(7,052)
Cash and cash equivalents, beginning of period	39,545	70,472
Cash and cash equivalents, end of period	\$ 42,871	\$ 63,420

MAXIMUS, Inc.
Segment Information
(In thousands)
(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2007	2008	2007	2008
Revenue:				
Consulting	\$ 23,224	20,216	\$ 47,880	42,372
Systems	35,412	30,523	69,953	64,518
Operations	120,441	159,845	222,382	305,644
Total	<u>\$ 179,077</u>	<u>\$ 210,584</u>	<u>\$ 340,215</u>	<u>\$ 412,534</u>
Gross Profit:				
Consulting	\$ 9,253	6,808	\$ 20,160	15,296
Systems	9,914	5,150	18,465	14,087
Operations	23,708	41,932	24,528	77,274
Total	<u>\$ 42,875</u>	<u>\$ 53,890</u>	<u>\$ 63,153</u>	<u>\$ 106,657</u>
Selling, General, and Administrative expense:				
Consulting	\$ 8,221	7,621	\$ 16,313	14,958
Systems	9,821	11,077	19,969	23,155
Operations	16,650	18,382	33,514	34,990
Corporate/Other	(241)	93	(692)	323
Total	<u>\$ 34,451</u>	<u>\$ 37,173</u>	<u>\$ 69,104</u>	<u>\$ 73,426</u>
Income (loss) from Operations:				
Consulting	\$ 1,032	\$ (813)	\$ 3,847	\$ 338
Systems	93	(5,927)	(1,504)	(9,068)
Operations	7,058	23,550	(8,986)	42,284
Consolidating adjustments	241	(93)	692	(323)
Legal and settlement expense	(6,104)	(931)	(9,104)	(931)
Total	<u>\$ 2,320</u>	<u>\$ 15,786</u>	<u>\$ (15,055)</u>	<u>\$ 32,300</u>

Conference Call Transcript

MMS -- Q2 2008 MAXIMUS, Inc. Earnings Conference Call

Event Date/Time: May. 08. 2008 / 5:30AM PT

CORPORATE PARTICIPANTS

Lisa Miles
MAXIMUS, Inc. - VP, IR

David Walker
MAXIMUS, Inc. - CFO

Rich Montoni
MAXIMUS, Inc. - CEO

CONFERENCE CALL PARTICIPANTS

Charles Strauzer
CJS Securities - Analyst

Anurag Rana
KeyBanc Capital Markets - Analyst

Jason Kupferberg
UBS - Analyst

Shlomo Rosenbaum
Stifel Nicolaus - Analyst

Steve Balog
Cedar Creek Management - Analyst

PRESENTATION

Operator

Ladies and gentlemen, welcome to the MAXIMUS second quarter earnings call. During this session all lines will be muted until the question-and-answer portion of the call. (OPERATOR INSTRUCTIONS)

At this time I would like to turn the call over to Lisa Miles, Vice President of Investor Relations.

Lisa Miles - MAXIMUS, Inc. - VP, IR

Good morning. Thank you for joining us on today's conference call. If you wish to follow along, we've posted a presentation on our website under the investor relations page. On the call today is Rich Montoni, Chief Executive Officer, and David Walker, Chief Financial Officer. Following our prepared comments, we'll open the call up for Q&A. Before we begin I'd like to remind everyone that a number of statements being made today will be forward-looking in nature. Please remember that such statements are only predictions and actual events or results may differ materially as a result of risks we face including those discussed in exhibit 99.1 of our SEC filings. We encourage you to review the summary of these risks in our most recent 10K filed with the SEC. The company does not assume any obligation to revise or update these forward-looking statements to reflect subsequent events or circumstances. And with that, I'll turn the call over to Dave.

David Walker - MAXIMUS, Inc. - CFO

Thank you, Lisa. Good morning. This morning MAXIMUS reported financial results highlighted by strong financial performance from the operation segment offset by softness in the systems and consulting segments. As we continue to provide quality growth in our core operations segment and divest noncore businesses, we are taking clear steps towards becoming a focused health and human services operations pure play. Let us turn our attention to financial results.

Total company revenue for the second quarter was \$210.6 million, an 18% increase compared to revenue of \$179.1 million reported for the same period last year. All growth was organic and was driven by new and expanding work in the operations segment. During the quarter the company incurred approximately \$5.4 million of charges which include a \$2.2 million charge related to a contract modification that MAXIMUS initiated as part of a requirement to build software functionality for a large education contract in the systems segment. The fixed price portion of the contract price was reduced which creates an accounting charge. But the \$2.2 million value was moved to an incentive feature of the contract which allows us to earn back this money, provided we meet a deliverable schedule over the next 18 months. More importantly, we worked to modify the contract to ensure there was clarity and a governance process related to the software development requirements.

In the consulting segment we also took a \$2.3 million charge related to our share of a client's reduced reimbursement on a legacy claiming project. This amount may be recovered depending on the outcome of the client's appeal effort. And lastly, the company also incurred approximately \$9 million of legal expenses principally related to the ongoing arbitration with Accenture. Despite the \$5.4 million of charges which is approximately \$0.17 per share the company reported net income in the second fiscal quarter of \$9.6 million or \$0.51 per diluted share. We also announced in our press release this morning the successful divestiture of two noncore divisions last week. First, within the system segment we completed the sale of the security solutions divisions for cash proceeds of \$5 million. Second, we also completed the sale of the Unison division within the consulting segment for proceeds of approximately \$6.5 million. We have also entered into a contract to sell an administrative office in [McClain], Virginia, as we take steps to streamline our operating costs. The expected earnings per share gained from the divestitures and the building sale is expected to be approximately in the range of \$0.21 to \$0.24 per share and will be recorded in the third quarter.

