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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUAN100
T TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the quarterly period ended June 30, 2002

OR

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

Commission file number 1–12997

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

Virginia (State or Other Jurisdiction of Incorporation or Organization)	**54-1000588** (I.R.S. Employer Identification No.)
11419 Sunset Hills Road **Reston, Virginia** (Address of Principal Executive Offices)	**20190** (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 ☒ No ☐

Class	Outstanding at August 5, 2002
Common Shares, no par value	21,688,231

MAXIMUS, Inc.

**Quarterly Report on Form 10-Q
For the Quarter Ended June 30, 2002**

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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.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	September 30, 2001 (Note 1)	June 30, 2002 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 114,108	$ 111,047
Marketable securities	1,232	160
Accounts receivable - billed	118,988	112,977
Accounts receivable - unbilled	20,436	26,605
Prepaid expenses and other current assets	5,483	8,688
Total current assets	260,247	259,477
Property and equipment, at cost	31,629	37,942
Less: Accumulated depreciation and amortization	(11,090)	(13,567)
Property and equipment, net	20,539	24,375
Software development costs	13,961	18,202
Less: Accumulated amortization	(2,245)	(4,059)
Software development, net	11,716	14,143
Deferred income taxes	2,726	426
Intangible assets, net	859	2,666
Goodwill, net	48,959	60,559
Other assets	2,669	1,568
Total assets	$ 347,715	$ 363,214
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 12,709	$ 10,651
Accrued compensation and benefits	18,611	17,670
Deferred revenue	10,756	6,456
Income taxes payable	1,214	2,557
Deferred income taxes	1,849	6,149
Other current liabilities	642	1,831
Total current liabilities	45,781	45,314
Other liabilities	520	2,181
Total liabilities	46,301	47,495
Shareholders' equity:		
Common stock, no par value; 60,000,000 shares authorized; 22,985,806 and 22,553,322 shares issued and outstanding at September 30, 2001 and June 30, 2002, at stated amount, respectively	185,658	169,297
Accumulated other comprehensive (loss) income	(18)	16
Retained earnings	115,774	146,406
Total shareholders' equity	301,414	315,719
Total liabilities and shareholders' equity	$ 347,715	$ 363,214

See notes to unaudited condensed consolidated financial statements.

MAXIMUS, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2001	2002	2001	2002
Revenue	$ 130,632	$ 133,090	$ 360,135	$ 384,613
Cost of revenue	90,120	91,367	249,420	266,902
Gross profit	40,512	41,723	110,715	117,711
Selling, general and administrative expenses	19,430	23,653	59,690	69,770
Non-cash equity based compensation	—	85	—	85
Amortization of acquisition-related intangibles	1,417	180	4,168	693
Income from operations	19,665	17,805	46,857	47,163
Interest and other income	473	858	927	2,261
Income before income taxes and cumulative effect of accounting change	20,138	18,663	47,784	49,424
Provision for income taxes	8,357	7,559	19,831	20,017
Income before cumulative effect of accounting change	11,781	11,104	27,953	29,407
Cumulative effect of accounting change (See Note 2)	—	—	(3,856)	—
Net income	$ 11,781	$ 11,104	$ 24,097	$ 29,407
Earnings per share:				
Income before cumulative effect of accounting change:				
Basic	$ 0.55	$ 0.49	$ 1.31	$ 1.28

Diluted	$ 0.53	$ 0.48	$ 1.27	$ 1.24
Net income:				
Basic	$ 0.55	$ 0.49	$ 1.13	$ 1.28
Diluted	$ 0.53	$ 0.48	$ 1.10	$ 1.24
Weighted average shares outstanding:				
Basic	21,511	22,695	21,289	22,979
Diluted	22,380	23,226	21,998	23,711

See notes to unaudited condensed consolidated financial statements

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

	Nine Months Ended June 30, 2001	Nine Months Ended June 30, 2002
Cash flows from operating activities:		
Net income	$ 24,097	$ 29,407
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,466	4,572
Deferred income taxes	394	6,628
Tax benefit due to option exercises	2,738	1,225
Non-cash equity based compensation	—	85
Cumulative effect of accounting change	3,856	—
Change in assets and liabilities, net of the effects of acquisitions:		
Accounts receivable - billed	(10,948)	6,932
Accounts receivable - unbilled	(903)	(6,170)
Prepaid expenses and other current assets	2,376	(1,750)
Other assets	(964)	418
Accounts payable	51	(2,685)
Accrued compensation and benefits	1,118	(1,804)
Deferred revenue	(4,240)	(4,299)
Income taxes payable	(1,955)	1,343
Other liabilities	(62)	1,141
Net cash provided by operating activities	23,024	35,043
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired (See Note 4)	(825)	(12,673)
Purchase price adjustments, net	(1,284)	—
Decrease (increase) in notes receivable	756	(241)
Capitalization of software development costs	(5,137)	(4,242)
Purchases of property and equipment	(4,260)	(5,408)
Decrease in marketable securities	139	1,106
Net cash used in investing activities	(10,611)	(21,458)
Cash flows from financing activities:		
Employee stock purchases and options exercised	11,717	8,223
Net proceeds from secondary stock offering	31,378	—
Repurchases of common stock (See Note 7)	—	(24,669)
Net payments on borrowings	(679)	(200)
Net cash provided by (used in) financing activities	42,416	(16,646)
Net increase (decrease) in cash and cash equivalents	54,829	(3,061)
Cash and cash equivalents, beginning of period	36,975	114,108
Cash and cash equivalents, end of period	$ 91,804	$ 111,047

