UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2004

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

Class	Outstanding at May 3, 2004
Common Shares, no par value	21,693,535

MAXIMUS, Inc.

Quarterly Report on Form 10-Q
For the Quarter Ended March 31, 2004

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements.

Condensed Consolidated Balance Sheets as of September 30, 2003 and March 31, 2004 (unaudited)

Condensed Consolidated Statements of Income for the Three Months and Six Months ended March 31, 2003 and 2004 (unaudited)

Condensed Consolidated Statements of Cash Flows for the Six Months ended March 31, 2003 and 2004 (unaudited)

Notes to Unaudited Condensed Consolidated Financial Statements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Item 4. Controls and Procedures.

PART II. OTHER INFORMATION

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities.

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

Item 6. Exhibits and Reports on Form 8-K.

Signature

Exhibit Index

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, 2003 (Note 1)	March 31, 2004 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 117,372	$ 138,414
Restricted cash	3,653	3,394
Marketable securities	140	—
Accounts receivable – billed, net	114,992	105,119
Accounts receivable – unbilled	29,142	41,128
Deferred income taxes	3,410	—
Prepaid expenses and other current assets	7,063	9,083
Total current assets	275,772	297,138
Property and equipment, at cost	46,412	50,327
Less accumulated depreciation and amortization	(20,195)	(23,757)
Property and equipment, net	26,217	26,570
Software development costs	23,382	25,738
Less accumulated amortization	(8,699)	(10,806)

Software development costs, net	14,683	14,932
Deferred contract costs, net	7,283	16,884
Goodwill	81,757	82,742
Intangible assets, net	7,212	6,564
Other assets	2,096	1,631
Total assets	$ 415,020	$ 446,461
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 21,578	$ 20,826
Accrued compensation and benefits	23,219	21,162
Deferred revenue	22,356	20,401
Income taxes payable	2,837	—
Deferred income taxes	—	1,497
Current portion of capital lease obligations	809	2,119
Other accrued liabilities	3,653	3,957
Total current liabilities	74,452	69,962
Capital lease obligations, less current portion	3,821	5,436
Deferred income taxes	2,745	7,763
Other liabilities	725	432
Total liabilities	81,743	83,593
Shareholders' equity:		
Common stock, no par value; 60,000,000 shares authorized; 21,200,197 and 21,628,665 shares issued and outstanding at September 30, 2003 and March 31, 2004, at stated amount, respectively	146,219	156,982
Accumulated other comprehensive (loss) income	(95)	77
Retained earnings	187,153	205,809
Total shareholders' equity	333,277	362,868
Total liabilities and shareholders' equity	$ 415,020	$ 446,461

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 March 31, 2003	Three Months Ended March 31, 2004	Six Months Ended March 31, 2003	Six Months Ended March 31, 2004
Revenue	$ 130,663	$ 150,707	$ 263,354	$ 289,601
Cost of revenue	92,077	106,076	182,507	202,387
Gross profit	38,586	44,631	80,847	87,214
Selling, general and administrative expenses	27,588	29,253	53,741	56,905
Income from operations	10,998	15,378	27,106	30,309
Interest and other income	390	336	937	528
Income before income taxes	11,388	15,714	28,043	30,837
Provision for income taxes	4,498	6,207	11,077	12,181
Net income	$ 6,890	$ 9,507	$ 16,966	$ 18,656
Earnings per share:				
Basic	$ 0.33	$ 0.44	$ 0.80	$ 0.86
Diluted	$ 0.32	$ 0.43	$ 0.79	$ 0.84
Weighted average shares outstanding:				
Basic	21,092	21,796	21,159	21,586
Diluted	21,329	22,262	21,419	22,098

See notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended March 31, 2003	Six Months Ended March 31, 2004
Cash flows from operating activities:		
Net income	$ 16,966	$ 18,656
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,608	3,561

Amortization	2,474	2,755
Deferred income taxes	294	9,925
Tax benefit due to option exercises	333	3,352
Non-cash equity based compensation	512	457
Change in assets and liabilities, net of effects from acquisitions:		
Accounts receivable – billed	(3,201)	9,872
Accounts receivable – unbilled	(4,738)	(11,986)
Prepaid expenses and other current assets	(1,253)	(1,584)
Deferred contract costs	—	(6,275)
Other assets	259	179
Accounts payable	2,316	(751)
Accrued compensation and benefits	(1,365)	(2,057)
Deferred revenue	3,132	(1,955)
Income taxes payable	838	(2,837)
Other liabilities	(187)	270
Net cash provided by operating activities	18,988	21,582
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	(2,801)	(985)
Purchases of property and equipment	(3,382)	(3,914)
Capitalization of software development costs	(1,695)	(2,356)
Other	166	264
Net cash used in investing activities	(7,712)	(6,991)
Cash flows from financing activities:		
Employee stock transactions	1,906	18,955
Repurchases of common stock	(15,465)	(12,001)
Payments on capital lease obligations	(59)	(503)
Net cash (used in) provided by financing activities	(13,618)	6,451
Net (decrease) increase in cash and cash equivalents	(2,342)	21,042
Cash and cash equivalents, beginning of period	94,965	117,372
Cash and cash equivalents, end of period	$ 92,623	$ 138,414

See notes to unaudited condensed consolidated financial statements.

MAXIMUS, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
For the Three Months and Six Months Ended March 31, 2004 and 2003

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 accounting principles generally accepted in the United States 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 normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the three months and six months ended March 31, 2004 are not necessarily indicative of the results that may be expected for the full fiscal year. The balance sheet at September 30, 2003 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, 2003 and 2002 and for each of the three years in the period ended September 30, 2003, included in the Company's Annual Report on Form 10-K for the year ended September 30, 2003 (File No. 1-12997) filed with the Securities and Exchange Commission on December 19, 2003.

Stock-Based Compensation

The Company accounts for its employee stock option plan under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*("APB 25"), and related Interpretations. No stock option based employee compensation cost is reflected in net income, as all employee stock options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value provisions of Financial Accounting Standard No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure*("FAS 148"), to stock-based employee compensation for the periods indicated.