Let us move into the results by business segment. Starting with the operation segment. Revenue for the operation segment increased 33% to \$159.8 million compared to \$120.4 million reported for the same period last year. Second quarter revenue growth was driven by new and expanding work, most notably from health operations, the Texas project in both our domestic and international work force services operations. Segment revenue also benefited from infrequently occurring revenue of approximately \$6.9 million related to a large hardware and software purchase. The operations segment recorded second quarter operating income of \$23.6 million or an operating margin of 15%, compared to income of \$7.1 million and operating margin of 6% for the same period last year. Once again, the sizable expansion in operating income reflects the optimization of the current book of business, the transformation on the Texas project, as well as solid margins on new work.

The operations segment continues to benefit from a predictable stream of long-term recurring revenue. Under the direction of exceptional segment and divisional leadership, the segment continues to meet our operational and financial expectations. As a result, we still expect the segment to deliver operating margin in the 12% to 15% range for the full fiscal year. Both our growth and financial performance and operations continues to confirm our strategy of focusing on our core health and human services business offerings.

Let's turn our attention to the consulting segment, which had revenue of \$20.2 million for the second quarter and a loss of approximately \$800,000. The loss reflects a \$2.3 million charge related to the previously discussed legacy claiming project which the client is appealing and may be recovered at some future date. For the last nine months the company's been very clear about its expectations for the consulting segment as we transition away from the claiming business. In parallel with this transition we have already established a presence in new markets, principally targeted in the areas of program integrity and fraud, waste and abuse. We remain optimistic about these new markets and other plans which are developing for this segment.

Moving on to the system segment, financial results continue to be mixed within the segment. System segment revenue totaled \$30.5 million but lost approximately \$5.9 million. The asset solutions and ERP divisions continue to deliver strong results, but this is offset by losses in both education and justice. We remain unsatisfied with the continuing underperforming divisions within this segment. These losses stem from software development commitments that ultimately will position them well in the market. Rich will discuss our actions in more detail, but steps we are taking include: managing scope of existing contracts very judiciously, and modifying contracts such as the education contract discussed earlier, where contractual remedies are needed; tightly controlling new contract terms that may contain software development requirements; changing and supplementing the management team with individuals with proven track records and prudent cost management. Segment results will continue to be soft as we drive the necessary change.

Let's move on to a discussion surrounding overall company margins. The majority of the charges in the quarter impacted revenue and gross margins in the consulting and systems segments. Overall, MAXIMUS achieved an 8% operating margin driven by the strength in the operation segment which offset the charges in systems and consulting. In the second quarter SG&A as a percent of revenue, 17.7%, which was improved compared to the same period last year and was consistent with the first quarter of fiscal 2008.

Moving on to balance sheet and cash flow items. We ended the second quarter with cash totaling \$63.4 million. Total current accounts receivable for the second quarter was \$175 million. We also have an additional \$1.7 million in long-term accounts receivable which are classified within other assets on the balance sheet. We continue to stay focused on cash management, and day sales outstanding continue to trend favorably under 80 days with second quarter DSOs totaling 76 days. We still anticipate DSOs to run between 75 to 85 days. MAXIMUS generated cash from operations totaling \$4.5 million. Free cash flow which the company defines as cash from operations, as property and equipment and capitalized software, was \$1.5 million. For the full fiscal year we continue to expect cash from operations totaling \$50 million to \$60 million and free cash flow ranging from \$30 million to \$40 million. Thank you for your time this morning. And with that, I'll turn the call over to Rich.

Rich Montoni - MAXIMUS, Inc. - CEO

Thanks, David, and good morning, everyone. Our second quarter results were mixed. They reflect our success to date in how we go to market and execute in our core health and human services operations. We are well on our way to redefining our company as the leading pure play in government, health and human services program operations. This is what we define as our core market. And we believe it's a strategy that will provide long-term sustained growth and increased shareholder value.

Despite our strong showing in operations which represented over 3/4 of the company's revenue for the period, results for the second quarter were impacted as a result of a one-off charge in consulting, ongoing legal expenses and costs related to our continuing efforts to improve performance and address legacy contract issues within our system segment. With our core operations business firing on all cylinders, we remain focused on and are determined to achieve improvement in underperforming areas of our business and to refine our focus to our core. And we're doing just that. Just last week we closed a sale of two noncore divisions. And within the system segment we are aggressively moving along parallel paths to improve the underperforming divisions and to actively pursue all alternatives.

Let's first talk about the operations segment. Results from our operations segment for the quarter reflects strong segment leadership and contractual discipline in how we acquire and structure new awards. As part of this diligence we've declined unacceptable rebid opportunities and renegotiated inequitable contracts. At the same time, we focused on developing and pursuing new opportunities that represent a source of new incremental revenue to ensure that we're putting our operations business on a course for long-term success. Our emphasis on sustainable recurring revenues and profitable growth resulted in top-line gains of 33% compared to the same period last year and operating margins of 15%. Historically, we've talked to an operating model for the operations segment with margins in the range of 8% to 15%. However, in recent quarters we've weeded out underperforming contracts and laid in more rewarding business. As a result, our margins and operations have run closer to the top end of this range.

We feel confident in the strides we've made to strengthen the segment. As a result, we are raising the lower end of our targeted operating margin range for this segment and are now expecting its margin to consistently range between 10% and 15%. We're in a new chapter with our core operations and our refined margin outlook for the business is the best validation for our success in getting the segment on the right track for the long haul.

I should also mention that we've been making strides with our productization effort within the operations segment, another key element to streamlining our processes and advancing our technology efforts. What I'm referring to here is our emphasis on moving away from highly customized solutions to more of a component-based or modular approach, where by we use plug-in play technology anchored in the services-oriented architecture from program to program. Recently we completed our enrollment broker platform which is already installed in Indiana and we're also in the process of upgrading other existing clients to this technology. In conjunction with this effort, we're also on a path to complete the productization of other core components by the end of this fiscal year. We believe our initiatives of coupling new technology with standardized business processes will allow us to compete most cost effectively. This is just an example of some of the operating enhancements we're working on and reflect the benefits of focus.

