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, 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 May 3, 2002
Common Shares, no par value	22,788,479

MAXIMUS, Inc.

Quarterly Report on Form 10–Q
For the Quarter Ended March 31, 2002

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

	September 30, 2001	March 31, 2002 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 114,108	$ 113,859
Marketable securities	1,232	160
Accounts receivable — billed	118,988	118,563
Accounts receivable — unbilled	20,436	23,590
Prepaid expenses and other current assets	5,483	9,382
Total current assets	260,247	265,554
Property and equipment, at cost:		
Land	2,462	2,462
Building and improvements	11,096	11,298
Office furniture and equipment	17,079	20,064
Leasehold improvements	992	2,019
Less: Accumulated depreciation and amortization	31,629	35,843
	(11,090)	(12,237)
Total property and equipment, net	20,539	23,606
Software development costs	13,961	17,375
Less: Accumulated amortization	(2,245)	(3,345)
Total software development, net	11,716	14,030
Deferred income taxes	2,726	2,726
Intangible assets, net	859	346
Goodwill, net	48,959	53,059
Other assets	2,669	1,517
Total assets	$ 347,715	$ 360,838
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 12,709	$ 11,569
Accrued compensation and benefits	18,611	15,045
Deferred revenue	10,756	5,731
Income taxes payable	1,214	4,545
Deferred income taxes	1,849	1,849
Other current liabilities	642	741
Total current liabilities	45,781	39,480
Other liabilities	520	397
Total liabilities	46,301	39,877
Shareholders' equity:		
Common stock, no par value; 60,000,000 shares authorized; 22,985,806 and 23,094,629 shares issued and outstanding at September 30, 2001 and March 31, 2002, at stated amount, respectively	185,658	186,935
Accumulated other comprehensive loss	(18)	(50)
Retained earnings	115,774	134,076
Total shareholders' equity	301,414	320,961
Total liabilities and shareholders' equity	$ 347,715	$ 360,838

See notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2001	2002	2001	2002
Revenues	$ 120,257	$ 121,953	$ 229,503	$ 251,523
Cost of revenues	82,046	86,749	159,300	175,535
Gross profit	38,211	35,204	70,203	75,988
Selling, general and administrative expenses	20,509	23,589	40,260	46,117
Amortization of goodwill and other acquisition-related intangibles	1,359	250	2,751	513
Income from operations	16,343	11,365	27,192	29,358
Interest and other income	166	670	454	1,403

Income before income taxes and cumulative effect of accounting change	16,509	12,035	27,646	30,761
Provision for income taxes	6,852	4,968	11,474	12,458
Income before cumulative effect of accounting change	9,657	7,067	16,172	18,303
Cumulative effect of accounting change (See Note 2)	—	—	(3,856)	—
Net income	$ 9,657	$ 7,067	$ 12,316	$ 18,303
Earnings per share:				
Income before cumulative effect of accounting change:				
Basic	$ 0.46	$ 0.31	$ 0.76	$ 0.79
Diluted	$ 0.44	$ 0.30	$ 0.74	$ 0.76
Net income:				
Basic	$ 0.46	$ 0.31	$ 0.58	$ 0.79
Diluted	$ 0.44	$ 0.30	$ 0.56	$ 0.76
Weighted average shares outstanding:				
Basic	21,214	23,142	21,179	23,121
Diluted	22,021	23,850	21,804	23,937

See notes to unaudited consolidated financial statements

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

	Six Months Ended March 31,	
	2001	**2002**
Cash flows from operating activities:		
Net income	$ 12,316	$ 18,303
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,277	2,760
Deferred income taxes	(177)	—
Cumulative effect of accounting change	3,856	—
Change in assets and liabilities:		
Accounts receivable — billed	8,129	455
Accounts receivable — unbilled	(5,774)	(3,155)
Prepaid expenses and other current assets	(83)	(3,307)
Other assets	(441)	470
Accounts payable	(589)	(1,151)
Accrued compensation and benefits	(1,595)	(3,650)
Income taxes payable	(4,939)	(5,024)
Deferred revenue	(1,667)	3,330
Other liabilities	(28)	99
Net cash provided by operating activities	13,285	9,130
Cash flows from investing activities:		
Acquisition of business, net of acquired cash (See Note 4)	—	(4,100)
Purchase price adjustments, net	20	—
Proceeds from notes receivable	714	90
Capitalization of software development costs	(3,746)	(3,415)
Purchases of property and equipment	(2,261)	(4,148)
Decrease in marketable securities	21	1,040
Net cash used in investing activities	(5,252)	(10,533)
Cash flows from financing activities:		
Employee stock purchases and options exercised	2,598	6,556
Repurchases of common stock (See Note 7)	—	(5,279)
Net payments on borrowings	(612)	(123)
Net cash provided by financing activities	1,986	1,154
Net increase (decrease) in cash and cash equivalents	10,019	(249)
Cash and cash equivalents, beginning of period	36,975	114,108
Cash and cash equivalents, end of period	$ 46,994	$ 113,859

See notes to unaudited consolidated financial statements.

MAXIMUS, Inc.
Notes to Unaudited Consolidated Financial Statements
For the Three and Six Month Periods Ended March 31, 2002 and 2001
(Dollars in thousands, except per share amounts)

In these Notes to Unaudited Financial Statements, the terms the "Company" and "MAXIMUS" refer to MAXIMUS, Inc. and its subsidiaries.

1. Organization and Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normally recurring accruals) considered necessary for a fair presentation have been included. The results of operations for the three-month and six-month periods ended March 31, 2002 are not necessarily indicative of the results that may be expected for the full fiscal year. These financial statements should be read in conjunction with the audited financial statements as of September 30, 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. The Company was required to complete the initial step of a transitional impairment test within six months of adopting FAS 142 and, if applicable, to complete the final step of the transitional impairment test by the end of the fiscal year.

In connection with the impairment provisions of the new rules, the Company has completed the initial step of the goodwill impairment test and has concluded that no adjustment to the balance of goodwill at the date of adoption is required.

