

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2003

OR

**TRANSITION REPORT UNDER 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

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

**Class**  
Common Shares, no par value

**Outstanding at May 5, 2003**  
20,710,388

**MAXIMUS, Inc.**

**Quarterly Report on Form 10-Q  
For the Quarter Ended March 31, 2003**

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Throughout this Quarterly Report on Form 10-Q, the terms "we," "us," "our" and "MAXIMUS" refer to MAXIMUS, Inc. and its subsidiaries.

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

	September 30, 2002 (Note 1)	March 31, 2003 (unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 94,965	\$ 92,623
Marketable securities	160	140
Accounts receivable - billed	108,074	111,313
Accounts receivable - unbilled	25,102	29,839
Prepaid expenses and other current assets	7,123	7,518
<b>Total current assets</b>	<b>235,424</b>	<b>241,433</b>
Property and equipment, at cost		
Less accumulated depreciation and amortization	(14,206)	(16,814)
<b>Property and equipment, net</b>	<b>25,406</b>	<b>26,204</b>
Software development costs		
Less accumulated amortization	(4,908)	(6,829)
<b>Software development, net</b>	<b>14,116</b>	<b>13,890</b>
Goodwill, net	68,812	71,291
Intangible assets, net	6,540	6,647
Other assets	1,792	2,115
<b>Total assets</b>	<b>\$ 352,090</b>	<b>\$ 361,580</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 10,867	\$ 13,459
Accrued compensation and benefits	19,726	18,361
Deferred revenue	12,939	16,080
Income taxes payable	2,325	3,163
Deferred income taxes	1,811	1,938
Other current liabilities	1,794	1,766
<b>Total current liabilities</b>	<b>49,462</b>	<b>54,767</b>
Other liabilities	499	414
<b>Total liabilities</b>	<b>49,961</b>	<b>55,181</b>
Shareholders' equity:		
Common stock, no par value; 60,000,000 shares authorized; 21,509,444 and 20,888,289 shares issued and outstanding at September 30, 2002 and March 31, 2003, at stated amount, respectively	144,156	131,109
Accumulated other comprehensive income	24	42
Retained earnings	157,949	175,248
<b>Total shareholders' equity</b>	<b>302,129</b>	<b>306,399</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 352,090</b>	<b>\$ 361,580</b>

*See notes to unaudited condensed consolidated financial statements.*

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2002	2003	2002	2003
Revenue	\$ 121,953	\$ 130,663	\$ 251,523	\$ 263,354
Cost of revenue	86,749	92,077	176,743	182,507
<b>Gross profit</b>	<b>35,204</b>	<b>38,586</b>	<b>74,780</b>	<b>80,847</b>

Selling, general and administrative expenses	23,589	27,059	44,909	52,676
Non-cash equity based compensation	—	256	—	512
Amortization of acquisition-related intangibles	250	273	513	553
Income from operations	11,365	10,998	29,358	27,106
Interest and other income	670	390	1,403	937
Income before income taxes	12,035	11,388	30,761	28,043
Provision for income taxes	4,968	4,498	12,458	11,077
Net income	\$ 7,067	\$ 6,890	\$ 18,303	\$ 16,966

Earnings per share:				
Basic	\$ 0.31	\$ 0.33	\$ 0.79	\$ 0.80
Diluted	\$ 0.30	\$ 0.32	\$ 0.76	\$ 0.79

Weighted average shares outstanding:				
Basic	23,142	21,092	23,121	21,159
Diluted	23,850	21,329	23,937	21,419

See notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended March 31,	
	2002	2003
<b>Cash flows from operating activities:</b>		
Net income	\$ 18,303	\$ 16,966
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,147	2,608
Amortization	1,613	2,474
Deferred income taxes	1,331	294
Tax benefit due to option exercises	915	333
Non-cash equity based compensation	—	512
Change in assets and liabilities, net of effects from acquisitions:		
Accounts receivable - billed	455	(3,201)
Accounts receivable - unbilled	(3,155)	(4,738)
Prepaid expenses and other current assets	(3,307)	(1,253)
Other assets	470	259
Accounts payable	(1,151)	2,316
Accrued compensation and benefits	(3,650)	(1,365)
Deferred revenue	(5,024)	3,132
Income taxes payable	1,084	838
Other liabilities	99	(187)
Net cash provided by operating activities	9,130	18,988
<b>Cash flows from investing activities:</b>		
Acquisition of businesses, net of cash acquired	(4,100)	(2,801)
Purchases of property and equipment	(4,148)	(3,382)
Decrease in notes receivable	90	136
Capitalization of software development costs	(3,415)	(1,695)
Decrease in marketable securities	1,040	30
Net cash used in investing activities	(10,533)	(7,712)
<b>Cash flows from financing activities:</b>		
Employee stock transactions	6,556	1,906
Repurchases of common stock	(5,279)	(15,465)
Net payments on capital leases	(123)	(59)
Net cash provided by (used in) financing activities	1,154	(13,618)
Net decrease in cash and cash equivalents	(249)	(2,342)
Cash and cash equivalents, beginning of period	114,108	94,965
Cash and cash equivalents, end of period	\$ 113,859	\$ 92,623

**MAXIMUS, Inc.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
**For the Three-Month and Six-Month Periods Ended March 31, 2003 and 2002**  
**(Dollars in thousands, except per share amounts)**

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

### 1. Organization and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of 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, 2003 are not necessarily indicative of the results that may be expected for the full fiscal year. The balance sheet at September 30, 2002 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

These financial statements should be read in conjunction with the audited financial statements as of September 30, 2002 and 2001 and for each of the three years in the period ended September 30, 2002, included in the Company's Annual Report on Form 10-K for the year ended September 30, 2002 (File No. 1-12997) filed with the Securities and Exchange Commission on December 20, 2002.