Turning to consulting, performance for the segment was in line with our expectations for the period with the exception of the \$2.3 million charge related to a legacy claiming project the client is appealing. Let me give you some background on this claim. Prior to taking on this job, we brought in specialized legal counsel to review our claiming method. After review, counsel approved our method which had been successfully utilized before. We do view this as a normal course exercise and we feel reasonably confident that the client will prevail. Regardless, as we've previously discussed, we're no longer providing federal claiming on a contingency basis. Instead, our emphasis has been in other areas which overlap more with our core program management offerings. This would be like program integrity which includes combating Medicaid fraud, waste and abuse.

Consulting services are very important to our customer base, and they do dove-tail with our core services. As such, we are pursuing more opportunities to pair our consulting services with our health and human services portfolio. By aligning consulting with our core competencies, our collaborative efforts will facilitate better cross-selling while sharing best practices from state to state.

As announced today, we divested our Unison-MAXIMUS subsidiary to a division management-led buyout. This subsidiary was part of the consulting segment and is an airport, retail and financial consulting business. In this business, while the profitable contributor was outside our core competency. We also announced today the sale of our security solutions business to Cogent, which again, while a stable contributor was not consistent with our refined business focus.

This discussion represents a good opportunity to segway into a review of the systems segment. As we've discussed in the past, the challenge in systems has been limited to the justice and education divisions. These divisions are in the process of completing the buildout of new software, enhanced our focus to complete their development stage and generate business unit improvement while meeting their contractual obligations and maintaining the integrity of the MAXIMUS brand. As a result, our near-term emphasis has been balancing commitments, completing the software development and changing the way we go to market to emphasize product standardization over customized solutions. In the area of justice, we have initiated cost-cutting measures to drive improvement which should help lessen the losses for the remainder of the year.

The justice division has been directed to focus principally on completing the implementation commitments and service delivery with our current client base. The division will also limit marketing of new contracts. This narrowed concentration has allowed us to take appropriate initiatives including a reduction in force. This week we eliminated approximately 25% of the justice solutions work force and we believe this will deliver annualized savings of \$4 million, some of which we expect to realize in the fourth quarter.

While this is an important step in the right direction, we also want to announce we have new segment leadership in place. John Hines, a very well-respected member of the MAXIMUS management team is stepping up to lead our efforts. John brings over 30 years of commercial software development expertise to the table and he's been with MAXIMUS for nearly a decade. His most recent role, John served as President of our assets solutions division, which has been a long-standing profitable contributor to MAXIMUS. In addition to John, we also have deployed two of our top technologists to help accelerate the completion of our software products in justice. These are some of the best and brightest project leaders who came out of our top-performing divisions to serve on special assignment to help drive our software development to completion and provide added oversight. The bottom line is we are intent on affecting near-term change.

As noted in this morning's press release, I think the successful renegotiation of our largest educational contract demonstrates our commitment to improve and bring resolution to the legacy situations. The modified terms and conditions of this agreement outline milestones necessary to achieve completion. As a result, there's now a well-constituted correlation between the plan and the commitment milestones. As David noted earlier, the charge related to this modification is not a permanent reduction, and we intend to earn the \$2.2 million back as we achieve implementation milestones over the next several quarters. In addition to generating operational improvements within systems, we're also taking a parallel path of exploring strategic alternatives for these businesses. As demonstrated by the sale of Unison in our security solutions business, we've been proactive in divesting noncore holdings. While we can offer no assurances on future outcomes, we're actively pursuing a variety of options for additional noncore assets and we'll update you as appropriate.

Let's turn our attention to the overall market outlook. As we've said in recent quarters, even while state fiscal budgets are under pressure, we see this as a time when the need and value proposition of our core services remains strong. Generally state cost-cutting actions have been aimed at the reduction of direct program benefits where the significant savings lie, and not in program administration because the need for administration remains. We've simply not seen a slowdown of our work at this time. Beyond our work domestically, we're well-positioned to capitalize on international opportunities that are developing in our core health and human services operations, including expansion of current programs. For example, in Israel where we run a major work force services program, we are encouraged by the possible expansion opportunities we see on the horizon.

Also, during the quarter, we announced a \$14.2 million amendment to our master services agreement in British Columbia. This is related to the PharmaNet program which we've administered since 2005. This important program links all pharmacies in British Columbia to a central set of data systems and supports many functions. Under the amendment, MAXIMUS will lead the effort to upgrade this application to the next generation platform. We're very excited about our expanding work in Canada and our ongoing efforts of excellence in operations outsourcing. In addition we're pursuing other international opportunities with substantial marketing efforts underway. We have staff on the ground in Australia, Canada and the U.K. working these opportunities. While in aggregate the potential contract values for these international opportunities could be quite large, most indicators point to most of these programs as being good in regions similar to approach we have here in the states.

We think this approach provides mutual benefits to governments and to vendors. These types of regional opportunities are expected to lie right within our sweet spot in terms of scope and size. I expect them to be along the lines of singles and doubles rather than a grand slam. I believe that many of these opportunities may provide additional streams of revenue, potentially beginning as early as the second half of fiscal 2009 and stretching beyond. Our extensive programmatic expertise and demonstrated successes should provide us a competitive leg up as we continue to strengthen our foothold in the international marketplace. We're certainly excited about extending the breadth of our geographic footprint and serving a broader market with core service offerings where MAXIMUS is the market leader.

Let's turn our attention to new awards in the sales pipeline. This data is very encouraging and supports the position that we've not seen a slowdown at this time. Starting with new signed awards, as of May 5th, 2008, MAXIMUS signed new awards totaling \$615 million, which includes approximately \$200 million related to the signed California health care options rebid. In addition, we've had another \$149 million in awarded but unsigned contracts. Our sales pipeline continues to grow and totaled \$1.6 billion at May 5th, which is driven primarily by new opportunities in the operations segment. On the rebid front we've been notified of award or extension on three bids totaling approximately \$36 million. That leaves us with eight remaining rebids with a total contract value estimated at \$237 million, the largest of which are the three Texas contracts.

Moving to option near exercises, to date out of the 27 options with a total value of \$223 million up for exercise this year, we've won or been notified of intent to award on 14 options which carry a value of about \$122 million. This leaves us with 13 options with an estimated value of \$101 million. So in summary, we've not lost an option, and none have been cancelled or taken in-house due to funding issues.