Had the Company been accounting for its goodwill under FAS 142 for the three and six month periods ended March 31, 2001, the Company's net income and earnings per share would have been as follows:

	Three Months	Six Months
	Ended March 31, 2001	
Reported net income	$ 9,657	$ 12,316
Add back goodwill amortization, net of tax	674	1,369
Adjusted net income	$ 10,331	$ 13,685
Basic earnings per share:		
As reported	$ 0.46	$ 0.58
Goodwill amortization, net of tax	0.03	0.06
Adjusted basic earnings per share	$ 0.49	$ 0.64
Diluted earnings per share:		
As reported	$ 0.44	$ 0.56
Goodwill amortization, net of tax	0.03	0.06
Adjusted diluted earnings per share	$ 0.47	$ 0.62

Intangible assets are comprised of employee contracts and customer lists and are amortized using the straight-line method over a period of two and five years, respectively. The accumulated amortization related to intangible assets at September 30, 2001 was $2,256 and at March 31, 2002 was $2,769. The estimated amortization expense for the years ending September 30, 2002, 2003, 2004 and 2005 is $642, $132, $70 and $15, 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 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.

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 March 31,		Six Months Ended March 31,	
	2001	2002	2001	2002
Numerator:				
Net income	$ 9,657	$ 7,067	$ 12,316	$ 18,303
Denominator:				
Weighted average shares outstanding	21,214	23,142	21,179	23,121
Effect of dilutive securities:				
Employee stock options	807	708	625	816
Denominator for diluted earnings per share	22,021	23,850	21,804	23,937

7. Stock Repurchase Program

In May 2000, the Board of Directors authorized the repurchase, at management's discretion, of up to $30 million of the Company's common stock. During the three-month period ended March 31, 2002, the Company repurchased 162,769 shares for $5,279 under this program. At March 31, 2002, $24,721 remained available for future stock repurchases under the program.

8. 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 March 31,		Six Months Ended March 31,	
	2001	2002	2001	2002
Revenues:				
Consulting Group	$ 37,181	$ 35,009	$ 70,219	$ 68,412
Health Management Services Group	31,587	34,567	60,461	74,722
Human Services Group	34,233	34,403	64,673	71,583
Systems Group	17,256	17,974	34,150	36,806
Total	$ 120,257	$ 121,953	$ 229,503	$ 251,523
Gross Profit:				
Consulting Group	$ 17,073	$ 16,560	$ 29,648	$ 32,090
Health Management Services Group	6,056	2,657	11,699	11,125
Human Services Group	7,732	6,958	13,706	14,507
Systems Group	7,350	9,029	15,150	18,266
Total	$ 38,211	$ 35,204	$ 70,203	$ 75,988
Income (loss) from operations:				
Consulting Group	$ 9,395	$ 8,425	$ 13,986	$ 16,376
Health Management Services Group	2,867	(1,011)	5,473	4,102
Human Services Group	3,054	2,273	4,826	5,573
Systems Group	1,027	1,678	2,907	3,307
Total	$ 16,343	$ 11,365	$ 27,192	$ 29,358

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

Overview

We are a leading provider of program management, consulting services and systems solutions primarily to state and local government agencies throughout the United States. Since our inception, we have been at the forefront of innovation in meeting our mission of "Helping Government Serve the People®." We use our expertise, experience and advanced information technology to make government operations more efficient and cost-effective while improving the quality of services provided to program beneficiaries. We 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 revenues of $487.3 million and income, before the cumulative effect of an accounting change, of $40.1 million. For the six months ended March 31, 2002, we had revenues of $251.5 million and net income of $18.3 million.

Our revenues are generated from contracts with various payment arrangements, including: (1) fixed-price; (2) costs incurred plus a negotiated fee ("cost-plus"); (3) performance-based criteria; and (4) time and materials reimbursement (used primarily by the Consulting Group). For the six months ended March 31, 2002, revenues from fixed-price contracts were approximately 37% of total revenues; revenues from cost-plus contracts were approximately 22% of total revenues; revenues from performance-based contracts were approximately 27% of total revenues; and revenues from time and materials reimbursement contracts were approximately 14% of total revenues. Traditionally, a majority of our contracts with state and local government agencies have been fixed-price and performance-based and our contracts with the federal

government have been cost-plus. Fixed-price and performance-based contracts generally offer higher margins but typically involve more risk than cost-plus or time and materials reimbursement contracts because with fixed-price contracts we are subject to the risk of potential cost overruns and with performance-based contracts we have more uncertainty regarding expected future revenue.

The Company recognizes revenue on its 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 revenues and profit margins for performance-based contracts, which do exist in our Consulting Group, Health Management Services Group and Human Services Group.

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.

Our most significant expense is cost of revenues, which consists primarily of project-related employee salaries and benefits, subcontractors, computer equipment and travel expenses. Our ability to accurately predict personnel requirements, salaries and other costs as well as to effectively manage a project or achieve certain levels of performance can have a significant impact on the service costs related to our fixed-price, performance-based and time and materials contracts. Service cost variability has little impact on cost-plus arrangements because allowable costs are reimbursed by the client.

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

Business Combinations and Acquisitions

As part of our growth strategy, we intend to continue to selectively identify and pursue complementary businesses to expand our geographic reach and the breadth and depth of our services and to enhance our customer base. On May 11, 2001, we acquired Opportunity America, LLC for $780. In conjunction with the purchase, we recorded goodwill and other intangible assets of $708, which has been assigned to the Human Services Group business segment. On February 1, 2002, we acquired Collins Consulting Group, Inc. for $4,100. In conjunction with the purchase, we recorded goodwill of $4,100, which has been assigned to the Systems Group business segment. On May 1, 2002, we acquired Leonie Green and Associates (LGA) Group, located in Southport, Queensland, for cash consideration of approximately $10,000, subject to adjustments as provided for in the purchase agreement. LGA provides workforce-related services through performance-based contracts with states in Australia.

Results of Operations

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2001	2002	2001	2002
Revenues:				
Consulting Group	30.9%	28.7%	30.6%	27.2%
Health Management Services Group	26.3	28.3	26.3	29.7
Human Services Group	28.4	28.2	28.2	28.5
Systems Group	14.4	14.8	14.9	14.6
Total revenues	100.0	100.0	100.0	100.0
Gross Profit:				
Consulting Group	45.9	47.3	42.2	46.9
Health Management Services Group	19.2	7.7	19.4	14.9
Human Services Group	22.6	20.2	21.2	20.3
Systems Group	42.6	50.2	44.4	49.6
Total gross profit	31.8	28.8	30.6	30.2
Selling, general and administrative expenses	17.1	19.3	17.5	18.3
Amortization of goodwill and other acquisition— related intangibles	1.1	0.2	1.2	0.2
Income (loss) from operations:				
Consulting Group	25.3	24.1	19.9	23.9
Health Management Services Group	9.1	(2.9)	9.1	5.5
Human Services Group	8.9	6.6	7.5	7.8
Systems Group	6.0	9.3	8.5	9.0
Total income from operations	13.6	9.3	11.9	11.7
Interest and other income	0.1	0.6	0.2	0.5
Income before income taxes and cumulative effect of accounting change	13.7	9.9	12.1	12.2
Provision for income taxes	5.7	4.1	5.0	4.9
Income before cumulative effect of accounting change	8.0	5.8	7.1	7.3
Cumulative effect of accounting change	—	—	1.7	—
Net income	8.0%	5.8%	5.4%	7.3%