### 2. Business Combinations

In fiscal 2003, the Company acquired the business described below in a business combination accounted for as a purchase. Accordingly, the accompanying consolidated financial statements include the results of operations of the acquired business since the date of acquisition.

On October 1, 2002, the Company acquired Themis Program Management and Consulting Limited and GAEA Management Ltd. (together "Themis") for \$1,898. Per the terms of the agreement, additional consideration may be paid resulting from new contracts awarded to the Company during annual performance periods from April 2002 through April 2005. In conjunction with the purchase, the Company recorded goodwill of \$1,238 and intangible assets, primarily non-competition agreements and customer relationships, of \$660, which have been assigned to the Human Services Group business segment. Themis operates the Family Maintenance Enforcement Program in the Province of British Columbia, Canada. This program is designed to ensure family maintenance payments are made pursuant to the Family Maintenance Enforcement Act. The primary reason for acquiring Themis was to expand the Company's presence and services in international markets.

### 3. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the six months ended March 31, 2003 are as follows (in thousands):

	Consulting Group	Health Services Group	Human Services Group	Systems Group	Total
Balance as of September 30, 2002	\$ 10,113	\$ 1,792	\$ 17,944	\$ 38,963	\$ 68,812
Acquisition of Themis	—	—	1,238	—	1,238
Goodwill reclassification of prior acquisition	—	—	3,698	(3,698)	—
Additional consideration on prior acquisitions	—	—	1,144	97	1,241
Balance as of March 31, 2003	<u>\$ 10,113</u>	<u>\$ 1,792</u>	<u>\$ 24,024</u>	<u>\$ 35,362</u>	<u>\$ 71,291</u>

Intangible assets from acquisitions, which consist primarily of non-competition agreements, technology-based intangibles, and customer relationships, are amortized over five to ten years. The weighted-average amortization period for intangible assets is approximately eight years. The estimated amortization expense for the years ending September 30, 2003, 2004, 2005, 2006 and 2007 is \$1,089, \$1,027, \$972, \$957, and \$905, respectively.

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

	As of September 30, 2002		As of March 31, 2003	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Non-competition agreements	\$ 3,065	\$ 2,709	\$ 3,225	\$ 2,782
Technology-based intangibles	1,500	50	1,500	157
Customer contracts and relationships	5,200	466	5,700	839
Total	<u>\$ 9,765</u>	<u>\$ 3,225</u>	<u>\$ 10,425</u>	<u>\$ 3,778</u>

### 4. Commitments and Contingencies

#### Litigation

On December 5, 2000, the Village of Maywood, Illinois (the "Village") sued Unison MAXIMUS, Inc. ("Unison"), a wholly-owned subsidiary of the Company, in the Circuit Court of Cook County, Illinois. The Company acquired Unison Consulting Group, Inc. in May 1999 and subsequently renamed it "Unison MAXIMUS, Inc." Unison remains a wholly-owned subsidiary of the Company. The Village had contracted with Unison to provide a variety of financial and consulting services from 1996 through 1999. The Village has alleged *inter alia* breach of contract, breach of fiduciary duty, and fraud. The action is in the discovery and motion phase and no trial date has been set. The complaint does not specify the Village's damages. In September 2002, the Village filed a purported expert report with the court that estimated the Village's damages to be approximately \$47 million. The Company and Unison believe that report is deeply flawed and the Village's claims are without merit. Unison intends to defend the action vigorously. Unison tendered the claim to the Company's insurance carrier. Although there is no assurance of a favorable outcome, the Company does not believe that this action will have a material adverse effect on its financial condition or results of operations, and the Company has not accrued for any loss related to this action.

MAXIMUS (“DMG” – previously a wholly-owned subsidiary of MAXIMUS since merged into MAXIMUS) as a defendant in an on-going lawsuit between the City and Conwell Shonkwiler & Associates, an architectural firm (“CSA”). In 2002 both CSA and the City had sued each other for claims arising out of design services provided by CSA for the City’s Water Department Central Facility Water Project (“Project”). DMG had provided certain assessment and preliminary design services to the City in connection with the Project. CSA sued the City for payment of approximately \$700,000 in unpaid fees, and the City sued CSA for alleged damages caused by CSA’s breach of the contract and professional negligence in rendering those services. In its defense, CSA has asserted that any deficiencies in its services were due to errors in the master program document prepared for the City by DMG. Consequently, the City named DMG as a defendant in the lawsuit alleging breach of contract and professional negligence and seeking indemnity from DMG. The City alleges damages against both defendants of at least \$10 million. The Company believes the claim is without merit and intends to defend the action vigorously. Although there is no assurance of a favorable outcome, the Company does not believe that this action will have a material adverse effect on its financial condition or results of operations, and the Company has not accrued for any loss related to this action.

