FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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OAO TECHNOLOGY SOLUTIONS INC

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2003

OR

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

For the transition period from ______ to ______

Commission file number 0-23173

OAO TECHNOLOGY SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**52-1973990**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
7500 Greenway Center Drive Greenbelt, Maryland	**20770**
(Address of principal executive offices)	**(Zip Code)**

Registrant' s telephone number, including area code (301) 486-0400

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ☐ No ☒

As of November 7, 2003, the registrant had outstanding 17,533,459 shares of its Common Stock, par value $0.01 per share.

OAO TECHNOLOGY SOLUTIONS, INC.

Quarterly Report on Form 10-Q for the Three and Nine Months Ended September 30, 2003

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PART 1 – FINANCIAL INFORMATION

Item 1. Financial Statements

OAO TECHNOLOGY SOLUTIONS, INC.
Condensed Consolidated Balance Sheets
(Unaudited)
(in thousands, except share and per share amounts)

	September 30, 2003	December 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 8,359**	$ 9,085
Accounts receivable, net	**33,689**	35,620
Deferred income taxes	**2,159**	2,641
Income tax receivable	**269**	1,880
Other current assets	**1,954**	1,151
Total current assets	**46,430**	50,377
Property and equipment, net	**3,945**	4,751
Purchased and developed software for sale, net	**490**	978
Deposits and other assets	**2,520**	1,568
Deferred income taxes	**747**	1,724

Goodwill	**10,088**	10,088
Intangible assets, net	**2,525**	3,052
Total assets	**$ 66,745**	$ 72,538
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Term loan, current portion	**$ 1,800**	$ 1,800
Accounts payable	**4,964**	8,015
Accrued expenses	**3,724**	6,221
Accrued compensation and benefits	**9,297**	9,564
Income tax payable	**705**	2,121
Unearned revenue	**3,193**	3,500
Capital lease obligations, current portion	**508**	578
Total current liabilities	**24,191**	31,799
Capital lease obligations, net of current portion, and other	**2,386**	1,680
Term loan, net of current portion	**3,623**	5,012
Commitments and contingencies		

Shareholders' equity :		
Preferred stock, par $.01 per share, 10,000,000 shares authorized; none issued and outstanding	**–**	–
Common stock, par $.01 per share, 50,000,000 shares authorized; 17,533,459 and 17,499,209 shares issued and outstanding as of September 30, 2003 and December 31, 2002, respectively	**175**	175
Additional paid-in capital	**39,550**	39,383
Accumulated other comprehensive net loss	**(1,171)**	(1,006)
Shareholder receivable	**(3,651)**	(3,532)
Retained earnings (deficit)	**1,642**	(973)
Total shareholders' equity	**36,545**	34,047
Total liabilities and shareholders' equity	**$ 66,745**	$ 72,538

The accompanying notes are an integral part of these condensed consolidated financial statements.

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OAO TECHNOLOGY SOLUTIONS, INC.
Condensed Consolidated Statements of Operations and Comprehensive Income
(Unaudited)
(in thousands, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2003	**2002**	**2003**	**2002**
Revenues	**$47,137**	$40,490	**$140,004**	$123,790
Direct costs	**36,801**	34,260	**110,486**	102,585
Gain on prepaid software licenses	–	–	–	(1,418)
	10,336	6,230	**29,518**	22,623
Selling, general and administrative expenses	**8,831**	7,766	**24,292**	21,431
Severance and other termination costs	–	696	–	2,035
Income (loss) from operations	**1,505**	(2,232)	**5,226**	(843)
Interest income	**9**	34	**30**	65
Interest expense	**(150)**	(135)	**(505)**	(359)
Other	**67**	–	**(206)**	–
Income (loss) before income taxes	**1,431**	(2,333)	**4,545**	(1,137)
Provision for income taxes	**608**	(982)	**1,930**	(482)
Net income (loss)	**823**	(1,351)	**2,615**	(655)

Other comprehensive income (loss), net of taxes:

Net change in fair value of cash flow hedges	**78**	(115)	**88**	(204)
Foreign currency translation adjustment	**28**	229	**(253)**	140
Comprehensive income (loss)	**$929**	$(1,237)	**$2,450**	$(719)
Basic and diluted net income (loss) per common share	**$0.05**	$(0.08)	**$0.15**	$(0.04)
Weighted average number of shares outstanding:				
Basic	**17,522**	17,473	**17,509**	17,885
Diluted	**18,167**	17,473	**17,726**	17,885

The accompanying notes are an integral part of these condensed consolidated financial statements.

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OAO TECHNOLOGY SOLUTIONS, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	Nine months ended September 30,	
	2003	**2002**
Cash Flows from Operating Activities:		
Net income (loss)	**$2,615**	$(655)
Adjustment to reconcile net income (loss) to net cash provided by operating activities:		
Gain on prepaid software licenses	–	(1,418)
Severance and other termination costs	–	277
Depreciation and amortization	**2,645**	3,043
Deferred income taxes	**1,395**	797
Change in assets and liabilities:		
Accounts receivable	**1,931**	5,174
Other current assets and income tax receivable	**808**	(2,292)
Deposits and other assets	**(839)**	(313)
Accounts payable	**(3,051)**	1,308
Accrued expenses and accrued compensation and benefits	**(1,264)**	(982)

Income tax payable	**(1,416)**	217
Unearned revenue	**(307)**	1,137
Other long-term liabilities	**958**	234
Net cash provided by operating activities	**3,475**	6,527
Cash Flows from Investing Activities:		
Purchase of business	**(1,500)**	–
Proceeds from repayment of note receivable, OAO Corporation	–	1,714
Expenditures for property and equipment	**(667)**	(1,831)
Net cash used in investing activities	**(2,167)**	(117)
Cash Flows from Financing Activities:		
Repurchase of common stock	–	(3,156)
Payments on term loan	**(1,350)**	(1,500)
Proceeds from sale of common stock	**48**	373
Payments on capital lease obligations	**(479)**	(668)
Net cash used in financing activities	**(1,781)**	(4,951)

Effect of exchange rate changes on cash	**(253)**	140
Net (decrease) increase in cash and cash equivalents	**(726)**	1,599
Cash and cash equivalents, beginning of period	**9,085**	9,060
Cash and cash equivalents, end of period	**$8,359**	$10,659

The accompanying notes are an integral part of these condensed consolidated financial statements.

OAO TECHNOLOGY SOLUTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Organization and Basis of Presentation

OAO Technology Solutions, Inc. ("the Company" or "OAOT") provides managed information technology, or IT, services as a partner to global outsourcers, major corporations, health benefit organizations, and government agencies. The Company began its operations in 1993 as a division of OAO Corporation, was incorporated in March 1996 and was spun off from OAO Corporation in April 1996. The Company operates two business segments: Managed IT Solutions and Healthcare IT Solutions.

The condensed consolidated financial statements included herein have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and include, in the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of interim period results. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. The balance sheet at December 31, 2002 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company' s Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2002 and the Company' s other filings with the SEC. The results of operations for the three and nine month periods ended September 30, 2003 are not necessarily indicative of the results to be expected for the full year.

2. Earnings Per Share

Basic earnings per share has been calculated as net earnings divided by basic weighted-average common shares outstanding. Diluted earnings per share has been computed as net earnings divided by weighted-average common shares outstanding, and, when dilutive, potential common shares from options to purchase common stock using the treasury stock method. The dilutive effect of options to purchase 645,000 and 217,000 shares was included in the calculation of diluted earnings per share for the three and nine months ended September 30, 2003, respectively. The dilutive effect of shares issuable upon exercise of stock options has been excluded from the diluted earnings per share calculation for the three and nine months ended September 30, 2002, as inclusion of such shares would be anti-dilutive.