Three Months Ended March 31, 2002 Compared to Three Months Ended March 31, 2001

Revenues. Our total revenues increased 1.4% to $122.0 million for the three months ended March 31, 2002 compared to $120.3 million for the same period in fiscal 2001. Revenues of our Consulting Group were $35.0 million for the three months ended March 31, 2002 compared to $37.2 million for the same period in fiscal 2001. This

5.8% decrease was primarily due to a decrease in revenues in our Infrastructure Technologies division and Revenue Services division caused by delays in the start of some projects. Revenues of our Health Management Services Group were $34.6 million for the three months ended March 31, 2002 compared to $31.6 million for the same period in fiscal 2001. This 9.4% increase was due to an increase in the number of contracts in the Group and an increase in revenues on a few existing contracts in the Group. Revenues of our Human Services Group were $34.4 million for the three months ended March 31, 2002 compared to $34.2 million for the same period in fiscal 2001. This 0.5% increase was principally due to $0.8 million of revenues from an entity acquired in May 2001. Revenues of our Systems Group were $18.0 million for the three months ended March 31, 2002 compared to $17.3 million for the same period in fiscal 2001. This 4.2% increase was principally due to $0.8 million of revenues from an entity acquired in February 2002. For the three months ended March 31, 2002 compared to the three months ended March 31, 2001, our overall growth in revenue was 0.1%, excluding revenue related to acquisitions.

Gross Profit. Our total gross profit was $35.2 million for the three months ended March 31, 2002 compared to $38.2 million for the same period in fiscal 2001. Our gross profit as a percentage of total revenues was 28.8% in the March 2002 quarter compared to 31.8% in the March 2001 quarter. Gross profit of our Consulting Group was $16.6 million for the three months ended March 31, 2002 compared to $17.1 million for the same period in fiscal 2001. As a percentage of Consulting Group revenues, that Group's gross profit increased to 47.3% for the three months ended March 31, 2002 from 45.9% for the same period in 2001, primarily due to improvements on certain contracts within the Revenue Services and Education divisions. Gross profit of our Health Management Services Group was $2.7 million for the three months ended March 31, 2002 compared to $6.0 million for the three months ended March 31, 2001. As a percentage of Health Management Services Group revenues, that Group's gross profit decreased to 7.7% for the three months ended March 31, 2002 from 19.2% for the same period in fiscal 2001. The decrease was due primarily to unanticipated costs and a revenue shortfall on one project in which the Group experienced performance problems during the quarter. We recorded a loss on this certain project of approximately $3.5 million during the three months ended March 31, 2002. Management believes that future losses will not be incurred on this project. Gross profit of our Human Services Group was $7.0 million for the three months ended March 31, 2002 compared to $7.7 million for the three months ended March 31, 2001. As a percentage of Human Services Group revenues, Human Services Group gross profit decreased to 20.2% for the three months ended March 31, 2002 from 22.6% for the same period in fiscal 2001. The decrease was primarily due to decreases in margins on two child support enforcement projects. Gross profit of our Systems Group was $9.0 million for the three months ended March 31, 2002 compared to $7.4 million for the same period in fiscal 2001. As a percentage of Systems Group revenues, Systems Group gross profit increased to 50.2% for the three months ended March 31, 2002 from 42.6% for the same period in fiscal 2001, primarily due to increased software license revenue, which carries higher gross margins.

Selling, General and Administrative Expenses. Our total selling, general and administrative ("SG&A") expenses were $23.6 million for the three months ended March 31, 2002 compared to $20.5 million for the same period in 2001. As a percentage of our revenues, our SG&A expenses increased to 19.3% for the three months ended March 31, 2002 from 17.1% for the same period in 2001. The primary reasons for the increase in SG&A costs were the growth in the number of employees, the increase in expenses necessary to support higher revenues and the increase in marketing and proposal preparation expenditures incurred to pursue further growth.

Amortization of Goodwill and Other Acquisition-Related Intangibles. In the quarter ended March 31, 2002, we incurred $0.3 million of amortization expense, as compared to $1.4 million for the same period in fiscal 2001. The decrease was due to the non-amortization of goodwill under FAS 142 effective October 1, 2001.

Interest and Other Income. The increase in interest and other income to $0.7 million for the three months ended March 31, 2002 as compared to $0.2 million for the same period 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 of $31,680 in proceeds to the Company, net of offering expenses.

Provision for Income Taxes. Our provision for income tax for the three months ended March 31, 2002 was 41.3% of income before income taxes, which is comparable to 41.5% for the three months ended March 31, 2001.

Six Months Ended March 31, 2002 Compared to Six Months Ended March 31, 2001

Revenues. Our total revenues increased 9.6% to $251.5 million for the six months ended March 31, 2002 compared to $229.5 million for the same period in fiscal 2001. Revenues of our Consulting Group were $68.4 million for the six months ended March 31, 2002 compared to $70.2 million for the same period in fiscal 2001. This 2.6% decrease was primarily due to a decrease in revenues in our Infrastructure Technologies division and Revenue Services division caused by delays in the start of some projects. Revenues of our Health Management Services Group were $74.7 million for the six months ended March 31, 2002 compared to $60.5 million for the same period in fiscal 2001. This 23.6% increase was due to an increase in the number of contracts in the Group and an increase in revenues on a few existing contracts in the Group. Revenues of our Human Services Group were $71.6 million for the six months ended March 31, 2002 compared to $64.7 million for the same period in fiscal 2001. This 10.7% increase was due to an increase in the number of contracts in the Group and revenues totaling $1.5 million from an entity acquired in May 2001. Revenues of our Systems Group were $36.8 million for the six months ended March 31, 2002 compared to $34.1 million for the same period in fiscal 2001. This 7.8% increase was principally due to $0.8 million of revenues from an entity acquired in February 2002, plus increases in revenues in four divisions totaling $6.7 million, offset by decreases in revenues in three divisions totaling $4.8 million. For the six months ended March 31, 2002 compared to the six months ended March 31, 2001, our overall growth in revenue was 8.6%, excluding revenue related to acquisitions.