	Three Months Ended March 31,		Six Months Ended March 31,	
	2003	2004	2003	2004
	(in thousands, except per share data)			
Net income, as reported	$ 6,890	$ 9,507	$ 16,966	$ 18,656
Deduct: Stock compensation expense determined under fair value based method, net of taxes	(1,777)	(1,420)	(3,607)	(2,631)
Net income, as adjusted	$ 5,113	$ 8,087	$ 13,359	$ 16,025
Earnings per share:				

Basic – as reported	$	0.33	$	0.44	$	0.80	$	0.86
Basic – as adjusted	$	0.24	$	0.37	$	0.63	$	0.74
Diluted – as reported	$	0.32	$	0.43	$	0.79	$	0.84
Diluted – as adjusted	$	0.24	$	0.36	$	0.62	$	0.73

2. Deferred Contract Costs

Deferred contract costs consist of reimbursable direct project costs relating to the transition phase of a long-term contract in progress, which are required to be reimbursed under the terms of the contract. These costs include system development and facility build-out costs totaling $7.3 million and $17.6 million at September 30, 2003 and March 31, 2004, respectively, of which $4.2 million and $7.5 million is leased equipment at September 30, 2003 and March 31, 2004, respectively. Deferred contract costs are amortized over five years as services are provided under the contract, beginning January 2004. Amortization of deferred contract costs was $0.7 million for both the three months and six months ended March 31, 2004.

3. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the six months ended March 31, 2004 are as follows (in thousands):

	Management Services	Health Operations	Human Services Operations	Systems	Total
Balance as of September 30, 2003	$ 10,113	$ 1,792	$ 34,175	$ 35,677	$ 81,757
Reclassification of prior acquisition goodwill	—	—	(3,698)	3,698	—
Goodwill additions during period	—	—	712	273	985
Balance as of March 31, 2004	$ 10,113	$ 1,792	$ 31,189	$ 39,648	$ 82,742

The following table sets forth the components of intangible assets (in thousands):

	As of September 30, 2003			As of March 31, 2004		
	Cost	Accumulated Amortization	Intangible Assets, net	Cost	Accumulated Amortization	Intangible Assets, net
Non-competition agreements	$ 3,425	$ 2,854	$ 571	$ 3,425	$ 2,922	$ 503
Technology-based intangibles	1,500	264	1,236	1,500	371	1,129
Customer contracts and relationships	6,700	1,295	5,405	6,700	1,768	4,932
Total	$ 11,625	$ 4,413	$ 7,212	$ 11,625	$ 5,061	$ 6,564

Intangible assets from acquisitions are amortized over five to ten years. The weighted-average amortization period for intangible assets is approximately eight years. Intangible amortization expense was approximately $0.6 million for both of the six months ended March 31, 2003 and March 31, 2004. The estimated amortization expense for the years ending September 30, 2004, 2005, 2006, 2007 and 2008 is $1.3 million, $1.2 million, $1.2 million, $1.1 million and $0.8 million, respectively.

4. Commitments and Contingencies

Litigation

On December 5, 2000, the Village of Maywood, Illinois (the Village) sued Unison MAXIMUS, Inc. (Unison), a wholly-owned subsidiary of MAXIMUS, in the Circuit Court of Cook County, Illinois. The Company acquired Unison Consulting Group, Inc. in May 1999 and subsequently renamed it "Unison MAXIMUS, Inc." Unison remains a wholly-owned subsidiary of the Company. The Village had contracted with Unison to provide a variety of financial and consulting services from 1996 through 1999. The Village alleged *inter alia* breach of contract, breach of fiduciary duty, and fraud. In March 2004, Unison agreed to a confidential settlement of the lawsuit with the Village. The settlement amount to be paid by Unison is not material to the Company's financial condition or results of operations.

On January 3, 2003, the City of San Diego served the Company with a complaint naming DMG-

MAXIMUS (DMG – previously a wholly-owned subsidiary of MAXIMUS since merged into MAXIMUS) as a defendant in an on-going lawsuit between the City and Conwell Shonkwiler & Associates, an architectural firm (CSA). In 2002, both CSA and the City had sued each other for claims arising out of design services provided by CSA for the City's Water Department Central Facility Water Project (Project). DMG had provided certain assessment and preliminary design services to the City in connection with the Project. CSA sued the City for payment of approximately $0.7 million in unpaid fees, and the City sued CSA for alleged damages caused by CSA's breach of the contract and professional negligence in rendering those services. In its defense, CSA has asserted that any deficiencies in its services were due to errors in the master program document prepared for the City by DMG. Consequently, the City named DMG as a defendant in the lawsuit alleging breach of contract and professional negligence and seeking indemnity from DMG. The City alleges damages against both defendants of at least $10.0 million. The Company believes the claim is without merit and intends to defend the action vigorously. The matter has been tendered to the Company's insurance carrier. Although there is no assurance of a favorable outcome, the Company does not believe that this action will have a material adverse effect on its financial condition or results of operations, and the Company has not accrued for any loss related to this action.

On December 8, 2003, David M. Johnson, a former officer of the Company, sued MAXIMUS, David V. Mastran, and Lynn P. Davenport in the federal District Court for the Northern District of Ohio in connection with the termination of his employment in August 2003. In October 2002, Mr. Johnson signed a four-year employment agreement with the Company. His complaint asserts that his employment was wrongfully terminated by the defendants, and alleges breach of contract, promissory estoppel, fraud, interference with contract, and intentional infliction of emotional distress. Mr. Johnson claims damages of at least $11.0 million. MAXIMUS believes that Mr. Johnson's claims are without merit and intends to defend the action vigorously. Although there can be no assurance of a favorable outcome, the Company does not believe that this action will have a material adverse effect on its financial condition or results of operations, and the Company has not accrued for any loss related to this action.

The Company is involved in various legal proceedings, including contract claims, in the ordinary course of its business. Management does not expect the ultimate outcome of any of these legal proceedings to have a material adverse effect on the Company's financial condition or its results of operations.

