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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2001

OR

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

COMMISSION FILE NUMBER 1-12997

MAXIMUS, INC.
(Exact Name of Registrant as Specified in Its Charter)

VIRGINIA	54-1000588
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
11419 SUNSET HILLS ROAD RESTON, VIRGINIA	20190
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: (703) 251-8500

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

<TABLE>
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Class	Outstanding at August 9, 2001
Common Shares, no par value	22,920,404

</TABLE>

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MAXIMUS, INC.

QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2001

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of Operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

PART II. OTHER INFORMATION

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Signature

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THROUGHOUT THIS QUARTERLY REPORT ON FORM 10-Q, THE TERMS "WE," "US," "OUR" AND "MAXIMUS" REFER TO MAXIMUS, INC. AND ITS SUBSIDIARIES.

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

	SEPTEMBER 30, 2000	JUNE 30, 2001 (UNAUDITED)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 36,975	$ 91,804
Marketable securities	1,359	1,230
Accounts receivable, net	102,500	113,727
Costs and estimated earnings in excess of billings	27,264	31,231
Prepaid expenses and other current assets	6,344	4,096
Total current assets	174,442	242,088
Property and equipment at cost:		
Land	2,462	2,462
Building and improvements	9,484	10,771
Office furniture and equipment	14,264	17,283
Leasehold improvements	848	982
	27,058	31,498
Less: Accumulated depreciation and amortization	(8,754)	(10,983)
Total property and equipment, net	18,304	20,515
Software development costs	7,883	13,020
Less: Accumulated amortization	(703)	(1,845)
Total software development, net	7,180	11,175
Deferred income taxes	1,402	1,384
Intangible assets, net	52,586	50,455
Other assets	2,989	3,281
Total assets	$256,903	$328,898
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 12,565	$12,736
Accrued compensation and benefits	17,747	19,101
Billings in excess of costs and estimated earnings	15,648	11,408
Income taxes payable	-	2,542
Other current liabilities	670	683
Total current liabilities	46,630	46,470
Long-term debt	555	-
Other liabilities	785	643
Total liabilities	47,970	47,113
Shareholders' equity:		
Common stock, no par value; 60,000,000 shares authorized; 21,125,844 and 22,751,676 shares issued and outstanding at September 30, 2000 and June 30, 2001, at stated amount, respectively	133,082	176,177
Accumulated other comprehensive loss	(26)	(14)
Retained earnings	75,877	105,622
Total shareholders' equity	208,933	281,785

Total liabilities and shareholders' equity	$256,903	$328,898

</TABLE>

SEE NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS.

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

<TABLE>
<CAPTION>

	THREE MONTHS ENDED JUNE 30,		NINE MONTHS ENDED JUNE 30,	
	2000	2001	2000	2001
<S>	<C>	<C>	<C>	<C>
Revenues	$105,577	$129,677	$288,761	$363,198
Cost of revenues	71,832	90,120	198,166	249,420
Gross profit	33,745	39,557	90,595	113,778
Selling, general and administrative expenses	18,036	19,430	48,743	59,690
Merger related expenses	210	-	210	-
Amortization of goodwill and other acquisition-related intangibles	1,079	1,417	1,724	4,168
Income from operations	14,420	18,710	39,918	49,920
Interest and other income	366	473	2,515	927
Income before income taxes	14,786	19,183	42,433	50,847
Provision for income taxes	6,188	7,961	17,609	21,102
Net income	$ 8,598	$ 11,222	$ 24,824	$ 29,745
Earnings per share:				
Basic	$ 0.41	$ 0.52	$ 1.18	$ 1.40
Diluted	$ 0.40	$ 0.50	$ 1.16	$ 1.35
Weighted average shares outstanding:				
Basic	21,079	21,511	21,039	21,289
Diluted	21,322	22,380	21,373	21,998

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</TABLE>

SEE NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS.

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

<TABLE>
<CAPTION>

	NINE MONTHS ENDED JUNE 30, 2000	NINE MONTHS ENDED JUNE 30, 2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 24,824	$ 29,745
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,871	7,466
Deferred income taxes	-	(93)
Change in assets and liabilities:		
Accounts receivable, net	(11,840)	(10,948)
Costs and estimated earnings in excess of billings	(5,873)	(3,967)
Prepaid expenses and other current assets	769	2,376
Other assets	144	(964)
Accounts payable	(1,583)	51
Accrued compensation and benefits	(515)	1,118
Billings in excess of costs and estimated earnings	933	(4,240)
Income taxes payable	(3,278)	2,542
Other liabilities	(907)	(62)
Net cash provided by operating activities	6,545	23,024
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of businesses, net of acquired cash	(51,238)	(825)
Purchase price adjustments, net	-	(1,284)
Proceeds from notes receivable	136	756
Capitalization of software development costs	(1,425)	(5,137)
Purchase of property and equipment	(2,344)	(4,260)
Decrease in marketable securities	26,331	139
Net cash used in investing activities	(28,540)	(10,611)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	1,860	11,717
Net proceeds from secondary stock offering	-	31,378
Net payments on borrowings	(3,742)	(679)
Net cash (used in) provided by financing activities	(1,882)	42,416
Net (decrease) increase in cash and cash equivalents	(23,877)	54,829
Cash and cash equivalents, beginning of period	61,647	36,975
Cash and cash equivalents, end of period	$ 37,770	$ 91,804

</TABLE>

SEE NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS.

IN THESE NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS, THE TERMS THE "COMPANY" AND "MAXIMUS" REFER TO MAXIMUS, INC. AND ITS SUBSIDIARIES.

1. ORGANIZATION AND BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normally recurring accruals) considered necessary for a fair presentation have been included. The results of operations for the three-month and nine-month periods ended June 30, 2001 are not necessarily indicative of the results that may be expected for the full fiscal year. These financial statements should be read in conjunction with the audited financial statements as of September 30, 2000 and 1999 and for each of the three years in the period ended September 30, 2000, included in the Company's Annual Report on Form 10-K for the year ended September 30, 2000 (File No. 1-12997) filed with the Securities and Exchange Commission on December 27, 2000.