Gross Profit. Our total gross profit was $76.0 million for the six months ended March 31, 2002 compared to $70.2 million for the same period in fiscal 2001. Our gross profit as a percentage of total revenues was 30.2% for the six months ended March 31, 2002 compared to 30.6% for the six months ended March 31, 2001. Gross profit of our Consulting Group was $32.1 million for the six months ended March 31, 2002 compared to $29.6 million for the same period in fiscal 2001. As a percentage of Consulting Group revenues, that Group's gross profit increased to 46.9% for the six months ended March 31, 2002 from 42.2% for the same period in 2001, primarily due to improvements on certain contracts within the Revenue Services and Education divisions. Gross profit of our Health Management Services Group was $11.1 million for the six months ended March 31, 2002 compared to $11.7 million for the six months ended March 31, 2001. As a percentage of Health Management Services Group revenues, that Group's gross profit decreased to 14.9% for the six months ended March 31, 2002 from 19.3% for the same period in fiscal 2001. The decrease was primarily due to unanticipated costs and a revenue shortfall on one project in which the Group experienced performance problems during the six months ended March 31, 2002. We recorded a loss on this certain project of approximately $3.5 million during the six months ended March 31, 2002. Management believes that future losses will not be incurred on this project. Gross profit of our Human Services Group was $14.5 million for the six months ended March 31, 2002 compared to $13.7 million for the six months ended March 31, 2001. As a percentage of Human Services Group revenues, Human Services Group gross profit decreased to 20.3% for the six months ended March 31, 2002 from 21.2% for the same period in fiscal 2001. The decrease was due primarily to decreases in margins on two child support enforcement projects. Gross profit of our Systems

Group was $18.3 million for the six months ended March 31, 2002 compared to $15.2 million for the same period in fiscal 2001. As a percentage of Systems Group revenues, Systems Group gross profit increased to 49.6% for the six months ended March 31, 2002 from 44.4% for the same period in fiscal 2001, primarily due to increased software license revenue, which carries higher gross margins.

Selling, General and Administrative Expenses. Our total SG&A expenses were $46.1 million for the six months ended March 31, 2002 compared to $40.3 million for the same period in 2001. As a percentage of our revenues, our SG&A expenses increased to 18.3% for the six months ended March 31, 2002 from 17.5% for the same period in 2001. The primary reasons for the increase in SG&A costs were the growth in the number of employees, the increase in expenses necessary to support higher revenues and the increase in marketing and proposal preparation expenditures incurred to pursue further growth.

Amortization of Goodwill and Other Acquisition-Related Intangibles. In the six months ended March 31, 2002, we incurred $0.5 million of amortization expense, as compared to $2.8 million for the same period in fiscal 2001. The decrease was due to the non-amortization of goodwill under FAS 142 effective October 1, 2001.

Interest and Other Income. The increase in interest and other income to $1.4 million for the six months ended March 31, 2002 as compared to $0.5 million for the same period 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 of $31,680 in proceeds to the Company, net of offering expenses.

Provision for Income Taxes. Our provision for income tax for the six months ended March 31, 2002 was 40.5% of income before income taxes as compared to 41.5% for the six months ended March 31, 2001. This decrease was due to differences in the amounts of certain expense items and some recently implemented tax reduction strategies.

Liquidity and Capital Resources

For the six months ended March 31, 2002, cash provided by our operations was $9.1 million as compared to $13.3 million for the six months ended March 31, 2001. Cash provided by operating activities for the six months ended March 31, 2002 primarily consisted of net income of $18.3 million plus non-cash depreciation and amortization of $2.8 million offset by net uses for working capital of $11.9 million. The Company's billed accounts receivable decreased $0.5 million during the six months ended March 31, 2002. Days of sales outstanding ("DSOs") increased to 106 days at March 31, 2002. The increase in DSOs was due to delays in payment by certain customers, which the Company is working to improve. During the six months ended March 31, 2001, cash provided by operating activities consisted primarily of net income of $12.3 million plus non-cash adjustments of $8.0 million offset by net uses for working capital of $7.0 million.

For the six months ended March 31, 2002, cash used in investing activities was $10.5 million as compared to $5.3 million for the six months ended March 31, 2001. Cash used in investing activities for the six months ended March 31, 2002 primarily consisted of $4.1 million for a business acquisition, expenditures for capitalized software costs totaling $3.4 million and purchases of property and equipment of $4.1 million. During the six months ended March 31, 2001, we used cash in investing activities primarily for expenditures related to capitalized software costs totaling $3.7 million and purchases of property and equipment of $2.3 million.

For the six months ended March 31, 2002, cash provided by financing activities was $1.2 million as compared to $2.0 million for the six months ended March 31, 2001. Cash provided by financing activities for the six months ended March 31, 2002 primarily consisted of $6.6 million of sales of stock to employees through our Employee Stock Purchase Plan and Equity Incentive Plan offset by $5.3 million of treasury stock repurchases. Cash provided by financing activities for the six months ended March 31, 2001 consisted primarily of $2.6 million of sales of stock to employees through our Employee Stock Purchase Plan and Equity Incentive Plan.

Our management believes that we do not have significant off-balance sheet risk or exposures 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.

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

Forward Looking Statements

From time to time, we may make forward-looking statements that are not historical facts, including statements about our confidence and strategies and our expectations about revenues, results of operations, profitability, 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 to this Quarterly Report on Form 10-Q for the fiscal period ended March 31, 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 5. Other Information.

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. The proxies did not elect another director at the 2002 Annual Meeting. Following the conclusion of 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.

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 filed a Current Report on Form 8-K on February 4, 2002 to disclose certain financial segment information for earlier periods reflecting a reorganization of our reportable operating segments as if we had operated under four groups rather than three groups.

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 14, 2002

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

EXHIBIT INDEX

Exhibit No.	Description
10.1	1997 Equity Incentive Plan, as amended. Filed herewith.
10.2	Executive Employment, Non-Compete and Confidentiality Agreement by and between MAXIMUS, Inc. and Richard A. Montoni. Filed herewith.
99	Important Factors Regarding Forward Looking Statements. Filed herewith.

EXHIBIT 10.1

MAXIMUS, INC.

1997 Equity Incentive Plan

Section 1. Purpose

The purpose of the MAXIMUS, Inc. 1997 Equity Incentive Plan is to attract and retain key employees and consultants of the Company and its Affiliates, to provide an incentive for them to achieve long-range performance goals, and to enable them to participate in the long-term growth of the Company.