Financial Instruments – Letter of Credit

On June 18, 2003, in connection with a long-term contract, the Company issued a standby letter of credit in an initial amount of up to $20.0 million, which amount

shall be reduced to $10.0 million on April 1, 2005. The letter of credit, which expires on March 31, 2009, may be called by the customer in the event the Company defaults under the terms of the contract. The facility contains financial covenants that establish minimum levels of tangible net worth and earnings before interest, tax, depreciation and amortization (EBITDA) and require the maintenance of certain cash balances. The Company was in compliance with all covenants at March 31, 2004.

Lease Obligations

On July 15, 2003, the Company entered into a capital lease financing arrangement with a financial institution, whereby the Company may acquire assets pursuant to an equipment lease agreement. Rental payments for assets leased are payable over a 60-month period at a rate of 4.05% commencing in January 2004. On March 29, 2004, the Company entered into a supplemental capital lease financing arrangement with the same financial institution whereby the Company may acquire additional assets pursuant to an equipment lease agreement. Rental payments for assets leased under the supplemental arrangement will be payable over a 57-month period at a rate of 3.61% commencing in April 2004. At March 31, 2004, capital lease obligations of approximately $7.6 million were outstanding related to these lease arrangements for new equipment. Capital leases entered into during the six months ended March 31, 2004 were approximately $3.3 million.

5. Earnings Per Share

The following table sets forth the components of basic and diluted earnings per share (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2003	2004	2003	2004
Numerator:				
Net income	$ 6,890	$ 9,507	$ 16,966	$ 18,656
Denominator:				
Basic weighted average shares outstanding	21,092	21,796	21,159	21,586
Effect of dilutive securities:				
Employee stock options and unvested restricted stock awards	237	466	260	512
Denominator for diluted earnings per share	21,329	22,262	21,419	22,098

6. Stock Repurchase Program

Under resolutions adopted in May 2000, July 2002, and March 2003, the Board of Directors has authorized the repurchase, at management's discretion, of up to an aggregate of $90.0 million of the Company's common stock. In addition, 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 six months ended March 31, 2004, the Company repurchased approximately 337,000 shares. At March 31, 2004, $43.5 million remained authorized for future stock repurchases under the program.

7. Stock Option Plans

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 grant-date fair value of each RSU was $30.14. 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 fair value of the RSUs at the grant date is amortized to expense over the vesting period. Compensation expense recognized related to these RSUs was approximately $0.5 million and $0.4 million for the six months ended March 31, 2003 and 2004, respectively.

In March 2004, the Company issued 96,800 RSUs to certain executive officers and employees under its 1997 Equity Incentive Plan. The grant-date fair value of each RSU was $34.90. 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 fair value of the RSUs at the grant date is amortized to expense over the vesting period. Compensation expense recognized related to these RSUs was approximately $0.1 million for the six months ended March 31, 2004.

For the six months ended March 31, 2004, approximately 723,000 stock options were exercised under the Company's stock option plan and approximately 25,000 RSU's were vested and released.

8. Segment Information

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2003	2004	2003	2004
Revenue:				
Health Operations	$ 41,118	$ 50,245	$ 82,109	$ 89,792
Human Services Operations	34,788	38,750	71,526	78,085
Financial Services	17,029	17,554	33,480	36,828
Management Services	13,372	9,614	27,592	20,024
Systems Group	24,356	34,544	48,647	64,872
Total	$ 130,663	$ 150,707	$ 263,354	$ 289,601
Gross Profit:				
Health Operations	$ 9,591	$ 11,107	$ 19,942	$ 21,046
Human Services Operations	6,036	8,420	13,112	15,703
Financial Services	9,152	8,300	17,504	17,640
Management Services	3,971	3,796	8,580	7,995
Systems Group	9,836	13,008	21,709	24,830
Total	$ 38,586	$ 44,631	$ 80,847	$ 87,214

Income (loss) from Operations:				
Health Operations	$ 5,039	$ 6,251	$ 11,292	$ 12,215
Human Services Operations	663	2,124	2,445	3,989
Financial Services	4,488	3,649	8,325	8,214
Management Services	769	(491)	2,364	(636)
Systems Group	(477)	3,414	1,966	5,934
Consolidating adjustments	516	431	714	593
Total	$ 10,998	$ 15,378	$ 27,106	$ 30,309

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

Business Overview

We are a leading provider of health and human services 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. We have been profitable every year since we were founded in 1975. For the fiscal year ended September 30, 2003, we had revenue of $558.3 million and net income of $35.3 million. For the six months ended March 31, 2004, we had revenue of $289.6 million and net income of $18.7 million.

Results of Operations

Consolidated

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

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2004	Six Months Ended March 31, 2003	Six Months Ended March 31, 2004
	(dollars in thousands, except per share data)			
Revenue	$ 130,663	$ 150,707	$ 263,354	$ 289,601
Cost of revenue	92,077	106,076	182,507	202,387
Gross profit	$ 38,586	$ 44,631	$ 80,847	$ 87,214
Gross margin percentage	29.5%	29.6%	30.7%	30.1%
Selling, general and administrative	$ 27,588	$ 29,253	$ 53,741	$ 56,905
Selling, general and administrative percentage	21.1%	19.4%	20.4%	19.6%
Net income	$ 6,890	$ 9,507	$ 16,966	$ 18,656
Earnings per share:				
Basic	$ 0.33	$ 0.44	$ 0.80	$ 0.86
Diluted	$ 0.32	$ 0.43	$ 0.79	$ 0.84

Our revenue increased 15.3% for the three months ended March 31, 2004 compared to the same period in fiscal 2003. Excluding revenue of $3.3 million related to an acquisition in fiscal 2003, our revenue for the three months ended March 31, 2004 increased 12.8% when compared to the three months ended March 31, 2003. For the six months ended March 31, 2004 compared to the same period in fiscal 2003, our revenue increased 10.0%. Excluding revenue of $6.4 million related to an acquisition in fiscal 2003, our revenue for the six months ended March 31, 2004 increased 7.5% when compared to the six months ended March 31, 2003.