See notes to unaudited condensed consolidated financial statements.

MAXIMUS, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
For the Three- and Nine-Month Periods Ended June 30, 2002 and 2001
(Dollars in thousands, except per share amounts)

In these Notes to Unaudited Condensed 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 condensed 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- and nine-month periods ended June 30, 2002 are not necessarily indicative of the results that may be expected for the full fiscal year. The balance sheet at September 30, 2001 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

These financial statements should be read in conjunction with the audited financial statements as of September 30, 2001 and 2000 and for each of the three years in the period ended September 30, 2001, included in the Company's Annual Report on Form
10-K for the year ended September 30, 2001 (File No. 1–12997) filed with the Securities and Exchange Commission on December 21, 2001.

2. Revenue Recognition

During fiscal 2001, the Company changed its method of accounting for revenue recognition in accordance with SEC Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements. Effective October 1, 2000, the Company recorded the cumulative effect of the accounting change resulting in a charge to income of $3,856 (net of an income tax benefit of $2,735). As reported in the Company's fiscal 2001 Annual Report on Form 10-K, the quarterly information originally reported in fiscal 2001 Quarterly Reports on Forms 10-Q was restated for the change in accounting.

3. Goodwill and Intangible Assets

The Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, ("FAS 142"), effective October 1, 2001. Under FAS 142, goodwill is no longer amortized but reviewed for impairment annually, or more frequently if certain indicators arise.

Had the Company been accounting for its goodwill under FAS 142 for the three- and nine-month periods ended June 30, 2001, the Company's net income and earnings per share would have been as follows:

	Three Months	Nine Months
	Ended June 30, 2001	
Reported net income	$ 11,781	$ 24,097
Add back goodwill amortization, net of tax	720	2,089
Adjusted net income	$ 12,501	$ 26,186
Basic earnings per share:		
As reported	$ 0.55	$ 1.13
Goodwill amortization, net of tax	0.03	0.10
Adjusted basic earnings per share	$ 0.58	$ 1.23
Diluted earnings per share:		
As reported	$ 0.53	$ 1.10
Goodwill amortization, net of tax	0.03	0.10
Adjusted diluted earnings per share	$ 0.56	$ 1.20

Intangible assets are primarily comprised of non-competition agreements and customer contracts and are amortized using the straight-line method over a period of two to five years. The accumulated amortization related to intangible assets at September 30, 2001 was $2,256 and at June 30, 2002 was $2,949. The estimated amortization expense for the years ending September 30, 2002, 2003, 2004 and 2005 is $863, $663, $602 and $547, respectively.

4. Business Combinations

In fiscal 2001 and 2002, the Company acquired the businesses described below in business combinations accounted for as purchases. Accordingly, the accompanying consolidated financial statements include the results of operations of each acquired business since the date of acquisition.

On May 11, 2001, the Company acquired Opportunity America, LLC for $780. In conjunction with the purchase, the Company recorded goodwill of $593 and intangible assets of $115, which has been assigned to the Human Services Group business segment. Opportunity America, LLC provides program management and consulting services to the private sector and to federal, state and local government and human services agencies.

On February 1, 2002, the Company acquired Collins Consulting Group, Inc. for $4,100. In conjunction with the purchase, the Company recorded goodwill of $4,100, which has been assigned to the Systems Group business segment. Collins Consulting Group, Inc. provides information security solutions, information technology, and management consulting. The primary reason for acquiring Collins Consulting Group, Inc. was to enhance the Company's new business opportunities in the security solutions technologies markets.

