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 December 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	Outstanding at February 3, 2004
Common Shares, no par value	21,888,874

MAXIMUS, Inc.

Quarterly Report on Form 10-Q
For the Quarter Ended December 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, 2003 (Note 1)	December 31, 2003 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 117,372	$ 143,431
Restricted cash	3,653	3,425
Marketable securities	140	—
Accounts receivable - billed, net	114,992	95,845
Accounts receivable - unbilled	29,142	37,366
Deferred income taxes	3,410	51
Prepaid expenses and other current assets	7,063	6,692
Total current assets	275,772	286,810
Property and equipment, at cost	46,412	48,120
Less accumulated depreciation and amortization	(20,195)	(21,981)
Property and equipment, net	26,217	26,139
Software development costs	23,382	24,401
Less accumulated amortization	(8,699)	(9,748)
Software development costs, net	14,683	14,653
Deferred contract costs	7,283	14,788
Goodwill	81,757	82,358
Intangible assets, net	7,212	6,888
Other assets	2,096	2,377
Total assets	$ 415,020	$ 434,013
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 21,578	$ 20,331
Accrued compensation and benefits	23,219	19,564
Deferred revenue	22,356	21,537
Income taxes payable	2,837	—
Current portion of capital lease obligations	809	1,466
Other accrued liabilities	3,653	3,425
Total current liabilities	74,452	66,323
Capital lease obligations, less current portion	3,821	5,680
Deferred income taxes	2,745	3,189
Other liabilities	725	497
Total liabilities	81,743	75,689
Shareholders' equity:		
Common stock, no par value; 60,000,000 shares authorized; 21,200,197 and 21,730,981 shares issued and outstanding at September 30, 2003 and December 31, 2003, at stated amount, respectively	146,219	161,952
Accumulated other comprehensive (loss) income	(95)	70
Retained earnings	187,153	196,302
Total shareholders' equity	333,277	358,324
Total liabilities and shareholders' equity	$ 415,020	$ 434,013

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 December 31, 2002	Three Months Ended December 31, 2003
Revenue	$ 132,691	$ 138,894
Cost of revenue	90,430	96,311
Gross profit	42,261	42,583
Selling, general and administrative expenses	26,153	27,652
Income from operations	16,108	14,931
Interest and other income, net	547	192
Income before income taxes	16,655	15,123
Provision for income taxes	6,579	5,974
Net income	$ 10,076	$ 9,149

Earnings per share:		
Basic	$ 0.48	$ 0.43
Diluted	$ 0.47	$ 0.42
Weighted average shares outstanding:		
Basic	21,224	21,378
Diluted	21,492	21,933

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended December 31,	
	2002	2003
Cash flows from operating activities:		
Net income	$ 10,076	$ 9,149
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,226	1,787
Amortization	1,241	1,373
Deferred income taxes	62	3,802
Tax benefit due to option exercises	84	2,269
Non-cash equity based compensation	256	206
Change in assets and liabilities, net of effects from acquisitions:		
Accounts receivable - billed	(6,826)	19,147
Accounts receivable - unbilled	(7,059)	(8,224)
Prepaid expenses and other current assets	(624)	401
Deferred contract costs	—	(4,942)
Other assets	290	(184)
Accounts payable	(404)	(1,246)
Accrued compensation and benefits	(2,594)	(3,656)
Deferred revenue	872	(820)
Income taxes payable	3,235	(2,837)
Other liabilities	(92)	(227)
Net cash (used in) provided by operating activities	(257)	15,998
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	(2,291)	(601)
Purchases of property and equipment	(1,041)	(1,708)
Decrease in notes receivable	46	49
Capitalization of software development costs	(585)	(1,019)
Decrease in marketable securities, net	—	128
Net cash used in investing activities	(3,871)	(3,151)
Cash flows from financing activities:		
Employee stock transactions	908	13,593
Repurchases of common stock	(7,498)	(335)
Net payments on borrowings	(12)	(46)
Net cash (used in) provided by financing activities	(6,602)	13,212
Net (decrease) increase in cash and cash equivalents	(10,730)	26,059
Cash and cash equivalents, beginning of period	94,965	117,372
Cash and cash equivalents, end of period	$ 84,235	$ 143,431

See notes to unaudited condensed consolidated financial statements.

