

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2020

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File No. 0-18492

DLH HOLDINGS CORP.

(Exact name of registrant as specified in its charter)

New Jersey
(State or other jurisdiction of
incorporation or organization)

22-1899798
(I.R.S. Employer
Identification No.)

3565 Piedmont Road, NE, Building 3, Suite 700
Atlanta, Georgia
(Address of principal executive offices)

30305
(Zip Code)

(770) 554-3545

(Registrant's telephone number, including area code)

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	DLHC	Nasdaq Capital Market

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 has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 12,354,406 shares of Common Stock, par value \$0.001 per share, were outstanding as of July 31, 2020.

DLH HOLDINGS CORP.
FORM 10-Q

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PART I — FINANCIAL INFORMATION

ITEM I: FINANCIAL STATEMENTS

DLH HOLDINGS CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	(unaudited)		(unaudited)	
	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Revenue	\$ 51,459	\$ 38,700	\$ 158,495	\$ 106,208
Cost of Operations:				
Contract costs	39,615	30,038	123,895	82,744
General and administrative costs	6,323	4,811	18,497	13,462
Acquisition costs	—	1,247	—	1,391
Depreciation and amortization	1,721	914	5,340	2,037
Total operating costs	47,659	37,010	147,732	99,634
Income from operations	3,800	1,690	10,763	6,574
Interest expense, net	813	562	2,659	1,284
Income before income taxes	2,987	1,128	8,104	5,290
Income tax expense	863	325	2,352	1,532
Net income	\$ 2,124	\$ 803	\$ 5,752	\$ 3,758
Net income per share - basic	\$ 0.17	\$ 0.07	\$ 0.47	\$ 0.31
Net income per share - diluted	\$ 0.16	\$ 0.06	\$ 0.44	\$ 0.29
Weighted average common stock outstanding				
Basic	12,354	12,036	12,246	12,011
Diluted	13,228	13,077	13,050	13,048

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

DLH HOLDINGS CORP.
CONSOLIDATED BALANCE SHEETS
(In thousands, except par value of shares)

	June 30, 2020 (unaudited)	September 30, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 658	\$ 1,790
Accounts receivable	29,635	23,226
Other current assets	3,772	1,831
Total current assets	34,065	26,847
Equipment and improvements, net	3,769	5,343
Operating leases right-of-use assets	22,276	—
Deferred taxes, net	358	2,345
Goodwill	52,758	52,758
Intangible assets, net	37,594	41,208
Other long-term assets	620	757
Total assets	\$ 151,440	\$ 129,258
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Operating lease liabilities - current	\$ 1,768	\$ —
Accrued payroll	9,488	8,852
Accounts payable, accrued expenses, and other current liabilities	24,253	20,633
Total current liabilities	35,509	29,485
Long-term liabilities:		
Debt obligations - long term, net of deferred financing costs	42,542	53,629
Operating lease liabilities - long-term	21,686	—
Other long-term liabilities	—	573
Total long-term liabilities	64,228	54,202
Total liabilities	99,737	83,687
Shareholders' equity:		
Common stock, \$0.001 par value; authorized 40,000 shares; issued and outstanding 12,354 and 12,036 at June 30, 2020 and September 30, 2019, respectively	12	12
Additional paid-in capital	85,496	85,114
Accumulated deficit	(33,805)	(39,555)
Total shareholders' equity	51,703	45,571
Total liabilities and shareholders' equity	\$ 151,440	\$ 129,258