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 condition or its results of operations.

## 5. 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,	
	2002	2003	2002	2003
<b>Numerator:</b>				
Net income	\$ 7,067	\$ 6,890	\$ 18,303	\$ 16,966
<b>Denominator:</b>				
Weighted average shares outstanding	23,142	21,092	23,121	21,159
Effect of dilutive securities:				
Employee stock options and unvested restricted stock awards	708	237	816	260
Denominator for diluted earnings per share	23,850	21,329	23,937	21,419

## 6. Stock Repurchase Program

Under resolutions adopted in May 2000, July 2002, and March 2003, the Board of Directors has authorized the repurchase, at management’s discretion, of up to an aggregate of \$90 million of the Company’s common stock. In addition, in June 2002, the Board of Directors authorized the use of option exercise proceeds for the repurchase of the Company’s common stock. During the six-month period ended March 31, 2003, the Company repurchased approximately 750,000 shares. At March 31, 2003, \$31.6 million remained available for future stock repurchases under the program.

## 7. Restricted Stock Units

In May 2002, the Company issued 170,000 Restricted Stock Units (RSUs) to certain executive officers and employees under its 1997 Equity Incentive Plan. The grant-date fair value of each RSU was \$30.14. The

RSUs will vest in full upon the sixth anniversary of the date of grant, provided, however, that the vesting will accelerate if the Company meets certain earnings targets determined by the Board of Directors as set forth in the RSUs. The fair value of the RSUs at the grant date is amortized to expense over the vesting period. Compensation expense recognized related to these RSUs for the six-month period ended March 31, 2003 was \$512.

## 8. Employee Stock Option Plan

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

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value provisions of FAS 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*, to stock-based employee compensation for the periods indicated (dollars in thousands, except per share data).

	Three Months Ended March 31,		Six Months Ended March 31,	
	2002	2003	2002	2003
Net income, as reported	\$ 7,067	\$ 6,890	\$ 18,303	\$ 16,966
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of related tax effects	(1,738)	(1,777)	(3,572)	(3,607)
Pro forma net income	\$ 5,329	\$ 5,113	\$ 14,731	\$ 13,359
<b>Earnings per share:</b>				
Basic – as reported	\$ 0.31	\$ 0.33	\$ 0.79	\$ 0.80
Basic – pro forma	\$ 0.23	\$ 0.24	\$ 0.64	\$ 0.63
Diluted – as reported	\$ 0.30	\$ 0.32	\$ 0.76	\$ 0.79
Diluted – pro forma	\$ 0.22	\$ 0.24	\$ 0.62	\$ 0.62

## 9. Segment Information

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

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	Three Months Ended March 31,		Six Months Ended March 31,	
	2002	2003	2002	2003
<b>Revenue:</b>				
Consulting Group	\$ 35,009	\$ 33,566	\$ 68,412	\$ 66,761
Health Services Group	34,567	39,884	74,722	79,408
Human Services Group	34,403	36,014	71,583	74,373
Systems Group	17,974	21,199	36,806	42,812
Total	<u>\$ 121,953</u>	<u>\$ 130,663</u>	<u>\$ 251,523</u>	<u>\$ 263,354</u>
<b>Gross Profit:</b>				
Consulting Group	\$ 16,560	\$ 14,090	\$ 32,090	\$ 28,050
Health Services Group	2,657	9,407	11,125	19,212
Human Services Group	6,958	6,306	14,507	14,308
Systems Group	9,029	8,783	17,058	19,277
Total	<u>\$ 35,204</u>	<u>\$ 38,586</u>	<u>\$ 74,780</u>	<u>\$ 80,847</u>
<b>Income from operations:</b>				
Consulting Group	\$ 8,425	\$ 5,132	\$ 16,376	\$ 10,271
Health Services Group	(1,011)	5,270	4,102	11,670
Human Services Group	2,273	166	5,573	2,123
Systems Group	1,678	430	3,307	3,042
Total	<u>\$ 11,365</u>	<u>\$ 10,998</u>	<u>\$ 29,358</u>	<u>\$ 27,106</u>

## 10. Recent Accounting Pronouncements

In November 2002, the Emerging Issues Task Force issued a final consensus on Issue 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*. Issue 00-21 provides guidance on how and when to recognize revenue on arrangements requiring delivery of more than one product or service. Issue 00-21 is effective prospectively for arrangements entered into in fiscal periods beginning after June 15, 2003. Companies may also elect to apply the provisions of Issue 00-21 to existing arrangements and to record the income statement impact as the cumulative effect of a change in accounting principle. The Company intends to adopt Issue 00-21 prospectively. While management is still evaluating the impact of Issue 00-21, it does not expect that the adoption of Issue 00-21 will have a significant impact on the Company's financial position and results of operations.