On May 1, 2002, the Company acquired Leonie Green & Associates ("LGA") for $10,000. Per the terms of the agreement, additional consideration may be paid based on LGA achieving certain performance objectives in fiscal 2003 through 2005. Additionally, the terms of the agreement provide for additional consideration of up to $3,000 based on achieving certain revenue targets during the one-year period ending April 30, 2004. In conjunction with the purchase, the Company recorded goodwill of $7,500 and intangible assets, primarily non-competition agreements and customer contracts, of $2,500, which have been assigned to the Human Services Group business segment. LGA provides a wide range of workforce services in the five states in Australia. The primary reason for acquiring LGA was to expand the Company's presence and services to international markets.

5. Commitments and Contingencies

The Company is involved in various legal proceedings in the ordinary course of its business. Management does not expect the ultimate outcome of the legal proceedings to have a material adverse effect on the Company's financial statements or its business operations.

6. Earnings Per Share

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2001	2002	2001	2002
Numerator:				
Net income	$ 11,781	$ 11,104	$ 24,097	$ 29,407
Denominator:				
Weighted average shares outstanding	21,511	22,695	21,289	22,979
Effect of dilutive securities:				
Employee stock options and unvested restricted stock awards	869	531	709	732
Denominator for diluted earnings per share	22,380	23,226	21,998	23,711

7. Stock Repurchase Program

In May 2000, the Board of Directors authorized the repurchase, at management's discretion, of up to $30,000 of the Company's common stock. Also, in June 2002, the Board of Directors authorized the use of option exercise proceeds for the repurchase of the Company's common stock. During the nine month period ended June 30, 2002, the Company repurchased 796,269 shares. At June 30, 2002, $11,874 remained available for future stock repurchases under the program. In July 2002, the Board of Directors authorized the repurchase, at management's discretion, of up to an additional $30,000 of the Company's common stock.

8. Restricted Stock Units

In May 2002, the Company issued 170,000 Restricted Stock Units (RSUs) to certain executive officers and employees under its 1997 Equity Incentive Plan. The RSUs will vest in full upon the sixth anniversary of the date of grant, provided, however, that the vesting will accelerate if the Company meets certain earnings targets determined by the Board of Directors as set forth in the RSUs. The RSUs expire ten years after the date of grant. Compensation expense recognized related to these RSUs for the three- and nine-month periods ended June 30, 2002 was $85.

9. Segment Information

Since fiscal 2001, the Company has reorganized its business into four reportable operating segments in order to better focus and manage its healthcare outsourcing work, which had been part of the Government Operations Group. Accordingly, prior period amounts have been reclassified to reflect current period presentation of segment information.

The following table provides certain financial information for each of the Company's business segments:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2001	2002	2001	2002
Revenue:				
Consulting Group	$ 40,616	$ 34,518	$ 110,835	$ 102,930
Health Management Services Group	35,850	41,514	96,311	116,236
Human Services Group	34,804	37,625	99,477	109,208
Systems Group	19,362	19,433	53,512	56,239
Total	$ 130,632	$ 133,090	$ 360,135	$ 384,613
Gross Profit:				
Consulting Group	$ 19,796	$ 15,508	$ 49,444	$ 47,598
Health Management Services Group	6,326	8,171	18,025	19,296
Human Services Group	7,340	9,072	21,046	23,579
Systems Group	7,050	8,972	22,200	27,238
Total	$ 40,512	$ 41,723	$ 110,715	$ 117,711
Income from operations:				
Consulting Group	$ 11,942	$ 6,492	$ 25,928	$ 22,868
Health Management Services Group	3,400	4,839	8,873	8,941
Human Services Group	3,284	3,768	8,110	9,341
Systems Group	1,039	2,706	3,946	6,013
Total	$ 19,665	$ 17,805	$ 46,857	$ 47,163

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Business Overview

We are a leading provider of program management, consulting services and systems solutions primarily to government agencies. Since our inception, we have been at the forefront of innovation in meeting our mission of "Helping Government Serve the People®." We use our expertise, experience and advanced information technology to make government operations more efficient while improving the quality of services provided to program beneficiaries. We operate primarily in the United States and we have had contracts with government agencies in all 50 states, 49 of the 50 largest cities and 27 of the 30 largest counties. We have been profitable every year since we were founded in 1975. For the fiscal year ended September 30, 2001, we had revenue of $487.3 million and income, before the cumulative effect of an accounting change, of $40.1 million. For the nine months ended June 30, 2002, we had revenue of $384.6 million and net income of $29.4 million.

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. On May 11, 2001, we acquired Opportunity America, LLC for $0.8 million. In conjunction with the purchase, we recorded goodwill and other intangible assets of $0.7 million, which has been assigned to the Human Services Group business segment. On February 1, 2002, we acquired Collins Consulting Group, Inc. for $4.1 million. In conjunction with the purchase, we recorded goodwill of $4.1 million, which has been assigned to the Systems Group business segment. On May 1, 2002, we acquired Leonie Green & Associates ("LGA"), located in Queensland, Australia for cash consideration of $10.0 million. Additional consideration may be paid based on LGA achieving certain future revenue and performance objectives. In conjunction with the purchase, we recorded $7.5 million of goodwill and $2.5 million of intangible assets, which has been assigned to the Human Services Group business segment.

