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## **FORM 10-K**

**MAXIMUS INC - MMS**

**Filed: November 23, 1998 (period: September 30, 1998)**

Annual report with a comprehensive overview of the company

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
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FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF  
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1998

COMMISSION FILE NUMBER: 1-12997

MAXIMUS, INC.

(Exact name of Registrant as specified in its Charter)  
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VIRGINIA

(State or other jurisdiction of incorporation or organization)

54-1000588

(I.R.S. Employer Identification Number)

1356 BEVERLY ROAD, MCLEAN, VIRGINIA 22101

(Address of principal executive offices including zip code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (703) 734-4200  
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SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

COMMON STOCK, NO PAR VALUE

(Title of Class)

NEW YORK STOCK EXCHANGE

(Name of each Exchange on which registered)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

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

The approximate aggregate market value of voting stock held by non-affiliates of the Registrant as of November 19, 1998 was \$205,437,792 based on the last reported sale price of the Registrant's Common Stock on the New York Stock Exchange as of the close of business on that day. (On the same basis the aggregate value of the voting stock, including shares held by affiliates was \$542,207,673). There were 18,225,468 shares of the Registrant's Common Stock outstanding as of November 19, 1998.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement for its 1999 Annual Meeting of Shareholders to be held on February 23, 1999, which Definitive Proxy Statement will be filed with the Securities and Exchange Commission not later

than 120 days after the Registrant's fiscal year-end of September 30, 1998, are incorporated by reference into Part III of this Form 10-K.

PART I

ITEM 1. BUSINESS

OVERVIEW

MAXIMUS, Inc. ("MAXIMUS" or the "COMPANY") is a leading provider of program management and consulting services to government agencies throughout the United States. Since its inception in 1975, the Company believes it has been at the forefront of innovation in meeting its mission of "Helping Government Serve the People(TM)." MAXIMUS's services are designed to make government operations more efficient and cost effective while improving the quality of the services provided to program beneficiaries. The Company applies an entrepreneurial, private sector approach utilizing advanced technology in projects in almost every state in the nation and in markets in several foreign countries.

MAXIMUS conducts its operations through two groups: the Government Operations Group and the Consulting Group. The Government Operations Group administers and manages government health and human services programs, including welfare-to-work and job readiness, child support enforcement, managed care enrollment and disability services. The Consulting Group provides planning and management, information technology consulting, strategic program evaluation, program improvement, financial management, revenue maximization, fleet management and other public sector-related consulting services to all government agencies. In fiscal 1998, the Company significantly expanded its Consulting Group by combining with four consulting firms, and it now estimates that it is the largest provider of general consulting services to state and local government agencies in the United States.

MARKET OPPORTUNITIES

The Company believes that providing program management and consulting services to government agencies represents a significant market opportunity. Federal, state and local government agencies in the United States spend more than \$250 billion annually on the health and human services programs to which the Company markets its services, including Medicaid, Food Stamps, Temporary Assistance to Needy Families, Child Support Enforcement, Supplemental Security Income, General Assistance, Child Care and Child Welfare. The state operated programs alone cost an estimated \$21.0 billion annually to administer. This figure does not include administrative costs for Medicare and Title II Disability Insurance, which are administered without state assistance. The following chart sets forth currently available data from U.S. government publications for programs served by the Company:

STATE OPERATED PROGRAM	ESTIMATED NUMBER OF BENEFICIARIES SERVED	ESTIMATED ANNUAL ADMINISTRATIVE EXPENDITURES
Medicaid.....	36.1 million	\$ 6.7 billion
Food Stamps.....	26.9 million	3.8 billion
Temporary Assistance to Needy Families.....	12.6 million	3.3 billion
Child Support Enforcement.....	11.5 million	3.1 billion
Supplemental Security Income.....	6.6 million	2.0 billion
General Assistance/Social Services/Other.....	10.0 million	2.1 billion
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	103.7 million	\$ 21.0 billion

In the last several years, there has been a surge in legislation and

initiatives to reform federal, state and local welfare and health and human services programs. One of the most significant of these legislative reforms was the Welfare Reform Act, which restructured the benefits available to welfare recipients, eliminated unconditional welfare entitlement and, most importantly, restructured the funding mechanisms that exist between federal and state governments. Under the Welfare Reform Act, states receive block grant funding from the federal government and are no longer able to seek reimbursement in the form of matching federal government funds for expenditures in excess of block grants. Accordingly, states bear the financial risk for the operation of their welfare programs.

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A number of state governments are taking action to respond to changes being initiated as a result of welfare reform. Some of these actions include enlisting the advice of specialized management consultants on ways to more efficiently and effectively administer their health and human service programs and by outsourcing management of such programs completely. As a result, MAXIMUS, for example, has been awarded performance-based contracts to manage health care enrollment services contracts for government agencies in Michigan, Texas, New York, New Jersey, and California. MAXIMUS has also been retained by numerous states and municipalities to provide consulting services.

A more recent initiative at the federal level is the Balanced Budget Act of 1997 (the "BALANCED BUDGET ACT"), which established, among other programs, the State Children's Health Insurance Program (the "CHILDREN'S HEALTH INSURANCE PROGRAM"). This program provides federal matching funds to enable states to expand health care to targeted uninsured, low-income children. Over the next five years, \$20.3 billion will be made available to states with federally-approved plans to expand state Medicaid programs, initiate new insurance programs or combine approaches. In June 1998, the Clinton administration also mandated sweeping protections to Medicare beneficiaries, including increased access to health plans by persons with pre-existing illnesses, added protections for women and non-English speaking beneficiaries and increased availability of specialists. Given the breadth and depth of the Company's expertise, it believes it is well positioned to capitalize upon these new opportunities to assist states in planning, implementing and maintaining the increased enrollment and outreach that will be required by these new federal initiatives.

The Company believes that these legislative changes, when combined with political pressures and the financial constraints that inevitably result, will accelerate the rate at which state and local government agencies seek new solutions to reduce costs and improve the effectiveness of health and human services programs. The Company believes that government agencies will continue to turn to companies such as MAXIMUS to reduce costs and improve the effectiveness of health and human services programs. The Company believes that it more effectively administers government programs due to its ability to: (i) accept contracts where compensation is based on performance; (ii) attract and compensate experienced, high-level management personnel; (iii) rapidly procure and utilize advanced technology; (iv) vary the number of personnel on a project to match fluctuating work loads; (v) increase productivity by providing employees with financial incentives and performance awards and more readily terminating non-productive employees; (vi) provide employees with ongoing training and career development assistance; and (vii) maintain a professional work environment that is more conducive to employee productivity.

The Company believes that state and local governments will continue to seek its services despite the effect of economic cycles on government budgets. Historically, in times of both budget surpluses and deficits, state and local governments have relied on the private sector to deliver services to its citizens. In recent years, as governments at all levels have experienced budget surpluses, new programs have been initiated to assist even more sectors of society (such as the Children's Health Insurance Program), increasing the population of beneficiaries of the Company's services. In more austere times, the population enrolled in existing government health and welfare programs

expands, requiring governments to spend more to administer these programs, but facing increased pressure to do so cost-effectively. As a result, even in depressed economic cycles, the Company's business has continued to expand.

The Company is recognized as a principal partner of state and local governments for program management and consulting. With more than 100 offices located throughout the nation, the Company has the local presence and decentralized organization to promote relationships with the executive and legislative branches of state and local governments. With more than 2,800 employees nationwide, the Company has more specialized resources than most state, city or county government agencies.

#### STRENGTHS AND DIFFERENTIATIONS

The Company believes that it has been a pioneer in offering state and local government agencies a private sector alternative to internal administration of government health and human services programs. The Company has also successfully increased the breadth of its service offerings to meet such demand from government agencies. The following business strengths and differentiating characteristics position MAX-

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IMUS to capitalize on the significant market opportunities presented by the changing environment of health and human services program regulation:

**Single Market Focus.** The Company believes that it is the largest company dedicated exclusively to providing program management and consulting services to government health and human services agencies, as well as the largest provider of general management consulting services to state and local government agencies. The Company has accumulated a detailed knowledge base and understanding of the regulation and operation of health and human services programs that allows it to apply proven methodologies, skills and solutions to new projects in a cost-effective and timely fashion. The Company believes that the size, depth and broad range of its health and human services program expertise, and related areas of government program management, differentiate it from both small firms and non-profit organizations with limited resources and skill sets as well as from large consulting firms that serve multiple industries but lack the focus necessary to understand the complex nature of serving government agencies.

**Expanded Consulting Group.** During fiscal 1998, the Company significantly expanded its Consulting group by acquiring four consulting companies: Spectrum Consulting Group, Inc. and Spectrum Consulting Services, Inc. (collectively, "SPECTRUM"), David M. Griffith & Associates, Ltd. ("DMG"), Carrera Consulting Group ("CARRERA") and Phoenix Planning & Evaluation, Ltd. ("PHOENIX"). These combinations increased the number of the Company's professional consultants from approximately 125 to over 600 and the Company believes it has the largest management consulting practice dedicated to serving state and local government in the U.S. The Company believes that the expansion of its consulting practice provides it with significant competitive advantages including: (i) a more predictable source of revenues with operating margins similar to the Consulting Group; (ii) a significant source of experienced consultants with an established knowledge base, re-useable methodologies and valuable relationships with members of the executive and legislative branches of state and local governments; (iii) a broader suite of consulting services that are increasingly demanded by state and local government seeking a single-source provider of program management and consulting services including cost accounting; human resources consulting; executive recruiting; fleet management; Year 2000 planing and management; software and systems integration; strategic planning, evaluation and implementation for government; electronic commerce and "smart card" technologies; and (iv) a broader client base that facilitates cross-selling opportunities between the Consulting Group and Government Operations Group.

**Proven Track Record.** Since 1975, MAXIMUS has successfully applied its entrepreneurial private sector approach to assisting government health and human

services agencies. Over the last five years, the Company has successfully completed approximately 500 program management and consulting services projects for state and local health and human services agencies serving millions of beneficiaries in nearly every state. The Company believes that the successful execution of these projects has earned the Company a reputation for providing efficient and cost-effective services to government agencies while improving the quality of services provided to program beneficiaries. The Company's reputation has contributed significantly to its ability to compete successfully for new contracts. Additionally, the Company's combinations with Spectrum, DMG, Carrera and Phoenix provide it with extended service capabilities and an additional base of established clients that the Company believes will further enhance its reputation as a leading provider of high-quality management and consulting services to state and local government agencies.

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

Proprietary Case Management Software Program. The Company has developed a proprietary automated case management software program called the MAXSTAR Human Services Application Builder ("MAXSTAR"). MAXSTAR is a software platform that allows the Company to reduce project implementation time and cost. Because government agencies are often required to manage vast amounts of data and large

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numbers of cases without access to advanced technology and experienced professionals, the Company believes that MAXSTAR, together with the Company's experienced information technology professionals, is a key element of its success.

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

#### GROWTH STRATEGY

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

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

Aggressively Pursue New Business Opportunities. The Company believes that, throughout its 23-year history, it has been a leader in developing innovative solutions to meet the evolving needs of state and local health and human

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

Continue to Add a Range of Complementary Consulting Services. The Company intends to continue to broaden its range of consulting services in order to respond to the evolving needs of its clients and provide cross-selling opportunities. The Company intends to continue to acquire or internally develop innovative technologies and methodologies that are required by government entities in order to effectively deliver public services.

Pursue Strategic Acquisitions. Given the highly fragmented structure of the government services and consulting marketplace, the Company believes that it will continue to successfully identify and pursue attractive acquisition opportunities. Acquisitions can provide the Company with a rapid, cost-effective method to broaden its services, increase the number of professional consultants, broaden its client base, cross sell additional services, establish or expand its presence geographically, or obtain additional skill sets. The recent combinations with Spectrum, DMG, Carrera and Phoenix have increased the Company's client base by over 2,000 and added 500 new consultants.

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

4

6

## SERVICES

The Company's services are designed to make the operations of government health and human services programs more efficient and cost effective while improving the quality of the services that such government agencies provide to program beneficiaries. The Company organizes its operations into two groups: (i) the Government Operations Group, specializing in the management of government health and human services operations; and (ii) the Consulting Group, which offers consulting services to every state, county and local government agency, including health and human services, law enforcement, parks and recreation, taxation, housing, motor vehicles, labor, education and legislatures.

## GOVERNMENT OPERATIONS GROUP

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

Child Support Division. The Company provides a full range of child support enforcement ("CSE") services, including: (i) outreach to and interview of parents of children entitled to child support; (ii) establishing paternity and obtaining, enforcing, reviewing and modifying child support orders; and (iii) payment processing. The Company operates statewide client service units, updates case arrearage and demographic data for new CSE automated systems and provides training to CSE workers. The Company believes that it has one of the largest CSE staffs in the private sector with over 500 professionals. The Company has been performing these services since 1976, which the Company believes is longer than any other private sector firm in the United States. The Company is currently engaged in the management of CSE programs in several states providing full child support services and specialized services for over 600,000 cases. For example, in June 1998, the Company was awarded a five-year, \$29 million, full-service CSE

program management follow-on contract in Nashville, Tennessee.

Managed Care Enrollment Division. The Company provides a variety of project management services for Medicaid programs with a particular emphasis on large-scale managed care enrollment projects. In these projects, the Company provides recipient outreach, education and enrollment services; an automated information system customized for the state; data collection and reporting; collaborative efforts with community-based organizations and advocacy groups in conducting outreach and education activities; design and development of program materials; health plan encounter data analysis and reporting; and care coordination for Early and Periodic Screening, Diagnosis and Treatment services. The Company currently provides managed care enrollment contract services to more Medicaid recipients than any other public or private sector entity in the country, operating projects for the states of California, New York, Texas, Michigan, Colorado, Vermont, Massachusetts, New Jersey and Georgia. In recent months, the Company has begun to administer programs for uninsured and underinsured children as part of the Children's Health Insurance Program in various states, including Michigan, Massachusetts, Vermont, New Jersey, and Kansas.

Welfare Reform Division. The Company manages welfare-to-work programs by providing a wide range of services, including eligibility determination, emergency assistance, job referral and placement, transition services such as child care and transportation, community work training services, job readiness preparation, case management services and selected educational and training services. The Company's typical welfare-to-work contract involves the engagement of the Company for a period of three to five years. The Company has served over 250,000 welfare recipients in numerous states, and has achieved an average employment placement rate in excess of 80%. For example, the Company currently manages a welfare reform program in Milwaukee County, Wisconsin under a three-year, \$24 million contract. In 1998, the Company was awarded a contract to provide employment services in San Diego, California serving 13,000 participants and valued at more than \$6 million annually. Additionally, the Company has recently been awarded performance-based, welfare-to-work contracts in Texas, Illinois, Delaware, Virginia, Maryland and Pennsylvania totaling over \$10 million. The Company provides statewide child care services in Connecticut and was also recently awarded a contract to provide child care services statewide in Hawaii. As an outgrowth of the Company's welfare reform services, the Company has developed MAXSTAFF, an independent employment agency that leverages the

5

7

Company's referral and placement infrastructures by helping employers find qualified employees or temporary staff from the large pool of human resources the Company manages.

Federal Services Division. The Company provides a host of large-scale, nationwide management services geared toward case management, innovative return-to-work strategies, program management and staffing support services. Areas of specialization include disability services, vocational rehabilitation, substance abuse/mental health services and justice administration. In 1995, the Company became the first company to operate a national case management and monitoring program for disability beneficiaries when it contracted with the Social Security Administration to provide referral and monitoring services to beneficiaries with drug or alcohol disabilities. Under the program, the Company successfully referred approximately 140,000 disabled beneficiaries into treatment as a first step to re-entering the work force. The Company intends to leverage this experience by pursuing other large scale program management contracts with other agencies of the federal government, including the Department of Justice and the Department of Veterans Affairs.

#### CONSULTING GROUP

The Company's Consulting Group is comprised of the following eight divisions: the Information Technology Solutions Division, the Systems Planning and Integration Division, the International Division, the Human Services



Division, Phoenix Consulting Group, the Spectrum Consulting Division, the Carrera Consulting Group and DMG-MAXIMUS.

Information Technology Division. The Company provides computer systems management and business process re-engineering services to state, county and other local governments. The Company provides services associated with project management, including assessing current and future business needs, defining user requirements, designing automated systems, developing requests for proposals, and providing evaluation assistance, contract negotiations and quality assurance monitoring services. Since 1991, the Company has provided information technology systems and design services for projects in more than 40 states in the nation. The Company also specializes in providing management services to agencies administering criminal justice programs. In November 1997, Company was selected by the State of Connecticut to provide project management and system integration services for the criminal justice information system Offender Based Tracking System for the Connecticut Office of Policy and Management. This \$5.5 million contract will run through September 2001. The Company also provides re-engineering services to government authorities such as the County of Los Angeles. The Company is assisting the County (Board of Supervisors, Auditor-Controller, Office of the Assessor, Registrar-Recorder/County Clerk, and the Treasurer and Tax Collector) in the development of the County's Property Tax System Business Process Re-engineering Project. In addition, the Company provides assistance in assessing, evaluating, testing and certifying government systems for Year 2000 compliance. The Company is currently providing Year 2000 project management and quality services to the Department of Information Technology for the State of Connecticut.

Systems Planning Division. The Company believes that its Systems Planning Division is a leading provider of strategic information management, procurement and contracting, systems quality assurance and systems implementation services to the rapidly expanding state health, human services and child support enforcement agency market. Using an experienced team of skilled project managers and information technology professionals, the Company has, in multiple projects across numerous states, assisted clients in the planning, design, procurement and implementation of information systems totaling nearly \$1 billion. These complex, high-profile systems -- which have ranged from \$5 million to over \$100 million and from 200 to 2,000 users -- serve as the mission critical infrastructure for over \$30 billion in annual health and human services expenditures. The division also supports the card technologies practice of the Company's Phoenix Consulting Division focusing on its application to electronic benefits transfer and driver's license applications. The potential market for the division's services has continued to expand in recent years. Welfare reform is forcing dramatic changes in eligibility systems for welfare programs. The number of work force development programs sponsored by the Department of Labor are also increasing. Significant changes to the systems supporting Medicaid, often the single largest budget item of state government budgets, will be required by the shifts from fee-for-service programs coupled with federally mandated competition for Medicaid Management Information Systems operations support. Given the Company's successful track record, core competencies and

6

8

national market presence, the Company believes that it is well positioned to take advantage of the increased nationwide emphasis in state government on eligibility systems, managed care, child services, family court services and child support enforcement. Additionally, the Company believes that synergies between the Company's Consulting and Government Operations Groups and other strategic hires will uniquely position the Company to take advantage of the new market opportunities created by the recently enacted changes to managed care and the Child Health Insurance Program.

International Division. The Company provides health care consulting and systems services to assist foreign government agencies and health care organizations responsible for the delivery of treatment services to large populations. The Company automates and restructures clinical information systems for large outpatient providers, hospital information systems, managed care information systems, beneficiary management systems and treatment network

management systems for managing large networks of health treatment facilities. In addition, the Company consults with foreign government agencies in developing health care policy reforms, treatment quality improvements and productivity enhancements. The Company's health care systems software, developed in ORACLE(R), is a platform-independent and multi-language software package. The Company has developed an Arabic language version of this software for use in the Middle East. Currently, the division is engaged in two major automation projects in Egypt, installing a health care information system in three hospitals in Cairo and a national health care system database in hospitals and clinics throughout the country to allow the Egyptian Health Insurance Organization to better manage its facilities. Additionally, in Argentina, the Company is providing organizational and management services to the health plan of an employee union with almost 500,000 members, and conducted a demonstration project in support of Health District autonomy for the Ugandan Ministry of Health to improve the effectiveness of its contracting process in selected pilot Health Districts.

Human Services Division. The Company's Human Services Division provides program planning and implementation, revenue maximization and evaluation consulting assistance to human services, health and education agencies in state, local and federal government. The Company has completed comprehensive welfare reform planning and implementation projects for the District of Columbia and the State of Nevada, and has been engaged by the District of Columbia to provide planning and implementation assistance for a new Child Health Insurance Program. Revenue maximization projects, which involve increasing federal financial participation in state health and human services programs and are generally carried out on a contingency fee basis, have been completed or are on-going in more than twenty states. The states have received more than \$350 million in additional federal revenue as a result of the Company's efforts and expect current projects to yield another \$300 million in new federal revenue. The Company also is frequently engaged to conduct evaluations of government programs and demonstrations. Program evaluation contracts are often multi-year research projects involving the collection of extensive data using automated data merges as well as surveys and case record reviews. Since 1994, the Company has completed scores of welfare reform, revenue maximization and program evaluation projects for numerous states and localities.

Electronic Commerce and Card Technologies Consulting Services (Phoenix Consulting Division). The Company's Phoenix Consulting Division provides health, transportation, education, banking and human service clients with expert assistance in planning, implementing and evaluating Electronic Funds Transfer ("EFT"), Electronic Benefits Transfer ("EBT"), Electronic Payment Systems ("EPS"), smart card, biometric recognition system and related technologies. Responding to pressures to provide more time- and cost-efficient services, public-sector entities are increasingly following the general trend of moving from paper-based to electronics-based systems. In addition to its cost efficiencies, electronic commerce ("EC") technologies can provide more accurate record keeping, minimize paper transactions and offer greater security against fraud and theft. For instance, recognizing the advantages of EBT systems, which permit a recipient to transfer his or her public-assistance benefits directly from a government account to the product or service vendor, the federal government has mandated that all states must convert to EBT issuance under the Food Stamp Program by October 2002. In over thirty states, Phoenix has assisted clients in making the conversion to electronic commerce. Currently, it is helping the state of New Jersey implement a program to facilitate 24-hour electronic access to a suite of government services using smart card technology. In other states, including Texas and California, Phoenix is providing expert assistance to implement EBT for WIC benefits. Phoenix has

become a recognized expert in its field, having delivered lectures at influential card-technology conferences such as CardTech/SecurTech NACHA, conducted training seminars for entities such as the U.S. Office of Management and Budget, the U.S. Joint Financial Management Improvement Program, American Banking Association and Food Marketing Institute, and having been a primary

consultant to Vice President Gore's Federal EBT Task Force.

Automation Consulting Services (Spectrum Consulting Division). The Company's Spectrum Consulting Division provides management consulting services that focus on assisting large public sector organizations in solving complex business problems related to automation. Spectrum has engagements in all areas of government, including the legislative, executive and judicial branches, and has extensive knowledge of the fiscal structure of states through its experience with state auditors, comptrollers and treasurers as well as a significant understanding of the programmatic areas of state government through close contact with many types of state agencies. The Company provides a variety of information technology services including Year 2000 quality assurance and project planning and management; quality assurance monitoring and assessment for child welfare, and healthcare and financial management systems; strategic planning; and advanced technologies. The Company also plans to provide clients with a comprehensive set of quality assurance and Year 2000 consulting services that are jointly developed by the Spectrum and Systems Planning and Integration divisions.

Carrera Consulting Group (a Division of MAXIMUS). The Carrera Consulting Group's mission is to deliver technology-based business solutions to government. Services include information technology strategic planning, year 2000 impact assessment and remediation, custom system development for health and human services systems and enterprise resource planning ("ERP") systems implementation. As a PeopleSoft Global Alliance Partner, the Carrera Consulting Group is one of the leading implementors of human resource and financial systems for state and local government. Prior to its combination with the Company, Carrera had implemented over thirty such systems for various government clients including the cities of Escondido, Los Angeles, Santa Monica, Des Moines, Akron, Eugene, Seattle and Denver; the counties of Solano, Tuolumne and King County Washington; and various organizations within the States of California, Georgia and New York. The Carrera Consulting Group has also provided implementation management, conversion, development projects. The Carrera Consulting Group offers clients a highly skilled consulting staff with focused expertise in helping public sector entities implement large-scale information systems.

DMG-MAXIMUS. The Company's DMG-MAXIMUS division provides a broad array of consulting services such as cost accounting, wage and compensation evaluation, executive recruitment and fleet management. A particular expertise of this division is assisting government entities with controlling their overhead and program specific costs. DMG-MAXIMUS conducts comprehensive reviews and audits of client operations at the department- or division-level to identify unusually costly units of service or departments not meeting community needs. The division also helps clients prepare rationalized cost accounting of their services, through preparing either (i) cost allocation plans, which allocates overhead costs of centrally-provided services among the departments by the level of use of such services; (ii) indirect cost rate proposals, which allocate inter-departmental administrative costs among the specific department programs and activities; (iii) or other such cost plans. DMG-MAXIMUS further assists local and state governments in determining the appropriate fee charges for government services by calculating the total costs of such fee-based services. DMG-MAXIMUS does not typically engage in the large scale projects undertaken by other of the Consulting Group's divisions. Its focus has been on discrete, specialized consulting engagements, which it currently has with over 2,000 clients throughout the United States. The Company views this expansive network of contacts as an opportunity to cross-sell its broad array of services by leveraging customer satisfaction in smaller engagements into potentially larger scale consulting projects.

#### BACKLOG

The Company's backlog represents an estimate of the remaining future revenues from existing signed contracts and revenues from contracts that have been awarded but not yet signed. Using the best available information, the Company estimates backlog on a quarterly basis with respect to all executed contracts. The backlog estimate includes revenues expected under the current terms of executed contracts, revenues from

contracts in which the scope and duration of the services required are not definite but estimable and does not assume any contract renewals or extensions.

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

At September 30, 1998 and 1997, the Company's backlog for services was approximately \$276 million and \$217 million, respectively.

#### MARKETING AND SALES

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

Following the issuance of an RFP, the Government Operations Group participates in formal discussions, if any, between the contracting government agency and the group of potential service providers seeking to modify the RFP and prepare the proposal. Upon the award of a government operations contract, the Company's representatives then negotiate the contract with representatives of the government authority until an agreement is reached.

The Consulting Group generates leads for consulting contracts by tracking bid notices, employing lobbyists, maintaining relationships with government personnel, communicating directly with current and prospective clients, and increasingly, through referrals and cross-selling initiatives from other divisions of the Consulting Group. The Consulting Group participates in professional associations of government administrators and industry seminars featuring presentations by the Company personnel. Senior executives from the Consulting Group develop leads through on-site presentations to decision-makers. In many cases, consulting contracts, like program management contracts, are obtained after responding to a formal RFP. The Consulting Group's efforts in generating a lead prior to the RFP can facilitate the Company's insight in responding to a particular RFP. A portion of the Consulting Group's new business arises from prior client engagements, in which case the Company may be the sole source of services. The Company also expects to leverage the client relationships of firms it acquires by cross-selling its existing services. Furthermore, clients frequently expand the scope of engagements during delivery to include follow-on complementary activities.

#### COMPETITION

The market for providing program management and consulting services to state and local health and human services agencies, as well as to public sector clients generally, is competitive and subject to rapid change. The Company's Government Operations Group competes for program management contracts with local non-profit organizations such as the United Way and Goodwill Industries, government services divisions of large companies such as Lockheed Martin Corporation and Electronic Data Systems, Inc., managed care enrollment companies

such as Benova, and specialized service providers such as Andersen Consulting, America Works, Inc., and Policy Studies Incorporated. The Company's Consulting Group competes with the consulting divisions of the "Big 5" accounting firms as well as Electronic Data Systems, Inc and many smaller consulting firms. The Company anticipates that it will face increased competition in the future as new companies enter the market, but that its experience, reputation, industry focus and broad range of services

9

11

provide significant competitive advantages which the Company expects will enable it to compete effectively in its markets.