Moving on to guidance. As noted in this morning's press release, we're revising our fiscal 2008 guidance principally as a result of the divestitures and performance from the justice and education divisions inside the segment. For fiscal 2008 we now expect revenue for fiscal 2008 in the range of \$830 million to \$850 million with GAAP basis diluted EPS of \$2.55 per share to \$2.70 per share. This GAAP basis guidance includes a gain of approximately \$0.21 to \$0.24 per share related to the sale of the security solutions division, the sale of the Unison division subsidiary and the pending sale of the property in McClain, Virginia. Guidance also includes a \$0.07 per share impact related to the forecasted legal charges for fiscal 2008. Additionally, guidance does not include any gains or losses from any potential future divestiture or restructuring activities.

Before we open it up to Q&A, I just have a few closing comments. At the onset of the year, we shared our views on the risk assessment for the year, and we felt the risks were largely tied to the performance in the system segment. While financial results in the systems have been disappointing, we've made critical, needed progress, and we believe we are in a better position today to effectively pursue alternatives for noncore assets. Despite the soft performance of the system segment, the operations segment continues to deliver solid financial results. This further confirms the advantages of our strategy to focus.

As a result, when we complete this transition phase in enterprise systems and confident that our company will be solidified as the leader pure play provider to government, health and human services, this will bring the significant added benefits of focus to our clients, our employee, and to you, our shareholders. So in closing, in addition to being determined to complete this transition phase, we remain very enthusiastic about our future. And now let's open up the call to your questions. Operator?

QUESTION AND ANSWER

Operator

Thank you. (OPERATOR INSTRUCTIONS) Thank you. Our first question is coming from Charlie Strauzer of CJS Securities.

Charles Strauzer - CJS Securities - Analyst

Hi. Good morning.

Rich Montoni - MAXIMUS, Inc. - CEO

Good morning, Charlie, how are you?

Charles Strauzer - CJS Securities - Analyst

Good, Rich. Thank you. Just a couple quick questions. The divested businesses in the systems segment, beyond the gain that you're going to record in Q3, what is the expected impact on that segment in terms of lost revenues and potential profits from those businesses?

David Walker - MAXIMUS, Inc. - CFO

Hey, Charlie, Dave Walker. Both of those businesses combined last year had revenue of about \$38 million and they made 4.3%, so they were profitable. And they were -- they had declined about 11% in the aggregate in '08.

Charles Strauzer - CJS Securities - Analyst

Got it. So we'll adjust accordingly there. Rich or David, on the operating margin guidance for the operations business of 10% to 15%, obviously you're doing very well there, what are the factors that could cause the margins to kind of go towards the lower end of that range over the year?

Rich Montoni - MAXIMUS, Inc. - CEO

Well, a couple things. I think Dave Walker and his comments said for the full year we expect that segment to deliver, I think Dave's comments was 12% to 15%. For year in and year out we've reset our range to 10% to 15%. In terms of what are the factors, there's many factors. The factors that come to mind that are most significant would be the stage of new work that we take on. Generally on these, while they're longer term contracts, we find front end we have investments. Sometimes these expenditures need to be expensed as incurred pursuant to generally acceptable accounting principals. Now you may find situations where new work has negative margin or lower margin and as the contract matures and we start driving efficiencies, we get greater margins towards the tail end of the contract. So the nature and timing of the contracts would be a factor. I think that's probably the largest factor.

David Walker - MAXIMUS, Inc. - CFO

Quarter over quarter you get fluctuations due to timing of maybe the equivalent of open enrollment. So we'll get big expenditures that may bear lower profit on individual quarters.

Charles Strauzer - CJS Securities - Analyst

Got it. Excellent. Okay. Thank you. And also then last thing, the Texas contracts is up for rebid. What's the status of those RFPs, have they been submitted? Are they in the review phase? Can you give us a sense of the time?

Rich Montoni - MAXIMUS, Inc. - CEO

That's in a hold pattern at this point in time. The state has not moved forward with the RFP process. We don't know when those RFPs will come out at this point.

Charles Strauzer - CJS Securities - Analyst

Got it. And then lastly, on the integrity, you mentioned there's a new area you're focusing on some of the consulting businesses, that there's a number of kind of the Medicare, Medicaid integrity contracts up for bid under the several task orders. Are you bidding for any of those right now?

Rich Montoni - MAXIMUS, Inc. - CEO

I believe we're very, very active in that space. We're very proud of our accomplishments and we think we lead in many of those niches, if you will. We're excited about the new opportunities that are coming in front of us. And te're very active.

Charles Strauzer - CJS Securities - Analyst

Great. Thank you very much.

Rich Montoni - MAXIMUS, Inc. - CEO

You bet. Thanks, Charlie.

Operator

(OPERATOR INSTRUCTIONS) Our next question is coming from Anurag Rana from KeyBanc.

Anurag Rana - KeyBanc Capital Markets - - Analyst

Hi, good morning, everyone. Rich, could you give us an idea out of the book you recorded this -- so far, what percentage belongs to the operations segment versus the other two segments?

Rich Montoni - MAXIMUS, Inc. - CEO

Generally we don't share the detailed, the details behind the new contracts signed, etc. But you can rest assured that the majority is in the operations segment. It pretty much follows the proportion of revenues, and operations by far is the leader.

Anurag Rana - KeyBanc Capital Markets - - Analyst

Yes. That would make sense. And that brings me to my second question, then why even bother in the consulting segment if you want operations to be your core area going forward?

Rich Montoni - MAXIMUS, Inc. - CEO

I think that's a great question. My view on consulting is this, I do think our clients need consulting. And our approach to consulting as we go forward is to very much marry our consulting expertise with our operations expertise. And in many regards it's our consulting ability that leads and provides innovative view, methodology, technology, which frankly that's the value add to our clients. They look to us for that. So I think provided we operate consulting in that complementary fashion, it adds value, gives us competitive advantage. And quite frankly I think it can be a profitable business.