Certain reclassifications have been made to prior year amounts to conform to current year presentation.

2. FOLLOW-ON PUBLIC OFFERING

The Company completed a public offering (the "follow-on offering") of common stock during June 2001. Of the 4,255,000 shares of common stock sold in the follow-on offering, 3,255,000 were sold by selling shareholders and 1,000,000 shares were sold by the Company, generating $31,378 in proceeds to the Company, net of expenses.

3. IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

In December 1999, the staff of the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101, REVENUE RECOGNITION IN FINANCIAL STATEMENTS ("SAB 101"). SAB 101 summarizes some of the staff's interpretations of the application of generally accepted accounting principles to revenue recognition, including presentation in the consolidated financial statements. The Company intends to adopt SAB 101 in the fourth quarter of fiscal 2001. SAB 101 requires that the Company restate its year to date results for the cumulative effect of the change through September 30, 2000 and the effect on the first three quarters of fiscal year 2001 upon adoption. The Company estimates that the cumulative effect of adopting SAB 101, which will be reported on a separate line item as a change in accounting in the Company's restated first quarter results, will reduce previously reported profit by $3,856 ($.18 per diluted share). For the first three quarters of fiscal 2001, the Company anticipates the restatement will result in a $3,064 reduction in reported revenue which will reduce reported earnings by $1,792 ($.08 per diluted share).

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, BUSINESS COMBINATIONS ("FAS 141"), and No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS ("FAS 142"), effective for fiscal years beginning after December 15, 2001, with earlier adoption permitted. Under the new rules, goodwill will no longer be amortized but will be subject to annual impairment tests in accordance with FAS 141 and FAS 142. Other intangible assets will continue to be amortized over their useful

lives. The Company intends to apply the new rules on accounting for goodwill and other intangible assets beginning the first quarter of fiscal year 2002. Application of the non-amortization provisions of FAS 142 is expected to result in an increase in net income of approximately $2,600 ($.11 per diluted share) for fiscal year 2002. During fiscal year 2002, the Company intends to perform the first of the required impairment tests of goodwill as of October 1, 2001.

4. BUSINESS COMBINATIONS

On October 20, 1999, the Company acquired all of the outstanding shares of capital stock of Public Systems, Inc. for $5,000. In conjunction with the purchase, the Company recorded intangible assets of $4,540.

On March 20, 2000, the Company acquired all of the outstanding shares of capital stock of Crawford Consulting, Inc. for $16,750. In conjunction with the purchase, the Company recorded intangible assets of $11,887.

On March 31, 2000, the Company acquired substantially all of the assets of the government services division of 3-G International, Inc. for $7,000, plus an earn-out amount of $1,126 paid by the Company in May 2001 as a result of achievement of certain objectives. In conjunction with the purchase, the Company recorded intangible assets of $8,180.

On April 12, 2000, Asset Solutions (formerly known as CSI-MAXIMUS, Inc.), a wholly owned subsidiary of the Company, acquired substantially all of the assets of Asset Works, Inc. for $8,613. In conjunction with the purchase, the Company recorded intangible assets of $8,674.

On April 14, 2000, the Company acquired all of the outstanding shares of capital stock of Valuation Resource Management, Inc. for $4,500. In conjunction with the purchase, the Company recorded intangible assets of $3,763.

On April 29, 2000, the Company acquired substantially all of the assets of Technology Management Resources, Inc. for $9,674. In conjunction with the purchase, the Company recorded intangible assets of $10,036.

On July 19, 2000, the Company acquired all of the outstanding membership interests of Strategic Partners International, LLC for $1,800. In conjunction with the purchase, the Company recorded intangible assets of $1,609.

On May 11, 2001, the Company acquired all of the outstanding membership interests of Opportunity America, LLC for $825. In conjunction with the purchase, the Company recorded intangible assets of $753.

Goodwill and intangible assets are amortized using the straight-line method over periods ranging from two to fifteen years. The accumulated amortization related to goodwill and intangible assets at September 30, 2000 was $3,472 and at June 30, 2001 was $7,640.

5. COMMITMENTS AND CONTINGENCIES

In January 2000, the New York City Human Resources Administration submitted two contracts that it had awarded to the Company for the performance of welfare-to-work services to the Comptroller of New York City (the "Comptroller") to be registered. Under New York law, the contracts must be registered in order for the Company to receive payment. However, the Comptroller refused to register the contracts, alleging improprieties in the procurement process and in the Company's conduct. The New York Supreme Court, Appellate Division - First Department ordered the Comptroller to register the contracts in October 2000 after

finding no wrongdoing in the Company's conduct. The District Attorney's Office of New York County and the United States Attorney's Office for the Southern District of New York, in response to requests made by the Comptroller, initiated investigations into the facts underlying this matter. Those offices reviewed some of the Company's documents and interviewed some of the Company's employees in 2000 and 2001. The Company believes that its actions were lawful and appropriate and, although there can be no assurance of a favorable outcome, the Company does not believe that this matter will have a material adverse effect on the Company's financial condition or results of operations.

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.

6. EARNINGS PER SHARE

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

<TABLE>
<CAPTION>

	THREE MONTHS ENDED JUNE 30,		NINE MONTHS ENDED JUNE 30,	
	2000	2001	2000	2001
<S>	<C>	<C>	<C>	<C>
Numerator:				

Net income	$ 8,598	$11,222	$24,824	$29,745
	=======	=======	=======	=======
Denominator:				
Weighted average shares outstanding	21,079	21,511	21,039	21,289
Effect of dilutive securities:				
Employee stock options	243	869	334	709
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Denominator for diluted earnings per share	21,322	22,380	21,373	21,998
	========	========	=======	=======

</TABLE>

7. SEGMENT INFORMATION

In October 2000, the Company completed a reorganization of its divisions to better focus and manage the Company's existing and future technology assets. Accordingly, prior period reports have been reclassified to reflect current period presentation of segment information.