#### GOVERNMENT REGULATION

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

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

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

**General Assistance/General Relief Programs.** There are also General Assistance or General Relief programs that are administered by the states. These welfare programs are not federally reimbursed and generally serve persons not eligible for other federal programs. By their nature, they are very restrictive in terms of eligibility requirements since states must pay 100% of both the benefit and administrative costs. The eligibility requirements for these programs vary by state and sometimes by county within the state. Forty two states currently have General Assistance programs in operations. Thirty three of the states operate the program in only a portion of the state.

**Food Stamp Program.** The Food Stamp Program is a federally funded program that is administered by the states. The purpose of the program is to increase the food purchasing power of eligible low-income households to a point that they can buy a nutritionally adequate, low-cost diet. The program subsidizes food purchases through the issuance of food stamps or through issuance of electronic cards. Food stamp program benefits are entirely paid for by the federal government and food stamp program administrative costs are shared 50/50 with the states, except that states with low error rates may have up to 60% of their administrative costs reimbursed. Eligibility for TANF or SSI also ensures eligibility for food stamps.

Supplemental Social Security Income. Titles XVI of the federal Social

Security Act provide for the administration and distribution of financial assistance to disabled individuals whose impairments make them unemployable. There has been political pressure on the Social Security Administration (the "SSA") and the states to review the caseload of Title XVI beneficiaries to ensure that each individual's disability still exists and that the extent of such disability remains sufficient to preclude employment. In addition, the SSA has been under pressure to increase and improve vocational rehabilitation efforts focused on returning disabled beneficiaries to work and self-sufficiency.

Child Support Enforcement. The federal Child Support Enforcement ("CSE") program, authorized under Title IV-D of the Social Security Act, was established in 1975 in response to the increasing failure of many parents to provide financial support to their children. The purpose of the CSE program is to help strengthen families and reduce Welfare dependency by placing the responsibility for supporting children on the parents rather than on the government. State governments are generally required to locate absent parents,

10

12

establish paternity if necessary, obtain judicial support orders and collect the support payments required by those orders. Child Support Enforcement has been the subject of close scrutiny in recent years and is an area of health and human services where government has sought significant private sector involvement including full service program management efforts.

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

Medicaid, Medicare and the Children's Health Insurance Program. Medicaid and Medicare were implemented under Title XIX and XVIII of the Social Security Act. Medicaid is a federal-state matching entitlement program that provides reimbursement for the cost of medical care to low-income individuals who are aged, blind, disabled or TANF beneficiaries, and to certain pregnant women and children. Within broad federal guidelines, each state designs and administers its own program. Eligibility and claims processing systems are automated by each state to handle this program, which is typically the largest line item in a state budget. Federal assistance is also available on a waiver basis for managed care enrollment for Medicaid recipients and similar populations. Medicare is a federal entitlement program providing reimbursement of a portion of the cost of medical care provided to the elderly. The Child Health Insurance Program is a recently enacted \$20 billion program to provide health care for children whose family income is near the poverty level.

#### HUMAN RESOURCES

As of November 19, 1998, the Company had more than 2,800 employees, consisting of 2,067 employees in the Government Operations Group, 685 employees in the Consulting Group and 126 administrative employees. The Company's success depends in large part on attracting, retaining and motivating talented, innovative and experienced professionals at all levels. In connection with its hiring efforts, the Company employs a full-time human resources coordinator, retains several executive search firms and relies on personal and business contacts to recruit senior level employees for senior management positions in the Government Operations Group and Consulting Group and for senior administrative positions. When the Company's Government Operations Group is awarded a contract by a state or local government, the Company is often under a tight timetable to hire project leaders and case management personnel to meet the needs of the new project. To meet such needs, the Company engages intensive short-term hiring efforts at the project's location.

The Company's hiring focus is to identify candidates who are well suited by background and temperament to serve the Company's government clients. The Company's Government Operations employees are largely drawn from government employment positions, while the Consulting Group employees are largely selected from other consulting organizations and government agencies.

The Company offers employees an internal training program designed to enhance professional skills and knowledge. Offered twice a year, the three-day program includes human resources topics such as cultural sensitivity, sexual harassment and wrongful termination; marketing, proposal writing and public relations; project administration topics such as contract negotiations, project management, deliverable preparation and client management; and technology updates. In addition, the Company offers partial tuition reimbursement for employees pursuing relevant degree programs and fully reimburses employees for relevant training seminars and short courses.

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

11

13

## ITEM 2. PROPERTIES

The Company is headquartered in McLean, Virginia, in a 21,000 square foot office building which it owns. The Company leases office space for other management and administrative functions in connection with the performance of its contracts in various states and foreign countries. On October 1, 1998, the Company conducted operations from 114 leased office facilities totaling approximately 576,000 square feet. The lease terms vary from month-to-month to five-year leases and are generally at market rates. The Company is currently seeking additional space to house its new headquarters and to support its expanding operations and believes that it will be able to secure such space, as needed, in the future.

## ITEM 3. LEGAL PROCEEDINGS

On March 12, 1997, Network Six, Inc. ("NETWORK SIX") served MAXIMUS with a First Amended Third-Party Complaint filed in the State of Hawaii Circuit Court of the First Circuit. In this complaint, Network Six named the Company and other parties as third party defendants in an action by the State of Hawaii against Network Six. In 1991, the Company's Consulting Group was engaged by the State of Hawaii to provide assistance in planning for and monitoring the development and implementation by Hawaii of a statewide automated child support system. In 1993, Hawaii contracted with Network Six to provide systems development and implementation services for this project. In 1996, the state terminated the Network Six contract for cause and filed an action against Network Six. Network Six counter-claimed against Hawaii that the state breached its obligations under the contract with Network Six. In the Third Party Complaint, Network Six alleges that the Company is liable to Network Six on grounds that: (i) Network Six was an intended third party beneficiary under the contract between the Company and Hawaii; (ii) the Company engaged in bad faith conduct and tortiously interfered with the contract and relationship between Network Six and Hawaii; (iii) the Company negligently breached duties to Network Six; and (iv) the Company aided and abetted Hawaii in Hawaii's breach of contract. Network Six's complaint seeks damages, including punitive damages, from the third party defendants in an amount to be proven at trial. The Company believes that Network Six was not an intended third party beneficiary under its contract with Hawaii and that Network Six's claims are without factual or legal merit. The Company does not believe this action will have a material adverse effect on the Company's business, and it intends to vigorously defend this action. However, given the early stage of

this litigation, no assurance may be given that the Company will be successful in defending this action. A decision by the court in Network Six's favor or any other conclusion of this litigation in a manner adverse to the Company could have a material adverse effect on the Company's business, financial condition and results of operations.

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

On May 12, 1998, the Company 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 waste water treatment plant in Arizona. However, the District was unable to service the bonds and eventually declared bankruptcy. Two actions arising out of those events were filed against DMG in the U.S. District Court for the District of Arizona, one filed on January 31, 1997 by Allstate Insurance Company ("ALLSTATE") against DMG and thirteen other named defendants, and another filed on December 2, 1996 by the District against DMG. The action brought by the District against DMG was dismissed by the U.S. District Court on August 19, 1998. Nevertheless, the District was subsequently joined as a party in the Allstate litigation and has reasserted its claims against DMG in a third party complaint. The parties making claims

against DMG allege that DMG made false and misleading representations in the reports 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, no assurance can be given that the Company will be successful in defending this lawsuit.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

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

EXECUTIVE OFFICERS OF THE REGISTRANT

The current executive officers of the Company are as follows:

NAME	AGE	POSITION
David V. Mastran.....	55	President, Chief Executive Officer and Director
Raymond B. Ruddy.....	55	Chairman of the Board of Directors, Vice President of the Company, President of Consulting Group,



		Treasurer and Director
Russell A. Beliveau.....	51	President of Business Development and Director
Margaret Carrera.....	44	President of Carrera Consulting Group, Vice-Chairwoman of the Board and Director
Ilene R. Baylinson.....	42	President of Federal Services Division
John F. Boyer.....	51	President of Managed Care Enrollment Division
David M. Casey.....	40	President of Information Technology Division
George C. Casey.....	54	President of Spectrum Consulting Division
Louis E. Chappuie.....	60	President of DMG-MAXIMUS and Director
Lynn P. Davenport.....	51	President of Human Services Division and Director
Gary L. Glickman.....	45	President of Phoenix Consulting Division
David A. Hogan.....	50	President of Child Support Division
John P. Lau, Sr.....	55	President of International Division
Holly A. Payne.....	45	President of Welfare Reform Division
Susan D. Pepin.....	44	President of Systems Planning Division and Director
Robert J. Muzzio.....	64	Executive Vice President and Director
F. Arthur Nerret.....	51	Vice President, Finance and Chief Financial Officer
Robert E. Taggart, Jr.....	52	Vice President and Chief Operating Officer of DMG- MAXIMUS

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

Raymond B. Ruddy has served as the Chairman of the board of directors since 1985 and President of the Company's Consulting Group since 1986. From 1969 until he joined the Company, Mr. Ruddy served in

various capacities with Touche Ross & Co., including, Associate National Director of Consulting from 1982 until 1984 and Director of Management Consulting (Boston, Massachusetts office) from 1978 until 1983. Mr. Ruddy received his M.B.A. from the Wharton School of Business of the University of Pennsylvania and his B.S. in Economics from Holy Cross College.

Russell A. Beliveau has served as the President of the Company's Business Development Division since September 1998. Prior to that, he served as President of the Government Operations Group since 1995. Mr. Beliveau has more than 20 years' experience in the Health and Human Services Industry during which he has worked in both government and private sector positions at the senior executive level. Mr. Beliveau's past positions include Vice President of Operations at Foundation Health Corporation of Sacramento, California from 1988 through 1994 and Deputy Associate Commissioner (Medicaid) for the Massachusetts Department of Public Welfare from 1983 until 1988. Mr. Beliveau received his M.B.A. in Business Administration and Management Information Systems from Boston College in 1980 and his B.A. in Psychology from Bridgewater State College in 1974.

Margaret Carrera has served as President of the Company's Carrera Consulting Group division, Vice-Chairwoman of the board and a director since the acquisition of Carrera by the Company in August 1998. Prior to that time she had served as President of Carrera since its founding in 1991. Ms. Carrera has twenty years of experience in management information systems. Prior to the founding of Carrera, she served as West Region Director of Information Systems consulting for the Public Sector with Ernst & Young LLP and Vice President of Bank Card Processing for Bank of America. She has also held positions at Cambridge Systems Group and Pacific Telephone. Ms. Carrera received her M.B.A. in Finance from San Francisco State University in 1980 and her B.A. in Mathematics and Chemistry from United States International University in 1975.

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

until her departure and Corporate Vice President/Director, Law and Justice Division from 1985 through 1991.

John F. Boyer has served as President of the Company's Managed Care Enrollment Division since October 1998, after serving in various capacities for that division since Fall of 1997. Prior to that, he served as Vice President for Strategic Planning and Contract Administration of the Company since 1995. Dr. Boyer has more than 20 years' experience in health care delivery in both clinical and administrative settings. Prior to joining the Company, Dr. Boyer served as Director of Health Services Financing Policy in The Office of The Assistant Secretary of Defense (Health Affairs) at the Pentagon from 1989 until 1995. Dr. Boyer received his Ph.D. in Public Administration and Public Policy Analysis from The American University in 1989, his M.S. in Management from The Naval Postgraduate School in 1981, his M.S. in Nursing from New York Medical College in 1973 and his B.S. from Illinois State University in 1969.

David M. Casey has served as the President of the Information Technology Division of the Company since 1997 and has been with the Company since 1994. Mr. Casey has 17 years of professional experience in management information systems. Prior to joining the Company, Mr. Casey served as a Government and Education Account Executive for Wang Laboratories, Inc. from 1987 until 1994 and served as a Sales Consultant at Wang Laboratories, Inc. from 1986 to 1987. Mr. Casey has also held positions at Motorola, Inc. and Polaroid Corporation. Mr. Casey holds a B.S. in General Engineering and Computer Science from Northeastern University.

George C. Casey has served as President of the Spectrum Consulting Division since the Company's acquisition of the Spectrum in March 1998. Prior to that, he had served as President of the Spectrum since October 1986. Before joining Spectrum in 1986, Mr. Casey worked as a Partner for KMG Main Hurdman, an international public accounting firm that subsequently merged with KPMG Peat Marwick. Mr. Casey has extensive experience in project planning and management, procurement and contract negotiations, and quality

14

16

assurance reviews and realignment. Mr. Casey earned a B.S./B.A. degree from Northwestern University in 1966.

Louis E. Chappuie has served as President of DMG-MAXIMUS and a director of the Company since the acquisition of DMG by the Company in May 1998. Prior to that time he served as President and Chairman of the Board of DMG from 1992 and 1997, respectively. Prior to assuming the presidency of DMG, he was Executive Vice President of DMG's Western Practice Area in Sacramento, California for 12 years. His additional experience includes Arthur Young & Company and Foreign Service Officer, U.S. State Department. Mr. Chappuie received his B.A. and M.A. from the University of Minnesota in 1960 and 1961, respectively, and has completed course work for a Ph.D. in Economics.

Lynn P. Davenport has served as the President of the Company's Human Services Division since he joined the Company in 1991. He has over thirteen years of health and human services experience in the areas of administration, productivity improvement, management consulting, revenue maximization and management information systems. Prior to joining the Company, Mr. Davenport was employed by Deloitte & Touche, and its predecessor, Touche Ross & Co., in Boston, Massachusetts, where he became a partner in 1987. Mr. Davenport received his M.P.A. in Public Administration from New York University in 1971 and his B.A. in Political Science and Economics from Hartwick College in 1969.

Gary L. Glickman has served as President of the Phoenix Consulting Division since the acquisition of Phoenix by the Company in August 1998. Prior to that time he had served as President of Phoenix since its founding in 1990. Mr. Glickman entered consulting in 1980 and has served in a variety of positions advising public and private clients on electronic banking and related technologies. During this time, he was employed with several firms, including Deloitte & Touche and Laventhal & Howarth. Prior to entering consulting, Mr. Glickman held positions in the Office of the Secretary in the U.S. Department of the Treasury and Controller's Office of New York City. Mr. Glickman received his

M.B.A. in Economics from New York University in 1978 and his B.A. in American Studies from Brandeis University in 1975.

David A. Hogan has served as the President of the Child Support Division since 1994 and served as a Vice President of the division from 1993 until 1994. Prior to joining the Company, Mr. Hogan spent 23 years working in numerous positions for the Washington State Department of Social and Health Services including five years as the State's Child Support Director. Mr. Hogan also served one year as the President of the National Child Support Directors Association. Mr. Hogan received his J.D. from the University of Puget Sound in 1976 and his B.A. from Western Washington University in 1970.

John P. Lau, Sr. has served as the President of the Company's International Division since 1993 and served as President of the Company's Advanced Systems Division from 1989 until 1993. From 1961 until 1988, Mr. Lau worked in a variety of government and private health care systems organizations in technical, managerial and executive positions. Most recently, Mr. Lau was a Vice President of Modern Psychiatric Systems in Rockville, Maryland in 1988 and 1989 and served from 1968 through 1988 as Consultant to the President of Creative SocioMedics Corporation. Mr. Lau received his M.S. in Physics from Fairleigh Dickinson University in 1968 and his B.S. in Physics from St. Peter's College, Jersey City, New Jersey in 1965.

Holly A. Payne has served in various executive capacities at the Company since 1987 and as President of the Welfare Reform Division of the Company since 1995. Ms. Payne has over 21 years of human services programs experience. From 1983 until she joined the Company, Ms. Payne was a Program Manager at Electronic Data Systems Corporation in Bethesda, Maryland and from 1978 until 1983 she worked in several capacities for the Departments of Social Services in Prince William and Fairfax Counties in Virginia. Ms. Payne received her M.S.W. from West Virginia University in 1978 and her B.S. in Family Services from Northern Illinois University in 1975.

Susan D. Pepin has served as the President of the Company's Systems Planning Division since 1994 and has been with the Company since 1988. She has over 17 years' experience in technical management and consulting with a focus on health and human services management information systems. Before joining the Company, Ms. Pepin served as Director of eligibility systems for the Massachusetts Department of Public

15

17

Welfare from 1984 until 1987 and a Project Leader for Wang Laboratories, Inc. from 1979 until 1984. Ms. Pepin received her B.S. in Home Economics with a concentration in Consumer Studies and a minor in Business from the University of New Hampshire in 1976.

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

F. Arthur Nerret has served as Chief Financial Officer of the Company since 1994 and serves as Trustee of the Company's 401(k) Plan. He has over 24 years of accounting experience as a C.P.A. From 1981 until he joined the Company, Mr. Nerret held a variety of positions at Frank E. Basil, Inc. in Washington, D.C., including Vice President, Finance from 1991 to 1994 and Director of Finance from 1989 until 1991. Mr. Nerret received his B.S. in Accounting from the University of Maryland in 1970.

Robert E. Taggart, Jr. has served as Vice-President and Chief Operating Officer of DMG-MAXIMUS since the acquisition of DMG by the Company in May 1998. Prior to that time, he served as the National Director of Fleet Management Consulting for six years and Vice President of DMG for four years. Additionally, he was the director of Fleet Consulting for Ernst & Young LLP. Mr. Taggart has more than 18 years of consulting and fleet management experience. Mr. Taggart received his M.C.R.P. in Urban and Regional Planning from the University of California at Berkeley in 1974 and his B.A. in Economics from Lawrence University in 1968.

PART II

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

The Company's Common Stock commenced trading on June 13, 1997 on the New York Stock Exchange under the symbol "MMS." As of November 19, 1998, there were 167 holders of record of the Company's Common Stock. Prior to June 13, 1997, there was no public market for the Common Stock or any other securities of the Company.

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

	HIGH	LOW
Year Ended September 30, 1997:		
Third Quarter (from June 13, 1997).....	\$18 3/8	\$17
Fourth Quarter.....	32 14/16	17 14/16
Year Ended September 30, 1998:		
First Quarter.....	\$31 9/16	\$22 9/16
Second Quarter.....	30 14/16	23
Third Quarter.....	32 9/16	25 1/8
Fourth Quarter.....	31	20 7/16

As an S corporation prior to the IPO, the Company made a series of cash distributions to shareholders representing earnings of the Company taxed or taxable to such shareholders. The Company made the final such distribution at the end of fiscal year 1997. Since that time, the Company has retained, and currently anticipates that it will continue to retain, all of its earnings for development of the Company's business and does not anticipate paying any cash dividends in the foreseeable future. Distributions reported during fiscal year 1998 were related solely to S corporation distributions by companies MAXIMUS combined with during the year. The distributions were to these companies' former shareholders and related to earnings prior to combining with MAXIMUS. Future cash dividends, if any, will be paid at the discretion of the Company's Board of Directors and will depend, among other things, upon the Company's future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and such other factors as the Board of Directors may deem relevant.

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. The Company used \$10.7 million of the net proceeds from the IPO during fiscal year 1998 to fund the cash needs of DMG including the liquidation of deferred compensation liabilities of approximately \$5,670,000, the discharge of a note

payable to a bank in the amount of \$3,640,000, payment of current accounts payable totalling approximately \$1,390,000 and general operating capital.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected financial data presented below as of September 30, 1997 and 1998 and for each of the three years in the period ended September 30, 1998 are derived from the Company's Consolidated Financial Statements and related Notes thereto which have been audited by Ernst & Young LLP, independent auditors, except for the financial statements of DMG, a consolidated subsidiary, which through December 31, 1997 were audited by other independent auditors. The selected financial data presented below as of September 30, 1994, 1995 and 1996 and for each of the two years ended September 30, 1995 are derived from the Company's financial statements, not included in this Form 10-K, which have been audited by Ernst & Young LLP or the Company's predecessor accountants, and DMG's independent auditors. The selected financial data give retroactive effect to the combination with DMG, which was accounted for using the pooling of interests method. The selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included as item 7 and the Consolidated Financial Statements and related Notes included as Item 8 in this Form 10-K. The historical results are not necessarily indicative of the results of operations to be expected in the future.

17

19

	YEARS ENDED SEPTEMBER 30,				
	1994	1995	1996	1997	1998
	(IN THOUSANDS, EXCEPT FOR PER SHARE DATA)				
STATEMENT OF INCOME DATA:					
Revenues.....	\$57,442	\$82,540	\$135,673	\$167,324	\$233,473
Cost of revenues.....	41,700	57,198	101,539	121,968	172,900
Gross profit.....	15,742	25,342	34,134	45,356	60,573
Selling, general and administrative expenses.....	11,983	15,781	20,238	25,323	33,783
Stock option compensation, merger, deferred compensation and ESOP expense (a).....	436	1,400	1,556	7,372	3,671
Income from operations.....	3,323	8,161	12,340	12,661	23,119
Interest and other income (expense).....	(131)	(72)	(17)	777	1,775
Income before income taxes.....	3,192	8,089	12,323	13,438	24,894
Provision for income taxes (b).....	1,089	736	530	4,104	10,440
Net income.....	\$ 2,103	\$ 7,353	\$ 11,793	\$ 9,334	\$ 14,454
Earnings per share:					
Basic.....	\$ 0.16	\$ 0.59	\$ 0.94	\$ 0.69	\$ 0.84
Diluted.....	\$ 0.16	\$ 0.59	\$ 0.94	\$ 0.67	\$ 0.82
Shares used in computing earnings per share:					
Basic.....	12,938	12,507	12,573	13,508	17,237
Diluted.....	12,938	12,507	12,573	13,893	17,596

AS OF SEPTEMBER 30,

1994	1995	1996	1997	1998
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BALANCE SHEET DATA:

Cash and cash equivalents and short-term investments.....	\$ 990	\$ 2,640	\$ 3,394	\$ 51,869	\$ 32,977
Working capital.....	9,012	15,677	25,101	65,389	77,022
Total assets.....	28,404	36,392	48,720	111,497	120,543
Long-term debt.....	4,835	4,224	--	--	454
Redeemable common stock.....	15,390	21,362	31,683	--	--
Total shareholders' equity (deficit).....	(5,309)	(4,201)	(4,679)	67,913	84,699

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(a) In January 1997, the Company issued options to various employees to purchase 403,975 shares of common stock at a formula price based on book value. During 1997, the Company recorded a non-recurring charge against income of \$5,874,000 for the difference between the IPO price and the formula price for all options outstanding. The Company recorded a deferred tax benefit relating to the charge in the amount of \$2,055,000. The option exercise price is a formula price based on the book value of the common stock at September 30, 1996, and was established pursuant to a pre-existing shareholder agreement.

20

(b) For the three years ended September 30, 1996, and during fiscal year 1997 up to and including June 12, 1997, the Company elected to be treated as an S corporation and the income of the Company was taxed for federal and most state purposes directly to the Company's shareholders. In connection with its IPO, the Company's S corporation status terminated and the Company recorded a deferred tax charge against income of \$2,566,000 for the cumulative differences between the financial reporting and income tax basis of certain assets and liabilities at June 12, 1997. Subsequent to June 12, 1997, the Company has recorded state and federal income taxes based on earnings for those periods. Income taxes provided for periods prior to the IPO related primarily to operations of DMG.

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

As an important part of the Company's growth strategy, it has recently completed combinations with four consulting firms, Spectrum Consulting Group, Inc. and Spectrum Consulting Services, Inc. (collectively, "SPECTRUM") in March 1998, David M. Griffith & Associates, Ltd. ("DMG") in May 1998, and Carrera Consulting Group ("CARRERA") and Phoenix Planning & Evaluation, Ltd. ("PHOENIX") in August 1998, all of which were accounted for as poolings of interests combinations. See "-- Business Combinations." Prior year amounts have been restated to reflect the combination with DMG. The Spectrum, Carrera and Phoenix combinations were accounted for as immaterial poolings of interests, and, accordingly, the Company's previously issued financial statements were not restated to reflect these combinations.

OVERVIEW

The Company provides program management and consulting services primarily to government 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 disability services, managed care enrollment, welfare-to-work and job readiness and child support enforcement. The Consulting Group provides consulting services to every state, county and local government agency, including health and human services, law enforcement, parks and recreation, taxation, housing, motor vehicles, labor, education and legislatures.

The Company's revenues are generated from contracts with various payment arrangements, including: (i) costs incurred plus a fixed fee ("COST-PLUS"); (ii)

fixed-price; (iii) performance-based criteria; and (iv) time and materials reimbursement (utilized primarily by the Consulting Group). For the fiscal year ended September 30, 1998, revenues from these contract types were approximately 24%, 46%, 18% and 12%, respectively, of total revenues. Traditionally, federal government contracts have been cost-plus and a majority of the contracts with state and local government agencies have been fixed-price and performance-based. Fixed price and performance-based contracts generally offer higher margins but typically involve more risk than cost-plus or time and materials reimbursement contracts because the Company is subject to the risk of potential cost overruns or inaccurate revenue estimates.

Effective January 1, 1997, the Social Security Act of 1935 was amended to eliminate Social Security Income and Supplemental Security Disability Insurance benefits based solely on drug and alcohol disabilities. As a result, the Social Security Administration terminated the SSA Contract effective at the end of February 1997. All services provided to the Social Security Administration were completed in the quarter ended March 31, 1997. The SSA Contract contributed \$56.5 million, \$31.6 million and \$0 to the Company's revenues in fiscal years 1996, 1997 and 1998, respectively.

The Government Operations Group's contracts generally contain base periods of one or more years as well as one or more option periods that may cover more than half of the potential contract duration. As of September 30, 1998, the Company's average Government Operations contract duration was 3 1/2 years. The Company's Consulting Group is typically engaged for periods in excess of two years. Indicative of the long-term nature of the Company's engagements, approximately 61% of the Company's fiscal 1998 revenues were in backlog as of September 30, 1997.

The Company's most significant expense is cost of revenues, which consists primarily of project related employee salaries and benefits, subcontractors, computer equipment and travel expenses. The Company's

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

Selling, general and administrative expenses consist of management, marketing and administration costs including salaries, benefits, travel, recruiting, continuing education and training, facilities costs, printing, reproduction, communications and equipment depreciation.

During 1997, the Company recognized two significant charges against income. The completion of its initial public offering ("IPO") resulted in the termination of the Company's S corporation status. As a result, the Company recorded a non-recurring deferred tax charge of \$2.6 million for the cumulative differences between the financial reporting and income tax basis of certain assets and liabilities at June 12, 1997, the day prior to the IPO. In connection with the IPO, on January 31, 1997, certain key employees of the Company surrendered rights to purchase shares of Common Stock of the Company in exchange for options to purchase shares of Common Stock at an exercise price of \$1.46 per share. The Company recognized a non-cash compensation charge against income of \$5.9 million, the difference between the initial public offering price and the option exercise price for all outstanding options. The option exercise price was based on the adjusted book value of the Common Stock at September 30, 1996, and was established pursuant to pre-existing compensation arrangements with these employees.

#### BUSINESS COMBINATIONS

As part of its growth strategy, the Company expects to continue to pursue complementary business combinations to expand its geographic reach, expand the breadth and depth of its service offerings and enhance the Company's consultant base. In furtherance of this growth strategy, the Company combined with four consulting firms during 1998 in transactions accounted for as poolings of interests.