Results of Operations – Consolidated

The following table sets forth, for the periods indicated, selected statements of income data.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2001	2002	2001	2002
	(dollars in thousands, except per share data)			
Revenue	$ 130,632	$ 133,090	$ 360,135	$ 384,613
Cost of revenue	90,120	91,367	249,420	266,902
Gross profit	$ 40,512	$ 41,723	$ 110,715	$ 117,711
Gross margin	31.0%	31.3%	30.7%	30.6%
Basis point change		30 bp		(10)bp
Net income	$ 11,781	$ 11,104	$ 24,097	$ 29,407
Earnings per share:				
Income before cumulative effect of accounting change:				
Basic	$ 0.55	$ 0.49	$ 1.31	$ 1.28
Diluted	$ 0.53	$ 0.48	$ 1.27	$ 1.24
Net income:				
Basic	$ 0.55	$ 0.49	$ 1.13	$ 1.28
Diluted	$ 0.53	$ 0.48	$ 1.10	$ 1.24

Our consolidated revenue increased 1.9% for the three months ended June 30, 2002 compared to the same period in fiscal 2001. Excluding revenue related to acquisitions, we had an overall decline in revenue of 0.6% for the three months ended June 30, 2002 compared to the three months ended June 30, 2001. Our consolidated revenue increased 6.8% for the nine months ended June 30, 2002 compared to the same period in fiscal 2001. Excluding revenue related to acquisitions, our overall growth in revenue was 5.3% for the nine months ended June 30, 2002 compared to the nine months ended June 30, 2001.

Our gross margin was 31.3% for the three months ended June 30, 2002 compared to 31.0% for the same period in the 2001 fiscal year, and 30.6% for the nine months ended June 30, 2002 compared to 30.7% the nine months ended June 30, 2001. Gross margin increased 30 basis points for the three months ended June 30, 2002 compared to the three months ended June 30, 2001 and declined 10 basis points for the nine months ended June 30, 2002 compared to the nine months ended June 30, 2001.

For the three months ended June 30, 2002, our selling, general and administrative expense ("SG&A") was $23.7 million, up 21.2% compared to the three months ended June 30, 2001. For the nine months ended June 30, 2002, our SG&A was $69.8 million, up 16.9% compared to the nine months ended June 30, 2001.

Our provision for income tax for the three- and nine-month periods ended June 30, 2002 was 40.5% of income before income taxes as compared to 41.5% for the three- and nine-month periods ended June 30, 2001. These decreases were due to differences in the amounts of certain expense items and some recently implemented tax reduction strategies.

Net income for the three months ended June 30, 2002 was $11.1 million, or $0.48 per diluted share, compared with net income of $11.8 million, or $0.53 per diluted share, for the three months ended June 30, 2001. Net income for the nine months ended June 30, 2002 was $29.4 million, or $1.24 per diluted share, compared to net income of $24.1 million, or $1.10 per diluted share, for the nine months ended June 30, 2001. Fiscal 2001 net income and earnings per share included the cumulative effect of an accounting change of $3.9 million. Also, in fiscal 2002, we adopted FAS 142, which eliminated goodwill amortization, which amounted to $0.7 million and $2.1 million for the three months and nine months ended June 30, 2001, respectively.

Consulting Group

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2001	2002	2001	2002
	(dollars in thousands)			
Revenue	$ 40,616	$ 34,518	$ 110,835	$ 102,930
Cost of revenue	20,820	19,010	61,391	55,332
Gross Profit	$ 19,796	$ 15,508	$ 49,444	$ 47,598
Gross Margin	48.7%	44.9%	44.6%	46.2%

Revenue of our Consulting Group decreased 15.0% for the three months ended June 30, 2002 compared to the same period in fiscal 2001. For the nine months ended June 30, 2002 compared to the same period in fiscal 2001, revenue of our Consulting Group decreased 7.1%. These declines were primarily due to delays in the revenue cycle of our Revenue Services practice area and a reduction in our IT consulting practice as government procurement of large system projects has weakened. Gross margin decreased to 44.9% for the three months ended June 30, 2002 from 48.7% for the same period in 2001. This decrease was primarily due to reduced revenue of the higher margin Revenue Services practice area. Gross margin increased to 46.2% for the

nine months ended June 30, 2002 from 44.6% for the same period in 2001. This increase was primarily due to improved margins on certain contracts within the Revenue Services and Education practice areas during the first six months of fiscal 2002.