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

<TABLE>
<CAPTION>

	THREE MONTHS ENDED JUNE 30,		NINE MONTHS ENDED JUNE 30,	
	2000	2001	2000	2001
<S>	<C>	<C>	<C>	<C>
Revenues:				
Government Operations Group	$ 55,629	$ 72,302	$160,839	$199,371
Consulting Group	31,150	38,013	85,546	110,315
Systems Group	18,798	19,362	42,376	53,512
	--------	--------	--------	--------
Total	$105,577	$129,677	$288,761	$363,198
	========	========	========	========
Gross Profit:				
Government Operations Group	$ 12,733	$ 15,314	$ 36,247	$ 42,654
Consulting Group	12,352	17,193	34,534	48,924
Systems Group	8,660	7,050	19,814	22,200
	--------	--------	--------	--------
Total	$ 33,745	$ 39,557	$ 90,595	$113,778
	========	========	========	========
Income from operations:				
Government Operations Group	$ 6,516	$ 8,332	$ 18,085	$ 20,566
Consulting Group	5,196	9,339	15,101	25,408
Systems Group	2,708	1,039	6,732	3,946
	--------	--------	--------	--------
Total	$ 14,420	$ 18,710	$ 39,918	$ 49,920

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

OVERVIEW

We are a leading provider of program management, consulting services and systems solutions primarily to state and local government agencies throughout the United States. Since our inception, we have been at the forefront of innovation in meeting our mission of "Helping Government Serve the People(R)." We use our expertise, experience and advanced information technology to make government operations more efficient and cost-effective while improving the quality of services provided to program beneficiaries. We currently have contracts with government agencies in all 50 states, 49 of the 50 largest cities and 27 of the 30 largest counties, and have been profitable every year since we were founded in 1975. For the fiscal year ended September 30, 2000, we had revenues of $399.2 million and net income of $30.5 million and for the nine months ended June 30, 2001, we had revenues of $363.2 million and net income of $29.7 million.

Prior to October 2000, we conducted our operations through two groups: the Government Operations Group and the Consulting Group. In October 2000, we reorganized our groups to better focus and manage our existing and future technology assets. Our core technology assets were moved from the Consulting Group to the newly created Systems Group. Accordingly, we have reflected the segment information for earlier periods as if it were composed of three reportable segments instead of two reportable segments.

Our revenues are generated from contracts with various payment arrangements, including: (1) fixed-price; (2) costs incurred plus a negotiated fee ("cost-plus"); (3) performance-based criteria; and (4) time and materials reimbursement (used primarily by the Consulting Group). For the fiscal year ended September 30, 2000, the most recent period for which this information is available, revenues from fixed price contracts were approximately 47% of total revenues; revenues from cost-plus contracts were approximately 19% of total revenues; revenues from performance based contracts were approximately 18% of total revenues; and revenues from time and materials reimbursement contracts were approximately 16% of total revenues. Historically, a majority of our contracts with state and local government agencies have been fixed-price and performance-based and our contracts with the federal government have been cost-plus. 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 we are subject to the risk of potential cost overruns or inaccurate revenue estimates.

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, 2000, our average Government Operations contract duration was approximately 2.3 years. Our Consulting Group contracts had performance periods ranging from one month to approximately two years. Our average Systems Group contract duration was 1.5 years.

Our most significant expense is cost of revenues, which consists primarily of project-related employee salaries and benefits, subcontractors, computer equipment and travel expenses. Our 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 our fixed-price, performance-based and time and materials contracts. Service cost variability has little impact on cost-plus arrangements because allowable costs are reimbursed by the client.

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.

BUSINESS COMBINATIONS AND ACQUISITIONS

As part of our growth strategy, we intend to continue to selectively identify and pursue complementary businesses to expand our geographic reach and the breadth and depth of our services and to enhance our customer base. During fiscal 2000 and the first three quarters of fiscal 2001, we completed the following transactions:

ACQUIRED COMPANY	DESCRIPTION OF BUSINESS	DATE	PURCHASE PRICE	INTANGIBLE ASSETS RECORDED
Opportunity America, LLC	Employment training and placement	May 11, 2001	$825,000	$753,000
Strategic Partners International LLC	Activity-based costing systems	July 19, 2000	$1,800,000	$1,609,000
Technology Management Resources	Child support collection services	April 29, 2000	$9,674,000	$10,036,000
Valuation Resource Management, Inc.	Asset inventorying and valuation services	April 14, 2000	$4,500,000	$3,763,000
Asset Works, Inc.	Infrastructure management systems	April 12, 2000	$8,613,000	$8,674,000
3-G International, Inc.	Smart-card systems	March 31, 2000	$8,126,000	$8,180,000
Crawford Consulting, Inc.	Web-enabled information systems	March 20, 2000	$16,750,000	$11,887,000
Public Systems, Inc.	Client-server management systems	October 20, 1999	$5,000,000	$4,540,000

RESULTS OF OPERATIONS

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

	THREE MONTHS ENDED JUNE 30,		NINE MONTHS ENDED JUNE 30,	
	2000	2001	2000	2001
Revenues:				
Government Operations Group	52.7%	55.8%	55.7%	54.9%
Consulting Group	29.5	29.3	29.6	30.4
Systems Group	17.8	14.9	14.7	14.7
Total revenues	100.0	100.0	100.0	100.0
Gross Profit:				
Government Operations Group	22.9	21.2	22.5	21.4
Consulting Group	39.7	45.2	40.4	44.4
Systems Group	46.1	36.4	46.8	41.5
Total gross profit	32.0	30.5	31.4	31.3
Selling, general and administrative expenses	17.1	15.0	16.9	16.4
Merger related expenses	0.2	-	0.1	-
Amortization of goodwill and other acquisition-related intangibles	1.0	1.1	0.6	1.2
Income from operations:				
Government Operations Group	11.7	11.5	11.2	10.3