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

### Business Overview

We are a leading provider of program management, consulting services and systems solutions primarily to governments. Since our inception, we have been at the forefront of innovation in meeting our mission of "Helping Government Serve the People<sup>®</sup>." We use our expertise, experience and advanced information technology to make government operations more efficient while improving the quality of services provided to program beneficiaries. We operate primarily in the United States and we have had contracts with government agencies in all 50 states. We have been profitable every year since we were founded in 1975. For the fiscal year ended September 30, 2002, we had revenue of \$518.7 million and net income of \$40.3 million. For the six months ended March 31, 2003, we had revenue of \$263.4 million and net income of \$17.0 million.

### Business Combinations and Acquisitions

As part of our growth strategy, we intend to continue to selectively identify and pursue complementary businesses to expand our geographic reach and the breadth and depth of our services and to enhance our customer base. On October 1, 2002, we acquired Themis Program Management and Consulting Limited and GAEA Management Ltd. (together "Themis"), located in British Columbia, Canada, for cash consideration of approximately \$1.9 million. Additional consideration may be paid based on Themis achieving certain future performance objectives. In conjunction with the purchase, we recorded approximately \$1.2 million of goodwill and \$0.7 million of intangible assets, which has been assigned to the Human Services Group business segment.

### Results of Operations – Consolidated

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2002	2003	2002	2003
(dollars in thousands, except per share data)				
Revenue	\$ 121,953	\$ 130,663	\$ 251,523	\$ 263,354
Cost of revenue	86,749	92,077	176,743	182,507
Gross profit	<u>\$ 35,204</u>	<u>\$ 38,586</u>	<u>\$ 74,780</u>	<u>\$ 80,847</u>
Gross margin percentage	28.9%	29.5%	29.7%	30.7%
Selling, general and administrative	\$ 23,589	\$ 27,059	\$ 44,909	\$ 52,676
Net income	<u>\$ 7,067</u>	<u>\$ 6,890</u>	<u>\$ 18,303</u>	<u>\$ 16,966</u>
<b>Earnings per share:</b>				
Basic	\$ 0.31	\$ 0.33	\$ 0.79	\$ 0.80
Diluted	\$ 0.30	\$ 0.32	\$ 0.76	\$ 0.79

Our consolidated revenue increased 7.1% for the three months ended March 31, 2003 compared to the same period in fiscal 2002. Excluding revenue related to acquisitions, our consolidated revenue for the three months ended March 31, 2003 remained unchanged when compared to the three months ended March 31, 2002. Our

consolidated revenue increased 4.7% for the six months ended March 31, 2003 compared to the same period in fiscal 2002. Excluding revenue related to acquisitions, we had an overall decline in revenue of 1.7% for the six months ended March 31, 2003 compared to the six months ended March 31, 2002.

Financial results for the three months ended March 31, 2003 were impacted by delays in contract signings, work start delays, and some program scope reductions. These factors are primarily reflective of continued state budget pressures, which trend is expected to continue in the short-term.

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Our gross margin increased to 29.5% for the three months ended March 31, 2003, an increase of 60 basis points, compared to 28.9% for the same period in the 2002 fiscal year. Our gross margin increased to 30.7% for the six months ended March 31, 2003, an increase of 100 basis points, compared to 29.7% for the same period in the 2002 fiscal year.

Selling, general and administrative expense ("SG&A") consists of management, marketing and administration costs (including salaries, benefits, bid and proposal efforts, travel, recruiting, continuing education and training), facilities costs, printing, reproduction, communications and equipment depreciation. SG&A increased in the three months and six months ended March 31, 2003 compared to the same periods in fiscal 2002 due to the increase in expenses necessary to support higher revenue and to strengthen the infrastructure to market and grow the Company, including our proposal facilities and systems, and new finance, operational, and compliance personnel. The increase was also due to additional SG&A related to businesses acquired in fiscal 2002.

Our provision for income tax for the three-month and six-month periods ended March 31, 2003 was 39.5% of income before income taxes as compared to 41.3% and 40.5% for the three-month and six-month periods ended March 31, 2002, respectively.

Net income for the three months ended March 31, 2003 was \$6.9 million, or \$0.32 per diluted share, compared with net income of \$7.1 million, or \$0.30 per diluted share, for the three months ended March 31, 2002. Net income for the six months ended March 31, 2003 was \$17.0 million, or \$0.79 per diluted share, compared with net income of \$18.3 million, or \$0.76 per diluted share, for the six months ended March 31, 2002.

#### Consulting Group

	Three Months Ended March 31,		Six Months Ended March 31,	
	2002	2003	2002	2003
	(dollars in thousands)			
Revenue	\$ 35,009	\$ 33,566	\$ 68,412	\$ 66,761
Cost of revenue	18,449	19,476	36,322	38,711
Gross Profit	\$ 16,560	\$ 14,090	\$ 32,090	\$ 28,050
Gross Margin percentage	47.3 %	42.0 %	46.9 %	42.0 %

Revenue of our Consulting Group decreased 4.1% for the three months ended March 31, 2003 compared to the same period in fiscal 2002, and decreased 2.4% for the six months ended March 31, 2003 compared to the same period in fiscal 2002. Gross margin decreased to 42.0% for the three months ended March 31, 2003 from 47.3% for the same period in fiscal 2002, and decreased to 42.0% for the six months ended March 31, 2003 from 46.9% for the same period in fiscal 2002. These declines in revenue and gross margin were primarily due to continued weaknesses in our management consulting and IT consulting practices as government procurement of large system projects has declined.