Our gross margin increased to 29.6% for the three months ended March 31, 2004, an increase of 0.1%, compared to 29.5% for the same period in the 2003 fiscal year. For the six months ended March 31, 2004, our gross margin decreased to 30.1%, a decrease of 0.6%, compared to 30.7% for the same period in the 2003 fiscal year.

Selling, general and administrative expense (SG&A) consists of management, marketing and administration costs (including salaries, benefits, bid and proposal efforts, travel, recruiting, continuing education, employee training and non-chargeable labor costs), facilities costs, printing, reproduction, communications, equipment depreciation, intangible amortization and non-cash equity based compensation. SG&A increased in the three months

and six months ended March 31, 2004 compared to the same periods in fiscal 2003 due to the increase in expenses necessary to support higher revenue and to strengthen the infrastructure to market our products and grow our business, including our proposal facilities and systems, and new finance, operational, and compliance personnel. Our SG&A as a percentage of revenue decreased to 19.4% for the three months ended March 31, 2004 compared to 21.1% for the same period in the 2003 fiscal year. For the six months ended March 31, 2004, our SG&A as a percentage of revenue decreased to 19.6% compared to 20.4% for the same period in the 2003 fiscal year.

Also included in SG&A is approximately $0.3 million of non-cash equity-based compensation expense for both of the three months ended March 31, 2004 and March 31, 2003, and approximately $0.5 million for both of the six months ended March 31, 2004 and March 31, 2003, related to the issuance of restricted stock units in May 2002 and March 2004. In future quarters, the quarterly amortization expense related to these restricted stock units is estimated to be approximately $0.3 million, which amount may increase if certain earnings targets are achieved.

Our provision for income taxes for both the three month and six months ended March 31, 2004 and 2003 was 39.5% of income before income taxes.

Net income for the three months ended March 31, 2004 was $9.5 million, or $0.43 per diluted share, compared with net income of $6.9 million, or $0.32 per diluted share, for the three months ended March 31, 2003. Net income for the six months ended March 31, 2004 was $18.7 million, or $0.84 per diluted share, compared with net income of $17.0 million, or $0.79 per diluted share, for the six months ended March 31, 2003. The increase in net income is attributed primarily due to the contributions of our Health Operations and Systems segments as discussed in more detail below.

Health Operations

	Three Months Ended March 31,		Six Months Ended March 31,	
	2003	2004	2003	2004
	(dollars in thousands)			
Revenue	$ 41,118	$ 50,245	$ 82,109	$ 89,792
Cost of revenue	31,527	39,138	62,167	68,746
Gross profit	$ 9,591	$ 11,107	$ 19,942	$ 21,046
Gross margin percentage	23.3%	22.1%	24.3%	23.4%

Revenue of our Health Operations segment increased 22.2% for the three months ended March 31, 2004 compared to the same period in fiscal 2003, and increased 9.4% for the six months ended March 31, 2004 compared to the same period in fiscal 2003. These increases were due primarily to the contribution of revenue from the California Healthy Families project which commenced operations on January 1, 2004. Gross margin decreased to 22.1% for the three months ended March 31, 2004 from 23.3% for the same period in fiscal 2003, and to 23.4% for the six months ended March 31, 2004 from 24.3% for the same period in fiscal 2003.

Human Services Operations

	Three Months Ended March 31,		Six Months Ended March 31,	
	2003	2004	2003	2004
	(dollars in thousands)			
Revenue	$ 34,788	$ 38,750	$ 71,526	$ 78,085
Cost of revenue	28,752	30,330	58,414	62,382
Gross profit	$ 6,036	$ 8,420	$ 13,112	$ 15,703
Gross margin percentage	17.4%	21.7%	18.3%	20.1%

Revenue of our Human Services Operations segment increased 11.4% for the three months ended March 31, 2004 compared to the same period in fiscal 2003, and increased 9.2% for the six months ended March 31, 2004 compared to the same period in fiscal 2003. These increases in revenue included approximately $3.3 million and $6.4 million of revenue during the three months and six months ended March 31, 2004, respectively, from the Correctional Services business acquired on May 1, 2003. Gross margin increased to 21.7% for the three months ended March 31, 2004 from 17.4% for the same period in fiscal 2003, and to 20.1% for the six months ended March 31, 2004 from 18.3% for the same period in fiscal 2003. These increases were due primarily to the improvements in the Workforce Services division as a higher level of program reductions were experienced in fiscal 2003.

Financial Services

	Three Months Ended March 31,		Six Months Ended March 31,	
	2003	2004	2003	2004
	(dollars in thousands)			
Revenue	$ 17,029	$ 17,554	$ 33,480	$ 36,828
Cost of revenue	7,877	9,254	15,976	19,188
Gross profit	$ 9,152	$ 8,300	$ 17,504	$ 17,640
Gross margin percentage	53.7%	47.3%	52.3%	47.9%

Revenue of our Financial Services segment increased 3.1% for the three months ended March 31, 2004 compared to the same period in fiscal 2003, and increased 10.0% for the six months ended March 31, 2004 compared to the same period in fiscal 2003. The increase was attributable primarily to new revenue maximization and school-based claiming contracts which were awarded during fiscal 2003. Gross margin decreased to 47.3% for the three months ended March 31, 2004 from 53.7% for the same period in fiscal 2003, and to 47.9% for the six months ended March 31, 2004 from 52.3% for the same period in fiscal 2003. These declines on gross margin were primarily due to increases in expenses as a result of several new contingency based contracts in which we incur expense in advance of recognizing the revenue.

Management Services

	Three Months Ended March 31,		Six Months Ended March 31,	
	2003	2004	2003	2004
	(dollars in thousands)			
Revenue	$ 13,372	$ 9,614	$ 27,592	$ 20,024
Cost of revenue	9,401	5,818	19,012	12,029
Gross profit	$ 3,971	$ 3,796	$ 8,580	$ 7,995
Gross margin percentage	29.7%	39.5%	31.1%	39.9%

Revenue of our Management Services segment decreased 28.1% for the three months ended March 31, 2004 compared to the same period in fiscal 2003, and decreased 27.4% for the six months ended March 31, 2004 compared to the same period in fiscal 2003. These decreases were attributable primarily to continued weakness in demand for certain management consulting services such as government procurement of traditional consulting services, which may be more discretionary in nature. Gross margin increased to 39.5% for the three months ended March 31, 2004 from 29.7% for the same period in fiscal 2003, and to 39.9% for the six months ended March 31, 2004 from 31.1% for the same period in fiscal 2003. Although gross margin reflects an increase, income from operations for the Management Services segment declined due to the continued weakness in demand for management consulting services and a lower backlog, which resulted in increased indirect costs.