Consulting Group	16.7	24.6	17.7	23.0
Systems Group	14.4	5.4	15.9	7.4
Total income from operations	13.7	14.4	13.8	13.7
Interest and other income	0.3	0.4	0.9	0.3
Income before income taxes	14.0	14.8	14.7	14.0
Provision for income taxes	5.9	6.1	6.1	5.8
Net income	8.1%	8.7%	8.6%	8.2%

</TABLE>

THREE MONTHS ENDED JUNE 30, 2001 COMPARED TO THREE MONTHS ENDED JUNE 30, 2000

REVENUES. Our total contract revenues increased 22.8% to $129.7 million for the three months ended June 30, 2001 from $105.6 million for the same period in 2000. Revenues of our Government Operations Group increased 30.0% to $72.3 million for the three months ended June 30, 2001 from $55.6 million for the same period in 2000. This increase was due to an increase in the number of contracts plus revenue totaling $0.1 million received this quarter from entities acquired after the third quarter of the last fiscal year. Revenues of our Consulting Group increased 22.0% to $38.0 million for the three months ended June 30, 2001 from $31.2 million for the same period in 2000. This increase was due to an increase in the number of contracts plus revenue totaling $0.5 million received this quarter from entities acquired after the third quarter of the last fiscal year. Revenues of our Systems Group increased 3.0% to $19.4 million for the three months ended June 30, 2001 from $18.8 million for the same period in 2000 due primarily to an increase in the number of contracts. For the three months ended June 30, 2001 compared to the three months ended June 30, 2000, our overall growth in revenue was 22.3 % excluding the revenue from entities we acquired after the period ended June 30, 2000.

GROSS PROFIT. Our total gross profit increased 17.2% to $39.6 million for the three months ended June 30, 2001 from $33.8 million for the same period in 2000. Gross profit of our Government Operations Group

increased 20.3% to $15.3 million for the three months ended June 30, 2001 from $12.7 million for the three months ended June 30, 2000. As a percentage of Government Operations Group revenues, Government Operations Group gross profit decreased to 21.2% for the three months ended June 30, 2001 from 22.9% for the same period in 2000. The decrease was due to a decline in gross margins on a few projects within the Group. Gross profit of our Consulting Group increased 39.2% to $17.2 million for the three months ended June 30, 2001 from $12.4 million for the same period in 2000. As a percentage of Consulting Group revenues, Consulting Group gross profit increased to 45.2% for the three months ended June 30, 2001 from 39.7% for the same period in 2000, primarily due to improved margins on a few projects within the Group. Gross profit of our Systems Group decreased 18.6% to $7.1 million for the three months ended June 30, 2001 from $8.7 million for the same period in 2000. As a percentage of Systems Group revenues, Systems Group gross profit decreased to 36.4% for the three months ended June 30, 2001 from 46.1% for the same period in 2000, due primarily to a decline in software license sales.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Our total selling, general and administrative (SG&A) expenses increased 7.7% to $19.4 million for the three months ended June 30, 2001 from $18.0 million for the same period in 2000. The primary reasons for the increase in SG&A costs were the growth in the number of our employees to approximately 4,600 at June 30, 2001 from approximately 4,100 at June 30, 2000, the increase in expenses necessary to support our growth and the increase in marketing and proposal preparation expenditures incurred to pursue further growth. As a percentage of our revenues, our SG&A expenses decreased to 15.0% for the three months ended June 30, 2001 from 17.1% for the same period in 2000.

AMORTIZATION OF GOODWILL AND OTHER ACQUISITION-RELATED INTANGIBLES. In the quarter ended June 30, 2001, we incurred $1.4 million of amortization expense, as compared to $1.1 million for the same period in 2000. The increase was due to amortization of $58.1 million of goodwill and other acquisition-related intangible assets we recorded in connection with acquisitions we completed through June 30, 2001.

INTEREST AND OTHER INCOME. The increase in interest and other income to $0.5 million for the three months ended June 30, 2001 as compared to $0.4 million for the same period in 2000 was due to an increase in the average balance of funds we invested.

PROVISION FOR INCOME TAXES. Our provision for income tax for the three months ended June 30, 2001 was 41.5% of income before income taxes as compared to 41.9% for the three months ended June 30, 2000. This decrease was due to differences in the amounts of certain expense items, primarily amortization of intangible assets, some of which is not deductible for tax purposes.

NINE MONTHS ENDED JUNE 30, 2001 COMPARED TO NINE MONTHS ENDED JUNE 30, 2000

REVENUES. Our total contract revenues increased 25.8% to $363.2 million for the nine months ended June 30, 2001 from $288.8 million for the same period in 2000. Revenues of our Government Operations Group increased 24.0% to $199.4 million for the nine months ended June 30, 2001 from $160.8 million for the same period in 2000. This increase was due to an increase in the number of contracts plus revenue totaling $2.9 million received during the nine months ended June 30, 2001 related to acquisitions made during the prior fiscal year. Revenues of our Consulting Group increased 29.0% to $110.3 million for the nine months ended June 30, 2001 from $85.6 million for the same period in 2000. This increase was due to an increase in the number of contracts plus revenue totaling $4.7 million received during the nine months ended June 30, 2001 related to acquisitions made during the prior fiscal year. Revenues of our Systems Group increased 26.3% to $53.5 million for the nine months ended June 30, 2001 from $42.4 million for the same period in 2000. This increase was primarily due to revenue totaling $10.1 million received during the nine months ended June 30, 2001 related to acquisitions made during the prior fiscal year. For the nine months ended June 30, 2001 compared to the nine months ended June 30, 2000, our overall growth in revenue was 19.6% excluding the revenue related to acquisitions made during the prior fiscal year.