3. Accounts Receivable

The components of accounts receivable consisted of the following as of (in thousands):

	September 30, 2003	December 31, 2002
Amounts billed	**$ 26,182**	$ 33,598
Amounts unbilled	**9,151**	4,381
Allowance for doubtful accounts	**(1,644)**	(2,359)

Total	**$ 33,689**	$ 35,620

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4. Segment Information

Summary information by segment is as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2003	**2002**	**2003**	**2002**
MANAGED IT SOLUTIONS				
Revenues	**$39,328**	$35,985	**$118,601**	$106,409
Gross profit	**7,829**	7,842	**24,112**	21,907
HEALTHCARE IT SOLUTIONS				
Revenues	**7,809**	4,505	**21,403**	17,381
Gross profit	**2,507**	(1,612)	**5,406**	716
TOTALS				
Revenues	**47,137**	40,490	**140,004**	123,790
Gross profit	**10,336**	6,230	**29,518**	22,623
Selling, general and administrative expenses	**8,831**	7,766	**24,292**	21,431
Severance and other termination costs	**–**	696	**–**	2,035
Total consolidated income (loss) from operations	**1,505**	(2,232)	**5,226**	(843)
Interest and other expense, net	**(74)**	(101)	**(681)**	(294)

Total consolidated income (loss) before income taxes	**$1,431**	$(2,333)	**$4,545**	$(1,137)

5. Stock-Based Compensation

In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, "Accounting for Stock Based Compensation−Transition and Disclosure−an amendment to FAS 123". This statement amended SFAS 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. This statement also amended the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company accounts for its stock based employee compensation plan under APB Opinion No. 25, "Accounting for Stock Issued to Employees" and has not adopted the fair value method of accounting for stock-based employee compensation prescribed by SFAS 123. Had compensation cost been determined based on the fair value of the options at the grant dates consistent with the method prescribed by SFAS No. 123, the Company' s net income (loss) and net income (loss) per common share would have been as follows (in thousands, except per share amounts):

	Three months ended September 30,		Nine months ended September 30,	
	2003	**2002**	**2003**	**2002**
Consolidated net income (loss):				
As reported	**$ 823**	$(1,351)	**$2,615**	$(655)
Stock-based employee compensation expense based on the fair value method, net of related tax effect	**(275)**	(217)	**(861)**	(1,341)
Pro forma	**$ 548**	$(1,568)	**$1,754**	$(1,996)
Basic and diluted net income (loss) per common share:				
As reported	**$ 0.05**	$(0.08)	**$0.15**	$(0.04)
Pro forma	**$ 0.03**	$(0.09)	**$0.10**	$(0.11)

6. Severance and Other Termination Costs

Approximately $524,000 of severance and other termination costs are included in accrued compensation and benefits on the consolidated balance sheet as of December 31, 2002. There were no severance and other termination costs accrued on the consolidated balance sheet as of September 30, 2003.

7. Commitments and Contingencies

Following the public announcement on August 12, 2003 that the Company had formed a special committee of independent directors to evaluate the possibility of a going private transaction at a price of $2.75 per share, Terrapin Partners, the Company' s largest stockholder, and the Company and its directors were named as defendants in four putative class action lawsuits filed in the Court of Chancery of the State of Delaware seeking injunctive relief to prohibit the transaction or, if the transaction were consummated, rescission of the transaction and damages. The lawsuits were subsequently consolidated. On November 4, 2003, in light of the Company' s expressed willingness to increase the tender offer price to $3.15 per share following extensive negotiations with the special committee and discussions with plaintiffs' counsel, plaintiffs and defendants entered into an agreement in principle to settle the litigation, without the defendants admitting any wrongdoing or liability whatsoever, that provides for, among other things, dismissal of the lawsuits and plaintiffs' claims with prejudice and the payment by OAOT of plaintiffs' counsel' s legal fees and expenses. The four cases that were filed were filed by or on behalf of the following plaintiffs: Guerilla Capital Management (civil action No. 20499-NC); Michael Willaman (civil action No. 20496-NC); IRA FBO Thomas C. LaRocque, VFTC as Custodian Rollover Account (civil action No. 20505-NC); and Chandelle Investments, Ltd. (civil action No. 20484-NC).

The Company from time to time is involved in various other litigation matters arising in the normal course of business. In management' s opinion, the Company' s ultimate liability or loss, if any, resulting from such litigation will not have a material adverse effect on the Company' s financial position, results of operations or cash flows.

There are contingent liabilities with respect to tax matters, certain contracts and other matters occurring in the normal course of business. In the opinion of management, all such matters are adequately covered by insurance or other accruals, and if there are any not so covered, are without merit or of such kind, or involve such amounts, as would not have a significant effect on the consolidated financial condition or results of operations of the Company.

During the three months ended September 30, 2003, the Company entered into foreign currency forward contracts to hedge the foreign exchange risk associated with forecasted payroll costs denominated in Canadian dollars. The Company had outstanding forward contracts with amounts totaling approximately $44.0 million at September 30, 2003, which expire at various dates through August 2007. These contracts have been designated as cash flow hedges. The fair value of these contracts was approximately $112,000 and is included in deposits and other assets on the condensed consolidated balance sheet at September 30, 2003. Changes in the fair value of these contracts are recorded as a component of other comprehensive income.

8. Recent Accounting Pronouncements

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145 ("SFAS 145"), "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." Among other things, SFAS 145 rescinds both SFAS 4 "Reporting Gains and Losses from Extinguishment of Debt," and the amendment to SFAS 4, SFAS 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." Through this rescission, SFAS 145 eliminates the requirement that gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. This statement is effective for fiscal years beginning after May 15, 2002. The Company' s adoption of SFAS 145 on January 1, 2003 did not have an impact on its consolidated financial condition or results of operations.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146 ("SFAS 146"), "Accounting for Costs Associated with Exit or Disposal Activities" which is effective January 1, 2003. SFAS 146 nullifies Emerging Issues Task Force Issue No. 94-3

"Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." This statement requires that an exit or disposal activity related cost be recognized when the liability is incurred instead of when an entity commits to an exit plan. This statement is effective for disposal activities initiated after December 31, 2002. The Company's adoption of SFAS 146 on January 1, 2003 did not have an impact on its consolidated financial condition or results of operations.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150 ("SFAS 150"), "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity", which provides guidance for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS 150 did not have a material impact on the Company' s consolidated financial condition or results of operations.

9. Subsequent Event

At a special meeting of the Board of Directors held on November 5, 2003, the full Board of Directors resolved, following the unanimous recommendation of a special committee of independent directors (the "Special Committee"), to approve a cash tender offer for all of the outstanding shares of the Company' s common stock, at a per share price of $3.15, pursuant to an Agreement and Plan of Merger, dated as of November 5, 2003 (the "Merger Agreement"), between the Company, Terrapin Partners Holding Company, LLC, Terrapin Partners Subsidiary, LLC ("TP Sub") and TP Merger Sub, Inc. ("TP Merger Sub"), a wholly owned subsidiary of TP Sub (collectively, "Terrapin Partners"). Pursuant to the terms of the Merger Agreement, following completion of the tender offer, each non-tendering stockholder shall be entitled to receive the same consideration paid in the tender offer in the subsequent merger. Although the tender offer will be made to all holders of the Company' s common stock, Terrapin Partners and its affiliates will not tender any shares in the tender offer. Terrapin Partners is the beneficial owner of approximately 51% of the Company' s outstanding common stock.

If completed, the tender offer will be followed by a second-step merger in which the remaining holders of the Company' s common stock (other than Terrapin Partners and its affiliates) will be entitled to receive the same consideration as is paid in the tender offer. If, after the tender offer is completed, Terrapin Partners directly or indirectly holds at least 90% of the outstanding shares of the Company' s common stock, a short-form merger of TP Merger Sub into the Company will be promptly effected. If, on the other hand, Terrapin Partners directly or indirectly holds less than 90% of the outstanding shares of the Company' s common stock after completion of the tender offer, a long-form merger of TP Merger Sub into the Company will be effected, which would be approved by Terrapin Partners pursuant to an action by written consent in lieu of a meeting of stockholders.

The Company intends to commence the tender offer as soon as practicable. The tender offer is subject to customary conditions, including, without limitation, a nonwaivable condition that at least a majority of the shares held by the unaffiliated stockholders of the Company are tendered in the tender offer and the availability of financing. The Company intends to use both cash on hand and third-party financing to fund purchases of shares in the tender offer and the second-step merger.

Upon completion of the tender offer and second-step merger, the Company will de-register its common stock with the SEC, de-list its shares from the Nasdaq National Market and become a privately held company owned by Terrapin Partners and its affiliates.

Item 2.

MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is provided to increase the understanding of, and should be read in conjunction with, the Condensed Consolidated Financial Statements and Notes thereto found in this Form 10-Q. Historical results and percentage relationships among any amounts in these Financial Statements are not necessarily indicative of trends in operating results for any future period.