MAXIMUS, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
For the Three Month Periods Ended December 31, 2003 and 2002

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 adjustments) considered necessary for a fair presentation have been included. The results of operations for the three-month period ended December 31, 2003 are not necessarily indicative of the results that may be expected for the full fiscal year. The balance sheet at September 30, 2003 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

These financial statements should be read in conjunction with the audited financial statements as of September 30, 2003 and 2002 and for each of the three years in the period ended September 30, 2003, included in the Company's Annual Report on Form 10-K for the year ended September 30, 2003 (File No. 1-12997) filed with the Securities and Exchange Commission on December 19, 2003.

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

Stock-based Compensation

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.

	Three Months Ended December 31, 2002	Three Months Ended December 31, 2003
	(in thousands, except per share data)	
Net income, as reported	$ 10,076	$ 9,149
Deduct: FAS 123 compensation expense, net of taxes	(1,830)	(1,211)
Net income, as adjusted	$ 8,246	$ 7,938
Earnings per share:		
Basic – as reported	$ 0.48	$ 0.43
Basic – as adjusted	$ 0.39	$ 0.37
Diluted – as reported	$ 0.47	$ 0.42
Diluted – as adjusted	$ 0.38	$ 0.36

2. Deferred Contract Costs

Deferred contract costs consist of reimbursable direct project costs relating to the transition phase of a long-term contract in progress, which are required to be reimbursed under the terms of the contract. These costs include system development and facility build-out costs totaling $7.3 million and $14.8 million at September 30, 2003 and December 31, 2003, respectively, of which $4.2 million and $6.8 million is leased equipment at September 30, 2003 and December 31, 2003, respectively. Deferred contract costs will be amortized over five years as services are provided under the contract, beginning January 2004.

3. Goodwill and Intangible Assets

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

	Management Services	Health Operations	Human Services Operations	Systems	Total
Balance as of September 30, 2003	$ 10,113	$ 1,792	$ 34,175	$ 35,677	$ 81,757
Reclassification of prior acquisition goodwill			(3,698)	3,698	—
Goodwill activity during period			559	42	601
Balance as of December 31, 2003	$ 10,113	$ 1,792	$ 31,036	$ 39,417	$ 82,358

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

	As of September 30, 2003			As of December 31, 2003		
	Cost	Accumulated Amortization	Intangible Assets, net	Cost	Accumulated Amortization	Intangible Assets, net
Non-competition agreements	$ 3,425	$ 2,854	$ 571	$ 3,425	$ 2,888	$ 537
Technology-based intangibles	1,500	264	1,236	1,500	318	1,182
Customer contracts and relationships	6,700	1,295	5,405	6,700	1,531	5,169
Total	$ 11,625	$ 4,413	$ 7,212	$ 11,625	$ 4,737	$ 6,888

Intangible assets from acquisitions are amortized over five to ten years. The weighted-average amortization period for intangible assets is approximately eight years. Intangible amortization expense was approximately $0.3 million for both of the three month periods ended December 31, 2002 and December 31, 2003. The estimated

amortization expense for the years ending September 30, 2004, 2005, 2006, 2007 and 2008 is $1.3 million, $1.2 million, $1.2 million, $1.1 million and $0.8 million, respectively.

4. Commitments and Contingencies

Litigation

On December 5, 2000, the Village of Maywood, Illinois (the Village) sued Unison MAXIMUS, Inc. (Unison), a wholly-owned subsidiary of MAXIMUS, in the Circuit Court of Cook County, Illinois. The Company acquired Unison Consulting Group, Inc. in May 1999 and subsequently renamed it "Unison MAXIMUS, Inc." Unison remains a wholly-owned subsidiary of the Company. The Village had contracted with Unison to provide a variety of financial and consulting services from 1996 through 1999. The Village has alleged *inter alia* breach of contract, breach of fiduciary duty, and fraud. 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 $47.0 million. The Company and Unison believe that the 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.

On January 3, 2003, the City of San Diego served the Company with a complaint naming DMG-MAXIMUS (DMG - previously a wholly-owned subsidiary of MAXIMUS since merged into MAXIMUS) as a defendant in an on-going lawsuit between the City and Conwell Shonkwiler & Associates, an architectural firm (CSA). In 2002, both CSA and the City had sued each other for claims arising out of design services provided by CSA for the City's Water Department Central Facility Water Project (Project). DMG had provided certain assessment and preliminary design services to the City in connection with the Project. CSA sued the City for payment of approximately $0.7 million in unpaid fees, and the City sued CSA for alleged damages caused by CSA's breach of the contract and professional negligence in rendering those services. In its defense, CSA has asserted that any deficiencies in its services were due to errors in the master program document prepared for the City by DMG. Consequently, the City named DMG as a defendant in the lawsuit alleging breach of contract and professional negligence and seeking indemnity from DMG. The City alleges damages against both defendants of at least $10.0 million. The Company believes the claim is without merit and intends to defend the action vigorously. The matter has been tendered to the Company's insurance carrier. Although there is no assurance of a favorable outcome, the Company does not believe that this action will have a material adverse effect on its financial condition or results of operations, and the Company has not accrued for any loss related to this action.