GROSS PROFIT. Our total gross profit increased 25.6% to $113.8 million for the nine months ended June 30, 2001 from $90.6 million for the same period in 2000. Gross profit of our Government Operations Group increased 17.7% to $42.7 million for the nine months ended June 30, 2001 from $36.3 million for the nine months ended June 30, 2000. As a percentage of Government Operations Group revenues, Government Operations Group gross profit decreased to 21.4% for the nine months ended June 30, 2001 from 22.5% for the same period in 2000. The decrease was due to a decline in gross margins on a few projects within the Group. Gross profit of our Consulting Group increased 41.7% to $48.9 million for the nine months ended June 30, 2001 from $34.5 million for the same period in 2000. As a percentage of Consulting Group revenues, Consulting Group gross profit increased to 44.4% for the nine months ended June 30, 2001 from 40.4% for the same period in 2000, primarily due to improved margins on a few projects within the Group. Gross profit of our Systems Group increased 12.0% to $22.2 million for the nine months ended June 30, 2001 from $19.8 million for the same period in 2000. As a percentage of Systems Group revenues, Systems Group gross profit decreased to 41.5% for the nine months ended June 30, 2001 from 46.8% for the same period in 2000, due primarily to a decline in software license sales.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Our SG&A expenses increased 22.5% to $59.7 million for the nine months ended June 30, 2001 from $48.7 million for the same period in 2000. The primary reasons for the increase in SG&A costs were the growth in the number of our employees to approximately 4,600 at June 30, 2001 from approximately 4,100 at June 30, 2000, the increase in expenses necessary to support our growth and the increase in marketing and proposal preparation expenditures incurred to pursue further growth. As a percentage of our revenues, our SG&A expenses decreased to 16.4% for the nine months ended June 30, 2001 from 16.9% for the same period in 2000.

AMORTIZATION OF GOODWILL AND OTHER ACQUISITION-RELATED INTANGIBLES. In the nine months ended June 30, 2001, we incurred $4.2 million of amortization expense, as compared to $1.7 million for the same period in 2000. The increase is due to amortization of $58.1 million of goodwill and other acquisition-related intangible assets we recorded in connection with acquisitions we completed through June 30, 2001.

INTEREST AND OTHER INCOME. The decrease in interest and other income to $0.9 million for the nine months ended June 30, 2001 as compared to $2.5 million for the same period in 2000 was due to a decrease in the average balance of funds we invested.

PROVISION FOR INCOME TAXES. Our provision for income tax for both the nine months ended June 30, 2000 and 2001 was 41.5% of income before income taxes.

LIQUIDITY AND CAPITAL RESOURCES

For the nine months ended June 30, 2001, cash provided by our operations was $23.0 million as compared to $6.5 million for the nine months ended June 30, 2000. Cash provided by operating activities for the nine months ended June 30, 2001 primarily consisted of net income of $29.7 million plus non-cash adjustments of $7.5 million, offset by increases in accounts receivable of $11.0 million and costs and estimated earnings in excess of billings of $4.0

million. During the nine months ended June 30, 2000, cash provided by operating activities primarily consisted of net income of $24.8 million plus non-cash adjustments of $3.9 million, offset by increases in accounts receivable of $11.8 million and costs and estimated earnings in excess of billings of $5.8 million and a decrease in income taxes payable of $3.3 million.

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For the nine months ended June 30, 2001, cash used in investing activities was $10.6 million as compared to $28.5 million for the nine months ended June 30, 2000. Cash used in investing activities for the nine months ended June 30, 2001 primarily consisted of expenditures for capitalized software costs totaling $5.1 million, purchases of property and equipment of $4.3 million and purchase price adjustments of acquired businesses of $1.3 million. During the nine months ended June 30, 2000, we generated cash from sales of marketable securities, substantially all of which consisted of short-term government obligations totaling $26.3

million, and used $51.2 million in cash for six acquisitions.

Cash provided by financing activities was $42.4 million, which consisted primarily of the $31.4 million of proceeds, net of offering expenses, from the secondary stock offering completed in June 2001. Sales of stock to employees through our Employee Stock Purchase Plan and Stock Option Plan were $11.7 million for the nine months ended June 30, 2001. Cash used during the nine months ended June 30, 2000 was $1.8 million, which consisted primarily of payments on borrowings of $3.7 million offset by sales of stock to employees through our Employee Stock Purchase Plan and Stock Option Plan during the period.

Our management believes that we will have sufficient resources to meet our currently anticipated capital expenditure and working capital requirements for at least the next twelve months.

FORWARD LOOKING STATEMENTS

From time to time, we may make forward-looking statements that are not historical facts, including statements about our confidence and strategies and our expectations about revenues, results of operations, profitability, future contracts, market opportunities, market demand or acceptance of our products and services. These statements involve risks and uncertainties that could cause our actual results to differ materially from those indicated by such forward-looking statements. Examples of these risks include: risks associated with government contracting; risks involved in managing government projects; opposition from government unions; challenges resulting from our growth; legislative changes and political developments; adverse publicity; and legal, economic, and other risks detailed in Exhibit 99 to this Quarterly Report on Form 10-Q for the fiscal period ended June 30, 2001.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We believe that our exposure to market risk related to the effect of changes in interest rates, foreign currency exchange rates, commodity prices and equity prices with regard to instruments entered into for trading or for other purposes is immaterial.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits. The Exhibits filed as part of this Form 10-Q are listed on the Exhibit Index immediately preceding the Exhibits. The Exhibit Index is incorporated herein by reference.

(b) Reports on Form 8-K. The Company did not file any Current Reports on Form 8-K during the quarter ended June 30, 2001.

SIGNATURE

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

MAXIMUS, INC.

Date: August 10, 2001 By: /s/ F. ARTHUR NERRET

F. Arthur Nerret

Vice President, Finance,

Chief Financial Officer
(Principal Financial and
Chief Accounting Officer)

EXHIBIT INDEX

<TABLE>
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Exhibit No.	Description
<S>	<C>
99	Important Factors Regarding Forward Looking Statements. Filed herewith.