Section 2. Definitions

"Affiliate" means any business entity that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with the Company. For purposes hereof, "control" (and with correlative meanings, the terms "controlled by" and "under common control with") shall mean the possession of the power to direct or cause the direction of the management and policies of the Company, whether through the ownership of voting stock, by contract or otherwise. In the case of a corporation "control" shall mean, among other things, the direct or indirect ownership of more than fifty percent (50%) of its outstanding voting stock.

"Award" means any Option, Stock Appreciation Right, Performance Share, Restricted Stock, Stock Unit or Other Stock-Based Award awarded under the Plan.

"Board" means the Board of Directors of the Company.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor to such Code.

"Committee" means a committee of not less than two members of the Board appointed by the Board to administer the Plan, each of whom is a "Non-Employee Director" within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934 or any successor provision, as applicable to the Company at the time ("Rule 16b-3"); provided, however, that until such committee is appointed, "Committee" means the Board.

"Common Stock" or "Stock" means the common stock of the Company.

"Company" means MAXIMUS, Inc.

"Designated Beneficiary" means the beneficiary designated by a Participant, in a manner determined by the Committee, to receive amounts due or exercise rights of the Participant in the event of the Participant's death. In the absence of an effective designation by a Participant, "Designated Beneficiary" shall mean the Participant's estate.

"Effective Date" means January 31, 1997.

"Fair Market Value" means, with respect to Common Stock or any other property, the fair market value of such property as determined by the Committee in good faith or in the manner established by the Committee from time to time.

"Incentive Stock Option" means an option to purchase shares of Common Stock awarded to a Participant under Section 6 that is intended to meet the requirements of Section 422 of the Code or any successor provision.

"Nonstatutory Stock Option" means an option to purchase shares of Common Stock awarded to a Participant under Section 6 that is not intended to be an Incentive Stock Option.

"Option" means an Incentive Stock Option or a Nonstatutory Stock Option.

"Other Stock-Based Award" means an Award, other than an Option, Stock Appreciation Right, Performance Share, Restricted Stock or Stock Unit, having a Common Stock element and awarded to a Participant under Section 11.

"Participant" means a person selected by the Committee to receive an Award under the Plan.

"Performance Cycle" or "Cycle" means the period of time selected by the Committee during which performance is measured for the purpose of determining the extent to which an award of Performance Shares has been earned.

"Performance Shares" mean shares of Common Stock, which may be earned by the achievement of performance goals, awarded to a Participant under Section 8.

"Reporting Person" means a person subject to Section 16 of the Securities Exchange Act of 1934 or any successor provision.

"Restricted Period" means the period of time during which an Award may be forfeited to the Company pursuant to the terms and conditions of such Award.

"Restricted Stock" means shares of Common Stock subject to forfeiture awarded to a Participant under Section 9.

"Stock Appreciation Right" or "SAR" means a right to receive any excess in value of shares of Common Stock over the exercise price awarded to a Participant under Section 7.

"Stock Unit" means an award of Common Stock or units that are valued in whole or in part by reference to, or otherwise based on, the value of Common Stock, awarded to a Participant under Section 10.

Section 3. Administration

The Plan shall be administered by the Committee. The Committee shall have authority to adopt, alter and repeal such administrative rules, guidelines and practices governing the operation of the Plan as it shall from time to time consider advisable, and to interpret the

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provisions of the Plan. The Committee's decisions shall be final and binding. To the extent permitted by applicable law, the Committee may delegate to one or more executive officers of the Company the power to make Awards to Participants who are not Reporting Persons and all determinations under the Plan with respect thereto, provided that the Committee shall fix the maximum amount of such Awards for all such Participants and a maximum for any one Participant.

Section 4. Eligibility

All employees and, in the case of Awards other than Incentive Stock Options, outside directors and consultants of the Company or any Affiliate, capable of contributing significantly to the successful performance of the Company are eligible to be Participants in the Plan. Incentive Stock Options may be awarded only to persons eligible to receive such Options under the Code.

Section 5. Stock Available for Awards

(a) Subject to adjustment under subsection (b), Awards may be made under the Plan for up to 6,500,000 shares of Common Stock. If any Award in respect of shares of Common Stock expires or is terminated unexercised or is forfeited without the Participant having had the benefits of ownership (other than voting rights), the shares subject to such Award, to the extent of such expiration, termination or forfeiture, shall again be available for award under the Plan. Common Stock issued through the assumption or substitution of outstanding grants from an acquired company shall not reduce the shares available for Awards under the Plan. Shares issued under the Plan may consist in whole or in part of authorized but unissued shares or treasury shares.

(b) If the Committee determines that any stock dividend, extraordinary cash dividend, creation of a class of equity securities, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination, exchange of shares, warrants or rights offering to purchase Common Stock at a price substantially below fair market value, or other similar transaction affects the Common Stock such that an adjustment is required in order to preserve the benefits or potential benefits intended to be made available under the Plan, then the Committee (subject, in the case of Incentive Stock Options, to any limitation required under the Code) shall equitably adjust any or all of (i) the number and kind of shares in respect of which Awards may be made under the Plan, (ii) the number and kind of shares subject to outstanding Awards, and (iii) the award, exercise or conversion price with respect to any of the foregoing, and if considered appropriate, the Committee may make provision for a cash payment with respect to an outstanding Award, provided that the number of shares subject to any Award shall always be a whole number. However, except in the case of a recapitalization of the Company, the exercise price of any Option granted under the Plan may only be adjusted with the approval of the shareholders of the Company at an annual or special meeting thereof.

Section 6. Stock Options

(a) Subject to the provisions of the Plan, the Committee may award Incentive Stock Options and Nonstatutory Stock Options and determine the number of shares to be covered by

each Option, the option price therefor and the conditions and limitations applicable to the exercise of the Option. The terms and conditions of Incentive Stock Options shall be subject to and comply with Section 422 of the Code or any successor provision and any regulations thereunder, and no Incentive Stock Option may be granted hereunder more than ten years after the Effective Date.

(b) The Committee shall establish the option price at the time each Option is awarded, which price shall not be less than 100% of the Fair Market Value of the Common Stock on the date of award with respect to Incentive Stock Options and Nonstatutory Stock Options.

(c) Each Option shall be exercisable at such times and subject to such terms and conditions as the Committee may specify in the applicable Award or thereafter. However, no Nonstatutory Stock Option shall be granted which is exercisable, in whole or in part, more than ten years from the date of grant of such Nonstatutory Stock Option. The Committee may impose such conditions with respect to the exercise of Options, including conditions relating to applicable federal or state securities laws, as it considers necessary or advisable.