As of March 16, 1998, the Company acquired all of the outstanding shares of capital stock of Spectrum in exchange for 840,000 shares of Common Stock. Spectrum, based in Austin, Texas, provides management consulting services that focus on assisting public sector organizations in solving complex business problems related to automation. Spectrum's operations complement and expand the Company's existing information technology and systems planning and integration consulting service offerings. At the time of the combination, Spectrum had approximately 37 consultants and three other employees.

As of May 12, 1998, the Company acquired all of the outstanding capital stock of DMG in exchange for 1,166,179 shares of Common Stock. DMG, based in Northbrook, Illinois, provides consulting services to state and local government and other public sector clients throughout the United States. DMG's operations complement the Company's existing management consulting and information technology services and expand the Company's service offerings to include a broad range of financial planning, cost management and various other consulting services aimed at the public sector. At the time of the combination, DMG had approximately 375 consultants and 40 other employees.

As of August 31, 1998, the Company acquired all of the outstanding shares of capital stock of Carrera in exchange for 1,137,420 shares of Common Stock. Carrera, based in Sacramento, California, provides consulting services that focus on assisting public sector entities implement large-scale, software-based human resource and financial systems. At the time of the combination, Carrera had 78 consultants and eight other employees.

As of August 31, 1998, the Company acquired all of the outstanding shares of capital stock of Phoenix in exchange for 254,545 shares of Common Stock. Phoenix, based in Rockville, Maryland, provides consulting services to public sector entities in planning, implementing and evaluating the utilization of various electronic commerce technologies, such as electronic benefits transfer, electronic funds transfer and electronic card technologies. At the time of the combination, Phoenix had 11 consultants and three other employees.

RESULTS OF OPERATIONS

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

	YEARS ENDED SEPTEMBER 30,		
	1996	1997	1998
Revenues:			
Government Operations Group.....	15.2%	39.3%	59.6%
Consulting Group.....	43.1	41.8	40.4
SSA Contract.....	41.7	18.9	--
	----	----	----
Total revenues.....	100.0	100.0	100.0
Gross profit:			
Government Operations Group.....	20.3	22.3	18.0
Consulting Group.....	36.9	37.6	37.7
SSA Contract.....	14.7	13.9	--
Total gross profit as percentage of total revenues....	25.2	27.1	25.9
Selling, general and administrative expenses.....	14.9	15.1	14.5
Stock option compensation, merger, deferred compensation and			



ESOP expense.....	1.2	4.4	1.5
	----	----	----
Income from operations.....	9.1	7.6	9.9
Interest and other income (expense).....	--	0.4	0.8
	----	----	----
Income before income taxes.....	9.1	8.0	10.7
Provision for income taxes.....	0.4	2.4	4.5
	----	----	----
Net income.....	8.7%	5.6%	6.2%
	=====	=====	=====

Year Ended September 30, 1998 Compared to Year Ended September 30, 1997

Revenues. Total revenues increased 39.5% to \$233.5 million in fiscal 1998 from \$167.3 million in fiscal 1997. Government Operations Group revenues increased 43.0% to \$139.3 million in fiscal 1998 from \$97.4 million in fiscal 1997 due to an increase in the number of contracts in the Child Support Enforcement, Managed Care Enrollment and Welfare Reform divisions of the group and revenues from three Managed Care contracts totalling \$18.1 million purchased from another company in February 1998. Excluding the SSA Contract, which had \$31.6 million of revenues in fiscal 1997, Government Operations Group revenues increased 111.8% as compared to fiscal 1997. Consulting Group revenues increased 34.7% to \$94.2 million in fiscal 1998 from \$70.0 million in fiscal 1997 due to an increase in the number of contracts and revenues from companies which merged with the Company in fiscal 1998 in transactions accounted for as pooling of interests. Revenues from the merged companies accounted for as immaterial poolings totalled \$16.9 million in fiscal 1998.

Gross Profit. Total gross profit increased 33.5% to \$60.6 million in fiscal 1998 from \$45.4 million in fiscal 1997. Government Operations Group gross profit increased 31.4% to \$25.1 million in fiscal 1998 from \$19.1 million in fiscal 1997. As a percentage of revenues, Government Operations Group gross profit decreased to 18.0% in fiscal 1998 from 19.6% in fiscal 1997 primarily due to anticipated lower gross margins on the three purchased Managed Care Enrollment contracts. Consulting Group gross profit increased 34.7% to \$35.4 million in fiscal 1998 from \$26.3 million in fiscal 1997 due principally to the increased revenues. As a percentage of revenues, Consulting Group gross profit was 37.7% in fiscal 1998 and 37.6% in fiscal 1997.

Selling, General and Administrative Expenses. Total selling, general and administrative expenses increased 33.6% to \$33.8 million in fiscal 1998 from \$25.3 million in fiscal 1997. This increase in costs was due to increases in both professional and administrative personnel and professional fees necessary to support the Company's growth, marketing and proposal preparation expenditures incurred to pursue further growth and the impact of business combinations accounted for as immaterial poolings of interests. From September 30, 1997 to September 30, 1998 administrative and systems personnel increased 18% from 125 to 147 and the Company grew from 1,800 total employees at September 30, 1997 to more than 2,800 total employees at September 30, 1998. As a percent of revenues, selling, general and administrative expenses decreased slightly to 14.5% for fiscal 1998 from 15.1% for fiscal 1997.

Stock Option Compensation, Merger, Deferred Compensation and ESOP Expenses. During fiscal year 1998, the Company incurred \$3.7 million of non-recurring expenses in connection with the mergers with Spectrum, DMG, Carrera and Phoenix. These expenses consisted of legal, audit, broker, trustee, deferred compensation and other expenses and the acceleration of expenses related to stock appreciation rights for DMG employees totalling \$0.9 million. During fiscal year 1997, in connection with its IPO, the Company recognized a non-recurring compensation expense of \$5.9 million for stock options granted to employees. Also in fiscal 1997, the Company incurred \$1.5 million of deferred compensation expenses for DMG employees related to plans which were terminated subsequent to the merger with the Company.

Provision for Income Taxes. Prior to the IPO, the Company and its

shareholders elected to be treated as an S corporation under the Internal Revenue Code. Under the provisions of the tax code, the Company's shareholders included their pro rata share of the Company's income in their personal tax returns. Accordingly, the Company was not subject to federal and most state income taxes until June 12, 1997, the day prior to the completion of the initial public offering. Upon completion of the IPO, the Company's S corporation status was terminated and the Company became subject to federal and state income taxes.

Income tax expense for fiscal year increased 154.4% to \$10.4 million in fiscal 1998 from \$4.1 million in fiscal 1997. As a percentage of income before income taxes, the income tax expense for fiscal 1998 is 41.9% compared to 30.5% for fiscal 1997. The fiscal 1998 tax expense was adversely impacted by \$0.5 million due to the nondeductibility of certain merger related expenses. Additional information regarding income tax expense is in Note 9 to the consolidated financial statements contained in this document.

Year Ended September 30, 1997 Compared to Year Ended September 30, 1996

Revenues. Total revenues increased 23.3% to \$167.3 million in fiscal 1997 from \$135.7 million in fiscal 1996. Government Operations Group revenues increased 26.1% to \$97.4 million in fiscal 1997 from \$77.2 million in fiscal 1996 due to an increase in the number of projects offset by a decrease in revenue from the SSA Contract, which was terminated in February 1997. The SSA Contract contributed \$31.6 million to fiscal 1997 revenues as compared to \$56.5 million to fiscal 1996 revenues. Excluding the SSA Contract, Government Operations Group revenues increased 218.0% to \$65.8 million in fiscal 1997 from \$20.7 million in fiscal 1996 due to increases in the numbers of contracts in the Welfare Reform, Managed Care Enrollment Services, and Child Support Enforcement divisions of the group. Consulting Group revenues increased 19.7% to \$70.0 million in fiscal 1997 from \$58.5 million in fiscal 1996 due to an increase in the number of contracts and increased revenues from management studies, fleet consulting, franchise fee consulting, revenue maximization contracts and international business.

Gross Profit. Total gross profit increased 32.8% to \$45.4 million in fiscal 1997 from \$34.1 million in fiscal 1996. Government Operations Group gross profit increased 52.1% to \$19.1 million in fiscal 1997 from \$12.5 million in fiscal 1996. As a percentage of revenues, Government Operations Group gross profit increased to 19.6% in fiscal 1997 from 16.2% in fiscal 1996 primarily due to the decreased revenue volume of the SSA Contract in fiscal 1997, which had a lower gross profit margin than other contracts in the group, and to favorable profit recognition adjustments on two large projects. Excluding the SSA Contract, Government Operations Group gross profit as a percentage of revenues increased to 22.3% in fiscal 1997 from 20.3% in fiscal 1996. Consulting Group gross profit increased 21.7% to \$26.3 million in fiscal 1997 from \$21.6 million in fiscal 1996 due to principally to the increased revenues. As a percentage of revenues, Consulting Group gross

22

24

profit increased to 37.6% in fiscal 1997 from 36.9% in fiscal 1996 which represents normal variability of gross profit from period to period.

Selling, General and Administrative Expenses. Total selling, general and administrative expenses increased 25.1% to \$25.3 million in fiscal 1997 from \$20.2 million in fiscal 1996. This increase in costs was due to increases in both professional and administrative personnel and professional fees necessary to support the Company's growth and marketing and proposal preparation expenditures incurred to pursue further growth. As a percent of revenues, selling, general and administrative expenses increased to 15.1% for fiscal 1997 from 14.9% for fiscal 1996.

Stock Option Compensation, Merger, Deferred Compensation and ESOP Expenses. During fiscal year 1997, in connection with its IPO, the Company recognized a non-recurring compensation expense of \$5.9 million for stock options granted to employees. The Company incurred \$1.5 million in fiscal 1997

and \$1.6 million in fiscal 1996 of deferred compensation expenses for DMG employees related to plans which were terminated subsequent to the merger with the Company.

Provision for Income Taxes. Prior to the IPO, the Company and its shareholders elected to be treated as an S corporation under the Internal Revenue Code. Under the provisions of the tax code, the Company's shareholders included their pro rata share of the Company's income in their personal tax returns. Accordingly, the Company was not subject to federal and most state income taxes until June 12, 1997, the day prior to the completion of the initial public offering. Upon completion of the IPO, the Company's S corporation status was terminated and the Company became subject to federal and state income taxes.

As a percentage of income before income taxes, the income tax expense for fiscal 1997 is 30.5% compared to 4.3% for fiscal 1996. Additional information regarding income tax expense is in Note 9 to the consolidated financial statements contained in this document.

QUARTERLY RESULTS

Set forth below are selected income statement data for the eight quarters ended September 30, 1998. This information is derived from unaudited quarterly financial statements which include, in the opinion of management, all adjustments necessary for a fair presentation of the information for such periods. This information should be read in conjunction with the Consolidated Financial Statements and related Notes thereto included in Item 8 in this Form 10-K. Results of operations for any fiscal quarter are not necessarily indicative of results for any future period.

	QUARTERS ENDED							
	DEC. 31, 1996	MAR. 31, 1997	JUNE 30, 1997	SEPT. 30, 1997	DEC. 31, 1997	MAR. 31, 1998	JUNE 30, 1998	SEPT. 30, 1998
	(IN THOUSANDS, EXCEPT PER SHARE DATA)							
<b>Revenues:</b>								
Government Operations Group....	\$ 8,029	\$15,551	\$19,158	\$23,019	\$27,772	\$32,189	\$36,844	\$42,458
Consulting Group.....	15,811	17,096	16,906	20,142	19,875	21,042	24,394	28,899
SSA Contract.....	22,511	9,082	19	--	--	--	--	--
Total revenues.....	46,351	41,729	36,083	43,161	47,647	53,231	61,238	71,357
Cost of revenues.....	35,826	29,882	25,272	30,988	35,452	38,937	46,217	52,294
Gross profit.....	10,525	11,847	10,811	12,173	12,195	14,294	15,021	19,063
Selling, general and administrative expenses.....	5,715	6,065	6,171	7,372	8,172	8,377	7,105	10,129
Stock option compensation, merger, deferred compensation and ESOP expense.....	392	509	6,077	394	467	907	1,972	325
Income (loss) from operations....	4,418	5,273	(1,437)	4,407	3,556	5,010	5,944	8,609
Interest and other income.....	64	23	143	547	527	526	384	338
Income (loss) before income taxes.....	4,482	5,296	(1,294)	4,954	4,083	5,536	6,328	8,947
Provision for income taxes.....	416	666	907	2,115	1,592	2,237	2,549	4,062
Net income (loss).....	\$ 4,066	\$ 4,630	\$(2,201)	\$ 2,839	\$ 2,491	\$ 3,299	\$ 3,779	\$ 4,885
<b>Earnings per share:</b>								
Basic.....	\$ 0.32	\$ 0.37	\$ (0.17)	\$ 0.18	\$ 0.16	\$ 0.20	\$ 0.23	\$ 0.27
Diluted.....	\$ 0.32	\$ 0.36	\$ (0.17)	\$ 0.17	\$ 0.15	\$ 0.19	\$ 0.22	\$ 0.26

The results of operations for the quarter ended June 30, 1997 include two significant nonrecurring charges, a \$5.7 million charge (\$3.7 million after tax) for the difference between the IPO price and the formula price for stock options outstanding and a \$2.6 million charge to record deferred income taxes upon termination of the Company's S corporation status.

The Company's revenues and operating results are subject to significant variation from quarter to quarter depending on a number of factors, including the progress of contracts, revenues earned on contracts, the commencement and completion of contracts during any particular quarter, the schedule of the government agencies for awarding contracts, the term of each contract that the

Company has been awarded and general economic conditions. Because a significant portion of the Company's expenses are relatively fixed, successful contract performance and variation in the volume of activity as well as in the number of contracts commenced or completed during any quarter may cause significant variations in operating results from quarter to quarter. Furthermore, the Company has on occasion experienced a pattern in its results of operations pursuant to which it incurs greater operating expenses during the start-up and early stages of significant contracts. In addition, the termination of the SSA Contract and the absence of revenues thereunder after March 31, 1997 significantly reduced the Company's revenue base as compared to previous quarters. No assurances can be given that quarterly results will not fluctuate, causing a material adverse effect on the Company's operating results and financial condition.

24

26

## LIQUIDITY AND CAPITAL RESOURCES

The Company's primary source of liquidity is cash flow from operations. The Company's cash flow from operations was (\$7.5) million, \$18.5 million and \$4.0 million for the years ended September 30, 1998, 1997 and 1996, respectively. The decrease in cash flow from operations in fiscal 1998 as compared to fiscal 1997 is due primarily to increased accounts receivable related to revenue growth.

Certain marketable securities were sold during the year ended September 30, 1998 generating \$27.8 million in proceeds. These investments were sold to provide general working capital, including necessary income tax payments, and to pay the final S corporation distribution discussed below. The Company has no material commitments for capital expenditures and, as a services company, does not anticipate making any significant capital expenditures during fiscal year 1999.

During the three months ended December 31, 1997, the Company made final S corporation distributions totaling \$5.7 million. The distributions to shareholders were based upon the fiscal 1997 income taxable to the S corporation shareholders. The amount of the fiscal 1997 taxable income was determined during the finalization of the Company's income for the full fiscal year ended September 30, 1997, and the liability for the \$5.7 million distribution was recognized on the September 30, 1997 balance sheet. The Company also made S corporation distributions totaling \$1.7 million to former shareholders of Spectrum and Phoenix during fiscal 1998. Cash flow from financing activities was \$31.2 million in fiscal 1997. In June 1997, the Company received net proceeds of \$53.8 million from the sale of stock in its IPO. The Company made S corporation distributions of \$21.7 million, representing a portion of the estimated income taxed or taxable to the S corporation shareholders through the date of its IPO.

The Company has a \$10.0 million revolving credit facility (the "CREDIT FACILITY") with Crestar Bank in Virginia, which may be used for borrowing and the issuance of letters of credit. Outstanding letters of credit totaled \$0.4 million at September 30, 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 and, at September 30, 1998, the Company had \$9.6 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. Such cash needs may include start-up costs associated with new contract awards, obtaining additional office space, establishing new offices, investment in upgraded systems infrastructure and acquisitions of other businesses and technologies. Cash requirements beyond the next 12 months depend on the Company's profitability, its ability to manage working capital requirements, its rate of growth, the amounts ultimately spent on business acquisitions, if any, and the leasing of new office space, if any.

YEAR 2000

The Company is aware of the issues that many computer 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, Spectrum and Phoenix, all of which the Company combined with 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 March 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.

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

27

27

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 inquiries, 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 99.1 to this Annual Report on Form 10-K.

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

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

Report of Ernst & Young LLP, Independent Auditors

Report of Grant Thornton LLP, Independent Auditors

Consolidated Balance Sheets as of September 30, 1997 and 1998

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

and 1998

Consolidated Statements of Changes in Redeemable Common Stock  
and  
Shareholders' Equity for the years ended September 30, 1996,  
1997 and 1998

Consolidated Statements of Cash Flows for the years ended  
September 30, 1996, 1997  
and 1998

Notes to Consolidated Financial Statements

26

28

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

To the Board of Directors  
MAXIMUS, Inc.

We have audited the accompanying balance sheets of MAXIMUS, Inc. as of September 30, 1997 and 1998, and the related statements of income, changes in redeemable common stock and shareholders' equity, and cash flows for each of the three years in the period ended September 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of David M. Griffith & Associates, Ltd., a wholly-owned subsidiary, which statements reflect total assets of \$15.5 million as of December 31, 1997 and total revenues of \$32.6 million and \$39.4 million, for the two years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included for David M. Griffith & Associates, Ltd. is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MAXIMUS, Inc. at September 30, 1997 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 30, 1998, in conformity with generally accepted accounting principles.

/s/ERNST & YOUNG LLP

Washington, D.C.  
November 13, 1998

27

29

REPORT OF GRANT THORNTON LLP, INDEPENDENT AUDITORS

Board of Directors  
David M. Griffith & Associates, Ltd.

We have audited the balance sheet of David M. Griffith & Associates, Ltd. (an Illinois corporation) as of December 31, 1997, and the related statements of earnings, stockholders' equity, and cash flows for the years ended December 31,

1996 and 1997 (not presented herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of David M. Griffith & Associates, Ltd. as of December 31, 1997, and the results of its operations and its cash flows for the years ended December 31, 1996 and 1997, in conformity with generally accepted accounting principles.

/s/GRANT THORNTON LLP

Chicago, Illinois  
 March 18, 1998, except for Note L  
 which is as of March 23, 1998

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

	AS OF	
	SEPTEMBER 30,	
	-----	-----
	1997	1998
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 11,000	\$ 19,400
Marketable securities.....	40,869	13,577
Accounts receivable, net.....	46,531	72,345
Costs and estimated earnings in excess of billings (Note 5).....	5,605	5,924
Prepaid expenses and other current assets.....	1,435	1,166
	-----	-----
Total current assets.....	105,440	112,412
Property and equipment at cost:		
Land.....	662	662
Building and improvements.....	1,721	1,721
Office furniture and equipment.....	4,902	6,421
Leasehold improvements.....	188	214
	-----	-----
	7,473	9,018
Less: Accumulated depreciation and amortization.....	(3,578)	(4,504)
	-----	-----
Total property and equipment, net.....	3,895	4,514
Deferred income taxes (Note 9).....	1,241	1,434
Other assets.....	921	2,183
	-----	-----
Total assets.....	\$111,497	\$120,543
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable.....	\$ 3,914	\$ 9,724

Accrued compensation and benefits.....	10,132	14,446
Billings in excess of costs and estimated earnings (Note 5).....	12,277	10,316
Notes payable.....	1,596	--
Income taxes payable.....	3,932	3
Deferred income taxes.....	2,452	901
S corporation distribution payable (Note 10).....	5,748	--
	-----	-----
Total current liabilities.....	40,051	35,390
Long-term debt.....	--	454
Deferred compensation, less current portion.....	3,533	--
	-----	-----
Total liabilities.....	43,584	35,844
Commitments and contingencies (Notes 7 and 11)		
Shareholders' equity (Note 10):		
Common stock, no par value; 30,000,000 shares authorized; 15,991,680 and 18,225,390 shares issued and outstanding at September 30, 1997 and 1998, at stated amount.....	66,708	66,535
Retained earnings.....	1,205	18,164
	-----	-----
Total shareholders' equity.....	67,913	84,699
	-----	-----
Total liabilities and shareholders' equity.....	\$111,497	\$120,543
	=====	=====

See notes to financial statements.

29

31

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

	YEARS ENDED SEPTEMBER 30,		
	1996	1997	1998
Revenues.....	\$135,673	\$167,324	\$233,473
Cost of revenues.....	101,539	121,968	172,900
	-----	-----	-----
Gross profit.....	34,134	45,356	60,573
Selling, general and administrative expenses.....	20,238	25,323	33,783
Stock option compensation, merger, deferred compensation and ESOP expense.....	1,556	7,372	3,671
	-----	-----	-----
Income from operations.....	12,340	12,661	23,119
Interest and other income (expense).....	(17)	777	1,775
	-----	-----	-----
Income before income taxes.....	12,323	13,438	24,894
Provision for income taxes.....	530	4,104	10,440
	-----	-----	-----
Net income.....	\$ 11,793	\$ 9,334	\$ 14,454
	=====	=====	=====
Earnings per share:			
Basic.....	\$ 0.94	\$ 0.69	\$ 0.84
	=====	=====	=====
Diluted.....	\$ 0.94	\$ 0.67	\$ 0.82
	=====	=====	=====
Weighted average shares outstanding:			
Basic.....	12,573	13,508	17,237
	=====	=====	=====
Diluted.....	12,573	13,893	17,596
	=====	=====	=====

See notes to financial statements.

30



MAXIMUS, INC.  
 CONSOLIDATED STATEMENTS OF CHANGES IN REDEEMABLE COMMON STOCK  
 AND SHAREHOLDERS' EQUITY  
 FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1997 AND 1998  
 (DOLLARS IN THOUSANDS)

	REDEEMABLE COMMON STOCK	SHAREHOLDERS' EQUITY	
		COMMON STOCK	RETAINED EARNINGS
Balance at September 30, 1995.....	\$ 21,359	\$ --	\$ (4,201)
Issuance of redeemable common stock to employees.....	229	--	--
Net income.....	--	--	11,793
Adjustment to redemption value of redeemable common stock.....	10,095	--	(10,095)
S Corporation distributions.....	--	--	(2,175)
Balance at September 30, 1996.....	31,683	--	(4,678)
Purchase of redeemable common stock from employee.....	(1,422)	--	--
Issuance of common stock to employees.....	--	778	--
Compensation charge for stock options.....	--	5,874	--
Net income.....	--	--	9,334
Adjustment to redemption value of redeemable common stock.....	25	--	(25)
Adjustment to retained earnings upon initial public offering.....	--	(9,083)	9,083
Reclass of redeemable common stock upon initial public offering.....	(30,286)	15,335	14,951
Net proceeds from sale of common stock in initial public offering.....	--	53,804	--
S Corporation distributions.....	--	--	(27,460)
Balance at September 30, 1997.....	--	66,708	1,205
Purchase of common stock from employee.....	--	(454)	--
Net income.....	--	--	14,454
Tax benefit due to option exercise.....	--	--	173
Adjustment for Griffith results previously reported.....	--	--	156
Increase resulting from immaterial poolings.....	--	137	3,843
Issuance of common stock to employees.....	--	144	--
S Corporation distributions.....	--	--	(1,667)
Balance at September 30, 1998.....	\$ --	\$66,535	\$18,164

See notes to financial statements.

33

33

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

	YEARS ENDED SEPTEMBER 30,		
	1996	1997	1998
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income.....	\$11,793	\$ 9,334	\$14,454
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation.....	801	1,027	995
Amortization.....	--	--	1,401
Stock option compensation expense.....	--	5,874	--
Other.....	4	(157)	173
Changes in assets and liabilities:			
Accounts receivable, net.....	(9,470)	(10,592)	(19,931)
Costs and estimated earnings in excess of billings.....	(2,173)	(2,656)	(319)
Prepaid expenses and other current assets.....	(203)	(794)	380
Other assets.....	(101)	(231)	(44)

Accounts payable.....	282	2,791	4,593
Accrued compensation and benefits.....	884	3,497	(1,093)
Billings in excess of costs and estimated earnings.....	1,995	6,770	(1,811)
Income taxes payable.....	(81)	3,914	(3,877)
Deferred income taxes.....	280	(319)	(2,475)
	-----	-----	-----
Net cash provided by (used in) operating activities.....	4,011	18,458	(7,554)
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of contracts.....	--	--	(2,436)
Increase in cash resulting from immaterial poolings.....	--	--	1,002
Purchase of property and equipment.....	(783)	(1,207)	(1,006)
(Purchase) sale of marketable securities.....	(1,000)	(39,862)	27,819
	-----	-----	-----
Net cash (used in) provided by investing activities.....	(1,783)	(41,069)	25,379
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from initial public offering, net of expenses....	--	53,804	--
S Corporation distributions.....	(2,175)	(21,712)	(7,415)
Redeemable common stock purchased.....	(899)	(1,234)	--
Common stock issued.....	229	4	144
Net proceeds from (payments on) borrowings.....	364	362	(2,621)
	-----	-----	-----
Net cash (used in) provided by financing activities.....	(2,481)	31,224	(9,892)
	-----	-----	-----
Cash flow adjustment for change in accounting period of Griffith.....	--	--	467
	-----	-----	-----
Net (decrease) increase in cash and cash equivalents.....	(253)	8,613	8,400
Cash and cash equivalents, beginning of year.....	2,640	2,387	11,000
	-----	-----	-----
Cash and cash equivalents, end of year.....	\$ 2,387	\$ 11,000	\$19,400
	=====	=====	=====

See notes to financial statements.

32

34

MAXIMUS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1997 AND 1998  
(DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

1. DESCRIPTION OF BUSINESS

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

The Company operates predominantly in the United States. Revenues from foreign-based projects were less than 10% of total revenues for the years ended September 30, 1996, 1997 and 1998.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation

The consolidated financial statements include the accounts of wholly-owned subsidiaries. All material intercompany items have been eliminated.

Use of Estimates

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

#### Restatement of Prior Years' Financial Statements

The Company's 1996 and 1997 financial statements have been restated to reflect the combination with David M. Griffith, Ltd. ("Griffith") in May 1998 in a transaction accounted for using the pooling of interests method of accounting. See Note 3.

#### Cash Equivalents

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

#### Revenue Recognition

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

Management reviews the financial status of its contracts quarterly and adjusts revenues to reflect current expectations on realization of costs and estimated earnings in excess of billings. Provisions for estimated losses

33

35

#### MAXIMUS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1997 AND 1998  
(DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

on incomplete contracts are provided in full in the period in which such losses become known. The Company has various fixed price and performance-based contracts that may generate profit in excess of the Company's expectations. The Company recognizes additional revenue and profit in these situations after management concludes that substantially all of the contractual risks have been eliminated, which generally is at task or contract completion.