</TABLE>

EXHIBIT 99

IMPORTANT FACTORS REGARDING FORWARD LOOKING STATEMENTS

From time to time, we may make forward-looking public statements, such as statements concerning our then-expected future revenues or earnings or concerning projected plans, performance or 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 informal statements made with the approval of an authorized executive officer. The words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions are intended to identify "forward-looking statements" within the meaning of Section 21E of the Exchange Act and Section 27A of the Securities Act of 1933, as amended, as enacted by the Private Securities Litigation Reform Act of 1995.

We wish to caution you not to place undue reliance on these forward-looking statements which speak only as of the date on which they are made. In addition, we wish to advise you that the factors listed below, as well as other factors we have not currently identified, could affect our financial or other performance and could cause our 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.

We will not undertake and we specifically decline any obligation to publicly release revisions to these forward-looking statements to reflect either circumstances after the date of the statements or the occurrence of events which may cause us to re-evaluate our forward-looking statements.

In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act, we are hereby filing the following cautionary statements identifying important factors that could cause our actual results to differ materially from those projected in forward-looking statements made by us or on our behalf:

IF WE FAIL TO SATISFY OUR CONTRACTUAL OBLIGATIONS, OUR ABILITY TO COMPETE FOR FUTURE CONTRACTS AND OUR FINANCIAL CONDITION MAY BE ADVERSELY AFFECTED.

Our failure to comply with contract requirements or to meet our client's performance expectations when performing a contract could materially and adversely affect our financial performance and our reputation, which, in turn, would impact our ability to compete for new contracts. In addition, our contracts often require us to indemnify clients for our failure to meet performance standards. Some of our contracts contain liquidated damages provisions and financial penalties related to performance failures. Although we have liability insurance, the policy limits may not be adequate to provide protection against all potential liabilities. Further, in order to bid on certain contracts, we are required to post a cash performance bond or obtain a letter of credit to secure our indemnification obligations. If a claim is made against a performance bond or letter of credit, the issuer could demand higher premiums. Increased premiums would adversely affect our earnings and could limit our ability to bid for future contracts.

IF WE FAIL TO ESTIMATE ACCURATELY THE FACTORS UPON WHICH WE BASE OUR CONTRACT PRICING, WE MAY HAVE TO REPORT A DECREASE IN REVENUES OR INCUR LOSSES ON THOSE CONTRACTS.

We derived approximately 47% of our fiscal 2000 revenues from fixed-price contracts and approximately 18% of our fiscal 2000 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, completing a particular number of managed care enrollments, or delivering a planning document under a consulting arrangement. For performance-based contracts, we receive our fee on a per-transaction basis. These 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 must accurately estimate costs involved and assess 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, including a portion of estimated profit, as costs are incurred. Under this method, anticipated revenues for the full contract are recorded as the costs are incurred, not when the bills are sent or when the payment is made. Therefore, if a contract is cancelled or re-negotiated after work has been performed, previously recognized revenue would be reversed and charged to earnings at that time. The reversal of previously recognized revenue could adversely affect our financial results. In addition, we review these contracts quarterly and adjust revenues to reflect our current expectations as to the total anticipated costs of each contract. These adjustments affect the timing and amount of revenue recognized and could adversely affect our financial results.

IF WE ARE UNABLE TO MANAGE OUR GROWTH, OUR PROFITABILITY WILL BE ADVERSELY AFFECTED.

Sustaining our growth has placed significant demands on our management as well as on our administrative, operational and financial resources. For us to continue to manage our growth, we must continue to improve our operational, financial and management information systems and expand, motivate and manage our workforce. If our growth comes at the expense of providing quality service and generating reasonable profits, our ability to successfully bid for contracts and our profitability will be adversely affected.

GOVERNMENT ENTITIES HAVE IN THE PAST AND MAY IN THE FUTURE TERMINATE THEIR CONTRACTS WITH US EARLIER THAN WE EXPECT, WHICH MAY RESULT IN REVENUE SHORTFALLS.

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 do not have to exercise these option periods. The profitability of some of our contracts could be adversely impacted if the option periods are not exercised. Our contracts also typically contain provisions permitting a government client to terminate the contract on short notice, with or without cause. The unexpected termination of significant contracts could result in significant revenue shortfalls. If revenue shortfalls occur and are not offset by corresponding reductions in expenses, our business could be adversely affected. We cannot anticipate if, when or to what extent a client might terminate its contracts with us.

GOVERNMENT UNIONS MAY OPPOSE OUTSOURCING OF GOVERNMENT PROGRAMS TO OUTSIDE VENDORS SUCH AS US, WHICH COULD LIMIT OUR MARKET OPPORTUNITIES.

Our success depends in part on our ability to win profitable contracts to administer and manage health and human services programs traditionally administered by government employees. Many government employees, however, belong to labor unions with considerable financial resources and lobbying networks. Unions have in the past and 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 result in fewer opportunities for us to service government agencies.

WE MAY LOSE EXECUTIVE OFFICERS AND SENIOR MANAGERS ON WHOM WE RELY TO GENERATE BUSINESS AND EXECUTE PROJECTS SUCCESSFULLY.

The abilities of our executive officers and our senior managers to generate business and execute projects successfully is important to our success. While we have employment agreements with some of our executive officers, these agreements do not prevent them from terminating their employment with us. The loss of an executive officer or senior manager could impair our ability to secure and manage engagements.

GOVERNMENT AGENCIES MAY INVESTIGATE AND AUDIT OUR CONTRACTS AND, IF ANY IMPROPRIETIES ARE FOUND, WE MAY BE REQUIRED TO REFUND REVENUES WE HAVE RECEIVED, TO FOREGO ANTICIPATED REVENUES AND MAY BE SUBJECT TO PENALTIES AND SANCTIONS, INCLUDING PROHIBITIONS ON OUR BIDDING FOR RFPS.