Forward-Looking Statements

The statements that are not historical facts contained in this Form 10-Q, including this Management' s Discussion and Analysis of Financial Condition and Results of Operations and Notes to Condensed Consolidated Financial Statements, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based on currently available operating, financial and competitive information, and are subject to various risks and uncertainties. Future events and the Company' s actual results may differ materially from the results reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to: dependence on key strategic and end-user customers, the ability to establish new strategic customer relationships, risks associated with fixed-price contracts, the ability to sustain and manage growth, lower than expected revenue growth and pricing pressure from strategic and other customers, inability to achieve marketing and sales goals and other business development initiatives including the ability to sell new healthcare software licenses, difficulties of investments in infrastructure, potential changes in the prevailing technology away from outsourcing IT applications, the ability of the Company to successfully develop new products that will enable the Company to remain competitive in the healthcare IT market, the ability to make necessary enhancements or developments to the Company' s existing software products, possible deferral of revenue, profit and cash flow from any increase in per-member, per month and/or percentage-of-completion basis software sales in relation to total software sales, inability to successfully install healthcare software on a timely or profitable basis, competition in the industry, general economic conditions and level of information technology service spending, the possibility that strategic or other customers could invoke termination clauses contained in the Company' s contracts, dependence on key personnel, the ability to attract, hire and retain personnel who possess the technical skills and experience necessary to meet the service requirements of the Company' s clients, the ability to successfully integrate recent acquisitions, the potential liability with respect to actions taken by its employees, the ability to control and reduce costs of the business, risks associated with international sales including exposure to fluctuations between the U.S. dollar and foreign currencies, customers and suppliers; and other risks described herein and in the Company' s other SEC filings.

Overview

We are a global provider of information technology, or IT, solutions as a partner to global outsourcers, major corporations, health benefit organizations, and government agencies. The Company operates two business segments: Managed IT Solutions and Healthcare IT Solutions.

Managed IT Solutions

The Managed IT Solutions segment consists of Application Management Services, IT Infrastructure Support Services, and Professional Staffing Services for both the commercial and federal sectors.

Application Management Services

Our Application Management Services business provides outsourcing services encompassing application development, application maintenance, and complete lifecycle application support for custom and packaged applications across legacy, client server and web-based platforms. We generally perform these services under long-term contracts in which we assume responsibility for our clients business applications with the goal of reducing our clients operating costs, improving the quality and operation of their existing applications, and enabling them to focus their key resources on core business competencies. We have tailored our services to meet the needs of our clients, and we have the flexibility to perform our services on site at the client' s facilities or remotely from one of our delivery centers in Alberta, Ontario or New Brunswick, Canada.

Our Application Management Services business model incorporates best practices in all areas of application management including recruiting, developing, motivating and retaining employees and includes a comprehensive methodology that conforms to industry standards set by the Software Engineering Institute' s Capability Maturity Model ("SEI CMM") Level 3 and by the Project Management Institute (PMI). The SEI CMM has become an industry standard for evaluating the effectiveness of an IT environment and the process maturity of outsourcing vendors.

IT Infrastructure Support Services

Our IT Infrastructure Support Services offerings include Data Center Management and Network and Desktop Management Services.

Our Data Center Management business provides outsourcing services encompassing all aspects of data center IT infrastructure management including console operations, tape and print operations, technical support, disaster planning, data recovery, data security, systems planning, and library services. We generally perform these services under long-term contracts in which we assume responsibility for operations at our clients data center with the goal of mitigating our clients risk for price escalation and hardware obsolescence, and implementing best practices in the areas of personnel recruiting, training, and retention. In addition, we offer assistance to clients transitioning to new or upgraded data centers.

Our Network and Desktop Management Services business provides general IT infrastructure consulting and help desk services. These services include server management, network management, hardware installations, moves and upgrades as well as 24x7 help desk services.

Professional Staffing Services

Our Professional Staffing Services business offers skilled IT personnel, primarily on a time-and-materials basis, to fill short or indefinite term requirements on a temporary, temporary to permanent, or permanent basis. Our Professional Staffing Services business has a mature recruiting infrastructure capable of locating, verifying, training and providing skilled IT professionals with a wide range of engineering and technical abilities. We maintain a database that encompasses thousands of qualified candidates in North America and Europe. Our federal sector business provides information technology solutions to select government agencies, either directly or as a subcontractor.

Healthcare IT Solutions

Our Healthcare IT Solutions segment provides managed care software application solutions to healthcare benefit organizations under software license agreements. Our proprietary software solutions consist of our MC400 and EZ-CAP products, which we sell on a per member, per month (PMPM) subscription basis, on a PMPM basis in an Application Service Provider ("ASP") model or for a one-time perpetual license fee.

Our MC400 software provides a comprehensive solution for healthcare benefit organizations (health maintenance organizations, indemnity insurance plans, physician hospital organizations, independent physician organizations and self-insured employer plans, among others). The MC400 system is web-enabled and provides modules that include, among others, claims processing, patient care management, eligibility, enrollment, utilization, internet connectivity, data warehousing, care management and web portals in one integrated system. We have over 45 MC400 installed sites.

Our EZ-CAP software provides secure, web-enabled modules for authorizations, premium billing, capitation payment, data reconciliation, benefit administration, contract management, and health plan and member eligibility management. We have over 148 EZ-CAP installed sites.

We have developed a Health Insurance Portability & Accountability Act (HIPAA) solution designed for our MC400 and EZ-CAP systems. HIPAA is a healthcare reform law enacted in 1996. The HIPAA provisions are intended to improve the efficiency in healthcare delivery through standardized, electronic transmission of many

administrative and financial transactions as well as protection of confidential health information. Compliance with the privacy provisions of HIPAA became mandatory in April 2003 and the transactions and code sets provisions become mandatory in October 2003. Our HIPAA solution provides healthcare organizations with the necessary tools to facilitate their compliance with the new HIPAA regulations. We have commitments with certain customers to deliver and maintain a HIPAA ready solution for certain aspects of HIPAA. We believe our solution will meet the Company' s obligations with respect to the requirements of HIPAA, however, HIPAA requirements are complicated and evolving, and there can be no assurances that our solution will be able to meet such requirements on a timely basis.

Management has approved a budget of approximately $3.5 million for specific research and development related to product enhancements and new product development in our Healthcare IT Solutions business. We believe continued investment in research and development is important to maintain customer satisfaction, remain competitive, and grow our Healthcare IT business. Management anticipates utilizing this budget during 2003 and 2004. There can be no assurance, however, that such new products will be developed in a timely manner or will meet the needs of potential customers.

We have not met certain obligations under some of our customer agreements relating to requirements to implement software within certain time frames. Certain customers have notified us of their intent to terminate their contract and/or to seek compensation due to such delays. We may be required to grant consideration to such customers for these delays. Currently we are not able to determine the amount, if any, of such consideration nor do we believe that any material consideration will be paid.

As the healthcare industry regulations and the related needs of our customers become more complex, the number of license sales requiring customization could increase. In addition, we are working to improve and upgrade our customer contracting and delivery process in order to strengthen controls over the software implementation schedule. These changes in the business process may further lead to more license sales being accounted for under the percentage-of-completion method.

We plan to continue efforts to market our software solutions on a PMPM basis, both as a subscription and as an ASP model. We believe that the pay-as-you-go feature of the PMPM model is attractive to customers concerned with managing cash flow and, therefore, broadens the target market for our products. In addition, we believe the PMPM model provides a more consistent and predictable cash flow and revenue stream and could have a greater contract value than a perpetual license sale. This effort to market our products on a PMPM basis could result in the deferral of revenue, profit and cash flow in our Healthcare IT Solutions segment in the short term.

Critical Accounting Policies

The preparation of the condensed consolidated financial statements contained in this Quarterly Report requires us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our financial statements will be affected. The significant accounting policies that we believe are the most critical to aid in fully understanding and evaluating our reported financial results are discussed below.

In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management' s judgment in its application. There are also areas in which management' s judgment in selecting among available alternatives would not produce a materially different result. Our senior management has reviewed these critical accounting policies and related disclosures with our Audit Committee.

Revenue Recognition

Managed IT Solutions

Our Managed IT Solutions segment provides IT services under time-and-materials and fixed unit-price contracts. Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, and collectibility is reasonably assured. Revenue is recorded for time-and-materials contracts at contractually agreed upon rates and reflects the extent of actual services delivered in the period in accordance with the terms of the contract. Revenue from fixed unit-price contracts is recognized monthly as service is performed based upon the number of full time equivalent positions fulfilled in accordance with the terms of the contract. The pricing in fixed unit-price contracts is fixed as to the unit price but varies based upon the number of full time positions covered. Provisions for estimated losses, if any, are recognized in the period in which the loss is determined. Historically, we have had minimal contract losses in this segment.

Healthcare IT Solutions

Our Healthcare IT Solutions segment derives revenues from two primary sources: (1) software licenses, which includes one-time license fee and PMPM arrangements, and (2) services, which include implementation and consulting services, maintenance (post contract support), training, and ASP arrangements. While the basis for software license revenue recognition is substantially governed by the provisions of Statement of Position No. 97-2, "Software Revenue Recognition," issued by the American Institute of Certified Public Accountants ("SOP 97-2"), as amended and interpreted, in applying SOP 97-2 we exercise judgment and use estimates in connection with the determination of the amount of software license and services revenues to be recognized in each accounting period.