Anurag Rana - KeyBanc Capital Markets - - Analyst

Okay. Thank you. The -- you just mentioned that the Texas contract is in a hold process. So should we assume that if there is no RFP out you're going to still continue doing work under the old order?

Rich Montoni - MAXIMUS, Inc. - CEO

I think that's a fair assumption.

Anurag Rana - KeyBanc Capital Markets - - Analyst

Great. And lastly, I know it's too early to talk about next year, but I've seen that your bookings as far as the first half of this year is almost double what you -- or actually more than double what you did last year so far. So, any kind of indications as to what kind of organic growth rate should we expect on the base off of the divestitures for next year?

Rich Montoni - MAXIMUS, Inc. - CEO

It's really too soon to tell. But I will tell you, just to give you some directional sentiments in that context, we've always said we think our business model can deliver 10% top line and 10% operating margin long-term. And I still think that's a fair assessment. Naturally we do have economic, macro economic situations we have to deal with in this environment. But I will tell you that offsetting that and going in the opposite direction are some very significant needs that our clients are facing where we provide what I think are effective, unique solutions, and they seem to be very well-received at this time. Our clients are dealing with some very significant challenges to comply with new federal rules and regulations. And many of these programs in health and human services, they're having to struggle with retiring work force, so they don't have the focus to carry on the work in light of these additional requirements, and that's, to a large extent, what's fueling our growth. Even when you strip out the benefit of the Texas contract year-over-year, you'll find that the organic growth for the company is north of 20%. So I'm not going to steer you to expect that in FY '09. But it does give you an indicator that there's some strong underpinnings in demand for what we're offering in a marketplace.

Anurag Rana - KeyBanc Capital Markets - - Analyst

Okay. Thank you.

Operator

Thank you. Our next question is coming from Jason Kupferberg of UBS.

Jason Kupferberg - UBS - Analyst

Yes. Hi. Good morning, guys.

Rich Montoni - MAXIMUS, Inc. - CEO

Hi, Jason.

Jason Kupferberg - UBS - Analyst

I just want to start with a question on the arbitration situation with Accenture. I think this is the first quarter we've actually seen some legal costs associated directly with those proceedings and there's a projection for \$7 million, I believe, over the course of the fiscal year. So can you give us an update on what's incrementally changed to drive the need for those charges and where the actual process stands in its chronology here?

Rich Montoni - MAXIMUS, Inc. - CEO

Okay. I'd be glad to do that. Where the arbitration itself stands, Jason, is there is no scheduled date for arbitration at this point in time. Originally when the arbitration process was launched, I believe it was scheduled -- the arbitration was scheduled to occur this spring. That's been postponed and no date has been set at this point in time. So our counsel is involved in preliminary ongoing analysis, preparation, making sure we remain ready for arbitration when the date is set. The reason for the charge in this situation really relates to the circumstance, the insurance situation. We have insurance on this matter. We had been of the opinion that we had hit the deductible, if you will, and that the insurance company should pick up and cover legal charges from that point forward. That's a matter that's being "discussed between the parties." So until such time as the insurance company agrees to pick up that legal bill, we felt it best to record it and recover it when we come to terms with the insurance company.

Jason Kupferberg - UBS - Analyst

So there's a possibility that those charges then get reversed?

Rich Montoni - MAXIMUS, Inc. - CEO

There's a possibility. But that remains to be seen.

Jason Kupferberg - UBS - Analyst

Okay. Okay. And how should we think about for full year fiscal '08, what the growth in margin expectations should be for the consulting and the systems segments? Maybe you want to phrase that on more of a pro forma basis given the divestitures. So we can get a sense as the business stands today, what kind of growth and operating income might they be able to produce over the course of a year.

Rich Montoni - MAXIMUS, Inc. - CEO

So just so I understand your question, you're looking for some directional insights in terms of margins for the full year by the segments?

Jason Kupferberg - UBS - Analyst

For consulting and systems specifically as well as revenue growth potential.

David Walker - MAXIMUS, Inc. - CFO

I would say on the revenue side you shouldn't expect much growth. In systems what we're doing is being very judicious about new work we take and make sure we don't further add requirements to what is a development backlog. So I wouldn't expect there in consulting we've got a lot of money going into investments in new areas, which is why our operating income there is not as high as we'd normally like in consulting. But again, I think those things also pay off but not in fiscal year '08.

Rich Montoni - MAXIMUS, Inc. - CEO

Said another way, Jason, I would say from a top line perspective, I think all of our revenue growth '08 over '07 will be driven by our operations segment.

Jason Kupferberg - UBS - Analyst

Okay. That makes sense. And if we look at the year to date award total, what would be the mix of new versus renewed work in that year-to-date contract award total?

Rich Montoni - MAXIMUS, Inc. - CEO

Well, we don't have that metric. And historically we haven't published the metric. But I will say that, we disclosed in the press release and had a separate press release that the biggest award in that new contract signed of [518] -- I'm sorry, of the [615], rather, the biggest award was that renewal offer the HCO contract which is approximately \$200 million.

Jason Kupferberg - UBS - Analyst

Yes.

Rich Montoni - MAXIMUS, Inc. - CEO

But we are finding a significant portion of the new signed work is in fact new work.

Jason Kupferberg - UBS - Analyst

Okay. Okay. And just one last housekeeping item, how much potential proceeds might you get from the sale of the headquarter building? Is that going to be a sale lease-back situation or is that just excess real estate?

David Walker - MAXIMUS, Inc. - CFO

That's just excess real estate. And the sales price is \$6.1 million. There will be taxes and a book value. So that it's not all gain. But that's the cash proceeds.

Jason Kupferberg - UBS - Analyst

Okay. Thank you.

Rich Montoni - MAXIMUS, Inc. - CEO

You're welcome.

Operator

Thank you. Our next question is coming from Shlomo Rosenbaum of Stifel Nicolaus.

Shlomo Rosenbaum - Stifel Nicolaus - Analyst

Hi. Thank you very much for taking my questions. I just want to focus a little bit on some of the pain points? In justice and education. Just starting out with the education contract, you said there was the largest contract. And I just want to know, when was the contract signed exactly? And do you feel like after you sort of worked through at least in that division, a lot of the headwinds you have on the new development projects?