(d) No shares shall be delivered pursuant to any exercise of an Option until payment in full of the option price therefor is received by the Company. Such payment may be made in whole or in part in cash or, to the extent permitted by the Committee at or after the award of the Option, by delivery of a note or shares of Common Stock owned by the optionee, including Restricted Stock, or by retaining shares otherwise issuable pursuant to the Option, in each case valued at their Fair Market Value on the date of delivery or retention, or such other lawful consideration as the Committee may determine.

(e) The Committee may provide that, subject to such conditions as it considers appropriate, upon the delivery or retention of shares to the Company in payment of an Option, the Participant automatically be awarded an Option for up to the number of shares so delivered.

Section 7. Stock Appreciation Rights

(a) Subject to the provisions of the Plan, the Committee may award SARs in tandem with an Option (at or after the award of the Option), or alone and unrelated to an Option. SARs in tandem with an Option shall terminate to the extent that the related Option is exercised, and the related Option shall terminate to the extent that the tandem SARs are exercised. SARs granted in tandem with Options shall have an exercise price not less than the exercise price of the related Option. SARs granted alone and unrelated to an Option may be granted at such exercise prices as the Committee may determine.

(b) An SAR related to an Option, which SAR can only be exercised upon or during limited periods following a change in control of the Company, may entitle the Participant to receive an amount based upon the highest price paid or offered for Common Stock in any transaction relating to the change in control or paid during the thirty-day period immediately preceding the occurrence of the change in control in any transaction reported in the stock market in which the Common Stock is normally traded.

Section 8. Performance Shares

(a) Subject to the provisions of the Plan, the Committee may award Performance Shares and determine the number of such shares for each Performance Cycle and the duration of each Performance Cycle. There may be more than one Performance Cycle in existence at any one time, and the duration of Performance Cycles may differ from each other. The payment value of Performance Shares shall be equal to the Fair Market Value of the Common Stock on the date the Performance Shares are earned or, in the discretion of the Committee, on the date the Committee determines that the Performance Shares have been earned.

(b) The committee shall establish performance goals for each Cycle, for the purpose of determining the extent to which Performance Shares awarded for such Cycle are earned, on the basis of such criteria and to accomplish such objectives as the Committee may from time to time select. During any Cycle, the Committee may adjust the performance goals for such Cycle as it deems equitable in recognition of unusual or non-recurring events affecting the Company, changes in applicable tax laws or accounting principles, or such other factors as the Committee may determine.

(c) As soon as practicable after the end of a Performance Cycle, the Committee shall determine the number of Performance Shares that have been earned on the basis of performance in relation to the established performance goals. The payment values of earned Performance Shares shall be distributed to the Participant or, if the Participant has died, to the Participant's Designated Beneficiary, as soon as practicable thereafter. The Committee shall determine, at or after the time of award, whether payment values will be settled in whole or in part in cash or other property, including Common Stock or Awards.

Section 9. Restricted Stock

(a) Subject to the provisions of the Plan, the Committee may award shares of Restricted Stock and determine the duration of the Restricted Period during which, and the conditions under which, the shares may be forfeited to the Company and the other terms and conditions of such Awards. Shares of Restricted Stock may be issued for no cash consideration or such minimum consideration as may be required by applicable law.

(b) Shares of Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered, except as permitted by the Committee, during the Restricted Period. Shares of Restricted Stock shall be evidenced in such manner as the Committee may determine. Any certificates issued in respect of shares of Restricted Stock shall be registered in the name of the Participant and unless otherwise determined by the Committee, deposited by the Participant, together with a stock power endorsed in blank, with the Company. At the expiration of the Restricted Period, the Company shall deliver such certificates to the Participant or if the Participant has died, to the Participant's Designated Beneficiary.

Section 10. Stock Units

(a) Subject to the provisions of the Plan, the Committee may award Stock Units subject to such terms, restrictions, conditions, performance criteria, vesting requirements and payment rules as the Committee shall determine.

(b) Shares of Common Stock awarded in connection with a Stock Unit Award shall be issued for no cash consideration or such minimum consideration as may be required by applicable law.

Section 11. Other Stock-Based Awards

(a) Subject to the provisions of the Plan, the Committee may make other awards of Common Stock and other awards that are valued in whole or in part by reference to, or are otherwise based on, Common Stock, including without limitation convertible preferred stock, convertible debentures, exchangeable securities and Common Stock awards or options. Other Stock-Based Awards may be granted either alone or in tandem with other Awards granted under the Plan and/or cash awards made outside of the Plan.

(b) The Committee may establish performance goals, which may be based on performance goals related to book value, subsidiary performance or such other criteria as the Committee may determine, Restricted Periods, Performance Cycles, conversion prices, maturities and security, if any, for any Other Stock-Based Award. Other Stock-Based Awards may be sold to Participants at the face value thereof or any discount therefrom or awarded for no consideration or such minimum consideration as may be required by applicable law.

Section 12. General Provisions Applicable to Awards

(a) *Limitations on Transferability.* Options shall not be transferable by the recipient other than by will or the laws of descent and distribution and are exercisable during such person's lifetime only by such person or by such person's guardian or legal representative; provided that the Committee may in its discretion waive such restriction in any case.

(b) *Documentation.* Each Award under the Plan shall be evidenced by a writing delivered to the Participant specifying the terms and conditions thereof and containing such other terms and conditions not inconsistent with the provisions of the Plan as the Committee considers necessary or advisable to achieve the purposes of the Plan or to comply with applicable tax and regulatory laws and accounting principles.

(c) *Committee Discretion.* Each type of Award may be made alone, in addition to or in relation to any other type of Award. The terms of each type of Award need not be identical, and the Committee need not treat Participants uniformly. Except as otherwise provided by the Plan or a particular Award, any determination with respect to an Award may be made by the Committee at the time of award or at any time thereafter.

(d) *Settlement.* The Committee shall determine whether Awards are settled in whole or in part in cash, Common Stock, other securities of the Company, Awards or other property. The Committee may permit a Participant to defer all or any portion of a payment under the Plan, including the crediting of interest on deferred amounts denominated in cash and dividend equivalents on amounts denominated in Common Stock.

(e) *Dividends and Cash Awards.* In the discretion of the Committee, any Award under the Plan may provide the Participant with (i) dividends or dividend equivalents payable

currently or deferred with or without interest, and (ii) cash payments in lieu of or in addition to an Award.

(f) *Termination of Employment.* The Committee shall determine the effect on an Award of the disability, death, retirement or other termination of employment of a Participant and the extent to which, and the period during which, the Participant's legal representative, guardian or Designated Beneficiary may receive payment of an Award or exercise rights thereunder.