The government agencies we contract with have the authority to audit and investigate our contracts with them. As part of that process, the government agency reviews our performance on the contract, our pricing practices, our cost structure and our compliance with applicable laws, regulations and standards. If the agency determines that we have improperly allocated costs to a specific contract, we will not be reimbursed for those costs and we will be required to refund the amount of any such costs which have been reimbursed. If a government audit uncovers improper or illegal activities by us or we otherwise determine that these activities have occurred, we 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. Any adverse determination could adversely impact our ability to bid for RFPs in one or more jurisdictions.

WE MAY INCUR SIGNIFICANT COSTS BEFORE RECEIVING RELATED REVENUES WHICH COULD RESULT IN CASH SHORTFALLS.

When we are awarded a contract to manage a government program, we may incur significant expenses before we receive contract payments, if any. 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 before receiving related contract payments. In addition, payments due to us from government agencies may be delayed due to billing cycles or as a result of failures to approve governmental budgets in a timely manner. Moreover, any resulting cash shortfall could be exacerbated if we fail to either invoice the government agency or collect our fee in a timely manner.

INACCURATE, MISLEADING OR NEGATIVE MEDIA COVERAGE COULD ADVERSELY AFFECT OUR REPUTATION AND OUR ABILITY TO BID FOR GOVERNMENT CONTRACTS.

The media frequently focuses its attention on our contracts with government agencies. If the media coverage is negative, it could influence government officials to slow the pace of outsourcing government services, which could reduce the number of RFPs. The media also focuses its attention on the activities of political consultants engaged by us, even when their activities are unrelated to our business, and we may be tainted by adverse media coverage about their activities. Moreover, inaccurate, misleading or negative media coverage about us could harm our reputation and, accordingly, our ability to bid for and win government contracts. For example, on June 13, 2001, it was reported in the press that the Attorney General of the State of South Carolina intends to investigate a contract between the state and MAXIMUS. To date, we have not been contacted by the Attorney General's office.

WE OBTAIN MOST OF OUR BUSINESS THROUGH RESPONSES TO GOVERNMENT RFPS. WE MAY NOT BE AWARDED CONTRACTS THROUGH THIS PROCESS IN THE FUTURE AND CONTRACTS WE ARE AWARDED MAY NOT BE PROFITABLE.

Substantially all of our clients are state or local government authorities. To market our services to government clients, we are often required to respond to government 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 an RFP's rigid timetable. Our ability to respond successfully to RFPs will greatly impact our business. We may not be awarded contracts through the RFP process and our proposals may not result in profitable contracts.

WE MAY BE UNABLE TO ATTRACT AND RETAIN SUFFICIENT QUALIFIED PERSONNEL NECESSARY TO SUSTAIN OUR BUSINESS.

Our delivery of services 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, Consulting Group and Systems Group requires that we attract, develop, motivate and retain:

- experienced and innovative executive officers;
- senior managers who have successfully managed or designed government services programs in the public sector; and
- 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 may be unable to continue to attract and retain desirable executive officers and senior managers. Our inability to hire sufficient personnel on a timely basis or the loss of significant numbers of executive officers and senior managers could adversely affect our business.

IF WE FAIL TO ESTABLISH AND MAINTAIN IMPORTANT RELATIONSHIPS WITH GOVERNMENT ENTITIES AND AGENCIES, OUR ABILITY TO SUCCESSFULLY BID FOR RFPS MAY BE ADVERSELY AFFECTED.

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. We also 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. We may be unable to successfully manage our relationships with government entities and agencies and with elected officials and appointees and any failure to do so may adversely affect our ability to bid successfully for RFPs.

THE FEDERAL GOVERNMENT MAY REFUSE TO GRANT CONSENTS AND/OR WAIVERS NECESSARY TO PERMIT PRIVATE ENTITIES, SUCH AS US, TO PERFORM CERTAIN ELEMENTS OF GOVERNMENT PROGRAMS.

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. If the federal government does not grant a necessary consent or waiver, the state or local agency will be unable to outsource that function to a private entity, such as us, which could eliminate or reduce the value of the contract.

OUR BUSINESS COULD BE ADVERSELY AFFECTED BY FUTURE LEGISLATIVE CHANGES THAT WE DO NOT ANTICIPATE OR TO WHICH WE DO NOT RESPOND EFFECTIVELY.

The market for our services depends 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 Social Security Administration which related to the referral and monitoring of the treatment of recipients of these benefits.

Moreover, part of our growth strategy includes aggressively pursuing opportunities created by the Welfare Reform Act and other federal and state initiatives which we believe will be implemented to encourage long-term changes in the nation's welfare system by seeking new contracts to administer and new health and welfare programs to manage. However, there are many opponents of welfare reform and, 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. Further, if additional reforms are not proposed or enacted, or if previously enacted reforms are challenged, repealed or invalidated, our growth strategy could be adversely impacted.

IF WE DO NOT SUCCESSFULLY INTEGRATE THE BUSINESSES THAT WE ACQUIRE, OUR RESULTS OF OPERATIONS COULD BE ADVERSELY AFFECTED.

We may be unable to manage businesses that we have acquired or that we may acquire profitably or integrate them successfully without incurring substantial expenses, delays or other problems that could negatively impact our results of operations. To date, we have combined with thirteen firms and have acquired substantially all of the assets of two firms and a division of another firm. We are still in the process of integrating the operations of several of these firms.

Moreover, business combinations involve additional risks, including:

- diversion of management's attention;
- loss of key personnel;
- assumption of unanticipated legal or financial liabilities;
- becoming significantly leveraged as a result of incurring debt to finance an acquisition;
- unanticipated operating, accounting or management difficulties in connection with the acquired entities;
- amortization of acquired intangible assets, including goodwill; and
- dilution to our earnings per share.

Also, client dissatisfaction or performance problems with an acquired firm could materially and adversely affect our reputation as a whole. Further, the acquired businesses may not achieve the revenues and earnings we anticipated.