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

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

Financial Instruments – Letter of Credit

In June 2003, in connection with a long-term contract, the Company issued a standby letter of credit in an

initial amount of up to $20.0 million, which amount shall be reduced to $10.0 million on April 1, 2005. The letter of credit, which expires on March 31, 2009, may be called by the customer in the event the Company defaults under the terms of the contract. The facility contains financial covenants that establish minimum levels of tangible net worth and earnings before interest, tax, depreciation and amortization (EBITDA) and require the maintenance of certain cash balances. The Company was in compliance with all covenants at December 31, 2003.

Lease Obligations

On July 15, 2003, the Company entered into a capital lease financing arrangement with a financial institution, whereby the Company may acquire assets pursuant to an equipment lease agreement. Rental payments for assets leased will be payable over a 60-month period at a rate of 4.05% commencing in January 2004. At December 31, 2003, capital lease obligations of approximately $6.8 million were incurred related to these lease arrangements for new equipment. Capital leases entered into during the three months ended December 31, 2003 were $2.6 million.

5. Earnings Per Share

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

	Three Months Ended December 31,	
	2002	**2003**
Numerator:		
Net income	$ 10,076	$ 9,149
Denominator:		
Weighted average shares outstanding	21,224	21,378
Effect of dilutive securities:		
Employee stock options and unvested restricted stock awards	268	555
Denominator for diluted earnings per share	21,492	21,933

6. Stock Repurchase Program

Under resolutions adopted in May 2000, July 2002, and March 2003, the Board of Directors has authorized the repurchase, at management's discretion, of up to an aggregate of $90.0 million of the Company's common stock. In addition, in June 2002, the Board of Directors authorized the use of option exercise proceeds for the repurchase of the Company's common stock. During the three-month period ended December 31, 2003, the Company repurchased approximately 10,000 shares. At December 31, 2003, $50.2 million remained available for future stock repurchases under the program.

7. Stock Option Plans

For the three months ended December 31, 2003, approximately 521,000 stock options were exercised under the Company's stock option plan.

In May 2002, the Company issued 170,000 Restricted Stock Units (RSUs) to certain executive officers and employees under its 1997 Equity Incentive Plan. The grant-date fair value of each RSU was $30.14. The RSUs will vest in full upon the sixth anniversary of the date of grant, provided, however, that the vesting will accelerate if the Company meets certain earnings targets determined by the Board of Directors as set forth in the RSUs. The fair value of the RSUs at the grant date is amortized to expense over the vesting period. Compensation expense recognized related to these RSUs was approximately $0.3 million for both of the three-month periods ended December 31, 2002 and 2003.

8. Segment Information

Effective October 1, 2003, we implemented certain organizational changes to better manage our consulting services and systems lines of business. As a result of these organizational changes, our former Consulting segment is now reported as two separate external reporting segments: the Financial Services segment and the Management Services segment. The Financial Services segment includes the following divisions: Educational Services (which provides school based claiming services), Child Welfare, Revenue Services and Cost Services. The Management Services segment includes the following divisions: Technology Support, Management Solutions, Asset Services and the newly formed Federal Services division.

The Education Systems division, which provides student information systems through our proprietary SchoolMAX™ software, was previously part of the former Consulting segment, and is now part of the Systems segment. Additionally, the contracts within the Children Services division have been moved from the Human Services segment to the Enterprise Solutions division of the Systems segment because these contracts are predominately related to the implementation of statewide automated child welfare information services (SACWIS).

We are providing certain restated financial segment information for earlier periods to reflect this change in the composition of our reportable segments as if we had operated under the new organizational structure during the last two full fiscal years. This information is being provided for comparison purposes only.