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#### Health Services Group

	Three Months Ended March 31,		Six Months Ended March 31,	
	2002	2003	2002	2003
	(dollars in thousands)			
Revenue	\$ 34,567	\$ 39,884	\$ 74,722	\$ 79,408
Cost of revenue	31,910	30,477	63,597	60,196
Gross Profit	\$ 2,657	\$ 9,407	\$ 11,125	\$ 19,212
Gross Margin percentage	7.7 %	23.6 %	14.9 %	24.2 %

Revenue of our Health Services Group increased 15.4% for the three months ended March 31, 2003 compared to the same period in fiscal 2002, and increased 6.3% for the six months ended March 31, 2003 compared to the same period in fiscal 2002. These increases were due primarily to expanded volume of certain existing contracts and increases in certain discretionary components, such as revenue from project related mailing and advertising activities. Gross margin increased to 23.6% for the three months ended March 31, 2003 from 7.7% for the same period in fiscal 2002, and to 24.2% for the six months ended March 31, 2003 from 14.9% for the same period in fiscal 2002. These improvements were due primarily to improved project profitability in fiscal 2003. Fiscal 2002 results were adversely impacted by losses related to a certain project, which losses were non-recurring.

#### Human Services Group

	Three Months Ended March 31,		Six Months Ended March 31,	
	2002	2003	2002	2003
	(dollars in thousands)			
Revenue	\$ 34,403	\$ 36,014	\$ 71,583	\$ 74,373
Cost of revenue	27,445	29,708	57,076	60,065
Gross Profit	\$ 6,958	\$ 6,306	\$ 14,507	\$ 14,308
Gross Margin percentage	20.2 %	17.5 %	20.3 %	19.2 %

Revenue of our Human Services Group increased 4.7% for the three months ended March 31, 2003 compared to the same period in fiscal 2002. This increase was principally due to \$8.1 million of revenue from entities acquired in fiscal 2002, including approximately \$0.5 million resulting from the resolution of pre-acquisition gain contingencies at APG. Revenue of our Human Services Group increased 3.9% for the six months ended March 31, 2003 compared to the same period in fiscal 2002. This

increase was principally due to \$15.7 million of revenue from entities acquired in fiscal 2002, including approximately \$1.2 million resulting from the resolution of pre-acquisition gain contingencies at APG. Gross margins decreased to 17.5% for the three months ended March 31, 2003 from 20.2% for the same period in fiscal 2002, and to 19.2% for the six months ended March 31, 2003 from 20.3% for the same period in fiscal 2002. The fiscal 2003 results of the Human Services Group reflects weakened demand in certain lines of business, particularly Workforce Services where we have experienced certain program reductions.

*Systems Group*

	Three Months Ended March 31,		Six Months Ended March 31,	
	2002	2003	2002	2003
	(dollars in thousands)			
Revenue	\$ 17,974	\$ 21,199	\$ 36,806	\$ 42,812
Cost of revenue	8,945	12,416	19,748	23,535
Gross Profit	\$ 9,029	\$ 8,783	\$ 17,058	\$ 19,277
Gross Margin percentage	50.2 %	41.4 %	46.3 %	45.0 %

Revenue of our Systems Group increased 17.9% for the three months ended March 31, 2003 compared to the same period in fiscal 2002. This increase was due to new contracts won by certain divisions within the Group and to revenue of \$0.5 million from entities acquired in fiscal 2002. Revenue of our Systems Group increased 16.3% for the six months ended March 31, 2003 compared to the same period in fiscal 2002. This increase was due to new contracts won by certain divisions within the Group and to revenue of \$1.0 million from entities acquired in fiscal 2002. Gross margin decreased to 41.4% for the three months ended March 31, 2003 from 50.2% for the same period in fiscal 2002, and decreased to 45.0% for the six months ended March 31, 2003 from 46.3% for the same period in fiscal 2002. These decreases were primarily due to declines in software license revenue, which carries higher gross margins.

**Other (income) expenses**

	Three Months Ended March 31,		Six Months Ended March 31,	
	2002	2003	2002	2003
	(dollars in thousands)			
Non-cash equity based compensation	—	\$ 256	—	\$ 512
Percentage of revenue	—	0.2 %	—	0.2 %
Amortization of acquisition related intangibles	\$ 250	\$ 273	\$ 513	\$ 553
Percentage of revenue	0.2 %	0.2 %	0.2 %	0.2 %
Interest and other income	\$ (670)	\$ (390)	\$ (1,403)	\$ (937)
Percentage of revenue	0.5 %	0.3 %	0.6 %	0.4 %

We recognized approximately \$0.3 million and \$0.5 million of non-cash equity-based compensation expense for the three-month and six-month periods ended March 31, 2003, respectively, related to the issuance of restricted stock units in May 2002. In future periods, the quarterly amortization expense related to these restricted stock units is estimated to be approximately \$0.2 million, which amount may increase if certain earnings targets are achieved.