Rich Montoni - MAXIMUS, Inc. - CEO

On that education contract it is a large contract. Was signed originally in 2003 and is a long-term contract. And I think that this was a very significant and necessary accomplishment for the division. The prior contract before the amendment did not have sufficient clarity for us to effectively know what we needed to do and when we would be complete with a contract. And I'm sure you can appreciate that's a very important thing to drive these contracts to completion. So this amendment gives us that benefit. And I'm of the opinion that the client and MAXIMUS understand what the key milestones are as a result of this amendment. We've agreed in terms of targeted deliverables and we're all working to accomplish that.

Shlomo Rosenbaum - Stifel Nicolaus - Analyst

Okay. Thanks. You've talked about, consulting really dove-tailing with a lot of the work that you do in the operations segment. But if I'm reading you correctly, it really sounds like pretty much the system segment is something that you guys could see that on an ongoing basis would not be necessary. Am I reading it correctly or are there some areas of systems that you still think would be necessary in your end-state goal of an HSS pure play?

Rich Montoni - MAXIMUS, Inc. - CEO

I don't think there's anything in our enterprise systems segment that is necessary -- or closely correlated with our in-state goal as a health and human services pure play. You may recall there were five divisions inside of that, the enterprise systems segment. We just sold one of them, the securities solutions division. That leaves us with four: asset solutions, ERP, justice and education divisions. And each on those divisions, there's not much correlation, in fact, there's not much correlation with our informations group.

Shlomo Rosenbaum - Stifel Nicolaus - Analyst

Okay. Going on to the amendment in British Columbia contract, just to understand you're going to be moving the platform to -- upgrading the platform. What do you consider the risk profile of that amendment? Just is that something you guys have done before? And can you talk about that a little bit more?

David Walker - MAXIMUS, Inc. - CFO

I actually think the risk profile is very low. When we think about that and we don't have time today to get into all of the detail points, we have a very effective working relationship with the client. We have a very, very strong team from not only an operational perspective but from a technical perspective that dedicated on site in British Columbia. And this is simply -- I view this as simply an add-on to our existing services. I think -- I'm very, very confident there's low risk associated with this work.

Shlomo Rosenbaum - Stifel Nicolaus - Analyst

Okay. And just a last question here on the operating margin on the operations segment, the first half of the year the margins really come in very -- have been very good, 13% and then 15% for two quarters. Is there any reason to expect going that into the second half of the year wouldn't be at the upper end or even above the upper end of that range?

David Walker - MAXIMUS, Inc. - CFO

Let's take a look here. Well, you get some mixed things that happen during the quarter. We had some large things and good things that happened this quarter. At the tail end of the year we tend to -- so while that was one time and should not benefit us in the third and fourth quarter, on the other hand, our tax crediting business that we've talked about in the past, tends to kick in strong on the third and more particularly in the fourth quarter. So, they'll tend to net themselves out. So it's just -- it's timing.

Rich Montoni - MAXIMUS, Inc. - CEO

To sum it up, I think we see these tailwinds continuing through the rest of the year.

Shlomo Rosenbaum - Stifel Nicolaus - Analyst

Okay. Thanks a lot, guys.

Rich Montoni - MAXIMUS, Inc. - CEO

Thank you.

Operator

Thank you. Our last question is coming from Steve Balog of Cedar Creek Management.

Steve Balog - Cedar Creek Management - - Analyst

Thanks. The education contract, was the problem here centered in this one contract? And Rich, were you involved in the renegotiation?

Rich Montoni - MAXIMUS, Inc. - CEO

Yes. The challenges in the enterprise systems division were concentrated on this one large contract which correlates, quite frankly, very closely to the development build commitments of the division. So we have the benefit of having, I think, a focused target, if you will, to complete the software development and will concurrently complete our obligations to this, by far, our largest client of the enterprise -- the education systems division. There were and are smaller clients, and we have client commitments. But they are order of magnitude less significant than this one large contract. And yes, I was involved at a minimum on a weekly basis with the entire division and the contract itself as we moved forward the negotiations and the amendment, the legal aspects of the amendment.

Steve Balog - Cedar Creek Management - - Analyst

So it looks like we take our lump here in education is reasonably on its feet. I'm sensing other -- or understanding the justice division issue was a lot bigger because you're bringing in some big guns to fix that. Is the software development problem here, was this centered around one client, or was this a system that you were productizing and it just got out of hand and we have a lot of R&D against something with no expenses -- sorry, no revenue?

Rich Montoni - MAXIMUS, Inc. - CEO

A couple of comments on this. First on education systems, I think we've positioned the division to be successful, but they still need to execute. So that's not a foregone conclusion. So we still have some significant management attention that will be put to that and we're working real hard to make sure that that happens.

On justice, you're right, the justice situation is more complicated. There are more clients involved. They have a very significant installed base of an earlier version of their software. And they launched a plan a couple of years ago to build out a new web-based architecture which has a lot of appeal to it in the marketplace. They've made some commitments to some very significant clients of this company. We're focused on completing those commitments to those clients. But by and large, the justice division simply didn't balance its commitments in the marketplace with its capability to deliver those commitments on a timely basis. So we're working hard to balance those commitments, fulfill the commitments to those larger clients, and focus the company.

And I think the right thing to do is focus on those commitments, complete the commitments. In the meantime, let's not go out and sign up new big commitments until we get the first part of the equation right. And then when we get that software built out and it's demonstrated to the existing client base, then they will open up the doors and look to market it further. But that's going to take a little bit of time.

Steve Balog - Cedar Creek Management - - Analyst

Okay. Were the divestitures dilutive or accretive or neutral?

Rich Montoni - MAXIMUS, Inc. - CEO

David?