	Quarter Ended (In thousands)								
	Dec. 31, 2001	Mar. 31, 2002	June 30, 2002	Sept. 30, 2002	Dec. 31, 2002	Mar. 31, 2003	June 30, 2003	Sept. 30, 2003	Dec. 31, 2003
Revenue:									
Health Operations	$ 41,306	$ 34,973	$ 42,704	$ 42,169	$ 40,991	$ 41,118	$ 40,923	$ 39,471	$ 39,547
Human Services Operations	37,180	34,403	37,625	37,318	36,738	34,788	37,395	50,794	39,335
Financial Services	14,464	17,546	16,949	18,027	16,451	17,029	18,847	19,087	19,274
Management Services	17,732	16,591	16,760	16,145	14,220	13,372	12,687	11,563	10,410
Systems	18,888	18,440	19,052	20,426	24,291	24,356	31,889	32,273	30,328
Total	$ 129,570	$ 121,953	$ 133,090	$ 134,085	$ 132,691	$ 130,663	$ 141,741	$ 153,188	$ 138,894
Gross profit:									
Health Operations	$ 8,872	$ 2,621	$ 8,588	$ 8,712	$ 10,351	$ 9,591	$ 8,532	$ 9,353	$ 9,939
Human Services Operations	7,549	6,958	9,072	8,638	7,076	6,036	7,427	7,542	7,283
Financial Services	7,156	8,756	6,978	9,483	8,352	9,152	10,216	9,134	9,340
Management Services	7,896	7,452	8,080	7,595	4,609	3,971	3,977	4,314	4,199
Systems	8,103	9,417	10,213	9,523	11,873	9,836	12,268	12,966	11,822
Total	$ 39,576	$ 35,204	$ 42,931	$ 43,951	$ 42,261	$ 38,586	$ 42,420	$ 43,309	$ 42,583
Income (loss) from operations:									
Health Operations	$ 4,970	$ (1,738)	$ 4,475	$ 4,791	$ 6,253	$ 5,039	$ 4,034	$ 4,755	$ 5,964
Human Services Operations	3,419	2,368	3,898	2,944	1,782	663	863	1,672	1,865
Financial Services	4,168	5,219	2,936	4,935	3,837	4,488	6,259	5,160	4,565
Management Services	3,314	2,711	3,074	2,793	1,595	769	978	641	(145)
Systems	1,796	2,223	2,635	1,286	2,443	(477)	2,043	3,133	2,520
Consolidating adjustments	326	582	787	427	198	516	310	88	162
Total	$ 17,993	$ 11,365	$ 17,805	$ 17,176	$ 16,108	$ 10,998	$ 14,487	$ 15,449	$ 14,931

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

Business Overview

We are a leading provider of health and human services program management, consulting services and systems solutions primarily to government. Since our inception, we have been at the forefront of innovation in meeting our mission of "Helping Government Serve the People®." We use our expertise, experience and advanced information technology to make government operations more efficient while improving the quality of services provided to program beneficiaries. We operate primarily in the United States and we have had contracts with government agencies in all 50 states. We have been profitable every year since we were founded in 1975. For the fiscal year ended September 30, 2003, we had revenue of $558.3 million and net income of $35.3 million. For the three months ended December 31, 2003, we had revenue of $138.9 million and net income of $9.1 million.

Results of Operations – Consolidated

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

	Three Months Ended December 31, (dollars in thousands, except per share data)	
	2002	2003
Revenue	$ 132,691	$ 138,894
Cost of revenue	90,430	96,311
Gross profit	$ 42,261	$ 42,583
Gross margin percentage	31.8 %	30.7 %
Selling, general and administrative	$ 26,153	$ 27,652
Net income	$ 10,076	$ 9,149
Earnings per share:		

Basic	$	0.48	$	0.43
Diluted	$	0.47	$	0.42

Our revenue increased 4.7% for the three months ended December 31, 2003 compared to the same period in fiscal 2003. Excluding revenue of $3.0 million related to an acquisition in fiscal 2003, our revenue for the three months ended December 31, 2003 increased 2.4% when compared to the three months ended December 31, 2002.

Our gross margin decreased to 30.7% for the three months ended December 31, 2003, a decrease of 1.1%, compared to 31.8% for the same period in the 2003 fiscal year.