Interest and other income decreased due to less average cash on hand and lower interest rates.

**Liquidity and Capital Resources**

	Six Months Ended March 31,	
	2002	2003
	(dollars in thousands)	
Net cash provided by (used in):		
Operating activities	\$ 9,130	\$ 18,988
Investing activities	(10,533)	(7,712)
Financing activities	1,154	(13,618)
Net decrease in cash and cash equivalents	\$ (249)	\$ (2,342)

For the six months ended March 31, 2003, cash provided by our operations was \$19.0 million as compared to cash provided of \$9.1 million for the six months ended March 31, 2002. Cash provided by operating activities for the six months ended March 31, 2003 primarily consisted of net income of \$17.0 million plus non-cash items aggregating \$6.2 million offset by net uses of working capital of \$4.2 million. Non-cash items included \$5.1 million of depreciation and amortization. The net uses of working capital reflect an increase in accounts receivable-billed and accounts receivable-unbilled totaling \$7.9 million offset by an increase in deferred revenue of \$3.1 million. During the six months ended March 31, 2002, cash provided by operating activities consisted primarily of net income of \$18.3 million plus non-cash items of \$5.0 million offset by net uses of working capital of \$14.2 million. Non-cash items included \$2.8 million of depreciation and amortization. The net uses of working capital were primarily due to an increase in accounts receivable-unbilled of \$2.7 million, a decrease in deferred revenue of \$5.0 million and a decrease in accrued compensation of \$3.7 million.

For the six months ended March 31, 2003, cash used in investing activities was \$7.7 million as compared to \$10.5 million for the six months ended March 31, 2002. Cash used in investing activities for the six months ended March 31, 2003 primarily consisted of \$2.8 million for acquisitions of businesses, \$1.7 million for expenditures for capitalized software costs, and purchases of property and equipment of \$3.4 million. During the six months ended March 31, 2002, we used \$4.1 million for the acquisition of a business, \$3.4 million for expenditures related to capitalized software costs, and purchases of property and equipment of \$4.1 million.

For the six months ended March 31, 2003, cash used in financing activities was \$13.6 million as compared to cash provided by financing activities of \$1.2 million for the six months ended March 31, 2002. Cash used in financing activities for the six months ended March 31, 2003 primarily consisted of \$15.5 million of common stock repurchases offset by \$2.0 million of sales of stock to employees through our Employee Stock Purchase Plan and Equity Incentive Plan. Cash provided by financing activities for the six months ended March 31, 2002 primarily consisted of common stock repurchases of \$5.3 million offset by \$6.6 million of proceeds from sales of stock to employees through our Employee Stock Purchase Plan and Equity Incentive Plan.

Under resolutions adopted in May 2000, July 2002, and March 2003, our Board of Directors has authorized the repurchase, at management's discretion, of up to an



aggregate of \$90 million of our common stock. In addition, in June 2002, the Board of Directors authorized the use of option exercise proceeds for the repurchase of our common stock. During the six-month period ended March 31, 2003, we repurchased approximately 750,000 shares. At March 31, 2003, \$31.6 million remained available for future stock repurchases under the program.

Our working capital at March 31, 2003 was \$186.7 million. At March 31, 2003, we had cash, cash equivalents, and marketable securities of \$92.8 million and no debt. Management believes this strong liquidity and financial position allows the Company to continue its stock repurchase program, depending on the price of the Company's common stock, and to pursue selective acquisitions.

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

### **Critical Accounting Policies and Estimates**

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

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

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

*Revenue recognition.* Our revenue is generated from contracts with various payment arrangements, including: (1) fixed-price; (2) costs incurred plus a negotiated fee ("cost-plus"); (3) performance-based criteria; and (4) time and materials (used primarily by the Consulting Group). Also, some contracts contain "not-to-exceed" provisions. For the six months ended March 31, 2003, revenue from fixed-price contracts was approximately 32% of total revenue; revenue from cost-plus contracts was approximately 18% of total revenue; revenue from performance-based contracts was approximately 38% of total revenue; and revenue from time and materials contracts was approximately 12% of total revenue. A majority of our contracts with state and local government agencies have been fixed-price and performance-based and our contracts with the federal government have been cost-plus. Fixed-price and performance-based contracts generally offer higher margins but typically involve more risk than cost-plus or time and materials reimbursement contracts.

We recognize revenue on fixed-priced contracts as services are provided using the percentage of completion method, which relies on estimates of total expected contract revenue and costs. The cumulative impact of any revisions in estimated revenue and costs are recognized in the period in which the facts that give rise to the revision become known. Also, with fixed-price contracts, we are subject to the risk of potential cost overruns. We recognize revenue on our performance-based contracts as such revenue becomes fixed or determinable, which generally occurs when amounts are billable to clients. 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. Certain of these costs may be deferred until services are provided and revenue begins to be recognized when reimbursement of such costs is contractually guaranteed. These factors may result in irregular revenue and profit margins for performance-based contracts, which exist in our Consulting Group, Health Services Group and Human Services Group. As a result, with performance-based contracts we have more uncertainty regarding expected future revenue.