For software license arrangements that do not require significant modification or customization of the underlying software, we recognize revenue when: (1) we enter into a legally binding arrangement with a customer for the license of software; (2) we deliver the product; (3) customer payment is deemed fixed or determinable and free of contingencies or significant uncertainties; and (4) collection is probable. Revenues from PMPM software license arrangements and ASP service provider arrangements are recognized upon completion of system implementation ratably over the term of the arrangement.

Our software arrangements generally include implementation services. For arrangements with multiple elements, we use the residual method to record software license revenue by unbundling undelivered elements based upon vendor specific objective evidence ("VSOE"). Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue. VSOE of fair value is based upon the normal pricing for services when sold separately. For maintenance, VSOE of fair value is measured by the annual renewal of maintenance agreements. If we cannot objectively determine the fair value of any undelivered element included in bundled software and service arrangements, we defer revenue until all elements are delivered, services have been performed, or until fair value can objectively be determined.

Implementation services are generally accounted for separately from the license revenue because the arrangements qualify as "service transactions" as defined in SOP 97-2. The more significant factors considered in determining whether the revenue should be accounted for separately include the nature of services (i.e., consideration of whether the services are essential to the functionality of the licensed product), degree of risk, timing of payments and impact of milestones on the realizability of the software license fee. If an arrangement does not qualify for separate accounting of the license and service elements, then license revenue is generally recognized together with the services based on contract accounting using the percentage-of-completion method as described below.

In certain instances, our arrangements include acceptance provisions requiring the customer to accept the use of the software. If we determine that the likelihood of non-acceptance in these arrangements is remote, we then recognize revenue once all of the criteria described above have been met. If such a determination cannot be made, revenue is recognized upon the earlier of receipt of written customer acceptance or expiration of the acceptance period.

Revenue for implementation services is generally recognized as the services are performed. If there is a significant uncertainty about the project completion or receipt of payment for the services, revenue is deferred until the uncertainty is sufficiently resolved.

We estimate the percentage-of-completion on contracts utilizing hours incurred to date as a percentage of total estimated hours to complete the project. If we do not have a sufficient basis to measure progress toward completion, revenue is recognized when we receive acceptance from the customer. When total cost estimates exceed revenues, we accrue for the estimated losses immediately.

The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent with the application of the percentage-of-completion method of accounting can materially affect the amounts of revenues and related expenses reported in our consolidated financial statements.

Allowance for Doubtful Accounts

We make judgments as to our ability to collect outstanding receivables and provide allowances for the portion of receivables when collection becomes doubtful. Provisions are made based upon a specific review of all significant outstanding invoices. For those invoices not specifically reviewed, general provisions are provided based upon the age of the receivable, our historical collection experience and current economic trends. If the historical data we use to calculate the allowance provided for doubtful accounts does not reflect the future ability to collect outstanding receivables, additional provisions for doubtful accounts may be needed and the future results of operations could be materially affected.

Impairment of Goodwill

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets", which we adopted effective January 1, 2002. In accordance with SFAS 142, the Company discontinued amortization of goodwill on January 1, 2002. The Company tests goodwill for impairment using the two-step process prescribed in SFAS 142. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. The Company performed the required impairment tests as of October 1, 2002 and determined that no impairment existed as of that date. The Company plans to perform the required test on October 1 of each year, and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value amount.

We estimate fair value for the impairment test using a discounted cash flow model, which involves the use of estimates related to the fair market values of the business operations with which goodwill is associated. The underlying assumptions for the discounted cash flow can change from period to period and these changes could cause a material impact to the consolidated statement of operations. Management' s assumptions about discount rates and other internal and external economic conditions require significant judgment based on fluctuating rates and anticipated future revenues. Additionally, the test for impairment is performed on an annual basis using the assumptions that apply at the time the analysis is updated.

Accounting for Income Taxes

Significant judgment is required in determining our worldwide income tax provision. In the ordinary course of a global business, there are many transactions and calculations where the ultimate tax outcome is uncertain. Some of these uncertainties arise as a consequence of revenue sharing and cost reimbursement arrangements among related entities, the process of identifying items of revenue and expense that qualify for preferential tax treatment and segregation of foreign and domestic income and expense to avoid double taxation. Although we believe that our estimates are reasonable, no assurance can be given that the final tax outcome of these matters will not be different than that which is reflected in our historical income tax provisions and accruals. Such differences could have a material effect on our income tax provision and net income in the period in which such determination is made.

We have a valuation allowance on our deferred tax assets for amounts we estimate are unlikely to be realized. We have considered future taxable income and adopted ongoing prudent and feasible tax planning strategies in assessing the adequacy of our valuation allowance. The valuation allowance is based in part on estimates and assumptions that could change in the future. Any determination that an additional valuation allowance is necessary could have a material adverse impact on our income tax provision and net income in the period in which such determination is made.

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Results of Operations

The following table sets forth, for the periods indicated, selected statements of operations data as a percentage of revenues (dollars in millions):

	Three months ended September 30,				Nine months ended September 30,			
	2003		**2002**		**2003**		**2002**	
Revenues	**$47.1**	**100.0%**	$40.5	100.0%	**$140.0**	**100.0%**	$123.8	100.0%
Direct costs	**36.8**	**78.1**	34.3	84.7	**110.5**	**78.9**	102.6	82.9
Gain on prepaid software licenses	–	–	–	–	–	–	(1.4)	(1.1)
Selling, general and administrative expenses	**8.8**	**18.7**	7.8	19.3	**24.3**	**17.4**	21.4	17.3
Severance and other termination costs	–	–	0.7	1.7	–	–	2.0	1.6
Income (loss) from operations	**1.5**	**3.2**	(2.3)	(5.7)	**5.2**	**3.7**	(0.8)	(0.6)
Interest and other expense, net	**(0.1)**	**(0.2)**	(0.1)	(0.2)	**(0.7)**	**(0.5)**	(0.3)	(0.2)
Income (loss) before income taxes	**1.4**	**3.0**	(2.4)	(5.9)	**4.5**	**3.2**	(1.1)	(0.9)
Provision for income taxes	**0.6**	**1.3**	(1.0)	(2.5)	**1.9**	**1.4**	(0.5)	(0.4)
Net income (loss)	**$0.8**	**1.7**	$(1.4)	(3.5)	**$2.6**	**1.9**	$(0.6)	(0.5)

Comparison of the Three and Nine Months Ended September 30, 2003 to the Three and Nine Months Ended September 30, 2002

Revenues

Overall

Revenues increased $6.6 million, or 16.4%, to $47.1 million for the three months ended September 30, 2003, up from $40.5 million for the same period in 2002, and increased $16.2 million, or 13.1%, to $140.0 million for the nine months ended September 30, 2003, up from $123.8 million for the same period in 2002. These increases were driven by increased revenues in both the Managed IT Solutions and Healthcare IT Solutions segments, as more fully described below.

Managed IT Solutions

Revenues from the Managed IT Solutions segment increased $3.3 million, or 9.3%, to $39.3 million for the three months ended September 30, 2003, up from $36.0 million for the same period in 2002, and increased $12.2 million, or 11.5%, to $118.6 million for the nine months ended September 30, 2003, up from $106.4 million for the same period in 2002. The increase in Managed IT Solutions revenues for the three months ended September 30, 2003 was driven by an increase in revenues in the Professional Staffing Services and IT Infrastructure Support Services businesses. The increase in Managed IT Solutions revenues for the nine months ended September 30, 2003 was driven by an increase in revenues across all businesses in this segment.

Revenues from Application Management Services decreased $0.4 million, or 3.1%, to $13.4 million for the three months ended September 30, 2003, down from $13.9 million for the same period in 2002, and increased $2.2 million, or 5.6%, to $40.4 million for the nine months ended September 30, 2003, up from $38.2 million for the same period in 2002. Average billable headcount was 528 during the three months ended September 30, 2003, down from 566 during the same period in 2002 and was 540 during the nine months ended September 30, 2003, as compared to 538 during the same period in 2002. The decrease in revenues for the three months ended September 30, 2003 was primarily due to a decrease in billing rates related to the renegotiation of a significant application management services contract in this business and an overall decrease in average billable headcount. The Company completed negotiations that included certain reduced performance based milestones, which enabled us to recognize revenue during the third quarter that was previously deferred, partially offsetting the decline in revenues. In addition, revenues for the three and nine months ended September 30, 2003 were impacted by higher migration revenue related to our achieving certain milestones on a significant contract in this business in late 2002, resulting in the overall increase in revenue during the nine month period. As expected, the temporary work orders received in the first quarter of 2003 continued to decline during the third quarter and are expected to continue to decline and be eliminated by the end of 2003. Billable positions are expected to be added during early 2004, however, there can be no assurance that any eliminated positions will be recovered in the future.