Selling, general and administrative expense (SG&A) consists of management, marketing and administration costs (including salaries, benefits, bid and proposal efforts, travel, recruiting, continuing education, employee training and non-chargeable labor costs), facilities costs, printing, reproduction, communications, equipment depreciation, intangible amortization and non-cash equity based compensation. SG&A increased in the three months ended December 31, 2003 compared to the same period in fiscal 2003 due to the increase in expenses necessary to support higher revenue and to strengthen the infrastructure to market our products and grow our business, including our proposal facilities and systems, and new finance, operational, and compliance personnel. The increase was also due to additional SG&A related to businesses acquired in fiscal 2003.

Also included in SG&A is approximately $0.3 million and $0.2 million of non-cash equity-based compensation expense for the three month periods ended December 31, 2002 and December 31, 2003, respectively, related to the issuance of restricted stock units in May 2002. In future quarters, the quarterly amortization expense

related to these restricted stock units is estimated to be approximately $0.3 million, which amount may increase if certain earnings targets are achieved.

Our provision for income taxes for both of the three month periods ended December 31, 2003 and 2002 was 39.5% of income before income taxes.

Net income for the three month period ended December 31, 2003 was $9.1 million, or $0.42 per diluted share, compared with net income of $10.1 million, or $0.47 per diluted share, for the three month period ended December 31, 2002. The decline in net income is attributed primarily to ongoing weaknesses within our Management Services segment as discussed later.

Health Operations

	Three Months Ended December 31, 2002	Three Months Ended December 31, 2003
	(dollars in thousands)	
Revenue	$ 40,991	$ 39,547
Cost of revenue	30,640	29,608
Gross profit	$ 10,351	$ 9,939
Gross margin percentage	25.3 %	25.1 %

Revenue of our Health Operations segment decreased 3.5% for the three months ended December 31, 2003 compared to the same period in fiscal 2003. These changes were due primarily to variations in volume of certain existing enrollment broker contracts and changes in certain discretionary components, such as project-related mailing and advertising activities. Gross margin decreased to 25.1% for the three months ended December 31, 2003 from 25.3% for the same period in fiscal 2003.

Human Services Operations

	Three Months Ended December 31, 2002	Three Months Ended December 31, 2003
	(dollars in thousands)	
Revenue	$ 36,738	$ 39,335
Cost of revenue	29,662	32,052
Gross profit	$ 7,076	$ 7,283
Gross margin percentage	19.3 %	18.5 %

Revenue of our Human Services Operations segment increased 7.1% for the three months ended December 31, 2003 compared to the same period in fiscal 2003. The increase in revenue included approximately $3.0 million of revenue from the Correctional Services business acquired on May 1, 2003. Gross margins decreased to 18.5% for the three months ended December 31, 2003 from 19.3% for the same period in fiscal 2003. The gross margin percentage decline is reflective of weakened demand in certain lines of business, particularly Workforce Services where we experienced certain program reductions during fiscal 2003.

Financial Services

	Three Months Ended December 31, 2002	Three Months Ended December 31, 2003
	(dollars in thousands)	
Revenue	$ 16,451	$ 19,274
Cost of revenue	8,099	9,934
Gross profit	$ 8,352	$ 9,340
Gross margin percentage	50.8 %	48.5 %

Revenue of our Financial Services segment increased 17.2% for the three months ended December 31, 2003 compared to the same period in fiscal 2003. The increase was attributable primarily to new revenue maximization and school-based claiming contracts which were awarded during fiscal 2003. Gross margin decreased to 48.5% for

the three months ended December 31, 2003 from 50.8% for the same period in fiscal 2003. The decline on gross margin was primarily due to an increase in expenses as a result of several new contingency based contracts in which we incur expense in advance of recognizing the revenue.

Management Services

	Three Months Ended December 31,	
	2002	2003
	(dollars in thousands)	
Revenue	$ 14,220	$ 10,410
Cost of revenue	9,611	6,211
Gross profit	$ 4,609	$ 4,199
Gross margin percentage	32.4 %	40.3 %

Revenue of our Management Services segment decreased 26.8% for the three months ended December 31, 2003 compared to the same period in fiscal 2003. The decrease was attributable primarily to continued weakness in demand for certain management consulting services as government procurement of traditional consulting services, which may be more discretionary in nature, has declined. Gross margin increased to 40.3% for the three months ended December 31, 2003 from 32.4% for the same period in fiscal 2003. Although gross margin reflects an increase, the overall year over year income from operations for the Management Services segment declined due to the continued weakness in demand for management consulting services and a lower backlog, which resulted in increased indirect costs.