Health Management Services Group

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2001	2002	2001	2002
	(dollars in thousands)			
Revenue	$ 35,850	$ 41,514	$ 96,311	$ 116,236
Cost of revenue	29,524	33,343	78,286	96,940
Gross Profit	$ 6,326	$ 8,171	$ 18,025	$ 19,296
Gross Margin	17.6%	19.7%	18.7%	16.6%

Revenue of our Health Management Services Group increased 15.8% for the three months ended June 30, 2002 compared to the same period in fiscal 2001. For the nine months ended June 30, 2002, revenue of our Health Management Services Group increased 20.7% compared to the same period in fiscal 2001. These increases were due to add-on work and volume expansions within existing contracts and additional new contracts. Gross margin increased to 19.7% for the three months ended June 30, 2002 from 17.6% for the same period in fiscal 2001. This increase was due primarily to an increased margin realized on a new contract. Gross margin decreased to 16.6% for the nine months ended June 30, 2002 from 18.7% for the same period in fiscal 2001. This decrease was due primarily to unanticipated costs and a revenue shortfall on a certain project during the March 2002 quarter, in which the Group experienced performance problems offset by the increased margin on the new contract discussed above. We recorded a loss on this project of approximately $3.5 million during the three months ended March 31, 2002. During the three months ended June 30, 2002, this project operated substantially at breakeven with a loss of $0.2 million.

Human Services Group

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2001	2002	2001	2002
	(dollars in thousands)			
Revenue	$ 34,804	$ 37,625	$ 99,477	$ 109,208
Cost of revenue	27,464	28,553	78,431	85,629
Gross Profit	$ 7,340	$ 9,072	$ 21,046	$ 23,579
Gross Margin	21.1%	24.1%	21.2%	21.6%

Revenue of our Human Services Group increased 8.1% for the three months ended June 30, 2002 compared to the same period in fiscal 2001. This increase was principally due to $2.8 million of revenue from an entity acquired in May 2002. Revenue of our Human Services Group increased 9.8% for the nine months ended June 30, 2002 compared to the same period in fiscal 2001. This increase was due to revenue from new contracts won by the Group and revenue totaling $4.2 million from entities acquired in May 2001 and May 2002. Gross margins increased to 24.1% for the three months ended June 30, 2002 from 21.1% for the same period in fiscal 2001 and to 21.6% for the nine months ended June 30, 2002 from 21.2% for the same period in fiscal 2001. These increases were due primarily to a higher margin in the three months ended June 30, 2002 from the entity acquired in May 2002.

Systems Group

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2001	2002	2001	2002
	(dollars in thousands)			
Revenue	$ 19,362	$ 19,433	$ 53,512	$ 56,239
Cost of revenue	12,312	10,461	31,312	29,001
Gross Profit	$ 7,050	$ 8,972	$ 22,200	$ 27,238
Gross Margin	36.4%	46.2%	41.5%	48.4%

Revenue of our Systems Group increased 0.4% for the three months ended June 30, 2002 compared to the same period in fiscal 2001. Revenue of our Systems Group increased 5.1% for the nine months ended June 30, 2002 compared to the same period in fiscal 2001. These increases were due to revenue of $1.2 million from an entity acquired in February 2002, plus increased contract revenue of $1.5 million from new contracts won by certain divisions within the Group. Gross margin increased to 46.2% for the three months ended June 30, 2002 from 36.4% for the same period in fiscal 2001 and to 48.4% for the nine months ended June 30, 2002 from 41.5% for the same period in fiscal 2001. These increases were primarily due to increased software license revenue, which carries higher gross margins.

Selling, general & administrative and other (income) expenses

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2001	2002	2001	2002
	(dollars in thousands)			
Selling, general and administrative	$ 19,430	$ 23,653	$ 59,690	$ 69,770
Percentage of revenue	14.9%	17.8%	16.6%	18.1%
Non-cash equity based compensation	—	$ 85	—	$ 85
Percentage of revenue	—	0.0%	—	0.0%
Amortization of acquisition related intangibles	$ 1,417	$ 180	$ 4,168	$ 693
Percentage of revenue	1.1%	0.1%	1.2%	0.2%
Interest and other income	$ (473)	$ (858)	$ (927)	$ (2,261)
Percentage of revenue	0.4%	0.6%	0.3%	0.6%

Selling, general and administrative expense ("SG&A") consists of management, marketing and administration costs (including salaries, benefits, travel, recruiting, continuing education and training), facilities costs, printing, reproduction, communications and equipment depreciation. SG&A increased in the third quarter of fiscal 2002 and in the first nine months of fiscal 2002 compared to the same periods in fiscal 2001 due the increase in expenses necessary to support higher revenue and to strengthen the infrastructure to market and grow the Company, including our proposal facilities and systems, and new finance and compliance personnel. The increase was also due to SG&A

related to businesses acquired in fiscal 2002.