Systems

	Three Months Ended March 31,		Six Months Ended March 31,	
	2003	2004	2003	2004
	(dollars in thousands)			
Revenue	$ 24,356	$ 34,544	$ 48,647	$ 64,872
Cost of revenue	14,520	21,536	26,938	40,042
Gross profit	$ 9,836	$ 13,008	$ 21,709	$ 24,830
Gross margin percentage	40.4 %	37.7 %	44.6 %	38.3 %

Revenue of our Systems segment increased 41.8% for the three months ended March 31, 2004 compared to the same period in fiscal 2003, and increased 33.4% for the six months ended March 31, 2004 compared to the same period in fiscal 2003. These increases were primarily due to revenue from new contracts awarded to certain divisions within the segment. Gross margin decreased to 37.7% for the three months ended March 31, 2004 from 40.4% for the same period in fiscal 2003, and to 38.3% for the six months ended March 31, 2004 from 44.6% for the same period in fiscal 2003. These decreases in gross margin were primarily due to declines in software license revenue, which carries higher gross margins.

Other Income (Expense)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2003	2004	2003	2004
	(dollars in thousands)			
Interest and other income, net	$ 390	$ 336	$ 937	$ 528
Percentage of revenue	0.3 %	0.2%	0.4%	0.2%

Interest and other income decreased during the three months and six months ended March 31, 2004 when

compared to the same periods in the previous fiscal year due primarily to lower interest rates earned on our invested cash and cash equivalents as well as interest expense on our capital lease obligations beginning in January 2004.

Liquidity and Capital Resources

	Six Months Ended March,	
	2003	2004
	(dollars in thousands)	
Net cash provided by (used in):		
Operating activities	$ 18,988	$ 21,582
Investing activities	(7,712)	(6,991)
Financing activities	(13,618)	6,451
Net increase (decrease) in cash and cash equivalents	$ (2,342)	$ 21,042

For the six months ended March 31, 2004, cash provided by our operations was $21.6 million, compared to $19.0 million for the six months ended March 31, 2003. Cash provided by operating activities for the six months ended March 31, 2004 primarily consisted of net income of $18.7 million plus non-cash items aggregating $20.1 million offset by net uses of working capital of $17.2 million. Non-cash items included $6.3 million of depreciation and amortization, $3.4 million from the income tax benefit of option exercises and $9.9 million from deferred income taxes. The net uses of working capital reflect a decrease in accounts receivable-billed of $9.9 million offset by increases in accounts receivable-unbilled of $12.0 million and deferred contract costs of $6.3 million as well as decreases in accrued compensation and benefits payable of $2.1 million, deferred revenue of $2.0 million and income taxes payable of $2.8 million. The decrease in accounts receivable-billed was reflective of good collection efforts during the six months ended March 31, 2004 and the increase in accounts receivable-unbilled was primarily due to certain milestone based billings of our Systems contracts. During the six months ended March 31, 2003, cash used in operating activities consisted primarily of net income of $17.0 million plus non-cash items of $6.2 million offset by net uses of working capital of $4.2 million. Non-cash items included $5.1 million of depreciation and amortization. The net uses of working capital were primarily due to increases in accounts receivable-billed and unbilled totaling $7.9 million offset by increases in deferred revenue of $3.1 million.

For the six months ended March 31, 2004, cash used in investing activities was $7.0 million, compared to $7.7 million for the six months ended March 31, 2003. Cash used in investing activities for the six months ended March 31, 2004 primarily consisted of expenditures for capitalized software costs of $2.4 million and purchases of property and equipment of $3.9 million. During the six months ended March 31, 2003, we used $2.8 million related to the acquisition of businesses, $1.7 million for expenditures related to capitalized software costs, and $3.4 million for purchases of property and equipment.

For the six months ended March 31, 2004, cash provided by financing activities was $6.5 million, compared to cash used of $13.6 million for the six months ended March 31, 2003. Cash provided by financing activities for the six months ended March 31, 2004 primarily consisted of $19.0 million of employee stock transactions offset by $12.0 million of common stock repurchases. Cash used in financing activities for the six months ended March 31, 2003 primarily consisted of by $1.9 million of employee stock transactions offset by $15.5 million of common stock repurchases.

Under resolutions adopted in May 2000, July 2002, and March 2003, the Board of Directors has authorized the repurchase, at management's discretion, of up to an aggregate of $90.0 million of the Company's common stock. In addition, 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 six months ended March 31, 2004, the Company repurchased approximately 337,000 shares. At March 31, 2004, $43.5 million remained authorized for future stock repurchases under the program.

Our working capital at March 31, 2004 was $227.2 million and we had cash and cash equivalents of $138.4 million and no debt, except for capital lease obligations. Management believes this strong liquidity and financial

position will allow us to continue our stock repurchase program, depending on the price of the Company's common stock, and to pursue selective acquisitions. Restricted cash represents amounts collected on behalf of certain customers and its use is restricted to the purposes specified under our contracts with these customers.

Under the provisions of a recently awarded long-term contract, we incurred certain reimbursable transition period costs. During this transition period, these

expenditures resulted in the use of our cash and in our entering into lease financing arrangements for a portion of the costs. Reimbursement of these costs will occur over the 60 months of the contract operating period, which commenced in January 2004. As of March 31, 2004, approximately $16.9 million in costs, net of amortization of approximately $0.7, had been incurred and reported as deferred contract costs on our March 31, 2004 amortization of condensed consolidated balance sheet. Also under the provisions of this contract, we issued a standby letter of credit in an initial amount of up to $20.0 million, which amount shall be reduced to $10.0 million on April 1, 2005. The letter of credit, which expires on March 31, 2009, may be called by the customer in the event we default under the terms of the contract. The facility contains financial covenants that establish minimum levels of tangible net worth and earnings before interest, tax, depreciation and amortization (EBITDA) and require the maintenance of certain cash balances. We were in compliance with the covenants at March 31, 2004.