David Walker - MAXIMUS, Inc. - CFO

They were mildly dilutive. Currently they were making a 4% operating income. So ---

Rich Montoni - MAXIMUS, Inc. - CEO

Let me make one point on the divestitures. The divestitures were executed under the element of our strategy which was to focus the company on its core. These were not trouble business, they were not problematic businesses. In fact, they were profitable businesses. And I view the time to divest those businesses is while they're relatively healthy. They should thrive under their new ownership. I think they have exciting opportunities with the focus that they're going to get from their new owners. It's just that it wasn't our focal point. Inside our company as a whole I'd like to emphasize that the two problem divisions we have have been education justice challenged by software development commitments. And they're very much development stage software build-out enterprises and we're working to remedy those two. Aside from those two, I don't think we have any problematic divisions inside the entire company. So we know where the challenges are. We're focused on them and they're very, very limited.

Steve Balog - Cedar Creek Management - - Analyst

Okay. And lastly, a broader question. When you first took over and said, we're going to be real, I guess, judicious in what new business we bring on, my first thought, well, that's great, but the revenue slows down. That hasn't really happened. Can you -- has that surprised you? Or could you talk to that -- I think it's kind of surprising, we're being more judicious, but business is still strong.

Rich Montoni - MAXIMUS, Inc. - CEO

I think this, on the surface, I can appreciate your observation, and I think it's a fair observation. But I think in business when you focus on your number one or two, especially in our marketplace where we have a customer base that places an inordinate amount of emphasis on the vendor's ability to deliver. They place a tremendous value on your experience and look for confidence in your ability to execute. And when that happens, you win more work than you otherwise would. And your ability to execute because you focus on those areas increases immensely.

So I think there's -- I think it drives higher revenue growth than run of the mill companies when you focus on your number one and two. I think it also drives higher margins because you're better able to avoid marginal work. You're better able to execute projects that you have. You discover your problems sooner and you can remedy them in a more effective fashion. So in those areas where we choose to focus, we have chosen to focus, we're seeing those benefits today.

Steve Balog - Cedar Creek Management - - Analyst

That's it. Thanks.

Rich Montoni - MAXIMUS, Inc. - CEO

You bet. Thank you.

Lisa Miles - MAXIMUS, Inc. - VP, IR

Thank you very much for joining our second quarter earnings call and that concludes our call today.

Operator

Ladies and gentlemen, this concludes today's presentation. A replay of this call will be available to you within two hours. You can access the replay by dialing (877)660-6853, or internationally (201)612-7415, enter account number 316, followed by the conference number 271353. Again, enter account number 316, followed by the conference number 271353. Thank you for your participation. You may now disconnect.

DISCLAIMER

Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

© 2005, Thomson StreetEvents All Rights Reserved.



David N. Walker
Chief Financial Officer and Treasurer
Second Quarter Fiscal 2008

May 8, 2008



Second Quarter Financial Results

- Q2 revenue was \$210.6 million – an 18% increase over same period last year
- All growth was organic - driven by new or expanding work in Operations segment
- MAXIMUS incurred charges totaling \$5.4 million (approximately \$0.17 per share) to include:
 - A \$2.2 million charge related to a contract modification that MAXIMUS initiated as part of a requirement to build software functionality for a large education contract in the Systems segment. The modification allows us to earn back the \$2.2 million provided we meet the deliverable schedule over the next 18 months
 - A \$2.3 million charge in Consulting segment related to our share of a client's reduced reimbursement on a legacy claiming project – amount may be recovered depending on client's appeal effort
 - Approximately \$0.9 million of legal expenses related to ongoing Accenture issue
- Company reported net income of \$9.6 million or \$0.51 per diluted share



Proceeds & Gains From Divested Businesses & Property Sale

- Two non-core divisions successfully divested in early May
 - Security Solutions from our Systems segment sold for cash proceeds of \$5 million
 - Unison, a subsidiary from our Consulting segment sold for approximately \$6.5 million
- Entered into contract to sell a building in McLean, Virginia in near term
- EPS gain from divestitures and building sale expected to be in range of \$0.21 to \$0.24
 - Gain to be recorded in third quarter



Operations Segment

- Revenue increased 33% to \$159.8 million compared to the same period last year
 - Growth driven by Health Operations, the Texas project and domestic and international Workforce Services operations
 - Segment revenue benefited from hardware and software purchases of approximately \$6.9 million
- Operating income totaled \$23.6 million – operating margin of 15%
 - Expansion in income reflects optimization of current book of business, transformation on Texas project and solid margins on new work
- Segment is expected to deliver operating margin in 12-15% range for full fiscal year 2008



Consulting Segment

- Consulting segment revenue for Q2 totaled \$20.2 million
 - Loss of approximately \$800,000 reported for the quarter
 - Loss reflects \$2.3 million charge related to legacy claiming project which the client is appealing and may be recovered at a future date
- Transitioning away from legacy claiming business
- Established presence in new markets targeting two areas
 - Program Integrity
 - Fraud, Waste & Abuse
- Optimistic about new markets and other plans which are developing for this segment



Systems Segment

- Total revenue for Q2 totaled \$30.5 million
 - Loss of approximately \$5.9 million reported for quarter
- Asset Solutions and ERP divisions continue to deliver strong results
- Losses in Education and Justice divisions stem from software commitments that will ultimately position them well in the market
- Steps being taken to improve underperforming divisions
 - Manage scope of existing contracts very judiciously and modify contracts where necessary
 - Tightly control new contract terms that contain software requirements
 - Change and supplement the management teams with individuals who have proven track records
 - Prudent cost management



Expenses & Margin

- Majority of charges in quarter impacted revenue and gross margins in Consulting and Systems segments
- An 8% operating margin was achieved in quarter – driven by Operations segment which offset charges in Systems and Consulting segments
- SG&A as a percent of revenue was 17.7%
 - An improvement over same period last year
 - Consistent with first quarter of fiscal 2008