Systems

	Three Months Ended December 31,	
	2002	2003
	(dollars in thousands)	
Revenue	$ 24,291	$ 30,328
Cost of revenue	12,418	18,506
Gross profit	$ 11,873	$ 11,822
Gross margin percentage	48.9 %	39.0 %

Revenue of our Systems segment increased 24.9% for the three months ended December 31, 2003 compared to the same period in fiscal 2003. The revenue increase was primarily due to new contracts awarded to certain divisions within the segment. Gross margin decreased to 39.0% for the three months ended December 31, 2003 from 48.9% for the same period in fiscal 2003. The decrease was primarily due to declines in software license revenue, which carries higher gross margins.

Other income (expense)

	Three Months Ended December 31,	
	2002	2003
	(dollars in thousands)	
Interest and other income	$ 547	$ 192
Percentage of revenue	0.4 %	0.1 %

Interest and other income decreased due primarily to lower interest rates earned on our invested cash and cash equivalents.

Liquidity and Capital Resources

	Three Months Ended December,	
	2002	2003
	(dollars in thousands)	
Net cash provided by (used in):		
Operating activities	$ (257)	$ 15,998
Investing activities	(3,871)	(3,151)
Financing activities	(6,602)	13,212
Net increase (decrease) in cash and cash equivalents	$ (10,730)	$ 26,059

For the three months ended December 31, 2003, cash provided by our operations was $16.0 million, compared to cash used of $0.3 million for the three months ended December 31, 2002. Cash provided by operating activities for the three months ended December 31, 2003 primarily consisted of net income of $9.1 million plus non-cash items aggregating $9.4 million offset by net uses of working capital of $2.5 million. Non-cash items included $3.2 million of depreciation and amortization, $2.3 million from the income tax benefit of option exercises and $3.8 million from deferred income tax benefits. The net uses of working capital reflect a decrease in accounts receivable-billed of $19.1 million offset by increases in accounts receivable-unbilled of $8.2 million and deferred contract costs of $4.9 million as well as decreases in accrued compensation and benefits payable of $3.7 million and income taxes payable of $2.8 million. The decrease in accounts receivable-billed was reflective of good collection efforts during the three month period ended December 31, 2003 and the increase in accounts receivable-unbilled was primarily due to certain milestone based Systems contracts. During the three months ended December 31, 2002, cash used in operating activities consisted primarily of net income of $10.1 million plus non-cash items of $2.9 million offset by net uses of working capital of $13.3 million. Non-cash items included $2.5 million of depreciation and amortization. The net uses of working capital were primarily due to increases in accounts receivable-billed and unbilled totaling $13.9 million.

For the three months ended December 31, 2003, cash used in investing activities was $3.2 million, compared to $3.9 million for the three months ended December 31, 2002. Cash used in investing activities for the three months ended December 31, 2003 primarily consisted of $1.0 million for expenditures for capitalized software costs and purchases of property and equipment of $1.7 million. During the three months ended December 31, 2002, we used $2.3 million related to the acquisition of businesses, $0.6 million for expenditures related to capitalized software costs, and $1.0 million for purchases of property and equipment.

For the three months ended December 31, 2003, cash provided by financing activities was $13.2 million,

compared to cash used of $6.6 million for the three months ended December 31, 2002. Cash provided by financing activities for the three months ended December 31, 2003 primarily consisted of $13.6 million of employee stock transactions. Cash used in financing activities for the three months ended December 31, 2002 primarily consisted of common stock repurchases of $7.5 million offset by $0.9 million of employee stock transactions.

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 three-month period ended December 31, 2003, we repurchased approximately 10,000 shares. At December 31, 2003, $50.2 million remained available for future stock repurchases under the program.

Our working capital at December 31, 2003 was $220.5 million and we had cash and cash equivalents of $143.4 million and no debt. Management believes this strong liquidity and financial position will allow us to continue our stock repurchase program, depending on the price of the Company's common stock, and to pursue selective acquisitions. Restricted cash represents amounts collected on behalf of certain customers and its use is restricted to the purposes specified under our contracts with these customers.

Under the provisions of a recently awarded long-term contract, we incurred certain reimbursable transition period costs. During this transition period, these expenditures resulted in the use of our cash and in our entering into lease financing arrangements for a portion of the costs. Reimbursement of these costs will occur over the 60 months of the contract operating period, which commenced in January 2004. As of December 31, 2003, approximately $14.8 million in costs had been incurred and reported as deferred contract costs on our December 31, 2003 condensed consolidated balance sheet. Also under the provisions of this contract, we issued a standby letter of credit in an initial amount of up to $20.0 million, which amount shall be reduced to $10.0 million on April 1, 2005. The letter of credit, which expires on March 31, 2009, may be called by the customer in the event we default under the terms of the contract. The facility contains financial covenants that establish minimum levels of tangible net worth and earnings before interest, tax, depreciation and amortization (EBITDA) and require the maintenance of certain cash balances. We were in compliance with the covenants at December 31, 2003.