#### Marketable Securities

Marketable securities are classified as available-for-sale and are recorded at fair market value with unrealized gains and losses, net of taxes, reported as a separate component of shareholders' equity, if material. Realized gains and losses and declines in market value judged to be other than temporary are included in investment income. Interest and dividends are included in investment income. There are no material unrealized gains or losses on marketable securities at September 30, 1997 and 1998. Marketable securities consist primarily of short-term municipal and commercial bonds.

#### Property and Equipment

Property and equipment is stated at cost and depreciated using both the straight-line and accelerated methods based on estimated useful lives of 32 years for the Company's building and between three and ten years for office furniture and equipment. Leasehold improvements are amortized over the lesser of

their useful life or the remaining term of the lease.

#### Income Taxes

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

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

The Company merged with two companies during 1998 that had elected to be treated as S Corporations. The merger resulted in the termination of the S Corporation status for those companies and a deferred tax charge against income of \$325 for cumulative differences between the financial statement and tax basis of assets and liabilities.

#### Accounting Standards Not Adopted

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

34

36

MAXIMUS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1997 AND 1998  
(DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

In June 1997, the FASB issued Statement No. 131, "Disclosure about Segments of an Enterprise and Related Information" which established standards for public business enterprises to report information about operating segments in annual financial statements and requires those enterprises to report selected information about operating segments. The financial information is required to be reported on the basis that it is used internally for evaluating segment performance and deciding how to allocate resources to segments. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. This statement is effective for financial statements for periods beginning after December 15, 1997.

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

#### Fair Value of Financial Instruments

The Company considers the recorded value of its financial assets and liabilities, which consist primarily of cash and cash equivalents, marketable securities, accounts receivable and accounts payable, to approximate the fair

value of the respective assets and liabilities at September 30, 1997 and 1998.

### 3. BUSINESS COMBINATIONS

On March 16, 1998, the Company issued 840,000 shares of its common stock in exchange for all of the common stock of Spectrum Consulting Group, Inc. and an affiliated company ("Spectrum"). This merger was accounted for as an immaterial pooling of interests and accordingly, the Company's financial statements, including earnings per share, were not restated for periods prior to January 1, 1998.

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. ("Griffith"). 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 Griffith. Griffith's operations for the years ended December 31, 1996 and 1997 were combined with the Company's operations for the fiscal years ended September 30, 1996 and 1997. This resulted in inclusion of Griffith operating results for the three months ended December 31, 1997 in the Company's operating results for both fiscal 1997 and 1998. Griffith's revenues and net income for the three months ended December 31, 1997 were \$11,450 and \$(156), respectively.

On August 31, 1998, the Company issued 1,137,420 shares of its common stock in exchange for all of the outstanding common stock of Carrera Consulting Group ("Carrera"). This merger was accounted for as an immaterial pooling of interests and accordingly, the Company's financial statements, including earnings per share, were not restated for periods prior to July 1, 1998.

On August 31, 1998, the Company issued 254,545 shares of its common stock in exchange for all of the outstanding common stock of Phoenix Planning & Evaluation, Ltd. ("Phoenix"). This merger was accounted for as an immaterial pooling of interests and accordingly, the Company's financial statements, including earnings per share, were not restated for periods prior to July 1, 1998.

All of the companies involved in the mergers described above are involved primarily in consulting services for state and local governments. The merged companies accounted for as immaterial poolings contributed \$16,854 to the Company's revenues for the year ended September 30, 1998.

MAXIMUS, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
 FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1997 AND 1998  
 (DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

A reconciliation of the Company's revenues and net income, as previously reported, to the restated results that give effect to the Griffith combination for the fiscal years ended September 30, 1996 and 1997 follow:

	YEARS ENDED SEPTEMBER 30,	
	1996	1997
Revenues as previously reported.....	\$103,113	\$127,947
Griffith revenues.....	32,560	39,377
	-----	-----
Combined revenues.....	\$135,673	\$167,324
	=====	=====
Net income as previously reported.....	\$ 11,619	\$ 8,589

Griffith net income.....	174	745
	-----	-----
Combined net income.....	\$ 11,793	\$ 9,334
	=====	=====

#### 4. EARNINGS PER SHARE

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

	YEARS ENDED SEPTEMBER 30,		
	1996	1997	1998
Numerator:			
Net income.....	\$11,793	\$9,334	\$14,454
Denominator:			
Weighted average shares outstanding.....	12,573	13,508	17,237
Effect of dilutive securities:			
Employee stock options.....	--	385	359
	-----	-----	-----
Denominator for dilutive earnings per share.....	12,573	13,893	17,596
	=====	=====	=====

36

38

MAXIMUS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1997 AND 1998  
(DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

#### 5. COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

Uncompleted contracts consist of the following components:

	BALANCE SHEET CAPTION	
	COSTS AND ESTIMATED EARNINGS IN EXCESS OF BILLINGS	BILLINGS IN EXCESS OF COSTS AND ESTIMATED EARNINGS
September 30, 1997:		
Costs and estimated earnings.....	\$136,008	\$119,765
Billings.....	130,403	132,042
	-----	-----
	\$ 5,605	\$ 12,277
	=====	=====
September 30, 1998:		
Costs and estimated earnings.....	\$193,022	\$192,219
Billings.....	187,098	202,535
	-----	-----
	\$ 5,924	\$ 10,316
	=====	=====

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

#### 6. CREDIT FACILITIES

The Company has a \$10 million revolving line of credit with a bank.

Borrowings under this line bear interest at LIBOR plus an amount which ranges from 0.65% to 1.25% depending on the Company's debt to equity ratio. The Company had no borrowings under the Credit Facility at September 30, 1998. Under the terms of the line, the Company is required to maintain at all times: (i) an excess of current assets to current liabilities of not less than 1.5 to 1, (ii) net worth of \$60 million, and (iii) a ratio of total liabilities to net worth of not more than 1.5 to 1. There were no outstanding borrowings under the line of credit facility at September 30, 1997 and 1998. The line of credit expires on March 31, 1999. At September 30, 1997 and 1998, the Company had letters of credit outstanding amounting to \$508 and \$401, respectively.

Certain companies that merged into the Company during 1998 had various arrangements for short and long-term borrowings. These credit arrangements generally were repaid following the related merger and do not significantly affect the Company's financial statements.

7. LEASES

The Company leases office space under various operating leases, the majority of which contain clauses permitting cancellation upon certain conditions. The terms of these leases provide for certain minimum payments as well as increases in lease payments based upon the operating cost of the facility and the consumer price index. Rent expense for the years ended September 30, 1996, 1997 and 1998 was \$3,321, \$5,296 and \$6,947, respectively.

MAXIMUS, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
 FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1997 AND 1998  
 (DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

Minimum future payments under these leases are as follows:

YEARS ENDED SEPTEMBER 30,	
1999.....	\$ 8,863
2000.....	5,517
2001.....	3,969
2002.....	2,872
2003.....	1,938
Thereafter.....	997
	-----
	\$24,156
	=====

8. EMPLOYEE BENEFIT PLANS AND DEFERRED COMPENSATION

The Company has 401(k) plans and other defined contribution plans for the benefit of all employees who meet certain eligibility requirements. The plans provide for Company match, specified Company contributions, and/or discretionary Company contributions. During the years ended September 30, 1996, 1997 and 1998, the Company contributed \$650, \$774 and \$1,342 to the plans, respectively.

Prior to its merger with the Company, Griffith had an employee stock ownership plan covering substantially all of its employees. During 1996, 1997 and 1998, amounts charged to operations for the plan were \$643, \$897, and \$394, respectively.

Prior to its merger with the Company, Griffith had deferred compensation arrangements with certain officers and employees and had granted stock appreciation rights to certain current and retired officers and employees. The stock appreciation rights provided for full vesting and current settlement at

the time of the merger. During 1996, 1997 and 1998, amounts charged to operations under these arrangements were \$461, \$216 and \$972, including a non-recurring charge of \$942 in 1998 as a result of the merger.

9. INCOME TAXES

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

	YEARS ENDED SEPTEMBER 30,		
	1996	1997	1998
Current provision:			
Federal.....	--....	3,722	10,676
State.....	\$ 250	\$ 701	\$ 1,894
Deferred tax expense (benefit).....	280	(319)	(2,130)
	-----	-----	-----
	\$ 530	\$ 4,104	\$10,440
	=====	=====	=====

MAXIMUS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1997 AND 1998  
(DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

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

	YEARS ENDED SEPTEMBER 30,		
	1996	1997	1998
Expected federal income tax provision.....	\$4,195	\$ 4,569	\$ 8,713
Effect of income taxed directly to S Corporation shareholders.....	(4,027)	(3,893)	(297)
State income taxes.....	250	607	1,245
Effect of termination of S Corporation status.....	--	2,566	325
Effect of nondeductible merger costs.....	--	--	531
Other.....	112	255	(77)
	-----	-----	-----
	\$ 530	\$ 4,104	\$10,440
	=====	=====	=====

The significant items comprising the Company's deferred tax assets and liabilities as of September 30, 1997 and 1998 are as follows:

	SEPTEMBER 30,	
	1997	1998
Deferred tax assets -- current:		
Liabilities for costs deductible in future periods.....	\$ 425	\$ 810
Billings in excess of costs and estimated earnings.....	4,699	4,126
	-----	-----
Total deferred tax assets -- current.....	5,124	4,936
Deferred tax liabilities -- current:		



Cash versus accrual accounting.....	5,334	2,915
Costs and estimated earnings and excess of billings.....	2,242	2,512
Other.....	--	410
	-----	-----
Total deferred tax liabilities -- current.....	7,576	5,837
	-----	-----
Net deferred tax (liability) -- current.....	\$(2,452)	\$ (901)
	=====	=====
Deferred tax assets (liabilities) -- non-current:		
Stock option compensation.....	2,055	1,874
Deferred compensation.....	1,388	--
Cash versus accrual accounting.....	(2,202)	(795)
Other.....	--	355
	-----	-----
Net deferred tax asset -- non-current.....	\$ 1,241	\$1,434
	=====	=====

Cash paid for income taxes during the years ended September 30, 1996, 1997 and 1998 was \$313, \$274 and \$16,507, respectively.

39

41

MAXIMUS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1997 AND 1998  
(DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

10. SHAREHOLDERS' EQUITY

Initial Public Offering

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

S Corporation Distributions

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

Consistent with their past practices, Spectrum and Phoenix paid S Corporation dividends totaling \$1,667 during 1998, based upon pre-merger taxable income.

Redeemable Common Stock

Prior to the IPO, a shareholders' agreement obligated the Company to purchase all shares offered for sale by the Company's shareholders at a formula price based on the book value of the Company. In addition, shareholders were obligated to sell and the Company was obligated to purchase at the formula price all of the shares owned by the shareholders upon the shareholder's death, disability or termination of employment. Griffith had agreements with certain of its shareholders to repurchase its shares under certain circumstances at fair value. The Company's obligation to purchase common shares from shareholders terminated upon completion of the IPO. Accordingly, amounts classified previously as redeemable common stock, including amounts related to Griffith, were reclassified into shareholders' equity.

Employee Stock Purchase Plan

During fiscal 1998, the company implemented a plan which permits employees to purchase shares of the Company's common stock each quarter at 85% of the market value on the last day of the quarter. The initial sale of shares under the plan occurred subsequent to September 30, 1998.

#### Stock Option Plans

The Company's Board of Directors established stock option plans during 1997 pursuant to which the Company may grant incentive and non-qualified stock options to officers, employees and directors of the Company. Such plans also provide for stock awards and direct purchases of the Company's common stock.

The vesting period and share price for awards are determined by the Company's Board of Director at the date of grant. Options granted during 1997 include those which were fully vested on issuance and others which vest over periods from two to four years. The Company's Board of Directors has reserved 3.1 million shares of common stock for issuance under the Company's stock option plans. At September 30, 1998, 2.0 million shares were available for grants under the Company's option plans.

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

40

42

MAXIMUS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1997 AND 1998  
(DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

all options outstanding. The Company recorded a deferred tax benefit relating to the charge in the amount of \$2,055.

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

Pro forma information regarding net income has been determined as if the Company had accounted for its stock options under the fair value method of SFAS 123. The fair value for these options was estimated at the date of grant using a minimal valuation method in 1997 and the Black-Scholes method in 1998 with the following assumptions -- volatility 42% for 1998, risk free interest rate 6.5% for 1997 and 5.5% for 1998, dividend yield 0% and an expected life of the option of 4 years. The grant-date fair value of options granted was \$3.58 for 1997 and \$9.61 for 1998.

For purposes of the pro forma disclosure, the estimated fair value of the options is amortized to reflect such expense over the options' vesting period. For the years ended September 30, 1997 and 1998, pro forma net income and pro forma net income per share resulting from the adjustment for stock option compensation was as follows:

SEPTEMBER 30,

	-----	-----
	1997	1998
Net income.....	\$9,334	\$14,454
FAS 123 compensation expense.....	(972)	(780)
	-----	-----
Net income, as adjusted.....	\$8,362	\$13,674
	=====	=====
Net income per share, as adjusted:		
Basic.....	\$ 0.62	\$ 0.79
Diluted.....	\$ 0.60	\$ 0.78

A summary of the Company's stock option activity for the years ended September 30, 1997 and 1998 is as follows:

ACTIVITY DURING 1997:	OPTIONS	WEIGHTED- AVERAGE EXERCISE PRICE
Granted.....	531,975	\$ 5.05
Exercised.....	(3,025)	1.46
	-----	
Outstanding at September 30, 1997.....	528,950	5.07
Granted.....	626,989	24.06
Exercised.....	(36,300)	3.46
Canceled due to termination.....	(25,887)	25.05
	-----	
Outstanding at September 30, 1998.....	1,093,752	15.33
	=====	

41

43

MAXIMUS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1997 AND 1998  
(DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

The ranges of exercise prices for outstanding options were as follows at September 30, 1998:

\$ 0.01 - \$ 1.46.....	369,150
\$12.31 - \$16.00.....	251,338
\$23.38 - \$31.56.....	473,264
	-----
	1,093,752
	=====

The Company had 468,995 options exercisable at September 30, 1998 at a weighted average exercise price of \$5.54 per share. Outstanding options have a weighted average remaining exercise period of 9.2 years at September 30, 1998.

#### 11. COMMITMENTS AND CONTINGENCIES

##### Litigation

On February 3, 1997, the Company was named as a third party defendant by Network Six, Inc. ("Network Six") in a legal action brought by the State of Hawaii against Network Six. Network Six alleges that the Company is liable to

Network Six on various grounds. The Company believes Network Six's claims are without merit and intends to vigorously defend this action. The Company believes this action will not have a material adverse effect on its financial condition or results of operations and has not accrued for any loss related to this claim.

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 Exchange Act of 1934 and breached various fiduciary duties owed to him and claims damages in excess of \$10 million. The Company does not believe that this action will have a material adverse effect on the Company's 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 Griffith, by a purchaser of municipal bonds. Griffith 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 Griffith, for damages of \$32.1 million which is the face value of the revenue bonds, plus interest. The District has also filed a lawsuit against Griffith seeking damages. Griffith intends to vigorously defend both of these actions. However, given the early stage of litigation, legal counsel is unable to express an opinion concerning the ultimate resolution of either case or Griffith's liability, if any, in connection therewith.

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

#### DCAA Audits

A substantial portion of payments to the Company from United States Government agencies is subject to adjustments upon audit by the Defense Contract Audit Agency. Audits through 1993 have been completed

42

44

#### MAXIMUS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1997 AND 1998  
(DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

with no material adjustments. In the opinion of management, the audits of subsequent years are not expected to have a material adverse effect on the Company's financial position or results of operations.

#### Employment Agreements

The Company has employment agreements with 14 of its executives that provide for base salaries of approximately \$3.5 million per year. The term of the employment obligations are through 2000.

#### 12. CONCENTRATIONS OF CREDIT RISK AND MAJOR CUSTOMERS

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

primarily from federal, state and local government agencies located in the United States.

At September 30, 1997 and 1998, \$1,436 and \$1,004, respectively, of the Company's accounts receivable were due from the United States Government. Revenues under contracts with various agencies of the United States Government were \$61,317, \$35,802 and \$3,738 for the years ended September 30, 1996, 1997 and 1998, respectively. Of these amounts, \$56,530, \$31,611 and \$0 for the years ended September 30, 1996, 1997 and 1998, respectively, were revenues of the government operations segment. As a result of legislation that eliminated certain Social Security Administration program benefits, a contract with the United States Government that contributed substantially all of the revenues of the government operations group for 1996 and 1997 was terminated by the United States Government. This contract concluded during the second quarter of 1997.

At September 30, 1997 and 1998, \$10,482 and \$9,706 of the Company's accounts receivable were due from one state government. Revenues from contracts with this state, principally by the government operations segment, were \$26,189 and \$30,934 for the years ended September 30, 1997 and 1998.

MAXIMUS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 1996, 1997 AND 1998  
(DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

13. BUSINESS SEGMENTS

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

	1996	1997	1998
<b>Revenues:</b>			
Government Operations.....	\$ 77,211	\$ 97,369	\$139,263
Consulting.....	58,462	69,955	94,210
	-----	-----	-----
	\$135,673	\$167,324	\$233,473
	=====	=====	=====
<b>Income from operations:</b>			
Government Operations.....	\$ 4,936	\$ 6,164	\$ 10,642
Consulting.....	7,404	6,497	12,544
	-----	-----	-----
	\$ 12,340	\$ 12,661	\$ 23,186
	=====	=====	=====
<b>Identifiable assets:</b>			
Government Operations.....	\$ 19,369	\$ 26,610	\$ 42,429
Consulting.....	23,137	28,886	40,701
Corporate.....	6,214	56,001	37,413
	-----	-----	-----
	\$ 48,720	\$111,497	\$120,543
	=====	=====	=====
<b>Capital expenditures:</b>			
Government Operations.....	\$ 4	\$ 2	\$ --
Consulting.....	508	790	545
Corporate.....	271	415	461
	-----	-----	-----
	\$ 783	\$ 1,207	\$ 1,006
	=====	=====	=====
<b>Depreciation and amortization:</b>			
Government Operations.....	\$ 99	\$ 204	\$ 1,518
Consulting.....	521	643	792
Corporate.....	181	180	86

-----	-----	-----
\$ 801	\$ 1,027	\$ 2,396
=====	=====	=====

44

46

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The response to this item is contained in part under the caption "Executive Officers of the Registrant" in Part I hereof and the remainder is incorporated herein by reference from the discussion responsive thereto under the caption "Election of Directors" in the Company's Proxy Statement relating to its Annual Meeting of Shareholders scheduled for February 23, 1999 (the "Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

PART IV

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

- (a) 1. FINANCIAL STATEMENTS  
The consolidated financial statements are listed under Item 8 of this report.
- 2. FINANCIAL STATEMENT SCHEDULES  
None.
- (b) REPORTS ON FORM 8-K  
The Company filed a Current Report on Form 8-K dated August 31, 1998 reporting on the completion of the Company's business combination with Carrera.
- (c) EXHIBITS  
The Exhibits filed as part of this Form 10-K are listed on the Exhibit Index immediately preceding such Exhibits, which Exhibit Index is incorporated herein by reference.

47

47

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized in the city of McLean, Commonwealth of Virginia, on the 20th day of November, 1998.

MAXIMUS, INC.

By: /s/ DAVID V. MASTRAN

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

Each undersigned person hereby constitutes and appoints David V. Mastran, Raymond B. Ruddy, F. Arthur Nerret, David Francis and Lynnette C. Fallon, and each of them singly, with full power of substitution and full power to act without the other, as his or her true and lawful attorney-in-fact and agent, with full power to sign for use, in his or her name and in the capacity indicated below, any and all amendments to this Annual Report on Form 10-K of MAXIMUS, Inc. for the fiscal year ended September 30, 1998, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each said attorney-in-fact may lawfully do or cause to be done by virtue hereof.

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

SIGNATURE -----	TITLE -----	DATE ----
/s/ DAVID V. MASTRAN ----- DAVID V. MASTRAN	President, Chief Executive Officer and Director (Principal Executive Officer)	November 20, 1998
/s/ RAYMOND B. RUDDY ----- RAYMOND B. RUDDY	Chairman of the Board of Directors	November 20, 1998
/s/ F. ARTHUR NERRET ----- F. ARTHUR NERRET	Chief Financial Officer (Principal Financial and Accounting Officer)	November 20, 1998
/s/ RUSSELL A. BELIVEAU ----- RUSSELL A. BELIVEAU	Director	November 20, 1998
/s/ JESSE BROWN ----- JESSE BROWN	Director	November 20, 1998
/s/ MARGARET CARRERA ----- MARGARET CARRERA	Vice-Chairwoman of the Board and Director	November 20, 1998
/s/ LOUIS E. CHAPPUIE ----- LOUIS E. CHAPPUIE	Director	November 20, 1998

SIGNATURE -----	TITLE -----	DATE ----
/s/ LYNN P. DAVENPORT	Director	November 20, 1998

-----		
LYNN P. DAVENPORT		
/s/ ROBERT J. MUZZIO	Director	November 20, 1998
-----		
ROBERT J. MUZZIO		
/s/ SUSAN D. PEPIN	Director	November 20, 1998
-----		
SUSAN D. PEPIN		
/s/ PETER POND	Director	November 20, 1998
-----		
PETER POND		

EXHIBIT INDEX

EXHIBIT NUMBER -----	EXHIBIT -----
3.1	Amended and Restated Articles of Incorporation of Company.(1)
3.2	Amended and Restated By-laws of Company.(1)
4.1	Specimen Common Stock Certificate.(1)
10.1	1997 Equity Incentive Plan.(2)(3)
10.2	1997 Director Stock Option Plan, as amended.(3)(4)
10.3	1997 Employee Stock Purchase Plan.(2)(3)
10.4	Amendment No. 1 to 1997 Employee Stock Purchase Plan.(3)(5)
10.5	Executive Employment, Non-Compete, Confidentiality and Stock Restriction Agreement by and between the Company and David V. Mastran.(2)
10.6	Executive Employment, Non-Compete, Confidentiality and Stock Restriction Agreement by and between the Company and Raymond B. Ruddy.(2)
10.7	Executive Employment, Non-Compete, Confidentiality and Stock Restriction Agreement by and between the Company and Russell A. Beliveau.(2)
10.8	Executive Employment, Non-Compete, Confidentiality and Stock Restriction Agreement by and between the Company and Susan D. Pepin.(2)
10.9	Executive Employment, Non-Compete, Confidentiality and Stock Restriction Agreement by and between the Company and Ilene R. Baylinson.(2)
10.10	Executive Employment, Non-Compete, Confidentiality and Stock Restriction Agreement by and between the Company and Lynn P. Davenport.(2)
10.11	Executive Employment, Non-Compete and Confidentiality Agreement by and between the Company and Margaret Carrera. Filed herewith.



- 10.12 Executive Employment, Non-Compete and Confidentiality Agreement by and between the Company and George C. Casey. Filed herewith.
- 10.13 Executive Employment, Non-Compete and Confidentiality Agreement by and between the Company and Louis E. Chappuie. Filed herewith.
- 10.14 Executive Employment, Non-Compete and Confidentiality Agreement by and between the Company and Gary L. Glickman. Filed herewith.
- 10.15 Form of Indemnification Agreement by and between the Company and each of the directors of the Company.(2)
- 10.16 Letter Agreement dated September 30, 1997 between the Company and Crestar Bank with respect to a \$10 million line of credit.(3)
- 10.17 Commercial Note, dated September 30, 1997 in the amount of \$10 million, issued by the Company to Crestar Bank.(3)
- 10.18 California Options Project Contract, dated October 1, 1996, by and between the Company and the Department of Health Services of the State of California.(2)
- 10.19 Agreement and Plan of Merger by and between the Company and David M. Griffith and Associates, Ltd.(6)
- 23.1 Consent of Ernst & Young LLP, independent auditors. Filed herewith.

50

EXHIBIT  
NUMBER  
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EXHIBIT  
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- 23.2 Consent of Grant Thornton LLP, independent auditors. Filed herewith.
- 24.1 Power of Attorney, contained on signature page hereto.
- 27 Financial Data Schedule. Filed herewith. EDGAR only.
- 99.1 Important Factors Regarding Forward Looking Statements. Filed herewith.

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- (1) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997 (File No. 1-12997) on August 14, 1997 and incorporated herein by reference.
  - (2) Filed as an exhibit to the Company's Registration Statement on Form S-1 (File No. 333-21611) declared effective on June 12, 1997 and incorporated herein by reference.
  - (3) Management contracts and compensatory plan or arrangements required to be filed as an Exhibit pursuant to Item 14(c) of Form 10-K.
  - (4) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended September 30, 1997 (File No. 1-12997) on December 22, 1997 and incorporated herein by reference.
  - (5) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 (File No. 1-12997) on August 13, 1998 and

incorporated herein by reference.

- (6) Filed as an exhibit to the Company's Registration Statement on Form S-4 (File No. 333-49305) filed with the Securities and Exchange Commission on April 3, 1998 and incorporated herein by reference.

EXECUTIVE EMPLOYMENT, NON-COMPETE  
AND CONFIDENTIALITY AGREEMENT

THIS EXECUTIVE EMPLOYMENT, NON-COMPETE AND CONFIDENTIALITY AGREEMENT entered into this 31st day of August, 1998 by and between Margaret Carrera (the "Executive") and MAXIMUS, Inc., a Virginia corporation with a usual place of business in McLean, Virginia (the "Corporation"). Capitalized terms not defined herein shall have the meanings set forth in the Agreement and Plan of Merger by and among the Corporation, Carrera Consulting Group ("Carrera"), Carrera Acquisition Corp. and the Executive dated August 31, 1998.

WHEREAS, as of the Effective Time the Executive shall be a key employee of the Corporation and a holder of a substantial number of shares of the issued and outstanding capital stock of the Corporation.

NOW, THEREFORE, in consideration of these premises and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Employment.

1.1 Duties. The Corporation hereby agrees to employ the Executive, and the Executive hereby agrees to accept such employment, to serve as President of Carrera Consulting Group, a division of the Corporation reporting directly to the Chief Executive Officer, David V. Mastran for the term set forth below. The Corporation shall take all actions necessary to cause the Executive to be elected to the Board of Directors of the Corporation and shall further take all actions necessary for the Executive to be elected as Vice Chairman of the Board of Directors of the Corporation promptly following her election to the Board of Directors of the Corporation. The Executive hereby represents and warrants that she is in good health and capable of performing the services required hereunder. The Executive shall perform such services and duties as are appropriate to such office or delegated to the Executive by the Chief Executive Officer or the Board of Directors of the Corporation, including without limitation the duties and responsibilities set forth in an authority and responsibility matrix to be agreed upon by the Chief Executive Officer and the Executive. During the term of this Agreement, the Executive shall be a full time employee of the Corporation and shall devote such time and attention to the discharge of her duties as may be necessary and appropriate to accomplish and complete such duties, including without limitation attendance at monthly management meetings held at the Corporation's offices in McLean, Virginia.

1.2 Compensation.

(a) Salary and Regular Year-End Bonus. As compensation for performance of her obligations hereunder, the Corporation shall pay the Executive an annual salary of not less

2  
than \$240,000, such annual salary to be reviewed for adjustment on or about October 1, 1999 and is eligible for a regular year-end bonus consistent with Carrera's past practices. Such amounts shall be payable in accordance with the Corporation's normal payroll practices.