Our most significant expense is cost of revenue, which consists primarily of project-related costs such as employee salaries and benefits, subcontractors, computer equipment and travel expenses. Management uses

its judgment and experience to estimate cost of revenue expected on projects. 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 gross margins related to our fixed-price, performance-based and time and materials contracts. If actual costs are higher than our estimates, profitability may be adversely affected. Service cost variability has little impact on cost-plus arrangements because allowable costs are reimbursed by the client.

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

Human Services Group and Health 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, 2002, our average Human Services Group and Health 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 one year.

*Impairment of goodwill.* In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations ("FAS 141"), and No. 142, Goodwill and Other Intangible Assets ("FAS 142"). Under the new rules, goodwill is no longer amortized but is subject to annual impairment tests in accordance with FAS 141 and FAS 142. We elected to adopt FAS 141 and 142 effective October 1, 2001, and as a result, amortization of goodwill was discontinued as of the beginning of the fiscal year ended September 30, 2002. Upon adoption, the required impairment tests were performed. Results of these impairment tests did not generate any impairment loss. Goodwill will be tested on an annual basis, or more frequently as impairment indicators arise. Annual impairment tests involve the use of estimates related to the fair market values of the business operations with which goodwill is associated. Losses, if any, resulting from annual impairment tests will be reflected in operating income in our income statement.

### **Forward Looking Statements**

From time to time, we may make forward-looking statements that are not historical facts, including statements about our confidence and strategies and our expectations about revenue, results of operations, profitability, current and future contracts, market opportunities, market demand or acceptance of our products and services. Any statements contained in this Quarterly Report on Form 10-Q that are not statements of historical fact may be forward-looking statements. The words "could," "estimate," "future," "intend," "may," "opportunity," "potential," "project," "will," "believes," "anticipates," "plans," "expect" and similar expressions are intended to identify forward-looking statements. These statements may involve risks and uncertainties that could cause our actual results to differ materially from those indicated by such forward-looking statements. Examples of these risks include reliance on government clients; risks associated with government contracting; risks involved in managing government projects; legislative changes and political developments; opposition from government unions; challenges resulting from growth; adverse publicity; and legal, economic, and other risks detailed in Exhibit 99.1 to this Quarterly Report on Form 10-Q for the period ended March 31, 2003.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

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

**Item 4. Controls and Procedures.**

a) *Evaluation of disclosure controls and procedures.* Our chief executive officer and our chief financial officer, after evaluating the effectiveness of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-14(c) and 15-d-14(c)) as of a date (the "Evaluation Date") within 90 days before the filing date of this Quarterly Report on Form 10-Q, have concluded that, as of the Evaluation Date, our disclosure controls and procedures were adequate and designed to ensure that the information required to be disclosed in the reports filed or submitted by us under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the requisite time periods.

b) *Changes in internal controls.* There were no significant changes in our internal controls or in other factors that could significantly affect our internal controls subsequent to the Evaluation Date.

**PART II. OTHER INFORMATION**

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

At our Annual Meeting of Shareholders held on March 18, 2003, our shareholders voted as follows:

(a) To elect Lynn P. Davenport, Thomas A. Grissen, and David V. Mastran as Class III Directors of the Company for a three-year term.

Nominee	Total Votes For	Total Votes Withheld
Lynn P. Davenport	18,991,618	1,291,972
Thomas A. Grissen	18,991,618	1,291,972
David V. Mastran	18,985,518	1,298,072

Peter B. Pond, James R. Thompson, Jr., Lynn P. Davenport, Russell A. Beliveau, John J. Haley, and Marilyn R. Seymann continued their terms in office after the meeting.

(b) To consider the proposal submitted by a shareholder regarding establishing a policy and practice of expensing the costs of future grants of executive stock options.

Total Votes For the Proposal	7,394,181
Total Votes Against the Proposal	10,932,722
Abstentions	55,699
Broker Non-votes	1,900,988

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

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

(b) Reports on Form 8-K. We did not file any Current Reports on Form 8-K during the quarter ended March 31, 2003.

**SIGNATURE**

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

MAXIMUS, INC.

Date: May 14, 2003

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

**CERTIFICATION**

I, David V. Mastran, certify that:

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

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

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

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#### CERTIFICATION

I, Richard A. Montoni, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MAXIMUS, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

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

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EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
99.1	Important Factors Regarding Forward Looking Statements. Filed herewith.
99.2	Section 906 Principal Executive Officer Certification. Filed herewith.
99.3	Section 906 Principal Financial Officer Certification. Filed herewith.

### **Important Factors Regarding Forward Looking Statements**

From time to time, we may make forward-looking public statements, such as statements concerning our then-expected future revenue or earnings or concerning projected plans, performance or contract procurement, as well as other estimates relating to future operations. Forward-looking statements may be in reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), in press releases or in informal statements made with the approval of an authorized executive officer. The words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "believe," "could," "intend," "may," "opportunity," "plan," "potential" or similar terms and expressions are intended to identify "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934 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 revenue or incur losses on those contracts.**

We derived approximately 35% of our fiscal 2002 revenue from fixed-price contracts and approximately 28% of our fiscal 2002 revenue 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

operating a Medicaid enrollment center pursuant to specified standards, designing and implementing computer systems or applications, or delivering a planning document under a consulting arrangement. For performance-based contracts, we receive our fee on a per-transaction basis. These contracts include, for example, child support enforcement contracts, in which we often receive a fee based on the amount of child support collected. To earn a profit on these contracts, we must accurately estimate costs involved and assess the probability of meeting the specified objectives, realizing the expected units of work or completing individual transactions, within the contracted time period. If our estimates prove to be inaccurate, we may not achieve the level of profit we expected or we may incur a net loss on a contract.