In July 2003, we entered into a capital lease financing arrangement with a financial institution, whereby we may acquire assets pursuant to an equipment lease agreement. Rental installments for assets leased will be payable over a 60-month period at a rate of 4.05%, subject to certain adjustments, commencing in January 2004. At December 31, 2003, capital lease obligations of approximately $6.8 million were incurred related to these lease arrangements for new equipment.

We believe that we will have sufficient resources to meet our currently anticipated capital expenditure andworking capital requirements for at least the next twelve months.

Critical Accounting Policies and Estimates

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

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

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

Revenue recognition. In fiscal 2003, approximately 82% of our total revenue was derived from state and local government agencies; 6% from federal government agencies; and 12% from other sources, such as foreign and commercial customers. Our revenue is generated from contracts with various payment arrangements, including: (1) fixed-price; (2) costs incurred plus a negotiated fee ("cost-plus"); (3) performance-based criteria; and (4) time and materials. Also, some contracts contain "not-to-exceed" provisions. For fiscal 2003, revenue from fixed-price contracts was approximately 36% of total revenue; revenue from cost-plus contracts was approximately 17% of total revenue; revenue from performance-based contracts was approximately 33% of total revenue; and revenue from time and materials contracts was approximately 14% of total revenue. A majority of our contracts with state and local government agencies have been fixed-price and performance-based and our contracts with the federal government have been cost-plus. Fixed-price and performance-based contracts generally offer higher margins but typically involve more risk than cost-plus or time and materials reimbursement contracts.

We recognize revenue on fixed-priced contracts as services are provided based on estimates of total expected contract revenue and costs to be incurred. The cumulative impact of any revisions in estimated revenue and costs are recognized in the period in which the facts that give rise to the revision become known. Also, with fixed-price contracts, we are subject to the risk of potential cost overruns. Provisions for estimated losses on incomplete contracts are provided in full in the period in which such losses become known. We recognize revenue on our performance-based contracts as such revenue becomes fixed or determinable, which generally occurs when amounts are billable to customers. For certain contracts, this may result in revenue being recognized in large, irregular increments. Additionally, costs related to certain contracts are incurred in periods prior to recognizing revenue and are generally expensed. Certain of these direct costs may be deferred until services are provided and revenue begins to be recognized when reimbursement of such costs is contractually guaranteed. These factors may result in irregular revenue and profit margins for performance-based contracts, which exist in our Financial Services segment, Health Operations segment and Human Services Operations segment. As a result, with performance-based contracts we have more uncertainty regarding expected future revenue.

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

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

other software-related contract services requiring significant modification or customization of software is recognized under the percentage-of-completion method.

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

Human Services Operations segment and Health Operations segment contracts generally contain base periods of one or more years as well as one or more option periods that may cover more than half of the potential contract duration. As of our most recently ended fiscal year, our average Human Services Operations segment and Health Operations segment contract duration was approximately two years. Our Financial Management segment and Management Services segment contracts had performance periods ranging from one month to approximately two years. Our average Systems segment contract duration was one year.

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

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

Forward Looking Statements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

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

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

(b) Reports on Form 8-K.

During the quarter ended December 31, 2003, the Registrant filed the following Current Reports on Form 8-K:

1) Current Report on Form 8-K (Item 12) was filed on November 21, 2003 to announce the Company’s financial results for the quarter and year ended September 30, 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: February 12, 2004

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

EXHIBIT INDEX

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

EXHIBIT 31.1

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

I, David V. Mastran, certify that:

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

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

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

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

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

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

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

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

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

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

Dated: February 12, 2004

/s/ David V. Mastran

David V. Mastran
Chief Executive Officer

EXHIBIT 31.2

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

I, Richard A. Montoni, certify that:

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

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

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

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

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

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

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

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

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

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

Dated: February 12, 2004

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

EXHIBIT 32.1

Section 906 CEO Certification

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

1. The Quarterly Report on Form 10-Q of the Company for the period ended December 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: February 12, 2004