Revenues from Professional Staffing Services increased $2.8 million, or 32.5%, to $11.6 million for the three months ended September 30, 2003, up from $8.8 million for the same period in 2002, and increased $6.0 million, or 21.0%, to $34.4 million for the nine months ended September 30, 2003, up from $28.4 million for the same period in 2002. This increase in revenues for the three and nine month periods is primarily related to work performed under contracts signed in late 2002 in our federal sector business, which is expected to continue through 2003. Also contributing to the increase was higher subcontractor revenue during the three months ended September 30, 2003. However, we do not expect a significant increase in commercial staffing requisitions during the remainder of 2003 due to continuing weakness in the IT market.

Revenues from IT Infrastructure Support Services increased $0.9 million, or 6.9%, to $14.2 million for the three months ended September 30, 2003, up from $13.3 million for the same period in 2002, and increased $4.1 million, or 10.2%, to $43.9 million for the nine months ended September 30, 2003, up from $39.8 million for the same period in 2002. This increase in revenues for the three and nine month periods was primarily due to revenue growth in Europe and new business in our domestic Data Center Management business, partially offset by a decline in Network and Desktop Management services due to more competitive pricing and continued in-sourcing of services.

The Managed IT Solutions segment has experienced, and we expect it to continue to experience, pricing and volume pressure from strategic customers due to an excess supply of IT professionals and soft market conditions, which is expected to be partially passed through to our suppliers. We are continuing to attempt to diversify our customer base and service offerings in our Managed IT Solutions segment.

Healthcare IT Solutions

Revenues from the Healthcare IT Solutions segment increased $3.3 million, or 73.3%, to $7.8 million for the three months ended September 30, 2003, up from $4.5 million for the same period in 2002, and increased $4.0 million, or 23.1%, to $21.4 million for the nine months ended September 30, 2003, up from $17.4 million for the same period in 2002. The increase in revenues was due to higher revenues related to implementation services, sales of our HIPAA-ready solution and hardware sales. However, these revenue increases were partially offset by a decrease in revenue attributable to our MC400 product, as we sold fewer MC400 licenses during the nine months ended September 30, 2003 as compared to the same period in 2002. Continued revenue growth in this business depends on our ability to continue to successfully deliver our HIPAA-ready solution, sell consulting and implementation services, and develop new products and enhancements that will enable us to remain competitive in the healthcare IT market.

Direct Costs

Overall

Direct costs increased $2.5 million, or 7.4%, to $36.8 million for the three months ended September 30, 2003, compared to $34.3 million in the same period in 2002, and increased $7.9 million, or 7.7%, to $110.5 million for the nine months ended September 30, 2003, compared to $102.6 million in the same period in 2002. These increases were driven primarily by the Managed IT Solutions segment, partially offset by a decline in the Healthcare IT Solutions segment, as more fully described below. As a percentage of revenues, direct costs decreased to 78% and 79% for the three and nine months ended September 30, 2003, respectively, as compared to 85% and 83% for the same periods in 2002, respectively.

Managed IT Solutions

Direct costs in the Managed IT Solutions segment increased $3.4 million, or 11.9%, to $31.5 million for the three months ended September 30, 2003, compared to $28.1 million for the same period in 2002, and increased $8.7 million, or 10.0%, to $94.5 million for the nine months ended September 30, 2003, compared to $85.9 million for the same period in 2002. For the three and nine months ended September 30, 2003, these increases were due to an increase in direct costs in the IT Infrastructure Support Services and Professional Staffing Services businesses, while direct costs in the Application Management Services business were relatively constant.

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Direct costs in Application Management Services increased $0.1 million, or 0.9%, to $9.9 million for the three months ended September 30, 2003, compared to $9.8 million in the same period in 2002, and increased $0.4 million, or 1.2%, to $29.9 million for the nine months ended September 30, 2003, compared to $29.5 million in the same period in 2002. Direct costs in this business were negatively impacted by the weakening value of the U.S. dollar in relation to the Canadian dollar. During the three and nine months ended September 30, 2003, direct costs in this business were approximately $1.1 million and $2.6 million higher, respectively, than they would have been if they were transacted at the exchange rates in effect during the comparable periods in 2002. Absent the impact of foreign currency translation, direct costs in this business decreased approximately $1.0 million and $2.2 million during the three and nine month periods ended September 30, 2003, respectively. During the three months ended September 30, 2003, lower average billable headcount contributed to the decrease in direct costs. In addition, the decrease in direct costs during the three and nine months ended September 30, 2003 reflects a reduction in non-billable headcount and other compensation costs as well as a decrease in start-up related costs as the migration effort for a strategic customer was completed in late 2002.

Direct costs in Professional Staffing Services increased $2.0 million, or 25.3%, to $9.8 million for the three months ended September 30, 2003, compared to $7.8 million in the same period in 2002, and increased $4.1 million, or 16.2%, to $29.2 million for the nine months ended September 30, 2003, compared to $25.1 million in the same period in 2002. These increases reflect the overall increase in business activity, primarily related to activity under a new contract signed in late 2002 in our federal sector business as well as increased billable subcontractor costs.

Direct costs in IT Infrastructure Support Services increased $1.3 million, or 12.2%, to $11.8 million for the three months ended September 30, 2003, compared to $10.5 million in the same period in 2002, and increased $4.1 million, or 13.2%, to $35.4 million for the nine months ended September 30, 2003, compared to $31.3 million in the same period in 2002. These increases reflect the overall increase in business activity.

Healthcare IT Solutions

Direct costs in the Healthcare IT Solutions segment for the three months ended September 30, 2003 decreased $0.8 million, or 13.3%, to $5.3 million, compared to $6.1 million for the same period in 2002, and decreased $0.7 million, or 4.0%, to $16.0 million, for the nine months ended September 30, 2003, compared to $16.7 million for the same period in 2002. During the three and nine months ended September 30, 2003, we experienced a decrease in direct costs related to the continued decline of activity under implementations related to license sales in late 2001 and early 2002 and our effort to reduce costs through decreased reliance on consultants and the institution of improved processes and procedures which are enabling us to provide implementation services in a more timely and cost effective manner. These savings were partially offset by an increase in direct costs related to (1) expenses for customer support personnel to fulfill software implementation commitments related to sales of our HIPAA ready solution, (2) new product development and (3) the expansion of the Healthcare IT Solutions management team.

Gain on Prepaid Software Licenses

During the second quarter of 2002, the Company and Siebel Systems, Inc. (“Siebel”) entered into a Settlement Agreement and Mutual Release in Full (“the Release”). In accordance with the Release the Siebel agreements were terminated and each party provided mutual releases. As such, 228,800 shares of the Company’ s common stock provided as consideration under the Siebel agreements were retired by the Company at the fair market value of the common stock on the effective date of the Release, resulting in a gain of $458,000 during the quarter ended September 30, 2002. In addition, the Company recognized a gain of approximately $0.9 million related to the reversal of liabilities for commitments to purchase software licenses under the Siebel agreements, net of legal and other costs to execute the Release of approximately $0.2 million during the quarter ended September 30, 2002. There was no such gain during the three or nine months ended September 30, 2003.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the three months ended September 30, 2003 increased $1.1 million, or 13.7%, to $8.8 million, compared to $7.8 million for the same period in 2002, and increased $2.9 million, or 13.3%, to $24.3 million for the nine months ended September 30, 2003, compared to $21.4 million for the same period in 2002. These increases in SG&A expenses were due to the addition of management and other administrative staff within our Healthcare, European and federal sector businesses, partially offset by cost reductions achieved in these and other businesses late in 2002. An increase in incentive compensation, sales commissions, rent, insurance costs, and bad debt expense also contributed to the increase.

Severance and Other Termination Costs

During the nine months ended September 30, 2002, we eliminated 31 positions in our Managed IT Solutions segment and corporate headquarters, resulting in severance and other termination costs of $2.0 million. There were no such costs during the three or nine months ended September 30, 2003.

Interest and Other Income (Expense)

For the three months ended September 30, 2003 and 2002, net interest and other expense was $(0.1) million. For the nine months ended September 30, 2003 and 2002, net interest and other expense was $(0.7) million and $(0.3) million, respectively. During the three months ended September 30, 2003, net interest and other expense consisted primarily of interest expense related to the term loan, partially offset by foreign currency transaction gains, interest and other miscellaneous income. During the nine months ended September 30, 2003, net interest and other expense consisted primarily of interest expense related to the term loan and foreign currency transaction losses, partially offset by interest and other miscellaneous income.