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

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

**Government entities have in the past and may in the future terminate their contracts with us earlier than we expect, which may result in revenue shortfalls.**

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

**Government unions may oppose outsourcing of government programs to outside vendors such as us, which could limit our market opportunities.**

Our success depends in part on our ability to win profitable contracts to administer and manage health and human services programs traditionally administered by government employees. Many government employees, however, belong to labor unions with considerable financial resources and lobbying networks. Unions have in the past and are likely to continue to apply political pressure on legislators and other officials seeking to outsource government programs. For example, union lobbying was instrumental in influencing the Department of Health and Human Services to deny a petition to allow private corporations to make Food Stamp and Medicaid eligibility determinations in Texas. Union opposition may result in fewer opportunities for us to service government agencies.

**We may lose executive officers and senior managers on whom we rely to generate business and execute projects successfully.**

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

**Government agencies may investigate and audit our contracts and, if any improprieties are found, we may be required to refund revenue we have received, to forego anticipated revenue and may be subject to penalties and sanctions, including prohibitions on our bidding in response to RFPs.**

The government agencies we contract with have the authority to audit and investigate our contracts with them. As part of that process, the government agency reviews our performance on the contract, our pricing practices, our cost structure and our compliance with applicable laws, regulations and standards. If the agency determines that we have improperly allocated costs to a specific contract, we will not be reimbursed for those costs and we will be required to refund the amount of any such costs that have been reimbursed. If a government audit uncovers improper or illegal activities by us or we otherwise determine that these activities have occurred, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeitures of profits, suspension of payments, fines and suspension or

disqualification from doing business with the government. Any adverse determination could adversely impact our ability to bid in response to RFPs in one or more jurisdictions.

**We may incur significant costs before receiving related revenue which could result in cash shortfalls.**

When we are awarded a contract, 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 expend significant sums of money before receiving related contract payments. In addition, payments due to us from government agencies may be delayed due to billing cycles or as a result of failures to approve governmental budgets in a timely manner. 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 and we may be tainted by adverse media coverage about their activities, even when those activities are unrelated to our business. Moreover, inaccurate, misleading or negative media coverage about us could harm our reputation and, accordingly, our ability to bid for and win government contracts.

**We obtain most of our business through responses to government RFPs. We may not be awarded contracts through this process in the future and contracts we are awarded may not be profitable.**

Substantially all of our 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; 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 or government budgetary and spending changes.**

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

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

State budgets were adversely impacted by a general economic slowdown in fiscal 2002, creating state budget deficits, which trend has continued into fiscal 2003 and is expected to continue into fiscal 2004. All but one state must operate under a balanced budget. There are a number of alternatives to states in managing a possible budget deficit, including:

- Accessing previously set aside or "rainy day" funds;
- Increasing taxes;
- Elimination or reduction in services;
- Cost containment and savings;
- Pursuit of additional federal assistance; and

- Developing additional sources of revenue, such as the legalization of gaming.

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

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

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

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 2001 fiscal year, we have acquired seven businesses in business combinations accounted for as a purchase.

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 revenue and earnings we anticipated.

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

To avoid higher than anticipated demands for federal funds, federal government officials occasionally discourage state and local authorities from engaging private consultants to advise them on maximizing federal funding. If state and local officials are dissuaded from engaging us for revenue maximization services, we will not receive contracts for, or revenue from, those services.

**We face competition from a variety of organizations, many of which have substantially greater financial resources than we do; we may be unable to compete successfully with these organizations.**

Our Health Services Group and Human Services Group compete for program management contracts with the following:

- government services divisions of large organizations such as Affiliated Computer Systems, Electronic Data Systems, Inc., Accenture and Tier Technologies;
- specialized service providers such as Policy Studies Incorporated; and
- local non-profit organizations such as the United Way, Goodwill Industries and Catholic Charities.

Our Consulting Group competes with specialized consulting firms.

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

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

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

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

**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 terms and progression of contracts;
- the levels of revenue 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.

**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 5, 2003, 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 12.4% 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.



**Section 906 CEO Certification**

I, David V. Mastran, Chief Executive Officer of MAXIMUS, Inc. ("the Company"), do hereby certify, under the standards set forth in and solely for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2003 (the "Quarterly Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and

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

Dated: May 14, 2003

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

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**Section 906 CFO Certification**

I, Richard A. Montoni, Chief Financial Officer of MAXIMUS, Inc. ("the Company"), do hereby certify, under the standards set forth in and solely for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2003 (the "Quarterly Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and

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

Dated: May 14, 2003

/s/ Richard A. Montoni

Richard A. Montoni

Chief Financial Officer

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