In July 2003, we entered into a capital lease financing arrangement with a financial institution, whereby we may acquire assets pursuant to an equipment lease agreement. Rental payments for assets leased will be payable over a 60-month period at a rate of 4.05% commencing in January 2004. In March 2004, we entered into a supplemental capital lease financing arrangement with the same financial institution whereby we may acquire additional assets pursuant to an equipment lease agreement. Rental payments for assets leased under the supplemental arrangement will be payable over a 57-month period at a rate of 3.61% commencing in April 2004. At March 31, 2004, capital lease obligations of approximately $7.6 million were incurred related to these lease arrangements for new equipment. Capital leases entered into during the six months ended March 31, 2004 were approximately $3.3 million.

We believe that we will have sufficient resources to meet our currently anticipated capital expenditure andworking 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 consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us 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 ongoing basis, we evaluate our estimates including those related to revenue recognition and cost estimation on certain contracts, the realizability of goodwill, and amounts related to 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.

We believe that we do not have material 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 and standby letters of credit, we have not had any defaults resulting in draws on performance bonds or letters of credit. Also, we do not enter into derivative transactions.

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

Revenue recognition. In fiscal 2003, approximately 82% of our total revenue was derived from state and local government agencies; 6% from federal government agencies; and 12% from other sources, such as foreign and commercial customers. 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. Also, some contracts contain “not-to-exceed” provisions. For fiscal 2003, revenue from fixed-price contracts was approximately 36% of total revenue; revenue from cost-plus contracts was approximately 17% of total revenue; revenue from performance-based contracts was approximately 33% of total revenue; and revenue from time and materials contracts was approximately 14% 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.

We recognize revenue on fixed-priced contracts when earned, as services are provided. For certain fixed price contracts, we recognize revenue based on costs incurred using estimates of total expected contract revenue and costs to be incurred. 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. Provisions for estimated losses on incomplete contracts are provided in full in the period in which such losses become known. We recognize revenue on our performance-based contracts as such revenue becomes fixed or determinable, which generally occurs when amounts are billable to customers. 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 and are generally expensed. Certain of these direct costs may be deferred until services are provided and revenue begins to be recognized when reimbursement of such costs is contractually guaranteed. These factors may result in irregular revenue and profit margins for performance-based contracts, which exist in our Financial Services segment, Health Operations segment and Human Services Operations segment. As a result, with performance-based contracts we have more uncertainty regarding expected future revenue.

Our most significant expense is cost of revenue, which consists primarily of project-related costs such as employee salaries and benefits, subcontractors, computer equipment and travel expenses. Our management uses its judgment and experience to estimate cost of revenue expected on projects. Our management’s ability to accurately predict personnel requirements, salaries and other costs as well as to effectively manage a project or achieve certain levels of performance can have a significant impact on the gross margins related to our fixed-price, performance-based and time and materials contracts. If actual costs are higher than our management’s estimates, profitability may be adversely affected. Service cost variability has little impact on cost-plus arrangements because allowable costs are reimbursed by the customer.

We also license software under non-cancelable license agreements. License fee revenue is recognized when a non-cancelable license agreement is in force, the product has been shipped, the license fee is fixed or determinable, and collection is probable. If the fee is not fixed or determinable, revenue is recognized as payments become due from the customer. In addition, when software license contracts contain post-contract customer support as part of a multiple element arrangement, revenue is recognized based upon the vendor-specific objective evidence of the fair value of each element. Maintenance and post-contract customer support revenue are recognized ratably over the term of the related agreements, which in most cases is one year. Revenue from software-related consulting services under time and material contracts and for training is recognized as services are performed. Revenue from other software-related contract services requiring significant modification or customization of software is recognized under the percentage-of-completion method.

Beginning July 1, 2003, EITF 00-21,*Revenue Arrangements with Multiple Deliverables*, requires contracts with multiple deliverables to be divided into separate units of accounting if certain criteria are met. While EITF 00-21 has not had a material impact on our financial statements, we apply the guidance therein and recognize revenue on multiple deliverables as separate units of accounting if the criteria are met.

Human Services Operations segment and Health Operations segment 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 our most recently ended fiscal year, our average Human Services Operations segment and Health Operations segment contract duration was approximately two years. Our Financial Management segment and Management Services segment contracts had performance periods ranging from one month to approximately two years. Our average Systems segment contract duration was

one year.

Impairment of goodwill. 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"). Under the new rules, goodwill is no longer amortized but is subject to annual impairment tests in accordance with FAS 141 and FAS 142. We elected to adopt FAS 141 and 142 effective October 1, 2001, and as a result, amortization of goodwill was discontinued as of October 1, 2001. Upon adoption, the required impairment tests were performed. These impairment tests did not result in any impairment loss. Goodwill is tested on an annual basis in our fourth quarter, or more frequently as impairment indicators arise. Annual impairment tests involve the use of estimates related to the fair market values of our reporting units with which goodwill is associated. Losses, if any, resulting from annual impairment tests will be reflected in operating income in our income statement.

Capitalized Software Development Costs. Capitalized software development costs are capitalized in accordance with FAS No. 86, *Accounting for the Cost of Computer Software to be Sold, Leased, or Otherwise Marketed*. We capitalize both purchased software that is ready for resale and costs incurred internally for software development projects from the time technological feasibility is established. Capitalized software development costs are reported at the lower of unamortized cost or estimated net realizable value. Upon the general release of the software to customers, capitalized software development costs for the products are amortized over the greater of the ratio of gross revenues to expected total revenues of the product or the straight-line method of amortization over the estimated economic life of the product, which ranges from three to five years. The establishment of technological feasibility and the ongoing assessment for recoverability of capitalized development costs require considerable judgment by management including, but not limited to, technological feasibility, anticipated future gross revenues, estimated economic life, and changes in software and hardware technologies. Any changes to these estimates could impact the amount of amortization expense and the amount recognized as capitalized software development costs in the consolidated balance sheet.