Foreign currency transaction gains (losses) related to the value of the United States dollar in relation to the Canadian dollar totaled approximately $0.1 million and $(0.2) million during the three and nine months ended September 30, 2003, respectively, while there were no significant transaction gains or losses during the comparable periods in 2002.

Provision for Income Taxes

We recognized a provision for income taxes at an effective rate of approximately 42% for the three and nine months ended September 30, 2003 and 2002.

Liquidity and Capital Resources

Cash and cash equivalents were $8.4 million and $9.1 million as of September 30, 2003 and 2002, respectively. Cash provided by operations was $3.5 million for the nine months ended September 30, 2003, compared with cash provided by operations of $6.5 million for the same period in 2002. Operating cash flow was primarily provided by net income plus depreciation and amortization, collections on accounts receivable and a refund of domestic income taxes, offset by payments on accounts payable, accrued expenses, and foreign income taxes. As of September 30, 2003, unbilled account receivable increased as compared to December 31, 2002. This increase is related primarily to our closing of the Company' s books on a shorter schedule than in the past, which has resulted in a greater amount of current month revenue remaining unbilled at each month end. This timing change has resulted in a corresponding decline in billed accounts receivable. In addition, certain amounts in unbilled accounts receivable are not billable until contractual milestones are reached. All amounts in unbilled accounts receivable are billable within the next twelve months.

Cash used in investing activities was $2.2 million for the nine months ended September 30, 2003, which was primarily a result of the payment of contingent consideration related to the EZ-CAP acquisition, which closed in September 2001, and expenditures for property and equipment. No further payments of contingent consideration related to the EZ-CAP acquisition are anticipated.

Financing activities used cash of $1.8 million for the nine months ended September 30, 2003. This use of cash was primarily related to payments on our term loan and capital lease obligations.

Our credit agreement with Bank of America, as agent, provides for a $15.0 million revolving line of credit ("Revolver") and a $9.0 million term loan facility. At September 30, 2003, there were no amounts outstanding under the Revolver and $5.25 million outstanding under the term loan, the proceeds of which were used to fund the EZ-CAP acquisition. The Revolver obligates us to pay a commitment fee of 0.45% to 0.50% of the unused balance and, when drawn, interest at the prime rate or, at our option, LIBOR plus a risk-adjusted premium. The term loan bears interest at LIBOR plus a risk-adjusted premium, with an effective rate of 5.1% at September 30, 2003. The risk-adjusted premium on the Revolver and term loan ranges from 2.05% to 4.00%, based on certain financial covenants. The maturity date of the Revolver, originally September 30, 2003, has been extended to December 31, 2003. We are currently in the process of negotiating an amendment to our credit agreement to, among other things, extend the maturity date and expand the borrowing capacity of the Revolver in connection with the proposed going private transaction (see "Recent Developments"). The term loan matures on September 30, 2006, with amortizing payments due in 60 equal monthly principal payments, plus accrued interest. Draws under the Revolver in cash or letters of credit are limited to a borrowing base determined by the levels of certain receivables and other factors, as defined in the agreement. Based on this formula, there was approximately $13.7 million of borrowing capacity under the Revolver at September 30, 2003.

We believe material commitments for capital expenditures may be required in a variety of areas, such as property and equipment and product development programs in our Healthcare IT Solutions business. We have not, at this time, made significant contractual commitments for any such capital expenditures or secured additional sources to fund such commitments.

We currently anticipate that our existing cash balances and any cash generated from operations will be sufficient to satisfy our operating cash needs for the next 12 months. We may use bank credit to leverage our financial position.

Recent Developments

At a special meeting of the Board of Directors held on November 5, 2003, the full Board of Directors resolved, following the unanimous recommendation of a special committee of independent directors (the "Special Committee"), to approve a cash tender offer for all of the outstanding shares of the Company' s common stock, at a per share price of $3.15, pursuant to an Agreement and Plan of Merger, dated as of November 5, 2003 (the "Merger Agreement"), between the Company, Terrapin Partners Holding Company, LLC, Terrapin Partners Subsidiary, LLC ("TP Sub") and TP Merger Sub, Inc. ("TP Merger Sub"), a wholly owned subsidiary of TP Sub (collectively, "Terrapin Partners"). Pursuant to the terms of the Merger Agreement, following completion of the tender offer, each non-tendering stockholder shall be entitled to receive the same consideration paid in the tender offer in the subsequent merger. Although the tender offer will be made to all holders of the Company' s common stock, Terrapin Partners and its affiliates will not tender any shares in the tender offer. Terrapin Partners is the beneficial owner of approximately 51% of the Company' s outstanding common stock.

If completed, the tender offer will be followed by a second-step merger in which the remaining holders of the Company' s common stock (other than Terrapin Partners and its affiliates) will be entitled to receive the same consideration as is paid in the tender offer. If, after the tender offer is completed, Terrapin Partners directly or indirectly holds at least 90% of the outstanding shares of the Company' s common stock, a short-form merger of TP Merger Sub into the Company will be promptly effected. If, on the other hand, Terrapin Partners directly or indirectly holds less than 90% of the outstanding shares of the Company' s common stock after completion of the tender offer, a long-form merger of TP Merger Sub into the Company will be effected, which would be approved by Terrapin Partners pursuant to an action by written consent in lieu of a meeting of stockholders.

The Company intends to commence the tender offer as soon as practicable. The tender offer is subject to customary conditions, including, without limitation, a nonwaivable condition that at least a majority of the shares held by the unaffiliated stockholders of the Company are tendered in the tender offer and the availability of financing. The Company intends to use both cash on hand and third-party financing to fund purchases of shares in the tender offer and the second-step merger. We expect to incur significant legal and other professional costs related to this transaction during the remainder of 2003, regardless if the tender offer and second-step merger are successfully consummated, which may significantly impact our consolidated financial condition and results of operations. The third-party financing is anticipated to consist of funds made available to the Company under the Bank of America facility, as amended, together with mezzanine financing in the form of subordinated debt with warrants and an equity component. As set forth in a commitment letter with the mezzanine lender, the mezzanine financing, as currently contemplated, would consist of $12,675,000 in the form of a subordinated note and $825,000 for the purchase of the Company' s common stock at a price of $3.00 per share.

Upon completion of the tender offer and second-step merger, the Company will de-register its common stock with the SEC, de-list its shares from the Nasdaq National Market and become a privately held company owned by Terrapin Partners and its affiliates.

Following the public announcement on August 12, 2003 that the Company had formed a special committee of independent directors to evaluate the possibility of a going private transaction at a price of $2.75 per share, Terrapin Partners, the Company' s largest stockholder, and the Company and its directors were named as defendants in four putative class action lawsuits filed in the Court of Chancery of the State of Delaware seeking injunctive relief to prohibit the transaction or, if the transaction were consummated, rescission of the transaction and damages. The lawsuits were subsequently consolidated. On November 4, 2003, in light of the Company' s expressed willingness to increase the tender offer price to $3.15 per share following extensive negotiations with the special committee and discussions with plaintiffs' counsel, plaintiffs and defendants entered into an agreement in principle to settle the litigation, without the defendants admitting any wrongdoing or liability whatsoever, that provides for, among other things, dismissal of the lawsuits and plaintiffs' claims with prejudice and the payment by the Company of plaintiffs' counsel' s legal fees and expenses.

Recent Accounting Pronouncements

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145 ("SFAS 145"), "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." Among other things, SFAS 145 rescinds both SFAS 4 "Reporting Gains and Losses from Extinguishment of Debt," and the amendment to SFAS 4, SFAS 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." Through this rescission, SFAS 145 eliminates the requirement that gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. This Statement is effective for fiscal years beginning after May 15, 2002. The adoption of SFAS 145 on January 1, 2003 did not have an impact on our consolidated financial condition or results of operations.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146 ("SFAS 146"), "Accounting for Costs Associated with Exit or Disposal Activities" which is effective January 1, 2003. SFAS 146 nullifies Emerging Issues Task Force Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." This statement requires that an exit or disposal activity related cost be recognized when the liability is incurred instead of when an entity commits to an exit plan. This statement is effective for disposal activities initiated after December 31, 2002. The adoption of SFAS 146 on January 1, 2003 did not have an impact on our consolidated financial condition or results of operations.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150 ("SFAS 150"), "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity", which provides guidance for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS 150 did not have a material impact on our consolidated financial condition or results of operations.

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Item 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company' s primary market risk is foreign currency exposure and changing interest rates. The Company periodically reviews its exposure to foreign currency and interest rate risk and may take action to limit its exposure, if deemed appropriate, through the use of hedge or other derivative financial instruments. The Company does not enter into derivative financial instruments for trading purposes.