FEDERAL GOVERNMENT OFFICIALS MAY DISCOURAGE STATE AND LOCAL GOVERNMENTAL ENTITIES FROM ENGAGING US, WHICH MAY RESULT IN A DECLINE IN REVENUES.

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 funding. If state and local officials are dissuaded from engaging us for revenue maximization services, we will not receive contracts for, or revenues from, those services.

WE FACE COMPETITION FROM A VARIETY OF ORGANIZATIONS, MANY OF WHICH HAVE

SUBSTANTIALLY GREATER FINANCIAL RESOURCES THAN WE DO; WE MAY BE UNABLE TO COMPETE SUCCESSFULLY WITH THESE ORGANIZATIONS.

Our Government Operations Group competes for program management contracts with the following:

- government services divisions of large organizations such as Lockheed Martin Corporation, Electronic Data Systems, Inc. and Accenture;

- specialized service providers such as Benova, Inc., Policy Studies Incorporated, Affiliated Computer Services, Inc. and America Works, Inc.; and

- local non-profit organizations such as the United Way, Goodwill Industries and Catholic Charities.

Our Consulting Group competes with:

- the consulting divisions of the "Big 5" accounting firms; and

- small, specialized consulting firms

Our Systems Group competes with a large number of competitors, including Unisys, KPMG, Accenture, Litton PRC (a Northrop Grumman Company), Peregrine Systems, Inc. and Electronic Data Systems, Inc.

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

WE MAY NOT RECEIVE SUFFICIENT PAYMENTS IN A QUARTER TO COVER ALL OF OUR COSTS IN THAT QUARTER.

A number of factors cause our payments and operating results to vary from quarter to quarter, including:

- the progression of contracts;

- the levels of revenues earned on fixed-price and performance-based contracts (including any adjustments in expectations for 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; and

- potential acquisitions.

Changes in the volume of activity and the number of contracts commenced, completed or terminated during any quarter may cause significant variations in our cash flow from operations because a relatively large amount of our expenses are fixed. Moreover, we incur significant operating expenses during the start-up and early stages of large contracts and typically do not receive corresponding payments in that same quarter.

WE ARE CURRENTLY SUBJECT TO INVESTIGATIONS BY THE DISTRICT ATTORNEY'S OFFICE OF NEW YORK COUNTY AND THE UNITED STATES ATTORNEY'S OFFICE FOR THE SOUTHERN DISTRICT OF NEW YORK REGARDING TWO CONTRACTS AWARDED TO US BY THE NEW YORK CITY HUMAN RESOURCES ADMINISTRATION. IF DETERMINED ADVERSELY, WE COULD BE REQUIRED TO PAY PENALTIES AND BE SUBJECT TO ADMINISTRATIVE SANCTIONS.

In January 2000, the New York City Human Resources Administration submitted two contracts that it had awarded to us for the performance of welfare-to-work services to the Comptroller of New York City to be registered. Under New York law, the contracts must be registered in order for us to receive payment. However, the Comptroller refused to register the contracts, alleging improprieties in the procurement process and in our conduct. The New York Supreme Court, Appellate Division--First Department ordered the Comptroller to register the contracts in October 2000 after finding no wrongdoing in our conduct. The District Attorney's Office of New York County and the United States Attorney's Office for the Southern District of New York, in response to requests made by the Comptroller, initiated investigations into the facts underlying this matter. Those offices reviewed some of our documents and interviewed some of our employees during 2000 and 2001. We believe that our actions were lawful and appropriate and, although there can be no assurance of a favorable outcome, we do not believe that this matter will have a material adverse effect on our financial condition or results of operations.

OUR STOCK PRICE IS VOLATILE.

We first publicly issued common stock on June 13, 1997 at $16.00 per share in our initial public offering. Between June 13, 1997 and August 1, 2001, the closing sale price has ranged from a high of $45.00 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;
- political and legislative developments adverse to the privatization of government services;
- changes in or failure to meet earnings estimates by securities analysts;
- sales of common stock by existing shareholders or the perception that these sales may occur;
- adverse judgments or settlements obligating us to pay damages;
- negative publicity; and
- loss of key personnel.

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 us could cause us to incur substantial costs and could lead to the diversion of management's attention and resources.

OUR ARTICLES OF INCORPORATION AND BYLAWS INCLUDE PROVISIONS THAT MAY HAVE ANTI-TAKEOVER EFFECTS.

Our Articles of Incorporation and bylaws include provisions that may delay, deter or prevent a takeover attempt that shareholders might consider desirable. For example, our Articles of Incorporation provide that our directors are to be divided into three classes and elected to serve staggered three-year terms. This structure could impede or discourage an attempt to obtain control of us by preventing stockholders from replacing the entire board in a single proxy contest, making it more difficult for a third party to take control of us without the consent of our board of directors. Our Articles of Incorporation further provide that our shareholders may not take any action in writing without a meeting. This prohibition could impede or discourage an attempt to obtain control of us by requiring that any actions required to be taken by shareholders be taken at properly called shareholder meetings.

OUR EXECUTIVE OFFICERS AND DIRECTORS AS A GROUP OWN SUFFICIENT SHARES OF OUR COMMON STOCK TO SIGNIFICANTLY AFFECT THE RESULTS OF ANY SHAREHOLDER VOTE.

Two of our executive officers and directors, Dr. David Mastran and Mr. Raymond Ruddy, beneficially own approximately 16.7 % of our common stock. Mr. Ruddy has agreed to vote his shares of common stock in a manner instructed by Dr. Mastran until September 30, 2001. As a result, Dr. Mastran and Mr. Ruddy have the ability to significantly influence the outcome of matters requiring a shareholder vote, including the election of the board of directors, amendments to our organizational documents, or approval of any merger, sale of assets or other major corporate transaction. The interests of Dr. Mastran and Mr. Ruddy may differ from yours and Dr. Mastran and Mr. Ruddy may be able to delay or prevent us from entering into transactions that would result in a change in control, including transactions in which our shareholders might otherwise receive a premium over the then current market price for their shares.