(g) *Change in Control.* In order to preserve a Participant's rights under an Award in the event of a change in control of the Company, the Committee in its discretion may, at the time an Award is made or at any time thereafter, take one or more of the following actions: (i) provide for the acceleration of any time period relating to the exercise or realization of the Award, (ii) provide for the purchase of the Award upon the Participant's request for an amount of cash or other property that could have been received upon the exercise or realization of the Award had the Award been currently exercisable or payable, (iii) adjust the terms of the Award in a manner determined by the Committee to reflect the change in control, (iv) cause the Award to be assumed, or new rights substituted therefor, by another entity, or (v) make such other provision as the Committee may consider equitable and in the best interests of the Company.

(h) *Loans.* The Committee may authorize the making of loans or cash payments to Participants in connection with any Award under the Plan, which loans may be secured by any security, including Common Stock, underlying or related to such Award (provided that such Loan shall not exceed the Fair Market Value of the security subject to such Award), and which may be forgiven upon such terms and conditions as the Committee may establish at the time of such loan or at any time thereafter.

(i) *Withholding Taxes.* The Participant shall pay to the Company, or make provision satisfactory to the Committee for payment of, any taxes required by law to be withheld in respect of Options under the Plan no later than the date of the event creating the tax liability. The Company and its Affiliates may, to the extent permitted by law, deduct any such tax obligations from any payment of any kind otherwise due to the Participant. In the Committee's discretion, the Participant may pay any taxes due with respect to an Option in whole or in part in shares of Common Stock, including shares retained from the Option creating the tax obligation, valued at their Fair Market Value on the date of retention or delivery.

(j) *Foreign Nationals.* Awards may be made to Participants who are foreign nationals or employed outside the United States on such terms and conditions

different from those specified in the Plan as the Committee considers necessary or advisable to achieve the purposes of the Plan or to comply with applicable laws.

(k) *Amendment of Award.* The Committee may amend, modify or terminate any outstanding Award, including substituting therefor another Award of the same or a different type, changing the date of exercise or realization and converting an Incentive Stock Option to a Nonstatutory Stock Option, provided that the Participant's consent to such action shall be required unless the Committee determines that the action, taking into account any related action, would not materially and adversely affect the Participant. Notwithstanding the foregoing, except

in the case of a recapitalization of the Company, the Committee shall obtain shareholder approval to: (i) amend the terms of any outstanding options under the Plan to provide an option exercise price per share which is lower than the then-current exercise price per share of such outstanding options or (ii) cancel any outstanding options under the Plan and grant in substitution therefor new options under the Plan covering the same or different numbers of shares of Common Stock and having an option exercise price per share lower than the exercise price per share of the cancelled options.

Section 13. <u>Miscellaneous</u>

(a) *Limitation on Number of Shares Granted.* Notwithstanding any other provision of the Plan, the aggregate number of shares of Common Stock subject to Options and SARs that may be granted within any fiscal year to any one Eligible Person under the Plan shall not exceed that number of shares equal to 20% of the total number of shares reserved for issuance under the Plan, except for grants to new hires during the fiscal year of hiring which shall not exceed that number of shares equal to 30% of the total number of shares reserved for issuance under the Plan.

(b) *No Right To Employment.* No person shall have any claim or right to be granted an Award, and the grant of an Award shall not be construed as giving a Participant the right to continued employment. The Company expressly reserves the right at any time to dismiss a Participant free from any liability or claim under the Plan, except as expressly provided in the applicable Award.

(c) *No Rights As Stockholder.* Subject to the provisions of the applicable Award, no Participant or Designated Beneficiary shall have any rights as a stockholder with respect to any shares of Common Stock to be distributed under the Plan until he or she becomes the holder thereof. A Participant to whom Common Stock is awarded shall be considered the holder of the Stock at the time of the Award except as otherwise provided in the applicable Award.

(d) *Effective Date.* Subject to the approval of the stockholders of the Company, the Plan shall be effective on the Effective Date. Before such approval, Awards may be made under the Plan expressly subject to such approval.

(e) *Amendment of Plan.* The Board may amend, suspend or terminate the Plan or any portion thereof at any time, subject to any stockholder approval that the Board determines to be necessary or advisable.

(f) *Governing Law.* The provisions of the Plan shall be governed by and interpreted in accordance with the laws of the Commonwealth of Virginia.

1. *Adopted by the Board of Directors on January 31, 1997*
2. *Approved by the Shareholders on February 3, 1997*
3. *Amended by the Board of Directors on August 26, 1998, as approved by the Shareholders on February 23, 1999.*
4. *Amended by the Board of Directors on June 13, 2000 and November 21, 2000, as approved by the Shareholders on March 6, 2001.*

5. *Amended by the Board of Directors on March 6, 2001.*
6. *Amended by the Board of Directors on January 14, 2002; as approved by the Shareholders on April 4, 2002.*

EXECUTIVE EMPLOYMENT, NON-COMPETE AND CONFIDENTIALITY AGREEMENT

THIS EXECUTIVE EMPLOYMENT, NON-COMPETE AND CONFIDENTIALITY AGREEMENT (“Agreement”), is entered into as of the date set forth on the signature page, by and between Richard A. Montoni (the “Executive”) and MAXIMUS, Inc., a Virginia corporation with its principal place of business in Reston, Virginia (the “Corporation”) with reference to the following:

WHEREAS, the parties believe the Executive possesses the experience and capabilities to provide valuable service on behalf of the Corporation; and

WHEREAS, the Corporation desires to employ the Executive as Chief Financial Officer; and

WHEREAS, the Executive desires to be employed by the Corporation at the salary, benefits and other terms and conditions specified herein.

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

1. Employment.

1.1 Duties. The Corporation hereby employs the Executive, and the Executive hereby accepts such employment, to serve as the Chief Financial Officer reporting directly to David V. Mastran, the Chief Executive Officer of the Corporation. The Executive hereby represents and warrants that he is in good health and capable of performing the services required hereunder. The Executive shall perform such services and duties as are appropriate to such office or delegated to the Executive by the Chief Executive Officer. During the term of this Agreement, the Executive shall be a full-time employee of the Corporation and shall devote such time and attention to the discharge of his duties as may be necessary and appropriate to accomplish and complete such duties.

1.2 Compensation.

(a) Salary and Year-End Bonus. As compensation for performance of his obligations hereunder, the Corporation shall pay the Executive an annual salary of $325,000, such salary to be reviewed annually beginning on or about September 30, 2002. The Executive will participate in the Corporation’s annual bonus program, with any awards dependent on the performance of the Executive and the Corporation. The target cash bonus for the Executive will be $100,000 for accomplishing his annual goals, such amount to be pro-rated to reflect actual months of service in fiscal year 2002.