(b) Vacation, Insurance, Expenses. The Executive shall be entitled to such vacation benefits, health, disability and life insurance benefits and expense reimbursements in a manner consistent with the Corporation's past practices and as are provided by the Corporation to its other Division Presidents.

(c) Other Benefits. The Executive shall be entitled to the continued use of the automobile currently owned and provided for the use of the

Executive by Carrera at the expense of the Corporation, such expense to include insurance, maintenance and all other reasonable expenses related to the use of said automobile. The Corporation and the Executive will negotiate the terms and conditions of any arrangement to be entered into in lieu of the provisions of this Section 1.2(c).

1.3 Term; Termination. The term of the employment agreement set forth in this Section 1 shall be for a period commencing at the Effective Time and continuing for three (3) years thereafter provided that this Agreement shall terminate:

(a) by mutual written consent of the parties;

(b) upon Executive's death or inability, by reason of physical or mental impairment, to perform substantially all of Executive's duties as contemplated herein for a continuous period of 120 days or more; or

(c) by the Corporation for cause, which shall mean in the event of Executive's breach of any material duty or obligation hereunder, or intentional or grossly negligent misconduct that is materially injurious to the Corporation, as reasonably determined by the Corporation's Board of Directors, or willful failure to follow the reasonable directions of the Corporation's Board of Directors.

In addition, the Executive agrees to continue her employment with the Corporation beyond the three year term described above, at her annual salary in effect at such time, for the period of time that is required for her to locate and train a suitable replacement for her position with the Corporation.

Upon any termination of employment under this Section 1.3, neither party shall have any obligation to the other pursuant to this Section 1, but such termination shall have no effect on the obligations of the parties under other provisions of this Agreement.

## 2. Non-Competition.

2.1 Undertaking. The Executive agrees that while the Executive is employed by the Corporation and thereafter, for a period of two (2) years after termination or cessation of such employment for any reason, the Executive shall not, without the Corporation's prior written consent, directly or indirectly, as a principal, employee, consultant, partner, or stockholder of, or in any other capacity with, any business enterprise (other than in the Executive's capacity as a

2

3

holder of not more than 1% of the combined voting power of the outstanding stock of a publicly held company) (a) engage in direct or indirect competition with the Corporation, (b) conduct a business of the type or character engaged in by the Corporation at the time of termination or cessation of the Executive's employment or (c) develop products or services competitive with those of the Corporation.

## 2.2 Prohibited Activities.

(a) The Executive agrees that, during her employment with the Corporation, and thereafter for a period of two (2) years after the termination of such employment, the Executive will not engage in any unethical behavior which may adversely affect the Corporation. For the purpose of this Section 2.2, "Unethical Behavior" is defined as:

(i) any attempt, successful or unsuccessful, by the Executive to divert any existing contracts or subcontracts from the Corporation to any other firm, whether or not affiliated with the Executive;

(ii) any attempt, successful or unsuccessful, by the

Executive, to adversely influence clients of the Corporation or organizations with which the Corporation has a contract or a proposal pending as of the date of the Executive's termination from the Corporation;

(iii) any attempt, successful or unsuccessful, by the Executive to divert any contracts or subcontracts which are pending as of the date of Executive's termination from the Corporation to any other firm, whether or not affiliated with the Executive;

(iv) any attempt, successful or unsuccessful, by the Executive to offer her services, or to influence any other employee of the Corporation to offer their services, to any firm to compete against the Corporation in the performance of services provided under existing contracts or follow-ons to existing contracts or pending proposals with the Corporation's clients as of the date of the Executive's termination; or

(v) any attempt, successful or unsuccessful, by the Executive to employ or offer employment to, or cause any other person to employ or offer employment to any other employee of the Corporation.

(b) The provisions of this Section 2 shall continue for a period of two (2) years after termination of the Executive's employment with the Corporation, whether voluntary or involuntary, with or without cause. The Executive shall notify any new employer, partner, association or any other firm or corporation actually or potentially in competition with the Corporation with whom the Executive shall become associated in any capacity whatsoever of the provisions of this Section 2 and the Executive agrees that the Corporation may give such notice to such firm, corporation or other person.

3

4

2.3 Business Opportunities; Conflicts of Interest; Other Employment and Activities of the Executive.

(a) The Executive, while an employee of the Corporation, agrees promptly to advise the Corporation of, and provide the Corporation with an opportunity to pursue, all business opportunities that the Executive becomes aware of that reasonably relate to the present business conducted by the Corporation.

(b) The Executive, in her capacity as an employee of the Corporation, shall not engage in any business with any member of the Executive's immediate family or with any person or business entity in which the Executive or any member of the Executive's immediate family has any material ownership interest or financial interest, unless and until the Executive has first fully disclosed such interest to the Board of Directors and received written consent from the Board of Directors, signed by the Chairman of such board. As used herein, the term "immediate family" means the Executive's spouse, natural or adopted children, parents or siblings and the term "financial interest" means any relationship with such person or business entity that may monetarily benefit the Executive or member of the Executive's immediate family, including any lending relationship or the guarantying of any obligations of such person or business entity by the Executive or member of her immediate family.

(c) The parties hereto acknowledge and agree that the Executive may engage in outside civic, political, social, educational and professional activities and may serve on the boards of directors of other corporations; provided, however, that such activities shall not have priority over or adversely affect or conflict with the business of the Corporation or its clients, or interfere with the mobility of the Executive to fulfill the Executive's duties to the Corporation as a full-time employee and/or officer or director, as the case may be, of the Corporation, as conclusively determined by the Board of Directors of the Corporation.

(d) The parties hereto agree that the Executive may, consistent with this Section 2.3, receive and retain speaking fees, referral fees from

business opportunities not accepted by the Corporation, and fees from outside business activities and opportunities of the Executive consented to by the Board of Directors of the Corporation.

3. Confidentiality.

3.1 Non-Disclosure. The parties hereto agree that the Corporation's books, records, files and all other information relating to the Corporation (that is not otherwise available in the Public Domain), its business and its clients are proprietary in nature and contain trade secrets and shall be held in strict confidence by the parties hereto, and shall not, either during the term of this Agreement or after the termination hereof, be intentionally disclosed, directly or indirectly, to any third party, person, firm, corporation or other entity, irrespective of whether such person or entity is a competitor of the Corporation or is engaged in a business similar to that of the Corporation; except in furtherance of the Corporation's business. The trade secrets or other proprietary or confidential information referred to in the prior sentence includes, without limitation, all proposals to clients or potential clients, contracts, client or potential client lists, fee policies, financial information, administration or marketing practices or procedures and all other

4

5

information regarding the business of the Corporation and its clients not generally known to the public.

3.2 Trade Secrets. The parties hereto hereby acknowledge and agree that all proprietary information referred to in this Section 3 shall be deemed trade secrets of the Corporation and that each party hereto shall take such steps, undertake such actions and refrain from taking such other actions, as mandated by the provisions hereof and by the provisions of the laws of the Commonwealth of Virginia.

4. Stock Restrictions.

4.1 Transfers. The Executive may not offer, sell, assign, grant a participation in, pledge or otherwise transfer ("Transfer") any of the Executive's shares of Common Stock of the Corporation (including shares acquired after the date hereof) (the "Shares") except in compliance with the Securities Act of 1933, as amended (the "Act"), and any applicable state securities laws. After one year from the date of acquiring the Shares the Executive shall be permitted to sell the Shares pursuant to Rule 144 under the Act (as currently in effect), subject to the applicable manner of sale, volume and current public information restrictions of Rule 144.

4.2 Improper Transfer.

(a) Any attempt to Transfer any Shares not in compliance with this Agreement shall be null and void and neither the Corporation nor any transfer agent of the Corporation shall register, or otherwise recognize in the Corporation's records, any such improper Transfer.

(b) The Executive shall not enter into any transaction or series of transactions for the purpose or with the effect of, directly or indirectly, denying or impairing the rights or obligations of the Corporation under this Agreement, and any such transaction shall be null and void and, to the extent that such transaction requires any action by the Corporation, it shall not be registered or otherwise recognized in the Corporation's records or otherwise.

5. Registration Rights.

5.1 Secondary Registration.

(a) Registration for Resale. The Corporation intends to seek to create liquidity for the Shares held by the Executive. In the sole discretion of the Corporation, the Corporation may file with the Securities and Exchange

Commission (the "Commission") a Registration Statement on Form S-8 or Form S-3 (or similar form) sufficient to permit the public offering and sale of the Registrable Shares (as defined below) through all securities exchanges and over-the-counter markets on which the Corporation's Common Stock is then traded. For the purposes of this Agreement, "Registrable Shares" shall mean outstanding Shares held by the Executive and any other person holding registration rights substantially the same as the rights set forth in this Section 5, which Shares are not at that time the subject of an effective registration statement filed with the Commission. For the purposes of this Agreement, "Holders" shall mean the Executive and any person to whom the Executive has transferred Registrable Shares.

5

6

(b) Notice of Filing of Registration Statement. In the event the Corporation determines to file a registration pursuant to Section 5.1(a), the Corporation shall notify each Holder of the proposed filing and request that each Holder notify the Corporation within 15 days thereafter of the number of Registrable Shares such Holder wishes the Corporation to register on such Holder's behalf. Each Holder shall, prior to the end of such 15 day period, request in writing that the Corporation register the sale of all or part of such Holder's Registrable Shares.

#### 5.2 Piggyback Registration Rights.

(a) Offer to Include Registrable Shares in Corporation Offering. If, at any time prior to the Registration Termination Date (as defined in Section 5.4), the Corporation shall file a registration statement to register shares of Common Stock for its own account in an underwritten offering with the Commission (other than a Registration Statement on Form S-4, Form S-8 or other special purpose form) while any Registrable Shares are outstanding, the Corporation shall give all the Holders at least thirty (30) days prior written notice of the filing of such registration statement. Subject to 5.2(b) below, if requested by any Holder in writing within fifteen (15) days after receipt of any such notice, the Corporation shall register or qualify up to 20% of the number of Registrable Shares received by the Executive on the Effective Date or, at each Holder's option, any portion of the Registrable Shares of any Holders who shall have made such request up to an aggregate amount equal to 20% of the number of Registrable Shares received by the Executive on the Effective Date, concurrently with the registration of such other securities, all to the extent requisite to permit the public offering and sale of the Registrable Shares through the facilities of all appropriate securities exchanges and the over-the-counter market, and will use its best efforts through its officers, directors, auditors, and counsel to cause such registration statement to become effective as promptly as practicable.

(b) Cutback of Participation in Corporation Offering. Notwithstanding Section 5.2(a), if the managing underwriter of any such offering shall advise the Corporation that, in its opinion, the distribution of all or a portion of the Registrable Shares requested to be included in the registration concurrently with the securities being registered by the Corporation would materially adversely affect the distribution of such securities by the Corporation for its own account, then the number of Registrable Shares held by such Holder to be included in such registration statement shall be reduced to the extent advised by such managing underwriter, provided that any such reduction shall be made pro rata among the Holders electing to participate in such registration based on the aggregate number of Registrable Shares held by each Holder electing to so participate, and provided further that the total number of Registrable Shares included in any such registration shall not be less than 25% of the total number of shares of Common Stock included in the registration for the Corporation's account, the Holders account and the account of any other person.

#### 5.3 Underwriting.

(a) Underwriting in Secondary Registration. If the Corporation

undertakes a registration under Section 5.1, any Holder wishing to distribute the Registrable Shares which such Holder has requested to be registered in such registration by means of an underwriting, shall so advise the Corporation in such Holder's request to participate in such registration under Section 5.1(b). The Holders of a majority of the Registrable Shares being offered may select one

6

7

or more underwriters for the registration under Section 5.1, which selection shall be approved by the Corporation, which approval shall not be unreasonably withheld provided such underwriter(s) are experienced and reputable. The Corporation shall, together with the Holders engaged in the registration hereunder, enter into an underwriting agreement with the representative of the underwriter or underwriters selected for such underwriting in accordance with this Section 5.3(a).

(b) Underwriting in Piggyback Registration. In the event of an underwritten registration pursuant to the provisions of Section 5.2, any Holder who requests to have Registrable Shares included in such registration shall enter into such custody agreements and powers of attorney as are reasonably requested by the Corporation and any such underwriter, and, if requested, enter into an underwriting agreement containing customary terms.

(c) Right of Withdrawal from Underwriting. In the event of an underwritten offering under Section 5.3(a) or (b), the right of a Holder to participate in a registration hereunder shall be conditioned upon the inclusion of all or any portion of such Holder's Registrable Shares in such underwriting. If a Holder disapproves of the terms of the underwriting, such Holder may elect to withdraw therefrom by written notice to the Corporation and the underwriter delivered at least seven (7) days prior to the effective date of the registration statement. The securities so withdrawn shall also be withdrawn from the registration statement.

5.4 Effectiveness and Expenses. The Corporation will use its best efforts through its officers, directors, auditors and counsel to cause any registration statement filed pursuant to this Section 5 to become effective as promptly as practicable. The Corporation shall be obligated to use its best efforts to maintain the effectiveness of such registration statement only until the earlier of (i) the date on which the Registrable Shares may be sold (without regard to volume limitations) under Rule 144 promulgated under the Act, and (ii) the date on which no Registrable Shares remain outstanding (the "Registration Termination Date"). The Corporation shall be obligated to pay all expenses (other than the fees and disbursements of counsel for the Holders and underwriting discounts, if any, payable in respect of the Registrable Shares sold by the Holders) in connection with any such registration statement.

5.5 Blue Sky Registrations. In the event of a registration pursuant to the provisions of this Section 5, the Corporation shall use its best efforts to cause the Registrable Shares so registered to be registered or qualified for sale under the securities or blue sky laws of such jurisdictions as the Holders may reasonably request; provided, however, that the Corporation shall not be required to qualify to do business in any state by reason of this Section 5.5 in which it is not otherwise required to qualify to do business.

5.6 Continuing Effectiveness. Until the Registration Termination Date, the Corporation shall use its best efforts to keep effective any registration or qualification contemplated by this Section 5 and shall from time to time amend or supplement each applicable registration statement, preliminary prospectus, final prospectus, application, document and communication for such period of time as shall be required to permit the Holders to complete the offer and sale of the Registrable Shares covered thereby.

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8



5.7 Copies of Registration Statement and Related Documents. In the event of a registration pursuant to the provisions of this Section 5, the Corporation shall furnish to each Holder a copy of the registration statement and of each amendment and supplement thereto (in each case, including all exhibits), and a reasonable number of copies of each prospectus contained in such registration statement and each supplement or amendment thereto (including each preliminary prospectus), all of which shall conform to the requirements of the Act, and the rules and regulations thereunder, and such other documents, as any Holder may reasonably request to facilitate the disposition of the Registrable Shares included in such registration.

5.8 Rule 144 Eligibility. The Corporation agrees that until all the Registrable Shares have been sold under a registration statement or pursuant to Rule 144 under the Act, the Corporation shall use its best efforts to keep current in filing all reports, statements and other materials required to be filed with the Commission to permit holders of the Registrable Shares to sell such securities under Rule 144.

## 6. Indemnity.

6.1 Corporation Indemnification of the Holders. Subject to the conditions set forth below, the Corporation agrees to indemnify and hold harmless each Holder, its officers, directors, partners, employees, agents and counsel, if any, and each person, if any, who controls any such person within the meaning of Section 15 of the Act or Section 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), if any, from and against any and all loss, liability, charge, claim, damage and expense whatsoever (which shall include, for all purposes of this Section 6, without limitation, attorneys' fees and any and all expenses whatsoever incurred in investigating, preparing or defending against any litigation, commenced or threatened, or any claim whatsoever, and any and all amounts paid in settlement of any claim or litigation), as and when incurred, arising out of, based upon, or in connection with any untrue statement or alleged untrue statement of a material fact contained in any registration statement, preliminary prospectus or final prospectus (as from time to time amended and supplemented), or any amendment or supplement thereto, relating to the sale of any of the Registrable Shares, filed with the Commission or any securities exchange; or any omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, unless such statement or omission was made in reliance upon and in conformity with written information furnished to the Corporation with respect to such Holder by or on behalf of such person expressly for inclusion in any registration statement, preliminary prospectus, or final prospectus, or any amendment or supplement thereto, as the case may be. The foregoing agreement to indemnify shall be in addition to any liability the Corporation may otherwise have, including liabilities arising under this Agreement.

If any action is brought against any Holder or any of its officers, directors, partners, employees, agents or counsel, or any controlling persons of such person (an "Indemnified Party") in respect of which indemnity may be sought against the Corporation pursuant to the foregoing paragraph, such Indemnified Party or Parties shall promptly notify the Corporation in writing of the institution of such action (but the failure so to notify shall not relieve the Corporation from any liability other than pursuant to this Section 6.1) and the Corporation shall promptly assume the defense of such action, including the employment of counsel (reasonably satisfactory to such Indemnified Party or Parties) and payment of expenses. Such Indemnified

Party or Parties shall have the right to employ its or their own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party or Parties unless the employment of such counsel shall have been authorized in writing by the Corporation in connection with the defense of such action or the Corporation shall not have promptly employed counsel reasonably satisfactory to such Indemnified Party or Parties to have

charge of the defense of such action or such Indemnified Party or Parties shall have reasonably concluded that there may be one or more legal defenses available to it or them or to other Indemnified Parties which are different from or additional to those available to the Corporation, in any of which events such fees and expenses shall be borne by the Corporation, and the Corporation shall not have the right to direct the defense of such action on behalf of the Indemnified Party or Parties. Anything in this Section 6 to the contrary notwithstanding, the Corporation shall not be liable for any settlement of any such claim or action effected without its written consent, which shall not be unreasonably withheld. The Corporation shall not, without the prior written consent of each Indemnified Party that is not released as described in this sentence, settle or compromise any action, or permit a default or consent to the entry of judgment in or otherwise seek to terminate any pending or threatened action, in respect of which indemnity may be sought hereunder (whether or not any Indemnified Party is a party thereto), unless such settlement, compromise, consent or termination includes an unconditional release of each Indemnified Party from all liability in respect of such action. The Corporation agrees promptly to notify the Holders of the commencement of any litigation or proceedings against the Corporation or any of its officers or directors in connection with the sale of any Registrable Shares or any preliminary prospectus, prospectus, registration statement or amendment or supplement thereto, or any application relating to any sale of any Registrable Shares.

6.2 Holder Indemnification of the Corporation. Each Holder participating in any such registration shall indemnify and hold harmless the Corporation, each director of the Corporation, each officer of the Corporation who shall have signed the registration statement covering Registrable Shares held by the Holder, each other person, if any, who controls the Corporation within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, and its or their respective counsel, to the same extent as the foregoing indemnity from the Corporation to the Holders in Section 6.1, but only with respect to statements or omissions, if any, made in any registration statement, preliminary prospectus or final prospectus (as from time to time amended and supplemented), or any amendment or supplement thereto, in reliance upon and in conformity with information furnished to the Corporation with respect to such Holder by or on behalf of such Holder expressly for inclusion in any such registration statement, preliminary prospectus or final prospectus, or any amendment or supplement thereto, as the case may be. If any action shall be brought against the Corporation or any other person so indemnified based on any such registration statement, preliminary prospectus or final prospectus, or any amendment or supplement thereto, or in any application, and in respect of which indemnity may be sought against such Holder pursuant to this Section 6.2, such Holder shall have the rights and duties given to the Corporation and the Corporation and each other person so indemnified shall have the rights and duties given to the Indemnified Parties, by the provisions of Section 6.1.

6.3 Contribution. To provide for just and equitable contribution, if (i) an Indemnified Party makes a claim for indemnification pursuant to Section 6.1 or 6.2 but it is found in a final judicial determination, not subject to further appeal, that such indemnification may not be enforced in such case, even though this Agreement expressly provides for indemnification in

10  
such case, or (ii) any Indemnified Party or indemnifying party seeks contribution under the Act, the Exchange Act or otherwise, then the Corporation (including for this purpose any contribution made by or on behalf of any director of the Corporation, any officer of the Corporation who signed any such registration statement, any controlling person of the Corporation, and its or their respective counsel), as one entity, and the Holders of the Registrable Shares included in such registration in the aggregate (including for this purpose any contribution by or on behalf of an Indemnified Party), as a second entity, shall contribute to the losses, liabilities, claims, damages and expenses whatsoever to which any of them may be subject, on the basis of relevant equitable considerations such as the relative fault of the Corporation and such Holders in connection with the facts which resulted in such losses,

liabilities, claims, damages and expenses. The relative fault, in the case of an untrue statement, alleged untrue statement, omission or alleged omission, shall be determined by, among other things, whether such statement, alleged statement, omission or alleged omission relates to information supplied by the Corporation or by such Holders, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement, alleged statement, omission or alleged omission. The Corporation and the Holder agree that it would be unjust and inequitable if the respective obligations of the Corporation and the Holders for the contribution were determined by pro rata or per capita allocation of the aggregate losses, liabilities, claims, damages and expenses (even if the Holder and the other Indemnified Parties were treated as one entity for such purpose) or by any other method of allocation that does not reflect the equitable considerations, referred to in this Section 6.3. In no case shall any Holder be responsible for a portion of the contribution obligation imposed on all Holders in excess of its pro rata share based on the number of Registrable Shares owned by it and included in such registration as compared to the number of Registrable Shares owned by all Holders and included in such registration. No person guilty of a fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who is not guilty of such fraudulent misrepresentation. For purposes of this Section 6.3, each person, if any, who controls any Holder within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act and each officer, director, partner, employee, agent and counsel of each such Holder or control person shall have the same rights to contribution as such Holder or control person and each person, if any, who controls the Corporation within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, each officer of the Corporation who shall have signed any such registration statement, each director of the Corporation and its or their respective counsel shall have the same right to contribution as the Corporation, subject in each case to the provisions of this Section 6.3. Anything in this Section 6.3 to the contrary notwithstanding, no party shall be liable for contribution with respect to the settlement of any claim or action effected without its written consent. This Section 6.3 is intended to supersede any right to contribution under the Act, the Exchange Act or otherwise.

7. Miscellaneous.

7.1 Notices. All notices, requests, demands or other communications provided for in this Agreement shall be in writing and shall be delivered by hand, sent prepaid by Federal Express (or a comparable overnight delivery service) or sent by the United States mail, certified, postage prepaid, return receipt request, to the following:

10

11

If to the Corporation:

MAXIMUS, Inc.  
1356 Beverly Road  
McLean, Virginia 22201  
Attention: David V. Mastran

If to the Executive:

Ms. Margaret Carrera  
Carrera Consulting Group  
2110 21st Street, Suite 400  
Sacramento, CA 95818

Any notice, request, demand or other communication delivered or sent in the foregoing manner shall be deemed given or made (as the case may be) upon the earliest of (i) the date it is actually received, (ii) the business-day after the day on which it is delivered by hand, (iii) the business day after the day on which it is properly delivered to Federal Express (or a comparable overnight delivery service), or (iv) the third business day after the date on which it is

deposited in the United States mail. Either party may change its address by notifying the other party of the new address in any manner permitted by this paragraph. Rejection or other refusal to accept or the inability to deliver because of a changed address of which no notice was given shall not affect the date of such notice, election or demand sent in accordance with the foregoing provisions.

7.2 Remedies. The parties hereto further agree and acknowledge that any violation by the Executive of the terms hereof may result in irreparable injury and damage to the Corporation or its clients, which will not adequately be compensable in monetary damages, that the Corporation will have no adequate remedy at law therefor, and that the Corporation may obtain such preliminary, temporary or permanent mandatory or restraining injunctions, orders or decrees as may be necessary to protect it against, or on account of, any breach of the provisions contained in this Agreement.

7.3 No Obligation of Continued Employment After Termination of Section 1. Except as set forth in Section 1 hereof, the Executive understands that this Agreement does not constitute a contract of employment or create an obligation on the part of the Corporation to continue the Executive's employment with the Corporation.

7.4 Benefit; Assignment. This Agreement shall bind and inure to the benefit of the parties and their respective personal representatives, heirs, successors and assigns, provided this Agreement may not be assigned by either party without the consent of the other, except that the Corporation may assign this Agreement in connection with the merger, consolidation or sale of all or substantially all of its business or assets. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and other legal representatives and, to the extent that any assignment hereof is permitted hereunder, their assignees.

11

12

7.5 Entire Agreement. This Agreement supersedes all prior agreements, written or oral, with respect to the subject matter of this Agreement.

7.6 Severability. In the event that any one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provisions of this Agreement, and all other provisions shall remain in full force and effect. If any of the provisions of this Agreement is held to be excessively broad, it shall be reformed and construed by limiting and reducing it so as to be enforceable to the maximum extent permitted by law.

7.7 Waivers. No delay or omission by the Corporation in exercising any right under this Agreement will operate as a waiver of that or any other right. A waiver or consent given by the Corporation on any occasion is effective only in that instance and will not be construed as a bar to or waiver of any right on any other occasion.

7.8 Captions. The captions of the various sections and paragraphs of this Agreement have been inserted only for the purpose of convenience; such captions are not a part of this Agreement and shall not be deemed in any manner to modify, explain, enlarge or restrict any of the provisions of this Agreement.

7.9 Governing Law. This Agreement shall be construed as a sealed instrument and shall in all events and for all purposes be governed by, and construed in accordance with, the laws of the Commonwealth of Virginia without regard to any choice of law principle that would dictate the application of the laws of another jurisdiction. Any action, suit or other legal proceeding which the Executive may commence to resolve any matter arising under or relating to any provision of this Agreement shall be commenced only in a court of the Commonwealth of Virginia (or, if appropriate, a federal court located within Virginia). Any action, suit or other legal proceeding which the Corporation may

commence to resolve any matter arising under or relating to any provision of this Agreement shall be commenced only in a court of the State of California (or, if appropriate, a federal court located within California). The Section headings are included solely for convenience and shall in no event affect or be used in connection with, the interpretation of this Agreement.

THE EXECUTIVE HAS READ ALL OF THE PROVISIONS OF THIS AGREEMENT AND THE EXECUTIVE UNDERSTANDS, AND AGREES TO, EACH OF SUCH PROVISIONS. THE EXECUTIVE UNDERSTANDS THAT THIS AGREEMENT MAY AFFECT THE EXECUTIVE'S RIGHT TO ACCEPT EMPLOYMENT WITH OTHER COMPANIES SUBSEQUENT TO THE EXECUTIVE'S EMPLOYMENT WITH THE CORPORATION.

7.10 Amendments. No alterations or additions to this Agreement shall be binding unless in writing and signed by both the parties.

7.11 Genders. Whenever reasonably necessary, pronouns of any gender shall be deemed synonymous, as shall singular and plural pronouns.

7.12 Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed an original, and all such counterparts shall constitute one instrument.

12

13

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13

14

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

/s/ MARGARET CARRERA

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Margaret Carrera

MAXIMUS, INC.

By: /s/ DAVID V. MASTRAN

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David V. Mastran  
President

14

## EXECUTIVE EMPLOYMENT, NON-COMPETE AND CONFIDENTIALITY

EMPLOYMENT AGREEMENT entered into this 16th day of March, 1998 by and between George C. Casey (the "Executive") and MAXIMUS, Inc., a Virginia corporation with a usual place of business in McLean, Virginia (the "Corporation").