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. Any statements contained in this Quarterly Report on Form 10-Q that are not statements of historical fact may be forward-looking statements. The words "could," "estimate," "future," "intend," "may," "opportunity," "potential," "project," "will," "believes," "anticipates," "plans," "expect" and similar expressions are intended to identify forward-looking statements. 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.

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 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this quarterly report. Based on this evaluation, our principal executive officer and principal financial officer concluded that these disclosure controls and procedures are effective and designed to ensure that the information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the requisite time periods.

(b) Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation of our internal control that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities.

The following table sets forth the information required regarding repurchases of common stock that we made during the three months ended March 31, 2004:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (1)	Dollar Value of Shares that May Yet Be Purchased Under the Plan (in thousands)
Jan. 1, 2004 – Jan. 31, 2004	—	—	—	$ 53,471
Feb. 1, 2004 – Feb. 29, 2004	68,400	$ 35.54	68,400	$ 51,597
Mar. 1, 2004 – Mar. 31, 2004	258,500	$ 34.81	258,500	$ 43,534
Total	326,900	$ 34.96	326,900	

(1) Under resolutions adopted and publicly announced on May 12, 2000, July 10, 2002, and April 2, 2003, the Company's Board of Directors has authorized the repurchase, at management's discretion, of up to an aggregate of $90.0 million of the Company's common stock under the Company's 1997 Equity Incentive Plan. In addition, in June 2002, the Board of Directors authorized the use of option exercise proceeds for the repurchase of the Company's common stock.

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

At our Annual Meeting of Shareholders held on March 18, 2004, our shareholders voted as follows:

(a) To elect Paul R. Lederer, Peter B. Pond and James R. Thompson, Jr. as Class I Directors of the Company for a three-year term.

Nominee	Total Votes For	Total Votes Withheld
Paul R. Lederer	18,697,985	2,379,442
Peter B. Pond	18,697,985	2,379,442
James R. Thompson, Jr.	8,724,912	12,352,511

Russell A. Beliveau, John J. Haley, Marilyn R. Seymann, Lynn P. Davenport, David V. Mastran and Wellington E. Webb continued their terms in office after the meeting.

Under the Virginia Stock Corporation Act and the Company's Amended and Restated By-laws, the presence at the Annual Meeting, in person or by duly authorized proxy, of the holders of a majority of the outstanding shares of stock entitled to vote at the Annual Meeting constitutes a quorum for the transaction of business. With respect to the election of directors, each nominee must receive a plurality of the votes cast. For these purposes withheld votes are the equivalent of abstentions.

The Company believes that the large number of votes withheld for James R. Thompson, Jr. resulted from the recommendation of a proxy advisory service. That service based its recommendation on its determination that Mr. Thompson served on the boards of too many other public companies and missed two of the seven Board meetings of the Company. It is important to note that Mr. Thompson did not seek reelection to the

Boards of Prime Retail, Inc. and Prime Group Realty Trust and therefore no longer serves as a director of those organizations. Moreover, as one of the longest serving Governors of one of the country's most populous states (Illinois), Governor Thompson is uniquely qualified to advise MAXIMUS in its core business areas of providing services to state and local government agencies. Although Mr. Thompson missed two Board meetings in 2003, he was available on short notice on numerous other occasions to advise and consult with Company management on various strategic business issues. Mr. Thompson is a valuable contributor to MAXIMUS, and the Company benefits greatly from his experience and counsel.

(b) To amend the Company's 1997 Employee Stock Purchase Plan to increase the number of shares of the Company's common stock available for purchase under that Plan.

Total Votes For	17,438,978
Total Votes Against	1,696,908
Abstentions	4,664
Broker Non-votes	1,936,877

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits. The Exhibits filed as part of this Quarterly Report on 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.

During the quarter ended March 31, 2004, the Registrant furnished the following Current Report on Form 8-K:

1) Current Report on Form 8-K (Item 12) was furnished on February 4, 2004 to announce the Company's financial results for the quarter and year ended December 31, 2003.

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: May 12, 2004

By: /s/ Richard A. Montoni
Richard A. Montoni
Chief Financial Officer
(On behalf of the registrant and as Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Section 906 Principal Executive Officer Certification.
32.2	Section 906 Principal Financial Officer Certification.
99.1	Important Factors Regarding Forward Looking Statements.

EXHIBIT 31.1

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, David V. Mastran, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MAXIMUS, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 12, 2004

/s/ David V. Mastran

David V. Mastran
Chief Executive Officer

EXHIBIT 31.2

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Richard A. Montoni, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MAXIMUS, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 12, 2004

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

EXHIBIT 32.1

Section 906 CEO Certification

I, David V. Mastran, Chief Executive Officer of MAXIMUS, Inc. ("the Company"), do hereby certify, 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:

1. The Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2004 (the "Quarterly Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and

2. The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 12, 2004

/s/ David V. Mastran

David V. Mastran
Chief Executive Officer

EXHIBIT 32.2

Section 906 CFO Certification

I, Richard A. Montoni, Chief Financial Officer of MAXIMUS, Inc. (“the Company”), do hereby certify, 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:

1. The Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2004 (the “Quarterly Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and

2. The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 12, 2004

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

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 revenue 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 circumstance 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, we may incur significant costs, including penalties, and our financial condition and our ability to compete for future contracts may be adversely affected.

Our contracts often require us to indemnify customers for our failure to meet performance standards. In addition, some of our contracts contain liquidated damages provisions and financial penalties related to performance failures. Although we have liability insurance, the policy coverage and 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. Our failure to comply with contract requirements or to meet our customer'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.

If we fail to accurately estimate the factors upon which we base our contract pricing, we may generate less profit than expected or incur losses on those contracts.