Foreign Currency Risk

The Company conducts business in foreign countries, primarily Canada and the United Kingdom. The functional currency of our Canadian business is the U.S. dollar. The functional currency of our United Kingdom business is the local currency. The Company' s foreign currency risk is related primarily to U.S. dollar denominated contracts that are serviced by operations located in Canada. The value of the U.S. dollar in relation to the Canadian dollar directly impacts our cost in U.S. dollars of performing our contracts serviced in Canada. This foreign currency risk will increase with the growth of our international business. The Company estimates that a 10% change in foreign exchange rates by itself would impact reported pretax income from continuing operations by approximately $1.1 million for the three months ended December 31, 2003. This sensitivity analysis assumes a 10% change in the exchange rate used to translate our estimated Canadian dollar denominated costs into U.S. dollars for the three months ended December 31, 2003.

During the three months ended September 30, 2003, the Company entered into foreign currency forward contracts to hedge the foreign exchange risk associated with forecasted payroll costs denominated in Canadian dollars. The Company had outstanding forward contracts with amounts totaling approximately $44.0 million at September 30, 2003, which expire at various dates through August 2007. These contracts have been designated as cash flow hedges. The fair value of these contracts was approximately $112,000 and is included in deposits and other assets on the condensed consolidated balance sheet at September 30, 2003. Changes in the fair value of these contracts are recorded as a component of other comprehensive income.

Interest Rate Risk

The Company' s interest rate risk is related to the variable-rate debt outstanding under its credit agreement. Amounts outstanding on the Company' s term loan bear interest at LIBOR plus a risk-adjusted premium, with an effective rate of 5.1% at September 30, 2003. On October 31, 2001 the Company, to comply with the terms of its credit agreement, entered into an interest rate swap agreement effectively converting the interest rate from variable to fixed on 63.33% of the principal amount outstanding on the term loan. The swap agreement is for a period of four years and fixes the variable portion of the interest rate on the term loan to 2.67% through October 2002, 4.09% through October 2003, 5.22% through 2004 and 5.72% through 2005. As of September 30, 2003, the notional amount of the term loan covered by the swap agreement was $3,500,000 and the market value of the swap was a liability of $173,000. This swap agreement substantially mitigates our risk related to changes in interest rates. A 10% change in the LIBOR rate would not have a significant impact on our future financial position or results of operations.

Item 4. CONTROLS AND PROCEDURES

a) Evaluation of disclosure controls and procedures.

As required by Rule 13a-15 under the Exchange Act (the "Act"), as of the end of the period covered by this Quarterly Report on Form 10-Q (the "Evaluation Date"), the Company carried out an evaluation of the effectiveness of the design and operation of the Company' s disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of the Company' s management, including the Company' s chief executive officer and chief financial officer. Based upon that evaluation, the Company' s chief executive officer and chief financial officer concluded that the Company' s disclosure controls and procedures as in effect as of the Evaluation Date and as currently in effect are effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is (i) accumulated and communicated to the Company' s management (including the chief executive officer and chief financial officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC' s rules and forms.

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b) Changes in internal controls.

There were no significant changes in the Company' s internal controls or in other factors that could significantly affect the Company' s internal controls subsequent to the Evaluation Date, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Following the public announcement on August 12, 2003 that the Company had formed a special committee of independent directors to evaluate the possibility of a going private transaction at a price of $2.75 per share, Terrapin Partners, the Company' s largest stockholder, and the Company and its directors were named as defendants in four putative class action lawsuits filed in the Court of Chancery of the State of Delaware seeking injunctive relief to prohibit the transaction or, if the transaction were consummated, rescission of the transaction and damages. The lawsuits were subsequently consolidated. On November 4, 2003, in light of the Company' s expressed willingness to increase the tender offer price to $3.15 per share following extensive negotiations with the special committee and discussions with plaintiffs' counsel, plaintiffs and defendants entered into an agreement in principle to settle the litigation, without the defendants admitting any wrongdoing or liability whatsoever, that provides for, among other things, dismissal of the lawsuits and plaintiffs' claims with prejudice and the payment by the Company of plaintiffs' counsel' s legal fees and expenses. The four cases that were filed were filed by or on behalf of the following plaintiffs: Guerilla Capital Management (civil action No. 20499-NC); Michael Willaman (civil action No. 20496-NC); IRA FBO Thomas C. LaRocque, VFTC as Custodian Rollover Account (civil action No. 20505-NC); and Chandelle Investments, Ltd. (civil action No. 20484-NC).

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Designation	Description
10.1	First Amendment to Amended and Restated Credit Agreement dated as of September 30, 2003 by and among OAO Technology Solutions, Inc. and its subsidiaries and Bank of America, N.A.
31.1	Certification of Charles A. Leader pursuant to Rule 13a-14(a).
31.2	Certification of J. Jeffrey Fox pursuant to Rule 13a-14(a).
32.1	Certification of Charles A. Leader and J. Jeffrey Fox pursuant to 18 U.S.C. Section 1350.

(b) Reports on Form 8-K

1) The Company filed a Form 8-K with the Commission on August 12, 2003 to report that on August 12, 2003, OAO Technology Solutions, Inc. announced financial results for the quarter ended June 30, 2003.

2) The Company filed a Form 8-K with the Commission on August 12, 2003 to report that on August 12, 2003, OAO Technology Solutions, Inc. announced that at a special meeting of the Board of Directors held on August 11, 2003, the Board resolved to explore the possibility of taking the Company private and formed a special committee of independent directors in connection therewith.

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SIGNATURES

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

OAO Technology Solutions, Inc.
(Registrant)

Date: November 11, 2003

By: /s/ Charles A. Leader

Charles A. Leader

President and Chief Executive Officer

Date: November 11, 2003

By: /s/ J. Jeffrey Fox

J. Jeffrey Fox

Senior Vice President of Finance and
Chief Financial Officer

Exhibit 10.1

FIRST AMENDMENT TO
AMENDED AND RESTATED CREDIT AGREEMENT

THIS FIRST AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT, ("Amendment"), effective as of September 30, 2003, is by and between OAO TECHNOLOGY SOLUTIONS, INC., a Delaware corporation (the "Company"), OAO TECHNOLOGY SOLUTIONS FEDERAL SYSTEMS, INC., an Illinois corporation ("OAO Federal Systems"), successor by name change to O.A.O. Systems, Inc., OAO TECHNOLOGY SOLUTIONS (CANADA) INC. ("OAO Canada"), a company organized under the law of New Brunswick, Canada, successor by name change to OAO Canada Limited, CANADIAN RESOURCE MANAGEMENT, LTD., a company organized under the laws of British Columbia, Canada ("Canadian Resource Management"), OAO HEALTHCARE SOLUTIONS, INC., a California corporation ("OAO Healthcare Solutions"), OAO TECHNOLOGY SOLUTIONS UK LIMITED, a United Kingdom corporation ("OAO UK") and OAO TRANSITION, LLC, a Delaware limited liability company ("Transition LLC"), OAO HEALTH SERVICES PROCESSING, INC., a Delaware corporation ("OAO Health Services"), OAO TECHNOLOGY SOLUTIONS EUROPE, B.V., a Netherlands corporation ("OAO Europe-BV"), OAO TECHNOLOGY SOLUTIONS ITALIA SRL., an Italian corporation ("OAO Italia"), OAO TECHNOLOGY SOLUTIONS DEUTSCHLAND GMBH, a German corporation ("OAO Deutschland"), OAO TECHNOLOGY SOLUTIONS FRANCE SARL, a French corporation ("OAO France"), OAO TECHNOLOGY SOLUTIONS BELGIUM SPRL, a Belgian corporation ("OAO Belgium") (the Company, OAO Federal Systems, OAO Canada, Canadian Resource Management, OAO Healthcare Solutions, OAO UK, Transition LLC, OAO Health Services, OAO Europe-BV, OAO Italia, OAO Deutschland, OAO France and OAO Belgium are each a "Borrower" and together the "Borrowers"), the Lenders (as that term is defined in the Credit Agreement, as defined below and evidenced by the signature pages thereof) and BANK OF AMERICA, N.A., a national banking association, as Administrative Agent for itself and the other Lenders (in such capacity, together with its successors in such capacity, the "Administrative Agent").

RECITALS:

A. Pursuant to that certain Amended and Restated Credit Agreement dated as of January 15, 2003, by and between the Borrowers and the Lenders (the "Credit Agreement"), various credit facilities were made available to the Borrowers. By its terms, the revolving loan feature of the Credit Agreement matures on September 30, 2003.