Balance Sheet and Cash Flow Items

- Cash at March 31, 2008 totaled \$63.4 million
- Total Current Accounts Receivable for Q2 was \$175.0 million
- Additional \$1.7 million in long-term accounts receivable classified within other assets on balance sheet
- DSO's totaled 76 days
 - Anticipate DSO's to run between 75 to 85 days
 - Continue to trend under 80 days
- Cash from operations totaled \$4.5 million
- Free cash flow (cash from operations less Property & Equipment and Capitalized Software) was \$1.5 million
- Full fiscal year cash from operations expected to total \$50 to \$60 million, with free cash flow ranging from \$30 to \$40 million expected for full fiscal 2008



Richard A. Montoni
President and Chief Executive Officer
Second Quarter Fiscal 2008

May 8, 2008



Financial Results:

Continuing Strength in Operations Offset Weakness in Systems

- Redefining MAXIMUS as a leading pure play in government Health and Human Services' outsourcing
- Sharpened focus on core business should provide long-term sustained growth and increased shareholder value
- Results for the second quarter were impacted by charges in Consulting, Systems and legal expenses
- Management determined to improve underperforming areas and actively pursuing all alternatives
- Last week, MAXIMUS closed the sale of two non-core divisions



Operations Segment

- Operations Segment on Course for Long-Term Success
 - Strong Segment leadership promotes focus and diligence
 - Contractual discipline in how we acquire and structure new awards
 - Declined unacceptable rebid opportunities
 - Renegotiated inequitable contracts
 - Developing and pursuing new opportunities that represent sources of new incremental revenue
- Emphasis on sustainable, recurring revenues and profitable growth
 - Top-line gains of 33% compared to same period last year
 - Operating margin of 15%
 - Confident in the strides we've made to strengthen the segment and are now raising the lower end of target operating margin from 8-15% range to 10-15% range
 - Best validation of segment's success



Operations Segment Productization Efforts

- Productization is a key element to advancing technology efforts
 - Streamlining of processes
 - Moving away from highly customized solutions to more component based/modular approach
 - Utilize plug-and-play technology anchored in Services Oriented Architecture (SOA)
- Operating Enhancements
 - Completed and installed new enrollment broker platform in Indiana
 - Currently upgrading other existing clients to this new technology platform
 - On a path to complete productization of other core components by the end of this fiscal year
- Coupling new technology with standardized business processes will allow us to compete most cost effectively



Consulting Segment

- Consulting segment incurred a \$2.3 million charge related to legacy claiming project
 - Client is appealing
 - Prior to job start, brought in specialized counsel to review and approve claiming methodology which had be utilized before
 - View this as a normal course exercise
 - We no longer provide federal claiming on contingency basis
- Our emphasis has been on expanding into other areas which overlap more with our core program management offerings like program integrity – fraud, waste, abuse
- Consulting services very important to our customer base and dovetail with our core services
- Pursuing opportunities to pair our consulting services with our health and human services portfolio
- Collaborative efforts will facilitate better cross-selling while sharing best practices from state to state



Significant Progress on Divestitures of Non-Core Assets

- Subsequent to quarter end, closed the sale of two business
- UNISON-MAXIMUS, which was part of the Consulting segment, was divested through a division management-led buyout
 - This is an airport, retail and financial consulting business
 - A profitable contributor but outside our core business
- Security Solutions, which was part of the Systems segment, was sold to Cogent
 - While a stable contributor, was not consistent with our refined business focus



Systems Segment

- Challenges limited to Justice and Education divisions
 - Trying to complete software development and generate business unit improvement, while at the same time meeting contractual obligations
 - Near-term emphasis on balancing commitments and changing the way we go to market to emphasize product standardization over customized solutions
 - In Justice, initiated cost cutting measures with 25% reduction in force – expect annualized savings of approximately \$4 million, some of which we expect to realize in the fourth quarter
- New segment leadership: John Hines stepping up to lead our efforts
- Deployed top technologists to help accelerate the completion of software products and provide added oversight
- Bottom line is to effect near-term change
 - Successful renegotiation of our largest Education contract with modified terms and conditions now provides a well-constituted correlation between the plan and the commitment milestones
 - Concurrently exploring parallel path of strategic alternatives for other non-core businesses



Overall Market Outlook

- Even with State budgets under pressure, the need for our services remains strong. We have not seen a slow down to date.
- MAXIMUS is well positioned to capitalize on international opportunities that are developing in our core health and human services operations
- In March, awarded a \$14.2 million amendment to our Master Services Agreement in British Columbia
 - Amendment for PharmaNet program which we have administered since 2005
 - MAXIMUS will lead effort to upgrade application to next generation platform
- Pursuing other meaningful opportunities with substantial marketing efforts underway in Australia, Canada and the UK
 - Potential contracts quite large – may be bid in regions as in US which would make a perfect fit in terms of scope and size
 - Revenue may potentially begin as early as second half of fiscal 2009 and stretching beyond



New Awards and Sales Pipeline

(\$ in millions)

Sales	May 5, 2008	May 2, 2007
New Signed Awards	\$615	\$302
New Awards (unsigned)	\$149	\$82
Pipeline		
Proposals Pending	\$581	\$519
Proposals in Preparation	\$121	\$86
RFP's Tracking	\$908	\$601
Total Pipeline	\$1,609	\$1,206



Rebids & Options

- Rebids: Notified of award on 3, totaling \$36 million, this leaves 8 remaining rebids with a total value estimated at \$237 million
- Option year exercises; to date out of the 27 options with a total value of \$223 million up for exercise this year, we have won or been notified of intent to award on 14 options with a value of \$122 million
- No options have been lost, non have been canceled or taken in house due to funding issues



Guidance

- Revising fiscal 2008 guidance resulting from the sale of businesses and impacts of this quarter
- While results in Systems have been disappointing we have made critical progress and are in better position to pursue alternatives for non-core assets
- Operations segment continues to record solid financial performance
- For fiscal 2008 we now expect revenue in the range of \$830 million to \$850 million
- GAAP basis diluted EPS of \$2.55 to \$2.70
 - This GAAP basis guidance includes a gain of approximately \$0.21 to \$0.24 related to the sale of Security Solutions and Unison-MAXIMUS and the pending sale of a building in McLean, Virginia. Guidance also includes \$0.07 of forecasted legal charges for fiscal 2008