WHEREAS, Executive is a key employee of the Corporation and a holder of a substantial number of shares of the issued and outstanding capital stock of the Corporation.

NOW, THEREFORE, in consideration of these premises and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Employment.

1.1. Duties. The Corporation hereby employs the Executive, and the Executive hereby accepts such employment, to serve during the term of this Agreement as Division President of the Spectrum Consulting Group Division of the Corporation reporting directly to the President of the Consulting Group of the Corporation. The Executive hereby represents and warrants that he is in good health and capable of performing the services required hereunder. The Executive shall perform such services and duties as are appropriate to such office or delegated to the Executive by the President of the Consulting Group or the Board of Directors of the Corporation. During the term of this Agreement, the Executive shall be a full time employee of the Corporation and shall devote such time and attention to the discharge of his duties as may be necessary and appropriate to accomplish and complete such duties. The Executive may not be transferred from the Spectrum Consulting Group Division during the term of this Agreement without his prior written consent. The Executive shall be entitled to live in any U.S. city of his choice convenient to major transportation facilities, and the Corporation shall reimburse the Executive's travel and living expenses for travel to and from work locations. The Executive understands that his job requires extensive travel and is willing to travel extensively.

1.2. Compensation.

(a) Salary and Regular Year-End Bonus. As compensation for performance of his obligations hereunder, the Corporation shall pay the Executive a salary of not less than \$300,000 and regular year-end bonus consistent with the Corporation's past practices.

(b) Option Agreement. As a signing bonus for joining the Corporation and not in lieu of bonus or incentive compensation, Executive shall also receive a stock option to purchase 100,000 shares of the Corporation's common stock, no par value at an exercise price equal to fair market value on the date of hire, which will become exercisable as to 25,000 shares on each of the first four anniversaries of the date of hire. Such option shall have the standard

terms for the Corporation's non-qualified stock options except that such option shall become fully exercisable to the extent not then exercisable upon the occurrence of a change of control as defined in Section 12(g) of the Corporation's Equity Incentive Plan.

(c) Vacation, Insurance, Expenses. The Executive shall be entitled to such vacation benefits, health, disability and life insurance benefits and expense reimbursements in a manner consistent with the Corporation's past practices and as are provided by the Corporation to its Chief Executive Officer and based on the Executive's years of service with Spectrum Consulting Group, Inc. being treated as years of service with the Corporation for the purposes of qualification, seniority, vesting, meeting any required waiting periods and otherwise. Any waiting periods for pre-existing conditions under the Corporation's insurance benefits are hereby waived for the executive.

1.3. Term; Termination. The term of the employment agreement set forth in this Section 1 shall be for a period commencing on the date hereof and continuing until March 15, 2002 provided that this Agreement shall terminate:

(a) by mutual written consent of the parties; or

(b) upon Executive's death or inability, by reason of physical or mental impairment, to perform substantially all of Executive's duties as contemplated herein for a continuous period of 120 days or more; or

(c) by the Corporation for cause, which shall mean the Executive's intentional or grossly negligent misconduct that is materially injurious to the Corporation, or willful failure to follow the reasonable written directions of the Corporation's Board of Directors despite being given written notice of and a reasonable opportunity to cure such failure.

The Corporation shall not have the right to terminate this Agreement as to the Executive's employment prior to the end of the term except as provided in clauses (a), (b) and (c) of this Section 1.3.

Upon any termination of employment under this Section 1.3, neither party shall have any obligation to the other pursuant to this Section 1, but such termination shall have no effect on the obligations of the parties under other provisions of this Agreement.

## 2. NON-COMPETITION.

2.1. Undertaking. The Executive agrees that while the Executive is employed by the Corporation and for a period of two (2) years after the termination or cessation of such employment for any reason, the Executive shall not, without the Corporation's prior written consent, directly or indirectly, as a principal, employee, consultant, partner, or stockholder of, or in any other capacity with, any business enterprise (other than in the Executive's capacity as a holder of not more than 1% of the combined voting power of the outstanding stock of a publicly held company) (a) engage in direct or indirect competition with the Corporation, (b) conduct a business of the type or character engaged in by the Corporation at the time of termination or cessation of the Executive's employment or (c) develop products or services competitive with those of the Corporation.

2

3

### 2.2. Prohibited Activities.

(a) The Executive agrees that, during his employment with the Corporation, and thereafter for a period of two years after the termination of such employment, the Executive will not engage in any unethical behavior which may adversely affect the Corporation. For the purpose of this Section 2.2, "Unethical Behavior" is defined as:

(1) any attempt, successful or unsuccessful, by the Executive to divert any existing contracts or subcontracts from the Corporation to any other firm, whether or not affiliated with the Executive;

(2) any attempt, successful or unsuccessful by the Executive, to adversely influence clients of the Corporation or organizations

with which the Corporation has a contract or a proposal pending as of the date of the Executive's termination from the Corporation;

(3) any attempt, successful or unsuccessful, by the Executive to divert any contracts or subcontracts which are pending as of the date of Executive's termination from the Corporation to any other firm, whether or not affiliated with the Executive;

(4) any attempt, successful or unsuccessful, by the Executive to offer his services, or to influence any other employee of the Corporation to offer their services, to any firm to compete against the Corporation in the performance of services provided under existing contracts or follow-ons to existing contracts or pending proposals with the Corporation's clients as of the date of the Executive's termination; or

(5) any attempt, successful or unsuccessful, by the Executive to employ or offer employment to, or cause any other person to employ or offer employment to any other employee of the Corporation.

(b) The Executive agrees that, in addition to any other remedy available to the Corporation, in the event of a breach by the Executive of the terms of this Section 2 the Corporation may set off against any amounts due the Executive, an amount equal to the gross revenues which such Executive, or any entity with which the Executive is employed, affiliated or associated, receives or is entitled to receive, from any existing clients (or potential clients with whom a proposal is pending) of the Corporation during the two-year period provided in this Section 2.

(c) The provisions of this Section 2 shall continue for a period of two years after termination of the Executive's employment with the Corporation, whether voluntary or involuntary, with or without cause. The Executive shall notify any new employer, partner, association or any other firm or corporation actually or potentially in competition with the Corporation with whom the Executive shall become associated in any capacity whatsoever of the provisions of this Section 2 and the Executive agrees that the Corporation may give such notice to such firm, corporation or other person.

3

4

2.3. Business Opportunities: Conflicts of Interest: Other Employment and Activities of the Executive.

(a) The Executive agrees promptly to advise the Corporation of, and provide the Corporation with an opportunity to pursue, all business opportunities that reasonably relate to the present business conducted by the Corporation.

(b) The Executive, in his capacity as an employee of the Corporation, shall not engage in any business with any member of the Executive's immediate family or with any person or business entity in which the Executive or any member of the Executive's immediate family has any ownership interest or financial interest, unless and until the Executive has first fully disclosed such interest to the Board of Directors and received written consent from the Board of Directors, signed by the Chairman of such board. As used herein, the term "immediate family" means the Executive's spouse, natural or adopted children, parents or siblings and the term "financial interest" means any relationship with such person or business entity that may monetarily benefit the Executive or member of the Executive's immediate family, including any lending relationship or the guarantying of any obligations of such person or business entity by the Executive or member of his immediate family.

(c) The parties hereto acknowledge and agree that the Executive may engage in outside civic, political, social, educational and professional activities and may serve on the boards of directors of other corporations; provided, however, that such activities shall not have priority over or adversely affect or conflict with the business of the Corporation or its



clients, or interfere with the mobility of the Executive to fulfill the Executive's duties to the Corporation as a full-time employee and officer and director of the Corporation, as conclusively determined by the Board of Directors of the Corporation.

(d) The parties hereto agree that the Executive may, consistent with this Section 1.3, receive and retain speaking fees, referral fees from business opportunities not accepted by the Corporation, and fees from outside business activities and opportunities of the Executive consented to by the Board of Directors of the Corporation.

### 3. Confidentiality.

3.1. Non-Disclosure. The parties hereto agree that the Corporation's books, records, files and all other information relating to the Corporation (that is not otherwise available in the Public Domain), its business and its clients are proprietary in nature and contain trade secrets and shall be held in strict confidence by the parties hereto, and shall not, either during the term of this Agreement or after the termination hereof, be intentionally disclosed, directly or indirectly, to any third party, person, firm, corporation or other entity, irrespective of whether such person or entity is a competitor of the Corporation or is engaged in a business similar to that of the Corporation; except in furtherance of the Corporation's business. The trade secrets or other proprietary or confidential information referred to in the prior sentence includes, without limitation, all proposals to clients or potential clients, contracts, client or potential client lists, fee policies, financial information, administration or marketing practices or procedures and all other information regarding the business of the Corporation and its clients not generally known to the public, but does not include (1) information that the Executive knew or had in his possession,

4

5

prior to disclosure by the Corporation, without obligation of confidentiality; (2) information that is received rightfully by the Executive from a third party and without obligation of confidentiality; or (3) ideas, concepts, techniques, know-how and methodologies known by the Executive prior to his employment with the Corporation.

3.2. Trade Secrets. The parties hereto hereby acknowledge and agree that all proprietary information referred to in this Section 2 shall be deemed trade secrets of the Corporation and that each party hereto shall take such steps, undertake such actions and refrain from taking such other actions, as mandated by the provisions hereof and by the provisions of the laws of the Commonwealth of Virginia.

### 4. Stock Restrictions.

4.1. Transfers. The Executive may not offer, sell, assign, grant a participation in, pledge or otherwise transfer ("Transfer") any of the Executive's shares of Common Stock of the Corporation (including shares acquired after the date hereof) (the "Shares") except in compliance with the Securities Act of 1933, as amended (the "Act"), and any applicable state securities laws.

#### 4.2. Improper Transfer.

(a) Any attempt to Transfer any Shares not in compliance with this Agreement shall be null and void and neither the Corporation nor any transfer agent of the Corporation shall register, or otherwise recognize in the Corporation's records, any such improper Transfer.

(b) The Executive shall not enter into any transaction or series of transactions for the purpose or with the effect of, directly or indirectly, denying or impairing the rights or obligations of the Corporation under this Agreement, and any such transaction shall be null and void and, to the extent that such transaction requires any action by the Corporation, it

shall not be registered or otherwise recognized in the Corporation's records or otherwise.

4.3. Access to Records and Documents. At any time during which the Executive is a stockholder and/or a member of the Board of Directors of the Corporation, the Executive shall be entitled to inspect and copy such records and documents to the extent provided by the Stock Corporation Act of the Commonwealth of Virginia and any other applicable law.

5

6  
5. Registration Rights.

5.1. Secondary Registration.

(a) Registration for Resale. The Corporation intends to seek to create liquidity for the Shares held by the Executive. In the sole discretion of the Corporation, the Corporation may file with the Securities and Exchange Commission (the "Commission") a Registration Statement on Form S-8 or Form S-3 (or similar form) sufficient to permit the public offering and sale of the Registrable Shares (as defined below) through all securities exchanges and over-the-counter markets on which the Corporation's Common Stock is then traded. For the purposes of this Agreement, "Registrable Shares" shall mean outstanding Shares held by the Executive and any other person holding registration rights substantially the same as the rights set forth in this Section 5, which Shares are not at that time the subject of an effective registration statement filed with the Commission. For the purposes of this Agreement, "Holders" shall mean the Executive and any person to whom the Executive has transferred Registrable Shares.

(b) Notice of Filing of Registration Statement. In the event the Corporation determines to file a registration pursuant to Section 5.1(a), the Corporation shall notify each Holder of the proposed filing and request that each Holder notify the Corporation within 15 days thereafter of the number of Registrable Shares such Holder wishes the Corporation to register on such Holder's behalf. Each Holder shall, prior to the end of such 15 day period, request in writing that the Corporation register the sale of all or part of such Holder's Registrable Shares.

5.2. Piggyback Registration Rights.

(a) Offer to Include Registrable Shares in Corporation Offering. If, at any time prior to the Registration Termination Date (as defined in Section 5.4), the Corporation proposes to file a registration statement to register shares of Common Stock for its own account in an underwritten offering with the Commission (other than a registration on Form S-4, Form S-8 or other special purpose form) while any Registrable Shares are outstanding, the Corporation shall give all the Holders at least 45 days prior written notice of the filing of such registration statement. Subject to 5.2(b) below, if requested by any Holder in writing within 30 days after receipt of any such notice, the Corporation shall register or qualify all or, at each Holder's option, any portion of the Registrable Shares of any Holders who shall have made such request, concurrently with the registration of such other securities, all to the extent requisite to permit the public offering and sale of the Registrable Shares through the facilities of all appropriate securities exchanges and the over-the-counter market, and will use its best efforts through its officers, directors, auditors, and counsel to cause such registration statement to become effective as promptly as practicable.

(b) Cutback of Participation in Corporation Offering. Notwithstanding Section 5.2(a), if the managing underwriter of any such offering shall advise the Corporation in writing that, in its opinion, the distribution of all or a portion of the Registrable Shares requested to be included in the registration concurrently with the securities being registered by the Corporation would materially adversely affect the distribution of such securities by the Corporation for its own account, then the number of

7

Registrable Shares held by such Holder to be included in such registration statement shall be reduced to the extent advised by such managing underwriter, provided that any such reduction shall be made pro rata among the Holders electing to participate in such registration based on the aggregate number of Registrable Shares held by each Holder electing to so participate, and provided further that the total number of Registrable Shares included in any such registration shall not be less than 25% of the total number of shares of Common Stock included in the registration for the Corporation's account, the Holders' account and the account of any other person.

### 5.3. Underwriting.

(a) Underwriting in Secondary Registration. If the Corporation undertakes a registration under Section 5.1, any Holder wishing to distribute the Registrable Shares which such Holder has requested to be registered in such registration by means of an underwriting, such Holder shall so advise the Corporation in such Holder's request to participate in such registration under Section 5.1(b). The Holders of a majority of the Registrable Shares being offered may select one or more underwriters for the registration under Section 5.1, which selection shall be approved by the Corporation, which approval shall not be unreasonably withheld provided such underwriter(s) are experienced and reputable. The Corporation shall, together with the Holders engaged in the registration hereunder, enter into an underwriting agreement with the representative of the underwriter or underwriters selected for such underwriting in accordance with this Section 5.3(a).

(b) Underwriting in Piggyback Registration. In the event of an underwritten registration pursuant to the provisions of Section 5.2, any Holder who requests to have Registrable Shares included in such registration shall enter into such custody agreements and powers of attorney as are reasonably requested by the Corporation and any such underwriter, and, if requested, enter into an underwriting agreement containing customary terms.

(c) Right of Withdrawal from Underwriting. In the event of an underwritten offering under Section 5.3(a) or (b), the right of a Holder to participate in a registration hereunder shall be conditioned upon the inclusion of such Holder's Registrable Shares in such underwriting. If a Holder disapproves of the terms of the underwriting, such Holder may elect to withdraw therefrom by written notice to the Corporation and the underwriter delivered at least seven days prior to the effective date of the Registration Statement. The securities so withdrawn shall also be withdrawn from the Registration Statement.

5.4. Effectiveness and Expenses. The Corporation will use its best efforts through its officers, directors, auditors and counsel to cause any Registration Statement filed pursuant to this Section 5 to become effective as promptly as practicable. The Corporation shall be obligated to use its best efforts to maintain the effectiveness of such Registration Statement only until the earlier of (i) the date on which the Registrable Shares may be sold (without regard to volume limitations) under Rule 144 promulgated under the Act, and (ii) the date on which no Registrable Shares remain outstanding (the "Registration

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Termination Date"). The Corporation shall be obligated to pay all expenses (other than the fees and disbursements of counsel for the Holders and underwriting discounts, if any, payable in respect of the Registrable Shares sold by the Holders) in connection with any such Registration Statement, including any expenses incurred in connection with a registration or qualification pursuant to Section 5.5 below.

### 5.5. Blue Sky Registrations. In the event of a registration pursuant to

the provisions of this Section 5, the Corporation shall use its best efforts to cause the Registrable Shares so registered to be registered or qualified for sale under the securities or blue sky laws of such jurisdictions as the Holders may reasonably request; provided, however, that the Corporation shall not be required to qualify to do business in any state by reason of this Section 5.5 in which it is not otherwise required to qualify to do business.

5.6. Continuing Effectiveness. Until the Registration Termination Date, the Corporation shall use its best efforts to keep effective any registration or qualification contemplated by this Section 5 and shall from time to time amend or supplement each applicable registration statement, preliminary prospectus, final prospectus, application, document and communication for such period of time as shall be required to permit the Holders to complete the offer and sale of the Registrable Shares covered thereby.

5.7. Copies of Registration Statement and Related Documents and Information. In the event of a registration pursuant to the provisions of this Section 5, the Corporation shall furnish to each Holder a copy of the Registration Statement and of each amendment and supplement thereto (in each case, including all exhibits), and a reasonable number of copies of each prospectus contained in such registration statement and each supplement or amendment thereto (including each preliminary prospectus), all of which shall conform to the requirements of the Act, and the rules and regulations thereunder, and such other documents and information, as any Holder may reasonably request to facilitate the disposition of the Registrable Shares included in such registration.

5.8. Rule 144 Eligibility. The Corporation agrees that until all the Registrable Shares have been sold under a registration statement or pursuant to Rule 144 under the Act, the Corporation shall use its best efforts to keep current in filing all reports, statements and other materials required to be filed with the Commission to permit holders of the Registrable Shares to sell such securities under Rule 144.

5.9. No Inconsistency. The Corporation shall not enter into any agreement with any holder or prospective holder of any securities of the Corporation providing for the grant of registration rights which is inconsistent with the rights granted to the Holders of Registrable Shares in this Agreement.

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6. Indemnity.

6.1. Corporation Indemnification of the Holders. Subject to the conditions set forth below, the Corporation agrees to indemnify and hold harmless each Holder, its officers, directors, partners, employees, agents and counsel, if any, and each person, if any, who controls any such person within the meaning of Section 15 of the Act or Section 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), if any, from and against any and all loss, liability, charge, claim, damage and expense whatsoever (which shall include, for all purposes of this Section 6, without limitation, attorneys' fees and any and all expenses whatsoever incurred in investigating, preparing or defending against any litigation, commenced or threatened, or any claim whatsoever, and any and all amounts paid in settlement of any claim or litigation), as and when incurred, arising out of, based upon, or in connection with any untrue statement or alleged untrue statement of a material fact contained in any registration statement, preliminary prospectus or final prospectus (as from time to time amended and supplemented), or any amendment or supplement thereto, relating to the sale of any of the Registrable Shares, filed with the Commission, any state regulatory authority or any securities exchange; or any omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or arising out of, based upon, or in connection with any violation by the Corporation of any rule or regulation promulgated under the Act applicable to the Corporation and relating to any action or inaction required of the Corporation in connection with any registration pursuant to Section 5, unless

and to the extent such statement or omission was made in reliance upon and in conformity with written information furnished to the Corporation with respect to such Holder by or on behalf of such person expressly for inclusion in any registration statement, preliminary prospectus, or final prospectus, or any amendment or supplement thereto, as the case may be. The foregoing agreement to indemnify shall be in addition to any liability the Corporation may otherwise have, including liabilities arising under this Agreement.

If any action is brought against any Holder or any of its officers, directors, partners, employees, agents or counsel, or any controlling persons of such person (an "Indemnified Party") in respect of which indemnity may be sought against the Corporation pursuant to the foregoing paragraph, such Indemnified Party or Parties shall promptly notify the Corporation in writing of the institution of such action (but the failure so to notify shall not relieve the Corporation from any liability other than pursuant to this Section 6.1) and the Corporation shall promptly assume the defense of such action, including the employment of counsel (reasonably satisfactory to such Indemnified Party or Parties) and payment of expenses. Such Indemnified Party or parties shall have the right to employ its or their own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party or Parties unless the employment of such counsel shall have been authorized in writing by the Corporation in connection with the defense of such action or the Corporation shall not have promptly employed counsel reasonably satisfactory to such Indemnified Party or Parties to have charge of the defense of such action or such Indemnified Party or parties shall have reasonably concluded that there may be one or more legal defenses available to it or them or to other Indemnified Parties which are different from or additional to those available to the Corporation, in any of which events such fees and expenses shall be borne by the Corporation, and the Corporation shall

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not have the right to direct the defense of such action on behalf of the Indemnified Party or Parties. Anything in this Section 6 to the contrary notwithstanding, the Corporation shall not be liable for any settlement of any such claim or action effected without its written consent, which shall not be unreasonably withheld or delayed. The Corporation shall not, without the prior written consent of each Indemnified Party that is not released as described in this sentence, settle or compromise any action, or permit a default or consent to the entry of judgment in or otherwise seek to terminate any pending or threatened action, in respect of which indemnity may be sought hereunder (whether or not any Indemnified Party is a party thereto), unless such settlement, compromise, consent or termination includes an unconditional release of each Indemnified Party from all liability in respect of such action. The Corporation agrees promptly to notify the Holders of the commencement of any litigation or proceedings against the Corporation or any of its officers or directors in connection with the sale of any Registrable Shares or any preliminary prospectus, prospectus, registration statement or amendment or supplement thereto, or any application relating to any sale of any Registrable Shares.

6.2. Holder Indemnification of the Corporation. Each Holder participating in any such registration shall severally and not jointly, indemnify and hold harmless the Corporation, each director of the Corporation, each officer of the Corporation who shall have signed the registration statement covering Registrable Shares held by the Holder, each other person, if any, who controls the Corporation within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, and its or their respective counsel, to the same extent as the foregoing indemnity from the Corporation to the Holders in Section 6.1, but only with respect to statements or omissions, if any, made in any registration statement, preliminary prospectus or final prospectus (as from time to time amended and supplemented), or any amendment or supplement thereto, in reliance upon and in conformity with written information furnished to the Corporation with respect to such Holder by or on behalf of such Holder expressly for inclusion in any such registration statement, preliminary prospectus or final prospectus, or any amendment or supplement thereto, as the case may be. If

any action shall be brought against the Corporation or any other person so indemnified based on any such registration statement, preliminary prospectus or final prospectus, or any amendment or supplement thereto, or in any application, and in respect of which indemnity may be sought against such Holder pursuant to this Section 6.2, such Holder shall have the rights and duties given to the Corporation and the Corporation and each other person so indemnified shall have the rights and duties given to the Indemnified Parties, by the provisions of Section 6.1. However, in no event shall the liability of any Holder of Registrable Shares participating in such registration hereunder be greater than the dollar amount for the proceeds received by such Holder upon the sale of the Registrable Shares giving rise to such indemnification obligation.

6.3. Contribution. To provide for just and equitable contribution, if (i) an Indemnified Party makes a claim for indemnification pursuant to Section 6.1 or 6.2 but it is found in a final judicial determination, not subject to further appeal, that such indemnification may not be enforced in such case, even though this Agreement expressly provides for indemnification in such case, or (ii) any indemnified or indemnifying party seeks contribution under the Act, the Exchange Act or otherwise, then the Corporation (including for this purpose any contribution made by or on behalf of any director of the

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11

Corporation, any officer of the Corporation who signed any such registration statement, any controlling person of the Corporation, and its or their respective counsel), as one entity, and the Holders of the Registrable Shares included in such registration in the aggregate (including for this purpose any contribution by or on behalf of an Indemnified Party), as a second entity, shall contribute to the losses, liabilities, claims, damages and expenses whatsoever to which any of them may be subject, on the basis of relevant equitable considerations such as the relative fault of the Corporation and such Holders in connection with the facts which resulted in such losses, liabilities, claims, damages and expenses. The relative fault, in the case of an untrue statement, alleged untrue statement, omission or alleged omission, shall be determined by, among other things, whether such statement, alleged statement, omission or alleged omission relates to information supplied by the Corporation or by such Holders, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement, alleged statement, omission or alleged omission. The Corporation and the Holder agree that it would be unjust and inequitable if the respective obligations of the Corporation and the Holders for the contribution were determined by pro rata or per capita allocation of the aggregate losses, liabilities, claims, damages and expenses (even if the Holder and the other Indemnified Parties were treated as one entity for such purpose) or by any other method of allocation that does not reflect the equitable considerations, referred to in this Section 6.3. In no case shall any Holder be responsible for a portion of the contribution obligation imposed on all Holders in excess of its pro rata share based on the number of Registrable Shares held by it and included in such registration as compared to the number of Registrable Shares owned by all Holders and included in such registration. No person guilty of a fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who is not guilty of such fraudulent misrepresentation. For purposes of this Section 6.3, each person, if any, who controls any Holder within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act and each officer, director, partner, employee, agent and counsel of each such Holder or control person shall have the same rights to contribution as such Holder or control person and each person, if any, who controls the Corporation within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, each officer of the Corporation who shall have signed any such registration statement, each director of the Corporation and its or their respective counsel shall have the same right to contribution as the Corporation, subject in each case to the provisions of this Section 6.3. Anything in this Section 6.3 to the contrary notwithstanding, no party shall be liable for contribution with respect to the settlement of any claim or action effected without its written consent. This Section 6.3 is intended to supersede any right to contribution under the Act, the Exchange Act or otherwise.

## 7. Miscellaneous.

7.1. Notices. All notices, requests, demands or other communications provided for in this Agreement shall be in writing and shall be delivered by hand, sent prepaid by Federal Express (or a comparable overnight delivery service) or sent by the United States mail, certified, postage prepaid, return receipt request, to the following

If to the Corporation,

MAXIMUS, Inc.  
1356 Beverly Road  
McLean, Virginia 22201  
Attention: David V. Mastran

If to the Executive,

George C. Casey  
15503 Legend Springs  
San Antonio, TX 78247

Any notice, request, demand or other communication delivered or sent in the foregoing manner shall be deemed given or made (as the case may be) upon the earliest of (i) the date it is actually received, (ii) the business-day after the day on which it is delivered by hand, (iii) the business day after the day on which it is properly delivered to Federal Express (or a comparable overnight delivery service), or (iv) the third business day after the date on which it is deposited in the United States mail. Either party may change its address by notifying the other party of the new address in any manner permitted by this paragraph. Rejection or other refusal to accept or the inability to deliver because of a changed address of which no notice was given shall not affect the date of such notice, election or demand sent in accordance with the foregoing provisions.

7.2. Remedies. The parties hereto further agree and acknowledge that any violation by either party of the terms hereof may result in irreparable injury and damage to the other party, which will not adequately be compensable in monetary damages, that the injured party will have no adequate remedy at law therefor, and that the injured party may obtain such preliminary, temporary or permanent mandatory or restraining injunctions, orders or decrees as may be necessary to protect it against, or on account of, any breach of the provisions contained in this Agreement.

7.3. No Obligation of Continued Employment After Termination of Section 1. Except as set forth in Section 1 hereof, the Executive understands that this Agreement does not constitute a contract of employment or create an obligation on the part of the Corporation to continue the Executive's employment with the Corporation.

7.4. Benefit; Assignment. This Agreement shall bind and inure to the benefit of the parties and their respective personal representatives, heirs, successors and assigns, provided this Agreement may not be assigned by either party without the consent of the other except that the Corporation may assign this Agreement in connection with the merger, consolidation or sale of all or substantially all of its business or assets to a successor that assumes in writing the Corporation's obligations hereunder. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and other legal representatives and, to the extent that any

assignment hereof is permitted hereunder, their assignees.

7.5. Entire Agreement. This Agreement supersedes all prior agreements, written or oral, with respect to the subject matter of this Agreement.