/s/ David V. Mastran

David V. Mastran

Chief Executive Officer

EXHIBIT 32.2

Section 906 CFO Certification

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

1. The Quarterly Report on Form 10-Q of the Company for the period ended December 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: February 12, 2004

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

Important Factors Regarding Forward Looking Statements

From time to time, we may make forward-looking public statements, such as statements concerning our then-expected future revenue or earnings or concerning projected plans, performance or contract procurement, as well as other estimates relating to future operations. Forward-looking statements may be in reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), in press releases or in informal statements made with the approval of an authorized executive officer. The words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "believe," "could," "intend," "may," "opportunity," "plan," "potential" or similar terms and expressions are intended to identify "forward-looking statements" within the meaning of Section 21E of the Exchange Act and Section 27A of the Securities Act of 1933, as amended, as enacted by the Private Securities Litigation Reform Act of 1995.

We wish to caution you not to place undue reliance on these forward-looking statements that speak only as of the date on which they are made. In addition, we wish to advise you that the factors listed below, as well as other factors we have not currently identified, could affect our financial or other performance and could cause our actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods or events in any current statement.

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

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

If we fail to satisfy our contractual obligations, we may incur significant costs, including penalties, and our financial condition and our ability to compete for future contracts may be adversely affected.

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

If we fail to accurately estimate 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 36% of our fiscal 2003 revenue from fixed-price contracts and approximately 33% of our fiscal 2003 revenue from performance-based contracts. For fixed-price contracts, we receive our fee based on services provided. Those services might include operating a Medicaid enrollment center pursuant to specified standards, designing and implementing computer systems or applications, or delivering a planning document under a consulting arrangement. For performance-based contracts, we receive our fee on a per-transaction basis. These contracts include, for example, child support enforcement contracts, in which we often

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receive a fee based on the amount of child support collected. To earn a profit on these contracts, we must accurately estimate costs involved and assess the probability of completing individual transactions, within the contracted time period. If our estimates prove to be inaccurate, we may not achieve the level of profit we expected or we may incur a net loss on a contract.

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

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

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

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

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

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

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

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

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

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

Government agencies may investigate and audit our contracts and, if any improprieties are found, we may be required to refund revenue we have received, 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 that 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 customers are government authorities. To market our services to government customers, 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 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

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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

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believe that the demand for our services remains substantial, and that some service offerings may experience increased demand in the current environment, continued state budget deficits may adversely impact our existing and anticipated business as well as our future financial performance.

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

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

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.

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

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

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

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

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

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

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

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

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

The Sarbanes-Oxley Act of 2002 changes the regulatory landscape for public companies and makes executive management responsible not just for establishing, evaluating, and assessing over time the effectiveness of internal control over financial reporting and disclosure, but also periodically asserting to its effectiveness.

Beginning with fiscal year ended September 30, 2004, management will report on internal control and assert that the Company maintained, as of the end of the fiscal year, effective control over financial reporting, based on an established set of control criteria. Additionally, our independent auditors will attest to and report on management's internal control assessment.

We may not receive sufficient payments in a quarter to cover all of our costs in a 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 February 3, 2004, 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 customer of a material contract;
- the announcement of new services by competitors;
- political and legislative developments adverse to the privatization of government services;
- changes in or failure to meet earnings estimates by securities analysts;
- sales of common stock by existing shareholders or the perception that these sales may occur;
- adverse judgments or settlements obligating us to pay damages;
- negative publicity; and
- loss of key personnel.

In addition, overall volatility has often significantly affected the market prices of securities for reasons unrelated to a company’s operating performance. In the past, securities class action litigation has often been commenced against companies that have experienced periods of volatility in the price of their stock. Securities litigation initiated against us could cause us to incur substantial costs and could lead to the diversion of management’s attention and resources.

Our articles of incorporation and bylaws include provisions that may have anti-takeover effects.

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

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

Our Chief Executive Officer, Dr. David Mastran, beneficially owns approximately 12.3% of our common stock. As a result, Dr. Mastran has the ability to significantly influence the outcome of matters requiring a shareholder vote, including the election of the board of directors, amendments to our organizational documents, or approval of any merger, sale of assets or other major corporate transaction. The interests of Dr. Mastran may differ from the interests of our other shareholders, and Dr. Mastran may be able to delay or prevent us from entering into transactions that would result in a change in control, including transactions in which our shareholders might otherwise receive a premium over the then-current market price for their shares.