We recognized $85,000 of non-cash equity based compensation expense for the three- and nine-month periods ended June 30, 2002 related to the issuance of restricted stock units in May 2002. In future periods, the

quarterly amortization expense related to these restricted stock units is estimated to be approximately $250,000 and may increase if certain earnings targets are achieved.

Amortization of goodwill and other acquisition-related intangibles decreased in the third quarter of fiscal 2002 and in the first nine months of fiscal 2002 compared to the same periods in fiscal 2001 due to the non-amortization of goodwill under FAS 142 effective October 1, 2001.

The increase in interest and other income in the third quarter and first nine months of fiscal 2002 compared to the same periods in fiscal 2001 was due to an increase in the average balance of funds we invested, which were increased as a result of the completion in June 2001 of an equity offering resulting in $31.4 million of proceeds to the Company, net of offering expenses.

Liquidity and Capital Resources

	Nine Months Ended June 30,	
	2001	**2002**
	(dollars in thousands)	
Net cash provided by (used in):		
Operating activities	$ 23,024	$ 35,043
Investing activities	(10,611)	(21,458)
Financing activities	42,416	(16,646)
Net increase (decrease) in cash and cash equivalents	$ 54,829	$ (3,061)
Free cash flow	$ 13,627	$ 25,393

For the nine months ended June 30, 2002, cash provided by our operations was $35.0 million as compared to $23.0 million for the nine months ended June 30, 2001. Cash provided by operating activities for the nine months ended June 30, 2002 primarily consisted of net income of $29.4 million plus non-cash items aggregating $12.5 million offset by net uses of working capital of $6.9 million. Non-cash items included $6.6 million from deferred income taxes in addition to $4.6 million of depreciation and amortization. The net uses of working capital reflect a decline in accounts receivable-billed, offset by an increase in accounts receivable-unbilled, and a decline in deferred revenue of $4.3 million. During the nine months ended June 30, 2001, cash provided by operating activities consisted primarily of net income of $24.1 million plus non-cash items of $14.5 million offset by net uses of working capital of $15.6 million. Non-cash items included $7.5 million of depreciation and amortization and $3.9 million from a cumulative effect of accounting change. The net uses of working capital were primarily due to an increase in billed accounts receivable of $10.9 million and a decrease in deferred revenue of $4.2 million.

For the nine months ended June 30, 2002, cash used in investing activities was $21.5 million as compared to $10.6 million for the nine months ended June 30, 2001. Cash used in investing activities for the nine months ended June 30, 2002 primarily consisted of $12.7 million for two business acquisitions, expenditures for capitalized software costs totaling $4.2 million and purchases of property and equipment of $5.4 million. During the nine months ended June 30, 2001, we used cash in investing activities primarily for expenditures related to capitalized software costs totaling $5.1 million and purchases of property and equipment of $4.3 million.

For the nine months ended June 30, 2002, cash used in financing activities was $16.6 million as compared to cash provided by financing activities of $42.4 million for the nine months ended June 30, 2001. Cash used in financing activities for the nine months ended June 30, 2002 primarily consisted of $24.7 million of common stock repurchases offset by $8.2 million of sales of stock to employees through our Employee Stock

Purchase Plan and Equity Incentive Plan. Cash provided by financing activities for the nine months ended June 30, 2001 consisted primarily of $11.7 million of proceeds from sales of stock to employees through our Employee Stock Purchase Plan and Equity Incentive Plan and $31.4 million of net proceeds from our secondary stock offering in June 2001.

In May 2000, our Board of Directors authorized the repurchase, at management's discretion, of up to $30.0 million of our common stock. Also, in June 2002, the Board of Directors authorized the use of option exercise proceeds for the repurchase of our common stock. During the nine month period ended June 30, 2002, we repurchased 796,269 shares. At June 30, 2002, $11.9 million remained available for future stock repurchases under the program. In July 2002, the Board of Directors authorized the repurchase, at management's discretion, of up to an additional $30.0 million of our common stock.

For the nine months ended June 30, 2002, free cash flow (which represents cash provided by operating activities less capitalized software development costs and purchases of property and equipment) was $25.4 million as compared to $13.6 million for the nine months ended June 30, 2001. This increase was due primarily to the improvement in cash provided from operating activities, as discussed above.

Our working capital at June 30, 2002 was $214.2 million. At June 30, 2002, we had cash, cash equivalents, and marketable securities of $111.2 million and no debt. Management believes this strong liquidity and financial position will allow the Company to continue its stock repurchase program, depending on the price of the Company's common stock, and to pursue selective acquisitions.