B. The Borrowers have asked the Lenders to extend the maturity date of the revolving loan feature of the Credit Agreement and the Lenders are willing to do so only if the Borrower executes and delivers this Amendment.

AGREEMENTS:

NOW, THEREFORE, in consideration of the premises and mutual covenants and agreements contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Terms Defined. Unless otherwise defined or stated in this Amendment, each capitalized term used in this Amendment has the meaning given to such term in the Credit Agreement (as amended by this Amendment).

2. Amendment. The Credit Agreement and the other Loan Documents are, effective as of the date hereof, hereby amended as follows:

The following definition set forth in *Section 1.1.* of the Credit Agreement is hereby amended and restated to read as follows:

"Revolving Loans Maturity Date" means December 31, 2003.

3. Conditions Precedent. The effectiveness of this Amendment is subject to the satisfaction of each of the following conditions precedent, all of which conditions precedent must be satisfied on or before September 30, 2003:

(a) The Administrative Agent shall have received this Amendment executed by the parties hereto; and

(b) No Default or Event of Default shall have occurred and be continuing.

4. Representations and Warranties. The Borrowers hereby represent and warrant to the Lenders, and agree with the Lenders that, as of the date of and after giving effect to this Amendment, (a) the execution, delivery and performance of this Amendment has been authorized by all requisite corporate action on the part of the Borrowers and will not violate any of the Borrowers' corporate charters, organizational documents or bylaws; (b) all representations and warranties set forth in the Credit Agreement are true and correct as if made again on and as of such date (except if and to the extent that such representations and warranties were expressly made only as of another specific date); (c) no Event of Default has occurred and is continuing; and (d) there is not any action, suit, investigation or proceeding pending or threatened in any court or before any arbitrator or governmental authority that purports (a) to materially adversely affect the Borrowers, or (b) to adversely affect the transactions contemplated by this Amendment.

5. Credit Agreement Remains in Effect; No Waiver. All terms and provisions of the Credit Agreement and the other the Loan Documents shall remain unchanged and in full force and effect and are hereby ratified and confirmed. No waiver by the Lenders of any Default or Event of Default shall be deemed to be a waiver of any other Default or Event of Default. No delay or omission by the Lenders in exercising any power, right or remedy shall impair such power, right or remedy or be construed as a waiver thereof or an acquiescence therein, and no single or partial exercise of any such power, right or remedy shall preclude other or further exercise thereof or the exercise of any other power, right or remedy under the Agreement, the Loan Documents or otherwise.

6. Counterparts. This Amendment may be executed in any number of counterparts, all of which when taken together shall constitute one agreement, and any of the parties hereto may execute this Amendment by signing any such counterpart.

7. No Oral Agreements. **THIS AMENDMENT, TOGETHER WITH THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS AS WRITTEN, REPRESENT THE FINAL AGREEMENTS BETWEEN AND AMONG THE PARTIES HERETO AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN (A) THE BORROWERS AND (B) THE LENDERS.**

8. Survival of Representations and Warranties. All representations and warranties made in this Amendment or any other Loan Document shall survive the execution and delivery of this Amendment and the other Loan Documents, and no investigation by the Lenders or any closing shall affect the representations and warranties or the right of the Lenders to rely upon such representations and warranties.

9. Reference to Credit Agreement. This Amendment shall constitute a Loan Document. Each of the Loan Documents, including the Credit Agreement, the Amendment Documents and any and all other agreements, documents or instruments now or hereafter executed and/or delivered pursuant to the terms hereof or pursuant to the terms of the Credit Agreement as amended hereby, are (if and to the extent necessary) hereby amended so that any reference in such Loan Documents to the Credit Agreement shall mean a reference to the Credit Agreement as amended hereby.

10. Severability. Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

11. Successors and Assigns. This Amendment is binding upon and shall inure to the benefit of the Administrative Agent, the Lenders, the Borrowers and any other Loan Parties and their respective successors and assigns; provided, however, that the Borrowers may not assign or transfer any of their rights or obligations hereunder without the prior written consent of the Lenders.

12. Headings. The headings, captions and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered by their duly authorized officers effective as of the day and year first above written.

BORROWERS:

OAO TECHNOLOGY SOLUTIONS, INC.

By: /s/J. Jeffrey Fox (SEAL)

Name: J. Jeffrey Fox

Title: Vice President - Finance,
Chief Financial Officer

OAO TECHNOLOGY SOLUTIONS
FEDERAL SYSTEMS, INC., successor
by name change to O.A.O. Systems, Inc.

By: /s/J. Jeffrey Fox (SEAL)

Name: J. Jeffrey Fox

Title: Chief Financial Officer

OAO TECHNOLOGY SOLUTIONS
(CANADA) INC., successor by name change
to OAO Canada Ltd.

By: /s/J. Jeffrey Fox (SEAL)

Name: J. Jeffrey Fox

Title:

Chief Financial Officer

CANADIAN RESOURCE
MANAGEMENT, LTD.

By: /s/J. Jeffrey Fox (SEAL)

Name: J. Jeffrey Fox

Title:

Chief Financial Officer

OAO TECHNOLOGY SOLUTIONS
UK LIMITED, successor by name change
to OAO/ICOR (UK), LTD.

By: /s/J. Jeffrey Fox (SEAL)

Name: J. Jeffrey Fox

Title:

Chief Financial Officer

OAO HEALTHCARE SOLUTIONS INC.

By: /s/J. Jeffrey Fox (SEAL)

Name: J. Jeffrey Fox

Title: Chief Financial Officer

OAO TRANSITION, LLC

By: /s/J. Jeffrey Fox (SEAL)

Name: J. Jeffrey Fox

Title: Authorized Representative

OAO HEALTH SERVICES PROCESSING, INC.

By: /s/J. Jeffrey Fox (SEAL)

Name: J. Jeffrey Fox

Title: Authorized Representative

OAO TECHNOLOGY SOLUTIONS EUROPE B.V.

By: /s/J. Jeffrey Fox (SEAL)

Name: J. Jeffrey Fox

Title: Authorized Representative

OAO TECHNOLOGY SOLUTIONS ITALIA SRL.

By: (SEAL)

/s/J. Jeffrey Fox

Name: J. Jeffrey Fox

Title: Authorized Representative

OAO TECHNOLOGY SOLUTIONS DEUTSCHLAND GMBH

By: (SEAL)

/s/J. Jeffrey Fox

Name: J. Jeffrey Fox

Title: Authorized Representative

OAO TECHNOLOGY SOLUTIONS FRANCE SARL

By: (SEAL)

/s/J. Jeffrey Fox

Name: J. Jeffrey Fox

Title: Authorized Representative

OAO TECHNOLOGY SOLUTIONS
BELGIUM SPRL

By: /s/J. Jeffrey Fox (SEAL)

Name: J. Jeffrey Fox

Title: Authorized Representative

<u>ADMINISTRATIVE AGENT</u>:

BANK OF AMERICA, N.A.,
A national banking association as
Administrative Agent

By: /s/ Jessica L. Tencza (SEAL)

Name: Jessica L. Tencza

Title: Vice President

<u>LENDERS</u>:

BANK OF AMERICA, N.A.,
A national banking association

By: /s/ Jessica L. Tencza (SEAL)

Name: Jessica L. Tencza

Title: Vice President

Exhibit 31.1

RULE 13a-14(a) CERTIFICATIONS

I, Charles A. Leader, President and Chief Executive Officer of OAO Technology Solutions, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of OAO Technology Solutions, 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, 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 registrants internal control over financial reporting.

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 registrant' s board of directors (or persons performing the equivalent function):

   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.

Date: November 11, 2003

By:

/s/ Charles A. Leader

Charles A. Leader

President and Chief Executive Officer

Exhibit 31.2

RULE 13a-14(a) CERTIFICATIONS

I, J. Jeffrey Fox, Senior Vice President of Finance and Chief Financial Officer of OAO Technology Solutions, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of OAO Technology Solutions, 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, 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 registrants internal control over financial reporting.

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 registrant' s board of directors (or persons performing the equivalent function):

   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.

Date: November 11, 2003

By:

/s/ J. Jeffrey Fox

J. Jeffrey Fox

Senior Vice President of Finance and
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Each of the undersigned hereby certifies, in his capacity as an officer of OAO Technology Solutions, Inc. (the "Company"), pursuant to and for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Quarterly Report of the Company on Form 10-Q for the quarter ended September 30, 2003 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: November 11, 2003

By:

/s/ Charles A. Leader

Charles A. Leader

President and Chief Executive Officer

By:

/s/J. Jeffrey Fox

J. Jeffrey Fox

Senior Vice President of Finance and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to OAO Technology Solutions, Inc. and will be retained by OAO Technology Solutions, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.