We derived approximately 36% of our fiscal 2003 revenue from fixed-price contracts and approximately 33% of our fiscal 2003 revenue from performance-based contracts. For fixed-price contracts, we receive our fee based on services provided. Those services might include operating a Medicaid enrollment center pursuant to specified standards, designing and implementing computer systems or applications, 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 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, and they may elect not to exercise them for budgetary, performance, or any other reason. 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 customer 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 customer 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, those 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.

We may be precluded from bidding and performing certain work due to other work we currently perform.

Various laws and regulations prohibit companies from performing work for government agencies that might be viewed as an actual or apparent conflict of interest. These laws may limit our ability to pursue and perform certain types of work. For example, some of our Financial Services divisions assist government agencies in developing requests for proposals (RFPs) for various government programs. In those situations, the divisions involved in operating such programs would likely be precluded from bidding on those RFPs.

Government agencies may investigate and audit our contracts and, if any improprieties are found, we may be required to refund revenue we have received, or forego anticipated revenue, and may be 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 contract payments that could result in increasing the use of cash and accounts receivable.

When we are awarded a contract, we may incur significant expenses before we receive contract payments, if any. These expenses may include leasing office space, purchasing office equipment and hiring personnel. In other situations, contract terms provide for billing upon achievement of specified project milestones. As a result, in these situations, we are required to expend 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. These factors could impact us by increasing the use of cash and accounts receivable. Moreover, these impacts 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.

Because of the public nature of many of our business lines, 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 and we may be tainted by adverse media coverage about their activities, even when those activities are unrelated to our business. Moreover, inaccurate, misleading or negative media coverage about us could harm our reputation and, accordingly, our ability to bid for and win government contracts.

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 customers are government authorities. To market our services to government customers, we are often required to respond to government RFPs which may result in contract awards on a competitive basis. 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 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; 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. There can be no assurance that we will be able 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 or government budgetary and spending changes.

The market for our services depends largely on federal and state legislative programs and the budgetary capability to support programs, including the continuance of existing programs. These programs can be modified or amended at any time by acts of federal and state governments.

Moreover, part of our growth strategy includes aggressively pursuing new opportunities and continuing to serve existing programs scheduled for re-bid, which are or may be created by federal and state initiatives, principally in the area of health services, human services, and child welfare.

State budgets were adversely impacted by a general economic slowdown in fiscal 2003, creating state budget deficits, which trend has continued into fiscal 2004. All but one state must operate under a balanced budget. There are a number of alternatives to states in managing a possible budget deficit, including:

- Accessing previously set aside or "rainy day" funds;

- Increasing taxes;
- Elimination or reduction in services;
- Cost containment and savings;

- Pursuit of additional federal assistance; and
- Developing additional sources of revenue, such as the legalization of gaming.

We have experienced some reductions in program spending, fewer large outsourcing opportunities, some non-renewal of contracts, and some delays in contract signings as a result of the state budgetary situation. While we believe that the demand for our services remains substantial, and that some service offerings may experience increased demand in the current environment, continued state budget deficits may adversely impact our existing and anticipated business as well as our future financial performance.

Also, changing federal initiatives may have a significant impact on our future financial performance. Many state programs, such as Medicaid, are federally mandated and fully or partially funded by the federal government. Changes, such as program eligibility, benefits, or the level of federal funding may impact the demand for our services. Certain changes may present new opportunities to us and other changes may reduce the level of services provided by us, which would adversely impact our future financial performance.

If we do not successfully integrate the businesses that we acquire, our results of operations could be adversely affected.

Business combinations involve a number of factors that affect operations, including:

- diversion of management's attention;
- loss of key personnel;
- entry into unfamiliar markets;
- 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.

As a result, 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.

Also, customer 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 revenue and earnings we anticipated.

Federal government officials may discourage state and local governmental entities from engaging us, which may result in a decline in revenue.

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 revenue 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 Operations segment and Human Services Operations segment compete for program management contracts with the following:

- government services divisions of large organizations such as Affiliated Computer Services, Inc., Electronic

---

Data Systems, Inc., Accenture and Tier Technologies;
- specialized service providers such as Policy Studies Incorporated; and
- local non-profit organizations such as the United Way, Goodwill Industries and Catholic Charities.

Our Financial Services segment and Management Services segment compete with specialized consulting firms.

Our Systems segment competes with a large number of competitors, including Unisys, SAP, Oracle, Bearing Point, Accenture, Litton PRC (a Northrop Grumman Company) 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. There can be no assurance that we will be able to compete successfully against our existing or any new competitors.

Government responses to the terrorist attacks on September 11, 2001, the ongoing war on terrorism, and any additional terrorist activity could adversely affect our business.

In response to the terrorist attacks in the United States on September 11, 2001, federal, state and local government agencies have incurred costs to plan and implement various security measures. We expect that all levels of government will continue to incur significant costs responding in various ways to the continuing threat of additional acts of terrorism, including possible reprisals against the United States resulting from its pursuit of the war on terror, or any such acts if they occur. To the extent that these government expenditures take precedence over other priorities in federal, state or local budgeting, then the amounts allocated by governments to purchases of the non-security services we offer may be reduced or reallocated, which would adversely affect our business and results of operations. We are unable to predict whether the threat of terrorism or the responses thereto will result in any long-term adverse effect on our business, results of operation or financial condition.

A number of factors may cause our cash flows and results of operations to vary from quarter to quarter.

Factors which may cause our cash flows and results of operations to vary from quarter to quarter include:

- the terms and progression of contracts;
- the levels of revenue earned and profitability of fixed-price and performance-based contracts (including any adjustments in expectations for revenue recognition on certain fixed-price contracts);
- expenses related to certain performance-based contracts which may be incurred in periods prior to revenue being recognized (and there is no assurance that performance-based contracts will ultimately be profitable);
- 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 flows and results of operations because a large amount of our expenses are fixed.

Our stock price is volatile.

Between October 1, 2001 and May 3, 2004, the sales price of our common stock has ranged from a high of

---

$44.75 per share to a low of $18.25 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 customer 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 chief executive officer owns sufficient shares of our common stock to significantly affect the results of any shareholder vote.

Our Chief Executive Officer, Dr. David Mastran, beneficially owns approximately 12.3% 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.