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.

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenue and expenses. On an on-going basis, we evaluate our estimates including those related to revenue recognition and cost estimation on certain contracts, the realizability of goodwill, income taxes, certain accrued liabilities and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from those estimates.

Our management believes that we do not have significant off-balance sheet risk or exposure to liabilities that are not recorded or disclosed in our financial statements. While we have significant operating lease commitments for office space, those commitments are generally tied to the period of performance under related contracts. Additionally, although on certain contracts we are bound by performance bond commitments, we have not had any defaults resulting in draws on performance bonds. Also, we do not speculate in derivative transactions.

We believe the following critical accounting policies affect the significant judgments and estimates used in the preparation of our condensed consolidated financial statements.

Revenue recognition. Our revenue is 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 (used primarily by the Consulting Group). Also, some contracts contain "not-to-

exceed" provisions. For the nine months ended June 30, 2002, revenue from fixed-price contracts was approximately 36% of total revenue; revenue from cost-plus contracts was approximately 24% of total revenue; revenue from performance-based contracts was approximately 27% of total revenue; and revenue from time and materials contracts was approximately 13% of total revenue. 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.

Our most significant expense is cost of revenue, which consists primarily of project-related employee salaries and benefits, subcontractors, computer equipment and travel expenses. Management uses its judgment and experience to estimate cost of revenue. 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. If actual costs are higher than our estimates, profitability may be adversely affected. Service cost variability has little impact on cost-plus arrangements because allowable costs are reimbursed by the client.

We recognize revenue on fixed-priced contracts using the percentage of completion method, which relies on estimates of total expected contract revenue and costs. The cumulative impact of any revisions in estimated revenue and costs are recognized in the period in which the facts that give rise to the revision become known. Also, with fixed-price contracts, we are subject to the risk of potential cost overruns. We recognize revenue on our performance-based contracts as such revenue becomes fixed or determinable, which generally occurs when amounts are billable to customers, rather than as costs are incurred. For certain contracts, this may result in revenue being recognized in large, irregular increments. Additionally, costs related to certain contracts are incurred in periods prior to recognizing revenue. These factors may result in irregular revenue and profit margins for performance-based contracts, which do exist in our Consulting Group, Health Management Services Group and Human Services Group. As a result, with performance-based contracts we have more uncertainty regarding expected future revenue.

The Human Services Group and Health Management Services Group 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, 2001, our average Human Services Group and Health Management Services Group contract duration was approximately 2.5 years. Our Consulting Group contracts had performance periods ranging from one month to approximately two years. Our average Systems Group contract duration was 1.2 years.

Impairment of goodwill. We assess the impairment of goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Conditions that may trigger an impairment assessment include a history of operating losses of the related business, a significant reduction in the revenue of the related business, a loss of a major customer, and a decrease in our market capitalization relative to net book value, among others. An impairment would be considered to exist when the estimated undiscounted future cash flows expected to result from the use of the intangible asset are less than the carrying amount of the asset. Management uses its judgment to estimate future cash flows.

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 revenue, results of operations, profitability, current and future contracts, market opportunities, market demand or acceptance of our products and services. These statements may 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 reliance on government clients; risks associated with government contracting; risks involved in managing government

projects; legislative changes and political developments; opposition from government unions; challenges resulting from growth; adverse publicity; and legal, economic, and other risks detailed in Exhibit 99.1 to this Quarterly Report on Form 10-Q for the period ended June 30, 2002.

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.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders.

At our Annual Meeting of Shareholders held on April 4, 2002, our shareholders voted as follows:

(a) To elect Russell A. Beliveau as a Class II Director of the Company for a three-year term.

Nominee	Total Vote "For"	Total Vote Withheld
Russell A. Beliveau	18,268,679	926,701

Mr. Jesse Brown, formerly one of our Class II directors and a nominee for re-election at our 2002 Annual Meeting, resigned from our board for personal health reasons prior to the 2002 Annual Meeting, effective March 31, 2002, and did not stand for re-election. Following the 2002 Annual Meeting, the board of directors considered and ultimately elected Marilyn Seymann to serve as a Class II director and a member of the audit committee. Russell A. Beliveau, Peter B. Pond, James R. Thompson, Jr., Lynn P. Davenport, Thomas A. Grissen, and David V. Mastran continued their terms in office after the meeting.

(b) To approve an amendment to our 1997 Equity Incentive Plan to increase the number of shares of common stock of MAXIMUS as to which awards may be granted under the plan to 6,500,000.