(b) Stock Options. The Executive shall be awarded a non-qualified option to acquire 60,000 shares of MAXIMUS Common Stock in accordance with the MAXIMUS 1997 Equity Incentive Plan. Such option shall have a strike price equal to the New York Stock Exchange closing price of MAXIMUS Common Stock as of February 19, 2002, a four-year vesting schedule, a ten-year term and such other terms and conditions as are included in the standard MAXIMUS Stock Option Agreement which will be subsequently executed by the parties. In addition, the Executive shall be awarded a supplemental grant of 15,000 MAXIMUS stock options on the first year anniversary of employment, subject to approval by the Corporation’s Board Directors. The Executive shall also be entitled to participate in stock option and similar plans as currently exist or may be established by the Corporation from time to time.

(c) Vacation, Insurance, Expenses, Etc. The Executive shall be entitled to 20 days accrual paid vacation per year, and such benefits, health, disability and life insurance and other benefits and expense reimbursements in a manner consistent with the Corporation’s past practices and as are provided to executives at a similar level.

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

(a) by mutual written consent of the parties;

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

(c) by the Corporation for cause, which shall mean the Executive’s (i) breach of any material duty or obligation hereunder, (ii) intentional or grossly negligent misconduct that is materially injurious to the Corporation, (iii) willful failure to follow the reasonable directions of the Chief Executive Officer, or (iv) failure to carry out his duties in a professional manner consistent with the standards of his profession and position.

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

“Effective Date” shall mean March 18, 2002 or such earlier date as the Executive shall commence working for the Corporation.

1.4 Severance. The parties agree that in the event the Corporation terminates the Executive’s employment without cause or the Executive terminates the employment for “good reason” prior to the expiration of the Scheduled Term, the Executive shall be entitled to receive salary and benefits (including the vesting of stock options) for the remainder of the Scheduled Term. “Good reason” shall mean (i) any action by the Corporation which results in a material diminution in the Executive’s position (including status, titles, salary decrease or reporting requirements), authority, duties or responsibilities or (ii) a relocation of the Executive without his consent.

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2. Non-Competition.

2.1 Prohibited Activities.

(a) The Executive agrees that, during his employment with the Corporation and for a period of two (2) years after the termination of such employment, the Executive will not engage in any Unethical Behavior which may adversely affect the Corporation. For the purpose of this Section 2.1, “Unethical Behavior” is defined as:

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

(ii) any attempt, successful or unsuccessful, by the Executive, to adversely influence clients of the Corporation or organizations with which the Corporation has an existing or pending contract or proposal;

(iii) any attempt, successful or unsuccessful, by the Executive to offer his services, or to influence any other employee of the Corporation to offer their services, to any firm to compete against the Corporation; or

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

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

(c) The Executive shall notify any new employer, partner, association or any other firm or corporation actually or potentially in competition with the Corporation with whom the Executive shall become associated in any capacity whatsoever of the provisions of this Section 2 and the Executive agrees that the Corporation may give such notice to such firm, corporation or other person.

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

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

(b) The Executive, in his capacity as an employee of the Corporation, shall not engage in any business with any member of the Executive's immediate family or with any

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person or business entity in which the Executive or any member of the Executive's immediate family has any ownership interest or financial interest, unless and until the Executive has first fully disclosed such interest to and received written consent from the Chief Executive Officer. As used herein, the term "immediate family" means the Executive's spouse, natural or adopted children, parents or siblings and the term "financial interest" means any relationship with such person or business entity that may monetarily benefit the Executive or member of the Executive's immediate family, including any lending relationship or the guarantying of any obligations of such person or business entity by the Executive or member of his immediate family.

(c) The parties hereto agree that the Executive may, consistent with this Section 2.2, receive and retain speaking fees, referral fees from business opportunities not accepted by the Corporation, and fees from outside business activities and opportunities of the Executive consented to by the Chief Executive Officer.

3. Confidentiality. The Executive agrees that the Corporation's books, records, files and all other non-public information relating to the Corporation, its business, clients and employees are proprietary in nature and contain trade secrets and shall be held in strict confidence by the Executive, and shall not, either during the term of this Agreement or after the termination hereof, be used by Executive or any third party or disclosed, directly or indirectly, to any third party, except to the extent such use or disclosure is in furtherance of the Corporation's business or required by court order or other legal process. The trade secrets or other proprietary or confidential information referred to in the prior sentence includes, without limitation, all proposals to clients or potential clients, contracts, client or potential client lists, fee policies, financial information, administration or marketing practices or procedures and all other information regarding the business of the Corporation and its clients not generally known to the public.

4. Miscellaneous.

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

If to the Corporation:

MAXIMUS, Inc.
11419 Sunset Hills Road
Reston, Virginia 20190
Attention: General Counsel

If to the Executive:

Richard A. Montoni

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Any notice, request, demand or other communication delivered or sent in the foregoing manner shall be deemed given or made (as the case may be) upon the earliest of (i) the date it is actually received, (ii) the business-day after the day on which it is delivered by hand, (iii) the business day after the day on which it is properly delivered to Federal Express (or a comparable overnight delivery service), or (iv) the third business day after the date on which it is deposited in the United States mail. Either party may change its address by notifying the other party of the new address in any manner permitted by this paragraph.

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

4.3 No Obligation of Continued Employment. The Executive understands that this Agreement does not create an obligation on the part of the Corporation to continue the Executive's employment with the Corporation after the termination of this Agreement.

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

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

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

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

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

4.9 Governing Law. This Agreement shall in all events and for all purposes be governed by, and construed in accordance with, the laws of the Commonwealth of Virginia.

4.10 Amendments. No changes to this Agreement shall be binding unless in writing and signed by both the parties.

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

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

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

EXECUTIVE

/s/ RICHARD A. MONTONI
Richard A. Montoni

February 20, 2002
Date

MAXIMUS, Inc.

By /s/ DAVID V. MASTRAN
David V. Mastran
Chief Executive Officer

EXHIBIT 99

Important Factors Regarding Forward Looking Statements

From time to time, we may make forward-looking public statements, such as statements concerning our then-expected future revenues or earnings or concerning projected plans, performance or contract procurement, as well as other estimates relating to future operations. Forward-looking statements may be in reports filed under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), in press releases or in informal statements made with the approval of an authorized executive officer. The words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “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 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

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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 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 May 3, 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.