7.6. Severability. In the event that any one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provisions of this Agreement, and all other provisions shall remain in full force and effect. If any of the provisions of this Agreement is held to be excessively broad, it shall be reformed and construed by limiting and reducing it so as to be enforceable to the maximum extent permitted by law.

7.7. Waivers. No delay or omission by a party in exercising any right under this Agreement will operate as a waiver of that or any other right. A waiver or consent given by a party on any occasion is effective only in that instance and will not be construed as a bar to or waiver of any right on any other occasion.

7.8. Captions. The captions of the various sections and paragraphs of this Agreement have been inserted only for the purpose of convenience; such captions are not a part of this Agreement and shall not be deemed in any manner to modify, explain, enlarge or restrict any of the provisions of this Agreement.

7.9. Governing Law. This Agreement shall be governed and construed in accordance with the laws of the Commonwealth of Virginia exclusive of its choice of law rules.

THE EXECUTIVE HAS READ ALL OF THE PROVISIONS OF THIS AGREEMENT AND THE EXECUTIVE UNDERSTANDS, AND AGREES TO, EACH OF SUCH PROVISIONS. THE EXECUTIVE UNDERSTANDS THAT THIS AGREEMENT MAY AFFECT THE EXECUTIVE'S RIGHT TO ACCEPT EMPLOYMENT WITH OTHER COMPANIES SUBSEQUENT TO THE EXECUTIVE'S EMPLOYMENT WITH THE CORPORATION.

7.10. Amendments. No alterations or additions to this Agreement shall be binding unless in writing and signed by both the parties.

7.11. Genders. Whenever reasonably necessary, pronouns of any gender shall be deemed synonymous, as shall singular and plural pronouns.

7.12. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed an original, and all such counterparts shall constitute one instrument.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

\s\GEORGE C. CASEY  
-----  
George C. Casey

MAXIMUS, INC.

By: \s\DAVID V. MASTRAN  
-----  
David V. Mastran  
President and Chief Executive Officer





EXECUTIVE EMPLOYMENT, NONCOMPETE AND CONFIDENTIALITY  
AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") entered into this 12th day of May 1998 by and between Louis E. Chappuie (the "Executive") and Maximus Acquisition Corp., a Delaware corporation with a usual place of business in McLean, Virginia, (such corporation, or its successors and assigns, including but not limited to David M. Griffith & Associates, Ltd., the "Corporation").

WHEREAS, the Corporation desires to employ Executive as its President of David M. Griffith & Associates, Ltd. ("Griffith"); and

WHEREAS, Executive desires to be so employed by the Corporation at the salary and benefits provided for herein; and

WHEREAS, Executive acknowledges and understands that during the course of his employment, Executive will become familiar with certain confidential information of the Corporation and Griffith which is exceptionally valuable to the Corporation and Griffith and vital to the success of the business of the Corporation and Griffith; and

WHEREAS, the Corporation and Executive desire to protect such confidential information from disclosure to third parties or its use to the detriment of the Corporation or Griffith; and

WHEREAS, Executive acknowledges that the likelihood of disclosure of such confidential information would be substantially reduced, and that legitimate business interests of the Corporation and Griffith would be protected, if Executive refrains from competing with the Corporation or Griffith and from soliciting customers and employees during and following the term of this Agreement, and Executive is willing to covenant that he is willing to refrain from such actions.

NOW, THEREFORE, in consideration of these premises and of the mutual covenants and agreements set forth hereinafter, the parties hereto hereby agree as follows:

1. SUPERSEDED AGREEMENT. This Agreement supersedes the Employment and Share Purchase Agreement between Griffith and Executive dated April 26, 1997 and any amendments thereto (collectively, the "1997 Agreements"), subject, however, to the provisions of Section 2.2 (iii) hereof.

2. EMPLOYMENT.

2.1. DUTIES. The Corporation hereby employs Executive, and Executive hereby accepts such employment, to serve as the President and Director of Griffith. Executive will

perform such services and duties as are appropriate to such office or delegated to Executive by Raymond Ruddy as President of the Consulting Group of MAXIMUS, Inc., the parent company of the Corporation or by the Board of Directors of

MAXIMUS, Inc. During the term of this Agreement, Executive will be a full time employee of the Corporation and will devote such time and attention to the diligent and satisfactory performance of his duties as may be necessary and appropriate to accomplish and complete such duties. Executive will not engage in any activities which would have an adverse effect on the Corporation's reputation, goodwill or business relationships or which would result in economic harm to the Corporation.

## 2.2. COMPENSATION.

(i) SALARY. During the term of Executive's employment hereunder, the Corporation will pay to Executive an annual base salary ("Base Salary") of Three Hundred Thousand Dollars (\$300,000.00), payable in equal bimonthly installments as are customary under the Corporation's payroll practices from time to time. Base Salary expressly includes an allowance for automobile lease expenses and for the fringe benefit adjustment that other Griffith employees received to their base salaries as a result of the merger of the Corporation and Griffith on May 7, 1998, which fringe benefit adjustment Executive hereby expressly waives.

(ii) BONUS. During the term of Executive's employment, the Corporation will pay to Executive a bonus in the amount of One Hundred Twenty Five Thousand Dollars (\$125,000.00) payable in equal installments on March 31 and on September 30 of each year; provided, however, that Executive's bonus will be pro rated for the period commencing on the date hereof and ending on September 30, 1998.

(iii) ADDITIONAL BONUS. It is contemplated by the parties hereto that Performance Compensation provided for in the 1997 Agreement shall be paid by Griffith prior to the date hereof, evidenced by a receipt therefor signed by both parties. In the event that such Performance Compensation is not so paid, the Corporation will pay to Executive an additional bonus in the amount of Two Hundred Thousand Dollars (\$200,000.00) on the date that is one year from the date hereof.

(iv) ADDITIONAL BENEFITS. The Corporation will provide Executive such benefits as are generally provided by the Corporation to its other employees, including but not limited to, health and dental insurance, disability and life insurance, sick days and other employee benefits (collectively, "Other Benefits"), all in accordance with the terms and conditions of the Other Benefits plans, as the same will be amended from time to time.

(v) WITHHOLDING. All salary, bonus, and other payments described in this Agreement will be subject to withholding for federal, state or local taxes, amounts withheld under applicable benefit policies or programs, and any other amounts that may be required to be withheld by law, judicial order or otherwise.

2.3. TERM; TERMINATION. Executive's employment pursuant to this Agreement shall commence on the date hereof and shall continue for two (2) years thereafter, provided that this Agreement will terminate:

(a) by mutual written consent of the parties; or

2

3

(b) upon Executive's death or inability, by reason of physical or mental impairment, to perform substantially all of Executive's duties as contemplated herein for a continuous period of four (4) months or more; or

(c) by the Corporation for cause, which will mean in the event of Executive's breach of any material duty or obligation hereunder, or intentional or grossly negligent conduct that is materially injurious to the Corporation, as reasonably determined by the Corporation's Board of Directors, or willful failure to follow the reasonable directions of the Corporation's President of the Consulting Group or Board of Directors.

Upon any termination of employment under this Section 2.3, neither party will have any obligation to the other pursuant to this Section 2, except as set forth in Section 2.2 (iii), but such termination will have no effect on the obligations of the parties under other provisions of this Agreement.

2.4. EARLY TERMINATION OF EXECUTIVE'S EMPLOYMENT BY THE CORPORATION. If the Corporation terminates this Agreement for any reason other than an event described under Section 2.3, the Corporation shall have post-termination obligations to executive. The post termination obligations shall commence with the date the Corporation terminates Executive's employment and shall run to the date this Agreement would have otherwise terminated by lapse of time or an earlier event described in Section 2.3. The Corporation's post-termination obligations are as follows:

(i) to pay \$425,000.00 per year and a pro rata portion thereof for any partial year;

(ii) where permitted by the terms of the Other Benefits plans, statute and other pertinent authority, to continue the Executive as a participant in any existing Other Benefit plan on the date of termination and, if such continuation is not permitted, to pay the dollar equivalent benefit under the Other Benefit plan, provided that such payment does not violate pertinent statute or other authority; and

(iii) to pay to Executive the additional bonus if not earlier paid.

### 3. NON-COMPETITION.

#### 3.1. DEFINITIONS FOR APPLICATION OF THE COVENANT NOT TO COMPETE.

(a) Restricted Services. The term "Restricted Services" means services rendered by Griffith or the Corporation, including without limitation, all of the following:

- \* "A-87" cost allocation plans (or such cost allocation plans as may later replace or supplement such "A-87" cost allocation plans),
- \* user fee and charge studies,
- \* full cost plans,
- \* child support enforcement services,

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4

- \* environmental consulting,
- \* fleet studies,
- \* state mandated cost claiming,
- \* disaster claiming,
- \* human resource consulting,
- \* productivity studies,
- \* privatization analyses,
- \* university A-21 studies,
- \* management studies,
- \* franchise fee studies,
- \* government studies,
- \* executive search,
- \* revenue maximization studies, and
- \* housing authority consulting.

(b) Properties. The term "Properties" means tangible and intangible properties of Griffith and the Corporation, including but not limited to, goodwill, trade secrets (including but not limited to each item listed and defined as a trade secret under the Illinois Trade Secrets Act," 765 ILCS 1065/1 ET SEQ.), marketing strategies and confidential information such as client

lists, proposal letters, contract forms, and manuals. "Properties" also include, without limitation, all computer software, input forms, source codes, and report formats used, developed, sold or licensed in connection with the rendition of Restricted Services or otherwise sold or used in the business of Griffith or the Corporation.

(c) Client. The term "Client" means a client of Griffith or the Corporation who within the twenty-one (21) month period ending with the date of a commission of a competitive act under Paragraph 3.2.3 had been invoiced by Griffith or the Corporation or for whom the Corporation or Griffith had performed, or for whom Griffith or the Corporation had an executed contract to perform, or had solicited to perform, any Restricted Services.

### 3.2. COVENANTS BY AND RESTRICTIONS ON THE EXECUTIVE.

3.2.1. BEST EFFORTS TO GUARD CONFIDENTIALITY OF PROPERTIES. Executive covenants and agrees to use the Executive's best efforts and utmost diligence in carrying out Executive's duties and in guarding (through such reasonable precautions required by the Board of Directors or otherwise) the confidentiality of the Properties.

3.2.2. FORBIDDEN USE OF THE PROPERTIES. Executive further covenants and agrees that he will not, directly or indirectly (as officer, director, proprietor, manager, consultant, employee, partner or shareholder, or in any other capacity), use for himself or others any of the Properties during or at any time after he has completed his duties under this Agreement.

3.2.3. COVENANT NOT TO COMMIT COMPETITIVE ACTS. The Executive further covenants that, for a period of two (2) years after termination of the Executive's employment for any reason, the Executive will not, directly or indirectly (as officer, director, proprietor, manager,

4

5

consultant, employee, partner or shareholder, or in any other capacity), commit any of the following acts, wherever the Corporation or Griffith renders Restricted Services:

(i) solicit or perform any Restricted Services for any client, or interfere with any contractual arrangements of any client, of Griffith or the Corporation,

(ii) solicit or hire any other employee, or any individual who has been an employee, of Griffith or the Corporation within the preceding six calendar months prior to the solicitation or hiring of the employee,

(iii) develop, sell license or otherwise market computer software which is competitive with any of Griffith or the Corporation's computer software, including without limitation computer software which is developed, sold, licensed or otherwise marketed by Griffith or the Corporation as of the termination of Executive's employment for any reason,

except in each such case Executive has received the express written permission of the Corporation.

3.2.4. RIGHT OF INSPECTION. Executive shall upon demand from the Corporation, make available for inspection at such reasonable times and places as the Corporation may request any of the confidential or other information used directly or indirectly by Executive, solely for the purpose of determining Executive's compliance with the restrictions of this Agreement. The Corporation will not use, adopt or exploit for its own purposes any of the disclosed information.

3.3. REMEDIES IN THE EVENT OF BREACH. Executive agrees that the remedy at law for any breach by Executive of any of the restrictions of this Section 3 may be inadequate and that the Corporation shall be entitled to injunctive relief. Executive further understands and agrees that in addition to any other remedy available to the Corporation, the Corporation may set off against any amounts due Executive, an amount equal to the gross revenues which Executive, or any entity with which Executive is employed, affiliated or associated, receives or is entitled to receive, from any existing clients (or potential clients with whom a proposal is pending) of Griffith or the Corporation (as the case might be) during the two-year period provided in this Section 3.

3.4. DUTY TO INFORM. Executive shall notify any new employer, partner, association or any other firm or corporation actually or potentially in competition with Griffith or the Corporation with whom Executive shall become associated in any capacity whatsoever of the provisions of this Section 3 and Executive agrees that the Corporation may give such notice to such firm, corporation or other person.

3.5. BUSINESS OPPORTUNITIES: CONFLICTS OF INTEREST; OTHER EMPLOYMENT AND ACTIVITIES OF EXECUTIVE.

3.5.1. Executive agrees promptly to advise the Corporation of, and provide the Corporation with all opportunity to seek, all business opportunities that reasonably relate to the present business conducted by the Corporation.

5

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6

3.5.2. Executive, in his capacity as an employee of the Corporation, shall not engage in any business with any member of Executive's immediate family or with any person or business entity in which Executive or any member of Executive's immediate family has any ownership interest or financial interest, unless and until Executive has first fully disclosed such interest to the Board of Directors and received written consent from the Board of Directors, signed by the Chairman of such board. As used herein, the term "immediate family" means Executive's spouse, natural or adopted children, parents or siblings and the term "financial interest" means any relationship with such person or business entity that may monetarily benefit Executive or member of Executive's immediate family, including any lending relationship or the guarantying of any obligations of such person or business entity by Executive or member of his immediate family.

3.5.3. The parties hereto acknowledge and agree that Executive may engage in outside civic, political, social, educational and professional activities and may serve on the boards of directors of other corporations; provided, however, that such activities shall not have priority over or adversely affect or conflict with the business of the Corporation or its clients, or interfere with the mobility of Executive to fulfill Executive's duties to the Corporation as a full-time employee and officer of the Corporation, as conclusively determined by the Board of Directors of the Corporation.

3.5.4. The parties hereto agree that Executive may, consistent with this Section 3, receive and retain speaking fees, referral fees from business opportunities not accepted by the Corporation, and fees from outside business activities and opportunities of Executive consented to by the Board of Directors of the Corporation.

4. STOCK RESTRICTIONS.

4.1. TRANSFERS. Executive may not offer, sell, assign, grant a participation in, pledge or otherwise transfer ("Transfer") any of the

Executive's shares of Common Stock of the Corporation (including shares acquired after the date hereof) (the "Shares") except in compliance with the Securities Act of 1933, as amended (the "Act"), and any applicable state securities laws.

#### 4.2. IMPROPER TRANSFER.

4.2.1. Any attempt to Transfer any Shares not in compliance with this Agreement shall be null and void and neither the Corporation nor any transfer agent of the Corporation shall register, or otherwise recognize in the Corporation's records, any such improper Transfer.

4.2.2. Executive shall not enter into any transaction or series of transactions for the purpose or with the effect of, directly or indirectly, denying or impairing the rights or obligations of the Corporation under this Agreement, and any such transaction shall be null and void and, to the extent that such transaction requires any action by the Corporation, it shall not be registered or otherwise recognized in the Corporation's records or otherwise.

4.3. ACCESS TO RECORDS AND DOCUMENTS. At any time during which Executive is a stockholder and/or a member of the Board of Directors of the Corporation, Executive shall be

6

7

entitled to inspect and copy such records and documents to the extent provided by the Stock Corporation Act of the Commonwealth of Virginia and any other applicable law.

#### 5. MISCELLANEOUS.

5.1. NOTICES. All notices, requests, demands or other communications provided for in this Agreement shall be in writing and shall be delivered by hand, sent prepaid by Federal Express (or a comparable overnight delivery service) or sent by the United States mail, certified, postage prepaid, return receipt request, to the following

If to the Corporation,

MAXIMUS, Inc.  
36 Washington Street, Suite 320  
Wellesley Hills, MA 02181  
Attention: Raymond Ruddy

If to Executive,

884 Gloucester Crossing  
Lake Forest, IL 60045

Any notice, request, demand or other communication delivered or sent in the foregoing manner shall be deemed given or made (as the case may be) upon the earliest of (i) the date it is actually received, (ii) the business-day after the day on which it is delivered by hand, (iii) the business day after the day on which it is properly delivered to Federal Express (or a comparable overnight delivery service) or (iv) the third business day after the date on which it is deposited in the United States mail. Either party may change its address by notifying the other party of the new address in any manner permitted by this paragraph. Rejection or other refusal to accept or the inability to deliver because of a changed address of which no notice was given shall not affect the date of such notice, election or demand sent in accordance with the foregoing provisions.

5.2. NO OBLIGATION OF CONTINUED EMPLOYMENT. Except as set forth in Section 2 hereof, Executive understands that this Agreement does not constitute a contract of employment or create an obligation on the part of the Corporation to continue Executive's employment with the Corporation.

5.3. BENEFIT; ASSIGNMENT. This Agreement shall bind and inure to the benefit of the parties and their respective personal representatives, heirs, successors and assigns, provided this Agreement may not be assigned by either party without the consent of the other except that the Corporation may assign this Agreement in connection with the merger, consolidation or sale of all or substantially all of its business or assets.

5.4. ENTIRE AGREEMENT. This Agreement supersedes all prior agreements, written or oral, with respect to the subject matter of this Agreement.

7

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5.5. SEVERABILITY. In the event that any one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provisions of this Agreement, and all other provisions shall remain in full force and effect. If any of the provisions of this Agreement is held to be excessively broad, it shall be reformed and construed by limiting and reducing it so as to be enforceable to the maximum extent permitted by law.

5.6. WAIVERS. No delay or omission by the Corporation in exercising any right under this Agreement will operate as a waiver of that or any other right. A waiver or consent given by the Corporation on any occasion is effective only in that instance and will not be construed as a bar to or waiver of any right on any other occasion.

5.7. CAPTIONS. The captions of the various sections and paragraphs of this Agreement have been inserted only for the purpose of convenience; such captions are not a part of this Agreement and shall not be deemed in any manner to modify, explain, enlarge or restrict any of the provisions of this Agreement.

5.8. GOVERNING LAW. This Agreement shall be construed as a sealed instrument and shall in all events and for all purposes be governed by, and construed in accordance with, the laws of the State of Illinois without regard to any choice of law principle that would dictate the application of the laws of another jurisdiction. Any action, suit or other legal proceeding which either party may commence or resolve any matter arising under or relating to any provision of this Agreement shall be commenced only in a court of the State of Illinois (or, if appropriate, a federal court located within Illinois), and Executive hereby consent to the jurisdiction of such court with respect to any action, suit or proceeding commenced in such court by the Corporation. The Section headings are included solely for convenience and shall in no event affect or be used in connection with, the interpretation of this Agreement.

EXECUTIVE HAS READ ALL OF THE PROVISIONS OF THIS AGREEMENT AND EXECUTIVE UNDERSTANDS AND AGREES TO, EACH OF SUCH PROVISIONS. EXECUTIVE UNDERSTANDS THAT THIS AGREEMENT MAY AFFECT EXECUTIVE'S RIGHT TO ACCEPT EMPLOYMENT WITH OTHER COMPANIES SUBSEQUENT TO EXECUTIVE'S EMPLOYMENT WITH THE CORPORATION.

5.9. AMENDMENTS. No alterations or additions to this Agreement shall be binding unless in writing and signed by both the parties.

5.10. GENDERS. Whenever reasonably necessary, pronouns of any gender shall be deemed synonymous, as shall singular and plural pronouns.

5.11. COUNTERPARTS. This Agreement may be executed in several counterparts,



each of which shall be deemed an original, and all such counterparts shall constitute one instrument.

8

9

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

\s\ LOUIS E. CHAPPUIE

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Louis E. Chappuie

MAXIMUS ACQUISITION CORP.

\s\ DAVID V. MASTRAN

-----  
David V. Mastran  
President

9

10

DAVID V. MASTRAN AND RAYMOND RUDDY EXECUTE THIS AGREEMENT FOR THE SOLE PURPOSE OF AGREEING TO THE FOLLOWING PROVISION ONLY:

ELECTION OF THE EXECUTIVE AS DIRECTOR. David V. Mastran and Raymond Ruddy, as shareholders of MAXIMUS, Inc., agree to vote their shares of the Common Stock of MAXIMUS, Inc. (and any other shares of MAXIMUS, Inc. over which they exercise control) and take whatever actions are necessary to elect the Executive as a Director of MAXIMUS, Inc. and thereafter continue the Executive in office as a Director for a period of two (2) years from the date hereof.

ACKNOWLEDGED AND AGREED THIS 12th DAY OF MAY, 1998

\s\ DAVID V. MASTRAN

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David V. Mastran

\s\ RAYMOND RUDDY

-----  
Raymond Ruddy

10

EXECUTIVE EMPLOYMENT, NON-COMPETE  
AND CONFIDENTIALITY AGREEMENT

THIS EXECUTIVE EMPLOYMENT, NON-COMPETE AND CONFIDENTIALITY AGREEMENT entered into this 31st day of August, 1998 by and between Gary L. Glickman (the "Executive") and MAXIMUS, Inc., a Virginia corporation with a usual place of business in McLean, Virginia (the "Corporation"). Capitalized terms not defined herein shall have the meanings set forth in the Agreement and Plan of Merger (the "Merger Agreement") by and among the Corporation, Phoenix Acquisition Corp., Phoenix Planning & Evaluation, Ltd. ("Phoenix") and the Stockholders of Phoenix Planning & Evaluation, Ltd. dated August 31, 1998.

WHEREAS, as of the Effective Time, Executive shall be a key employee of the Corporation and a holder of a substantial number of shares of the issued and outstanding capital stock of the Corporation;

WHEREAS, the Corporation acknowledges that the Executive possesses the experience and resource capabilities to operate Phoenix;

WHEREAS, the Corporation does not intend to manage Phoenix on an operational basis;

WHEREAS, the Corporation does not intend to enter into the Merger Agreement or to consummate the transactions contemplated thereby (or any subsequent merger of Phoenix with and into the Corporation) unless the Executive is and continues to be employed by Maximus as Division President;

NOW, THEREFORE, in consideration of these premises and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Employment.

1.1 Duties. The Corporation hereby employs the Executive, and the Executive hereby accepts such employment, to serve as a Division President of the Corporation, reporting directly to the President of the Corporation's Consulting Division. As a Division President of the Corporation, the Executive will be deemed a Section 16 officer under the Securities Exchange Act of 1934, as amended. The Corporation and the Executive each intend that the Executive will continue to manage Phoenix with the goal of increasing the revenues and profits of Phoenix. The Executive hereby represents and warrants that he is in good health and capable of performing the services required hereunder. The Executive shall perform such services and duties as are appropriate to such office or delegated to the Executive by the President of the Corporation's Consulting Division or the Board of Directors of the Corporation. During the term of this Agreement, the Executive shall be a full time employee of the Corporation and shall

2

devote such time and attention to the discharge of his duties as may be necessary and appropriate to accomplish and complete such duties.

1.2 Compensation.

(a) Salary and Regular Year-End Bonus. As compensation for performance of his obligations hereunder, the Corporation shall pay the Executive (i) an annual salary of not less than \$220,000, such annual salary to be reviewed annually for adjustment beginning on or about September 30, 1999, (ii) a one-time bonus of \$105,000 to be paid to the Executive on or about September 30, 1998 and (iii) a regular year-end bonus for the fiscal years 1999, 2000 and 2001 consistent with the Corporation's past practices.

(b) Vacation, Insurance, Expenses. The Executive shall be entitled to such vacation benefits, health, disability and life insurance benefits and expense reimbursements in a manner consistent with the Corporation's past practices and as are provided by the Corporation to its other Division Presidents.

(c) Other Benefits. The Executive shall be entitled to participate in stock option and incentive plans and receive fringe benefits as may be granted or established by the Corporation from time to time; provided however, that the Executive hereby acknowledges that in the past, options have been granted at the discretion of the Chief Executive Officer of the Corporation and not pursuant to a regular schedule or program, and that the Corporation does not anticipate a change in such practice. The Executive shall also be entitled to the continued use of his currently leased automobile for the remaining duration of the current lease at the expense of the Corporation, such expense to include insurance, maintenance and all other reasonable expenses related to the use of said automobile. At the termination of the normal term of the current automobile lease, the Corporation and the Executive will negotiate whether a new automobile lease, or any extension or modification to the current automobile lease, will be entered into.

1.3 Term; Termination. The term of the employment agreement set forth in this Section 1 shall be for a period commencing at the Effective Time and continuing for four (4) years thereafter (the "Scheduled Termination Date") provided that this Agreement shall terminate:

(a) by mutual written consent of the parties;

(b) upon Executive's death or inability, by reason of physical or mental impairment, to perform substantially all of Executive's duties as contemplated herein for a continuous period of 120 days or more; or

(c) by the Corporation for cause, which shall mean in the event of Executive's breach of any material duty or obligation hereunder, or intentional or grossly negligent misconduct that is materially injurious to the Corporation, as reasonably determined by the Corporation's Board of Directors, or willful failure to follow the reasonable directions of the Corporation's Board of Directors, in each such case after continued failure to cure such breach or misconduct within thirty (30) days after written demand for performance has been given to the

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3

Executive by the Corporation, which demand shall describe specifically the nature of such alleged failure to perform or observe such material terms and provisions.

Upon any termination of employment under this Section 1.3, neither party shall have any obligation to the other pursuant to this Section 1, but such termination shall have no effect on the obligations of the parties under other provisions of this Agreement.

2. Non-Competition.

2.1 Undertaking. The Executive agrees that while the Executive is employed by the Corporation and thereafter, for a period of two (2) years after termination or cessation of such employment, the Executive shall not, without the Corporation's prior written consent, directly or indirectly, as a principal, employee, consultant, partner, or stockholder of, or in any other capacity with, any business enterprise (other than in the Executive's capacity as a holder of not more than 1% of the combined voting power of the outstanding stock of a publicly held company):

(a) if the Executive's employment is terminated pursuant to Section 1.3 prior to the Scheduled Termination Date:

(i) engage in direct or indirect competition with the Corporation's Consulting Group;

(ii) conduct a business of the type or character engaged in by the Corporation's Consulting Group at the time of termination or cessation of the Executive's employment; or

(iii) develop products or services competitive with those of the Corporation's Consulting Group.

(b) if the Executive's employment is not terminated pursuant to Section 1.3 prior to the Scheduled Termination Date, then only with respect to products and services developed, marketed and sold within the scope of the Executive's employment under this Agreement:

(i) engage in direct or indirect competition with the Corporation's Consulting Group;

(ii) conduct a business of the type or character engaged in by the Corporation's Consulting Group at the time of termination or cessation of the Executive's employment; or

(iii) develop products or services competitive with those of the Corporation's Consulting Group.

3

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## 2.2 Prohibited Activities.