Total Vote For the Proposal	12,406,750
Total Vote Against the Proposal	4,532,524
Abstentions	62,503
Broker Non-Votes	2,193,603

(c) To ratify the selection by our board of directors of Ernst & Young LLP as our independent public accountants for the fiscal year ending September 30, 2002.

Total Vote For the Proposal	18,615,689
Total Vote Against the Proposal	573,876
Abstentions	5,815

Item 5. Other Information.

During the quarter, the board of directors increased the size of the board to eight members and elected John J. Haley, President and CEO of Watson Wyatt & Company, to the board as a Class II outside director to fill the newly-created vacancy.

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. We did not file any Current Reports on Form 8-K during the quarter ended June 30, 2002.

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 12, 2002

By: /s/ Richard A. Montoni
Richard A. Montoni
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Description
99.1	Important Factors Regarding Forward Looking Statements. Filed herewith.
99.2	CEO/CFO Certification of Periodic Financial Report. Filed herewith.

EXHIBIT 99.1

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," "believe," "could," "intend," "may," "opportunity," "plan," "potential" or similar terms and 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 that 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 that 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 36% of our fiscal 2001 revenues from fixed-price contracts and approximately 28% of our fiscal 2001 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

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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. If our estimates prove to be inaccurate, we may not achieve the level of profit we expected or we may incur a net loss on a contract.

If we are unable to manage our growth, our profitability will be adversely affected.

Sustaining our growth places 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 an employment agreement with one of our executive officers, this agreement does not prevent him from terminating his 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

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subject to penalties and sanctions, including prohibitions on our bidding in response to 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 that 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 in response to 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 March 30, 2002, the *Baltimore Sun* reported that the Governor of Maryland had requested the Attorney General of the State to investigate allegations regarding the performance of the MAXIMUS child support enforcement project in Baltimore. According to the article, an employee of the Maryland Department of Human Resources accused us of a variety of performance and reporting deficiencies. The Attorney General's office has requested certain documents from us, and we are cooperating fully with that request. We believe the allegations are without merit and intend to cooperate with any investigation or audit of the project.

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 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. Our success 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. Any failure to maintain positive relationships with government entities and agencies may adversely affect our ability to bid successfully in response to 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 a contracting opportunity or reduce the value of a contract.

Our business could be adversely affected by future legislative changes.

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 that related to the referral and treatment

monitoring 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 that 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 profitably manage businesses that we have acquired or that we may acquire or we may fail to integrate them successfully without incurring substantial expenses, delays or other problems that could negatively impact our results of operations. Since the beginning of our 2000 fiscal year, we have combined with five firms and purchased 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.

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;
- impairment 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 Health Management Services Group and Human Services 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.

As a consequence of the terrorist attacks on September 11, 2001, if the unanticipated expenses of heightened security measures implemented by Federal, state and local governmental agencies exceed budgeted amounts, then the amounts budgeted for our services by governmental agencies may be reduced or reallocated, in some cases significantly, which would adversely affect our business and results of operations.

As a consequence of the terrorist attacks on September 11, 2001, we believe that the unanticipated expenses of heightened security measures implemented by federal, state and local governmental agencies may exceed budgeted amounts. In the near term, we believe that these government agencies will have sufficient resources to continue to fund increased security measures without significant budget adjustments. Therefore, we currently expect that the market for our services will remain relatively unchanged. However, our expectation assumes that the terrorist attacks on September 11 were a one-time event and that there will be no additional events of this magnitude. If additional events should occur that result in significantly greater expenditures for tighter security measures, or such additional security measures are required to be sustained for extended periods of time, then the amounts budgeted for our services by governmental agencies may be reduced or reallocated, in some cases significantly, which would adversely affect our business and results of operations.

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 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.

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 July 30, 2002, the sales price of our common stock has ranged from a high of $49.25 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 corporate actions initiated by shareholders be adopted only at properly called shareholder meetings.

Our president and chief executive officer owns sufficient shares of our common stock to significantly affect the results of any shareholder vote.

Our President and Chief Executive Officer, Dr. David Mastran, beneficially owns approximately 11.4% of our common stock. As a result, Dr. Mastran has 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 may differ from the interests of our other shareholders, and Dr. Mastran 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.

EXHIBIT 99.2

MAXIMUS, Inc.

Certification of Periodic Financial Report

Pursuant to 18 U.S.C. Section 1350

Each of the undersigned officers of MAXIMUS, Inc. certifies, under the standards set forth in and solely for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of MAXIMUS, Inc. for the quarter ended June 30, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in that Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of MAXIMUS, Inc.

Dated: August 12, 2002

/s/ David V. Mastran
David V. Mastran
Chief Executive Officer

Dated: August 12, 2002

/s/ Richard A. Montoni
Richard A. Montoni
Chief Financial Officer