(a) The Executive agrees that, during his employment with the Corporation, and thereafter for a period of two years after the termination of such employment, the Executive will not engage in any unethical behavior which may adversely affect the Corporation. For the purpose of this Section 2.2, "Unethical Behavior" is defined as:

(i) any attempt, successful or unsuccessful, by the Executive to divert any existing contracts or subcontracts from the Corporation to any other firm, whether or not affiliated with the Executive;

(ii) any attempt, successful or unsuccessful by the Executive, to adversely influence clients of the Corporation or organizations with which the Corporation has a contract or a proposal pending as of the date of the Executive's termination from the Corporation;

(iii) any attempt, successful or unsuccessful, by the Executive to divert any contracts or subcontracts which are pending as of the date of Executive's termination from the Corporation to any other firm, whether or not affiliated with the Executive;

(iv) any attempt, successful or unsuccessful, by the Executive to offer his services, or to influence any other employee of the Corporation to offer their services, to any firm to compete against the Corporation in the performance of services provided under existing contracts or follow-ons to existing contracts or pending proposals with the Corporation's clients as of the date of the Executive's termination; or

(v) any attempt, successful or unsuccessful, by the Executive to employ or offer employment to, or cause any other person to employ or offer employment to any other employee of the Corporation.

(b) The Executive agrees that, in addition to any other remedy available to the Corporation, in the event of a breach by the Executive of the terms of this Section 2 the Corporation may set off against any amounts due the Executive, an amount equal to the gross revenues which such Executive, or any entity with which the Executive is employed, affiliated or associated, receives or is entitled to receive, from any existing clients (or potential clients with whom a proposal is pending) of the Corporation during the two-year period

provided in this Section 2.

(c) The provisions of this Section 2 shall continue for a period of two years after termination of the Executive's employment with the Corporation, whether voluntary or involuntary, with or without cause. The Executive shall notify any new employer, partner, association or any other firm or corporation actually or potentially in competition with the Corporation with whom the Executive shall become associated in any capacity whatsoever of the provisions of this Section 2 and the Executive agrees that the Corporation may give such notice to such firm, corporation or other person.

4

5

2.3 Business Opportunities; Conflicts of Interest; Other Employment and Activities of the Executive.

(a) The Executive agrees promptly to advise the Corporation of, and provide the Corporation with an opportunity to pursue, all business opportunities that reasonably relate to the present business conducted by the Corporation.

(b) The Executive, in his capacity as an employee of the Corporation, shall not engage in any business with any member of the Executive's immediate family or with any person or business entity in which the Executive or any member of the Executive's immediate family has any ownership interest or financial interest, unless and until the Executive has first fully disclosed such interest to the Board of Directors and received written consent from the Board of Directors, signed by the Chairman of such board. As used herein, the term "immediate family" means the Executive's spouse, natural or adopted children, parents or siblings and the term "financial interest" means any relationship with such person or business entity that may monetarily benefit the Executive or member of the Executive's immediate family, including any lending relationship or the guarantying of any obligations of such person or business entity by the Executive or member of his immediate family.

(c) The parties hereto acknowledge and agree that the Executive may engage in outside civic, political, social, educational and professional activities and may serve on the boards of directors of other corporations; provided, however, that such activities shall not have priority over or adversely affect or conflict with the business of the Corporation or its clients, or interfere with the mobility of the Executive to fulfill the Executive's duties to the Corporation as a full-time employee and officer of the Corporation, as conclusively determined by the Board of Directors of the Corporation.

(d) The parties hereto agree that the Executive may, consistent with this Section 2.3, receive and retain speaking fees, referral fees from business opportunities not accepted by the Corporation, and fees from outside business activities and opportunities of the Executive consented to by the Board of Directors of the Corporation.

3. Confidentiality.

3.1 Non-Disclosure. The parties hereto agree that the Corporation's books, records, files and all other information relating to the Corporation (that is not otherwise available on a nonconfidential basis prior to its disclosure hereunder or becomes available on a nonconfidential basis other than from the Executive), its business and its clients are proprietary in nature and contain trade secrets and shall be held in strict confidence by the parties hereto, and shall not, either during the term of this Agreement or after the termination hereof, be intentionally disclosed, directly or indirectly, to any third party, person, firm, corporation or other entity, irrespective of whether such person or entity is a competitor of the Corporation or is engaged in a business similar to that of the Corporation; except in furtherance of the Corporation's business or as required by court order or other legal process. The trade secrets or other proprietary or confidential information referred to in the prior sentence includes, without limitation, all proposals to clients or

potential clients, contracts, client or potential client lists, fee policies, financial information, administration or marketing practices or procedures and all other

5

6

information regarding the business of the Corporation and its clients not generally known to the public.

3.2 Trade Secrets. Each party hereto shall take such steps, undertake such actions and refrain from taking such other actions, as mandated by the provisions hereof and by the provisions of the laws of the Commonwealth of Virginia regarding the proprietary information referred to in this Section 3 which is also a trade secret of the Corporation pursuant to the laws of Virginia.

#### 4. Stock Restrictions.

4.1 Transfers. The Executive may not offer, sell, assign, grant a participation in, pledge or otherwise transfer ("Transfer") any of the Executive's shares of Common Stock of the Corporation (including shares acquired after the date hereof) (the "Shares") except in compliance with the Securities Act of 1933, as amended (the "Act"), and any applicable state securities laws.

#### 4.2 Improper Transfer.

(a) Any attempt to Transfer any Shares not in compliance with this Agreement shall be null and void and neither the Corporation nor any transfer agent of the Corporation shall register, or otherwise recognize in the Corporation's records, any such improper Transfer.

(b) The Executive shall not enter into any transaction or series of transactions for the purpose or with the effect of, directly or indirectly, denying or impairing the rights or obligations of the Corporation under this Agreement, and any such transaction shall be null and void and, to the extent that such transaction requires any action by the Corporation, it shall not be registered or otherwise recognized in the Corporation's records or otherwise.

#### 5. Registration Rights.

#### 5.1 Secondary Registration.

(a) Registration for Resale. The Corporation intends to seek to create liquidity for the Shares held by the Executive. In the sole discretion of the Corporation, the Corporation may file with the Securities and Exchange Commission (the "Commission") a Registration Statement on Form S-8 or Form S-3 (or similar form) sufficient to permit the public offering and sale of the Registrable Shares (as defined below) through all securities exchanges and over-the-counter markets on which the Corporation's Common Stock is then traded. For the purposes of this Agreement, "Registrable Shares" shall mean outstanding Shares held by the Executive and any other person holding registration rights substantially the same as the rights set forth in this Section 5, which Shares are not at that time the subject of an effective registration statement filed with the Commission. For the purposes of this Agreement, "Holders" shall mean the Executive and any person to whom the Executive has transferred Registrable Shares.

(b) Notice of Filing of Registration Statement. In the event the Corporation determines to file a registration pursuant to Section 5.1(a), the Corporation shall notify each Holder of the proposed filing and request that each Holder notify the Corporation within 15 days

6

thereafter of the number of Registrable Shares such Holder wishes the Corporation to register on such Holder's behalf. Each Holder shall, prior to the end of such 15 day period, request in writing that the Corporation register the sale of all or part of such Holder's Registrable Shares.

## 5.2 Piggyback Registration Rights.

(a) Offer to Include Registrable Shares in Corporation Offering. If, at any time prior to the Registration Termination Date (as defined in Section 5.4), the Corporation shall file a registration statement to register shares of Common Stock for its own account in an underwritten offering with the Commission (other than a Registration Statement on Form S-4, Form S-8 or other special purpose form) while any Registrable Shares are outstanding, the Corporation shall give all the Holders at least thirty (30) days prior written notice of the filing of such registration statement. Subject to 5.2(b) below, if requested by any Holder in writing within fifteen (15) days after receipt of any such notice, the Corporation shall register or qualify all or, at each Holder's option, any portion of the Registrable Shares of any Holders who shall have made such request, concurrently with the registration of such other securities, all to the extent requisite to permit the public offering and sale of the Registrable Shares through the facilities of all appropriate securities exchanges and the over-the-counter market, and will use its best efforts through its officers, directors, auditors, and counsel to cause such registration statement to become effective as promptly as practicable.

(b) Cutback of Participation in Corporation Offering. Notwithstanding Section 5.2(a), if the managing underwriter of any such offering shall advise the Corporation in writing that, in its opinion, the distribution of all or a portion of the Registrable Shares requested to be included in the registration concurrently with the securities being registered by the Corporation would materially adversely affect the distribution of such securities by the Corporation for its own account, then the number of Registrable Shares held by such Holder to be included in such registration statement shall be reduced to the extent advised by such managing underwriter, provided that any such reduction shall be made pro rata among the Holders electing to participate in such registration based on the aggregate number of Registrable Shares held by each Holder electing to so participate, and provided further that the total number of Registrable Shares included in any such registration shall not be less than 25% of the total number of shares of Common Stock included in the registration for the Corporation's account, the Holders account and the account of any other person.

## 5.3 Underwriting.

(a) Underwriting in Secondary Registration. If the Corporation undertakes a registration under Section 5.1, any Holder wishing to distribute the Registrable Shares which such Holder has requested to be registered in such registration by means of an underwriting, such Holder shall so advise the Corporation in such Holder's request to participate in such registration under Section 5.1(b). The Holders of a majority of the Registrable Shares being offered may select one or more underwriters for the registration under Section 5.1, which selection shall be approved by the Corporation, which approval shall not be unreasonably withheld provided such underwriter(s) are experienced and reputable. The Corporation shall, together with the Holders engaged in the registration hereunder, enter into an underwriting agreement with the

representative of the underwriter or underwriters selected for such underwriting in accordance with this Section 5.3(a).

(b) Underwriting in Piggyback Registration. In the event of an underwritten registration pursuant to the provisions of Section 5.2, any Holder who requests to have Registrable Shares included in such registration shall enter into such custody agreements and powers of attorney as are reasonably

requested by the Corporation and any such underwriter, and, if requested, enter into an underwriting agreement containing customary terms.

(c) Right of Withdrawal from Underwriting. In the event of an underwritten offering under Section 5.3(a) or (b), the right of a Holder to participate in a registration hereunder shall be conditioned upon the inclusion of such Holder's Registrable Shares in such underwriting. If a Holder disapproves of the terms of the underwriting, such Holder may elect to withdraw therefrom by written notice to the Corporation and the underwriter delivered at least seven (7) days prior to the effective date of the registration statement. The securities so withdrawn shall also be withdrawn from the registration statement.

5.4 Effectiveness and Expenses. The Corporation will use its best efforts through its officers, directors, auditors and counsel to cause any registration statement filed pursuant to this Section 5 to become effective as promptly as practicable. The Corporation shall be obligated to use its best efforts to maintain the effectiveness of such registration statement only until the earlier of (i) the date on which the Registrable Shares may be sold (without regard to volume limitations) under Rule 144 promulgated under the Act, and (ii) the date on which no Registrable Shares remain outstanding (the "Registration Termination Date"). The Corporation shall be obligated to pay all expenses (other than the fees and disbursements of counsel for the Holders and underwriting discounts, if any, payable in respect of the Registrable Shares sold by the Holders) in connection with any such registration statement.

5.5 Blue Sky Registrations. In the event of a registration pursuant to the provisions of this Section 5, the Corporation shall use its best efforts to cause the Registrable Shares so registered to be registered or qualified for sale under the securities or blue sky laws of such jurisdictions as the Holders may reasonably request; provided, however, that the Corporation shall not be required to qualify to do business in any state by reason of this Section 5.5 in which it is not otherwise required to qualify to do business.

5.6 Continuing Effectiveness. Until the Registration Termination Date, the Corporation shall use its best efforts to keep effective any registration or qualification contemplated by this Section 5 and shall from time to time amend or supplement each applicable registration statement, preliminary prospectus, final prospectus, application, document and communication for such period of time as shall be required to permit the Holders to complete the offer and sale of the Registrable Shares covered thereby.

5.7 Copies of Registration Statement and Related Documents. In the event of a registration pursuant to the provisions of this Section 5, the Corporation shall furnish to each Holder a copy of the registration statement and of each amendment and supplement thereto (in each case, including all exhibits), and a reasonable number of copies of each prospectus contained in such registration statement and each supplement or amendment thereto (including

8

9 each preliminary prospectus), all of which shall conform to the requirements of the Act, and the rules and regulations thereunder, and such other documents, as any Holder may reasonably request to facilitate the disposition of the Registrable Shares included in such registration.

5.8 Rule 144 Eligibility. The Corporation agrees that until all the Registrable Shares have been sold under a registration statement or pursuant to Rule 144 under the Act, the Corporation shall use its best efforts to keep current in filing all reports, statements and other materials required to be filed with the Commission to permit holders of the Registrable Shares to sell such securities under Rule 144.

6. Indemnity.

6.1 Corporation Indemnification of the Holders. Subject to the



conditions set forth below, the Corporation agrees to indemnify and hold harmless each Holder, its officers, directors, partners, employees, agents and counsel, if any, and each person, if any, who controls any such person within the meaning of Section 15 of the Act or Section 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), if any, from and against any and all loss, liability, charge, claim, damage and expense whatsoever (which shall include, for all purposes of this Section 6, without limitation, attorneys' fees and any and all expenses whatsoever incurred in investigating, preparing or defending against any litigation, commenced or threatened, or any claim whatsoever, and any and all amounts paid in settlement of any claim or litigation), as and when incurred, arising out of, based upon, or in connection with any untrue statement or alleged untrue statement of a material fact contained in any registration statement, preliminary prospectus or final prospectus (as from time to time amended and supplemented), or any amendment or supplement thereto, relating to the sale of any of the Registrable Shares, filed with the Commission or any securities exchange; or any omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, unless such statement or omission was made in reliance upon and in conformity with written information furnished to the Corporation with respect to such Holder by or on behalf of such person expressly for inclusion in any registration statement, preliminary prospectus, or final prospectus, or any amendment or supplement thereto, as the case may be. The foregoing agreement to indemnify shall be in addition to any liability the Corporation may otherwise have, including liabilities arising under this Agreement.

If any action is brought against any Holder or any of its officers, directors, partners, employees, agents or counsel, or any controlling persons of such person (an "Indemnified Party") in respect of which indemnity may be sought against the Corporation pursuant to the foregoing paragraph, such Indemnified Party or Parties shall promptly notify the Corporation in writing of the institution of such action (but the failure so to notify shall not relieve the Corporation from any liability other than pursuant to this Section 6.1) and the Corporation shall promptly assume the defense of such action, including the employment of counsel (reasonably satisfactory to such Indemnified Party or Parties) and payment of expenses. Such Indemnified Party or Parties shall have the right to employ its or their own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party or Parties unless the employment of such counsel shall have been authorized in writing by the Corporation in connection with the defense of such action or the Corporation shall not have promptly employed counsel reasonably

satisfactory to such Indemnified Party or Parties to have charge of the defense of such action or such Indemnified Party or Parties shall have reasonably concluded that there may be one or more legal defenses available to it or them or to other Indemnified Parties which are different from or additional to those available to the Corporation, in any of which events such fees and expenses shall be borne by the Corporation, and the Corporation shall not have the right to direct the defense of such action on behalf of the Indemnified Party or Parties. Anything in this Section 6 to the contrary notwithstanding, the Corporation shall not be liable for any settlement of any such claim or action effected without its written consent, which shall not be unreasonably withheld. The Corporation shall not, without the prior written consent of each Indemnified Party that is not released as described in this sentence, settle or compromise any action, or permit a default or consent to the entry of judgment in or otherwise seek to terminate any pending or threatened action, in respect of which indemnity may be sought hereunder (whether or not any Indemnified Party is a party thereto), unless such settlement, compromise, consent or termination includes an unconditional release of each Indemnified Party from all liability in respect of such action. The Corporation agrees promptly to notify the Holders of the commencement of any litigation or proceedings against the Corporation or any of its officers or directors in connection with the sale of any Registrable Shares or any preliminary prospectus, prospectus, registration statement or amendment or supplement thereto, or any application relating to any sale of any

Registrable Shares.

6.2 Holder Indemnification of the Corporation. Each Holder participating in any such registration shall indemnify and hold harmless the Corporation, each director of the Corporation, each officer of the Corporation who shall have signed the registration statement covering Registrable Shares held by the Holder, each other person, if any, who controls the Corporation within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, and its or their respective counsel, to the same extent as the foregoing indemnity from the Corporation to the Holders in Section 6.1, but only with respect to statements or omissions, if any, made in any registration statement, preliminary prospectus or final prospectus (as from time to time amended and supplemented), or any amendment or supplement thereto, in reliance upon and in conformity with information furnished to the Corporation with respect to such Holder by or on behalf of such Holder expressly for inclusion in any such registration statement, preliminary prospectus or final prospectus, or any amendment or supplement thereto, as the case may be. If any action shall be brought against the Corporation or any other person so indemnified based on any such registration statement, preliminary prospectus or final prospectus, or any amendment or supplement thereto, or in any application, and in respect of which indemnity may be sought against such Holder pursuant to this Section 6.2, such Holder shall have the rights and duties given to the Corporation and the Corporation and each other person so indemnified shall have the rights and duties given to the Indemnified Parties, by the provisions of Section 6.1.

6.3 Contribution. To provide for just and equitable contribution, if (i) an Indemnified Party makes a claim for indemnification pursuant to Section 6.1 or 6.2 but it is found in a final judicial determination, not subject to further appeal, that such indemnification may not be enforced in such case, even though this Agreement expressly provides for indemnification in such case, or (ii) any Indemnified Party or indemnifying party seeks contribution under the Act, the Exchange Act or otherwise, then the Corporation (including for this purpose any contribution made by or on behalf of any director of the Corporation, any officer of the Corporation who

signed any such registration statement, any controlling person of the Corporation, and its or their respective counsel), as one entity, and the Holders of the Registrable Shares included in such registration in the aggregate (including for this purpose any contribution by or on behalf of an Indemnified Party), as a second entity, shall contribute to the losses, liabilities, claims, damages and expenses whatsoever to which any of them may be subject, on the basis of relevant equitable considerations such as the relative fault of the Corporation and such Holders in connection with the facts which resulted in such losses, liabilities, claims, damages and expenses. The relative fault, in the case of an untrue statement, alleged untrue statement, omission or alleged omission, shall be determined by, among other things, whether such statement, alleged statement, omission or alleged omission relates to information supplied by the Corporation or by such Holders, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement, alleged statement, omission or alleged omission. The Corporation and the Holder agree that it would be unjust and inequitable if the respective obligations of the Corporation and the Holders for the contribution were determined by pro rata or per capita allocation of the aggregate losses, liabilities, claims, damages and expenses (even if the Holder and the other Indemnified Parties were treated as one entity for such purpose) or by any other method of allocation that does not reflect the equitable considerations, referred to in this Section 6.3. In no case shall any Holder be responsible for a portion of the contribution obligation imposed on all Holders in excess of its pro rata share based on the number of Registrable Shares owned by it and included in such registration as compared to the number of Registrable Shares owned by all Holders and included in such registration. No person guilty of a fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who is not guilty of such fraudulent misrepresentation. For purposes of this Section 6.3, each person, if

any, who controls any Holder within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act and each officer, director, partner, employee, agent and counsel of each such Holder or control person shall have the same rights to contribution as such Holder or control person and each person, if any, who controls the Corporation within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, each officer of the Corporation who shall have signed any such registration statement, each director of the Corporation and its or their respective counsel shall have the same right to contribution as the Corporation, subject in each case to the provisions of this Section 6.3. Anything in this Section 6.3 to the contrary notwithstanding, no party shall be liable for contribution with respect to the settlement of any claim or action effected without its written consent. This Section 6.3 is intended to supersede any right to contribution under the Act, the Exchange Act or otherwise.

7. Miscellaneous.

7.1 Notices. All notices, requests, demands or other communications provided for in this Agreement shall be in writing and shall be delivered by hand, sent prepaid by Federal Express (or a comparable overnight delivery service) or sent by the United States mail, certified, postage prepaid, return receipt request, to the following:

11

12

If to the Corporation:

MAXIMUS, Inc.  
1356 Beverly Road  
McLean, Virginia 22201  
Attention: David V. Mastran

If to the Executive:

Gary L. Glickman  
3418 Bradley Lane  
Chevy Chase, Maryland 20815

Any notice, request, demand or other communication delivered or sent in the foregoing manner shall be deemed given or made (as the case may be) upon the earliest of (i) the date it is actually received, (ii) the business-day after the day on which it is delivered by hand, (iii) the business day after the day on which it is properly delivered to Federal Express (or a comparable overnight delivery service), or (iv) the third business day after the date on which it is deposited in the United States mail. Either party may change its address by notifying the other party of the new address in any manner permitted by this paragraph. Rejection or other refusal to accept or the inability to deliver because of a changed address of which no notice was given shall not affect the date of such notice, election or demand sent in accordance with the foregoing provisions.

7.2 Remedies. The parties hereto further agree and acknowledge that any violation by the Executive of the terms hereof may result in irreparable injury and damage to the Corporation or its clients, which will not adequately be compensable in monetary damages, that the Corporation will have no adequate remedy at law therefor, and that the Corporation may obtain such preliminary, temporary or permanent mandatory or restraining injunctions, orders or decrees as may be necessary to protect it against, or on account of, any breach of the provisions contained in this Agreement.

7.3 No Obligation of Continued Employment After Termination of Section 1. Except as set forth in Section 1 hereof, the Executive understands that this Agreement does not constitute a contract of employment or create an obligation on the part of the Corporation to continue the Executive's employment with the Corporation.

7.4 Benefit; Assignment. This Agreement shall bind and inure to the

benefit of the parties and their respective personal representatives, heirs, successors and assigns, provided this Agreement may not be assigned by either party without the consent of the other, except that the Corporation may assign this Agreement in connection with the merger, consolidation or sale of all or substantially all of its business or assets. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and other legal representatives and, to the extent that any assignment hereof is permitted hereunder, their assignees.

12

13

7.5 Entire Agreement. This Agreement supersedes all prior agreements, written or oral, with respect to the subject matter of this Agreement.

7.6 Severability. In the event that any one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provisions of this Agreement, and all other provisions shall remain in full force and effect. If any of the provisions of this Agreement is held to be excessively broad, it shall be reformed and construed by limiting and reducing it so as to be enforceable to the maximum extent permitted by law.

7.7 Waivers. No delay or omission by the Corporation in exercising any right under this Agreement will operate as a waiver of that or any other right. A waiver or consent given by the Corporation on any occasion if effective only in that instance and will not be construed as a bar to or waiver of any right on any other occasion.

7.8 Captions. The captions of the various sections and paragraphs of this Agreement have been inserted only for the purpose of convenience; such captions are not a part of this Agreement and shall not be deemed in any manner to modify, explain, enlarge or restrict any of the provisions of this Agreement.

7.9 Governing Law. This Agreement shall be construed as a sealed instrument and shall in all events and for all purposes be governed by, and construed in accordance with, the laws of the Commonwealth of Virginia without regard to any choice of law principle that would dictate the application of the laws of another jurisdiction. Any action, suit or other legal proceeding which the Executive may commence to resolve any matter arising under or relating to any provision of this Agreement shall be commenced only in a court of the Commonwealth of Virginia (or, if appropriate, a federal court located within Virginia), and the Executive hereby consent to the jurisdiction of such court with respect to any action, suit or proceeding commenced in such court by the Corporation. The Section headings are included solely for convenience and shall in no event affect or be used in connection with, the interpretation of this Agreement.

7.10 Amendments. No alterations or additions to this Agreement shall be binding unless in writing and signed by both the parties.

7.11 Genders. Whenever reasonably necessary, pronouns of any gender shall be deemed synonymous, as shall singular and plural pronouns.

7.12 Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed an original, and all such counterparts shall constitute one instrument.

THE EXECUTIVE HAS READ ALL OF THE PROVISIONS OF THIS AGREEMENT AND THE EXECUTIVE UNDERSTANDS, AND AGREES TO, EACH OF SUCH PROVISIONS. THE EXECUTIVE UNDERSTANDS THAT THIS AGREEMENT MAY AFFECT THE EXECUTIVE'S RIGHT TO ACCEPT EMPLOYMENT WITH OTHER COMPANIES SUBSEQUENT TO THE EXECUTIVE'S EMPLOYMENT WITH THE CORPORATION.

14

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

\s\ GARY L. GLICKMAN

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Gary L. Glickman

MAXIMUS, INC.

By: \s\ DAVID V. MASTRAN

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David V. Mastran  
President and Chief Executive Officer

## CONSENT OF ERNST &amp; YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8, No. 333-41869) pertaining to the 1997 Director Stock Option Plan, the Registration Statement (Form S-8, No. 333-41867) pertaining to the 1997 Employee Stock Purchase Plan and the Registration Statement (Form S-8, No. 333-41871) pertaining to the 1997 Equity Incentive Plan of MAXIMUS, Inc., of our report dated November 13, 1998 with respect to the consolidated financial statements of MAXIMUS, Inc. included in the Annual Report (Form 10-K) for the year ended September 30, 1998.

/s/ Ernst & Young LLP

Washington, DC  
November 23, 1998

## CONSENT OF GRANT THORNTON LLP, INDEPENDENT AUDITORS

We have issued our report dated March 18, 1998, except for Note L which is as of March 23, 1998, on the financial statements of David M. Griffith & Associates, Ltd. (not presented herein) as of December 31, 1997 and for each of the two years in the period ended December 31, 1997, included in the Annual Report on Form 10-K of MAXIMUS, Inc. for the year ended September 30, 1998. We hereby consent to the incorporation by reference of said report in the Registration Statements on Form S-8 of MAXIMUS, Inc. (File No. 333-41867 pertaining to the 1997 Employee Stock Purchase Plan of MAXIMUS, Inc., File No. 333-41869 pertaining to the 1997 Director Stock Option Plan of MAXIMUS, Inc. and File No. 333-41871 pertaining to the 1997 Equity Incentive Plan of MAXIMUS, Inc.).

Grant Thornton LLP

Chicago, Illinois  
November 16, 1998

## Important Factors Regarding Forward Looking Statements

November 1998

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.

1

2

## 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.

2

3

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

3

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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.

**Relationships with Government Entities.** To facilitate our ability to 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 (the "SSA CONTRACT"), 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.

4

5

#### 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

5

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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 are unable to compete for a limited number of large contracts because, we are sometimes unable to meet a 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.

6

7

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.

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.

#### CONTROL BY PRINCIPAL SHAREHOLDERS

Our executive officers own beneficially 53.9% of MAXIMUS's common stock. Certain executive officers, who hold approximately 47.5% of the outstanding shares, have agreed to hold their shares until June 2001, subject to certain exceptions. In addition, each of Dr. Mastran and Mr. Ruddy, who hold together approximately 44.1% of the common stock, has agreed to vote to elect the other to the board of directors, as long as the other person owns or controls at least 20% of the outstanding common stock. Mr. Ruddy currently owns less than 20% of the outstanding shares of common stock and, accordingly, Dr. Mastran is no longer obligated to vote to elect Mr. Ruddy to the board of directors. Mr. Ruddy has also agreed to vote his shares of common stock in a manner instructed by Dr. Mastran until September 30, 2001. As a result, these officers can control the outcome of matters requiring a shareholder vote, including the election of the board of directors. This control could adversely affect the market price of our common stock or delay or prevent a change in control of MAXIMUS.

#### 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 November 19, 1998, the closing sale price has ranged from a high of \$32.56 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. As a shareholder of MAXIMUS, you 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 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 March 31, 1999. Our telephone systems must also be Year 2000 compliant, which is also scheduled for completion by March 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.

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.



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