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

DLH HOLDINGS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	(unaudited)	
	Nine Months Ended	
	June 30,	
	2020	2019
Operating activities		
Net income	\$ 5,752	\$ 3,758
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	5,340	2,037
Amortization of deferred financing costs	551	799
Stock based compensation expense	566	591
Deferred taxes, net	1,987	1,253
Non-cash gain from lease modification	(121)	—
Changes in operating assets and liabilities		
Accounts receivable	(6,409)	(925)
Other current assets	(1,941)	(376)
Accrued payroll	636	(68)
Accounts payable, accrued expenses, and other current liabilities	3,620	4,107
Other long-term assets/liabilities	726	(23)
Net cash provided by operating activities	10,707	11,153
Investing activities		
Business acquisition, net of cash acquired	—	(66,520)
Purchase of equipment and improvements	(152)	(29)
Net cash used in investing activities	(152)	(66,549)
Financing activities		
Borrowing on senior debt	—	70,000
Repayments of senior debt	(11,500)	(11,646)
Payment of debt financing costs	(3)	(3,347)
Repurchase of common stock	(211)	—
Proceeds from issuance of common stock upon exercise of options	27	39
Net cash (used in) provided by financing activities	(11,687)	55,046
Net change in cash and cash equivalents	(1,132)	(350)
Cash and cash equivalents at beginning of period	1,790	6,355
Cash and cash equivalents at end of period	\$ 658	\$ 6,005
Supplemental disclosures of cash flow information		
Cash paid during the period for interest	\$ 2,207	\$ 645
Cash paid during the period for income taxes	\$ 432	\$ 675

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

DLH HOLDINGS CORP.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands)
(unaudited)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount	Shares	Amount			
Nine Months Ended June 30, 2020							
Balance at September 30, 2019	12,036	\$ 12	\$ —	\$ —	\$ 85,114	\$ (39,555)	\$ 45,571
Cumulative-effect adjustment for adoption of ASC 842	—	—	—	—	—	(2)	(2)
Expense related to director restricted stock unit	90	—	—	—	260	—	260
Expense related to employee stock options	—	—	—	—	306	—	306
Exercise of stock options	345	—	—	—	27	—	27
Repurchases of common stock	—	—	28	(113)	—	—	(113)
Cancellation of common stock	(117)	—	(28)	113	(211)	—	(98)
Net income	—	—	—	—	—	5,752	5,752
Balance at June 30, 2020	12,354	\$ 12	\$ —	\$ —	\$ 85,496	\$ (33,805)	\$ 51,703
Three Months Ended June 30, 2020							
Balance at March 31, 2020	12,354	\$ 12	\$ —	\$ —	\$ 85,314	\$ (35,929)	\$ 49,397
Expense related to director restricted stock unit	—	—	—	—	87	—	87
Expense related to employee stock options	—	—	—	—	95	—	95
Net income	—	—	—	—	—	2,124	2,124
Balance at June 30, 2020	12,354	\$ 12	\$ —	\$ —	\$ 85,496	\$ (33,805)	\$ 51,703
Nine Months Ended June 30, 2019							
Balance at September 30, 2018	11,899	\$ 12	\$ —	\$ —	\$ 84,285	\$ (44,879)	\$ 39,418
Directors' stock grants and expense	102	—	—	—	395	—	395
Expense related to employee stock options	—	—	—	—	196	—	196
Exercise of stock options	35	—	—	—	39	—	39
Net income	—	—	—	—	—	3,758	3,758
Balance at June 30, 2019	12,036	\$ 12	\$ —	\$ —	\$ 84,915	\$ (41,121)	\$ 43,806
Three Months Ended March 31, 2019							
Balance at March 31, 2019	12,036	\$ 12	\$ —	\$ —	\$ 84,716	\$ (41,924)	\$ 42,804
Expense related to director restricted stock unit	—	—	—	—	199	—	199
Net income	—	—	—	—	—	803	803
Balance at June 30, 2019	12,036	\$ 12	\$ —	\$ —	\$ 84,915	\$ (41,121)	\$ 43,806

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

DLH HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020

1. Basis of Presentation

The accompanying consolidated financial statements include the accounts of DLH Holdings Corp. and its subsidiaries (together with its subsidiaries, "DLH" or the "Company" and also referred to as "we," "us" and "our"), all of which are wholly owned. All significant intercompany balances and transactions have been eliminated in consolidation. The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these statements do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. Certain figures presented for comparative purposes have been reclassified to conform to the presentation adopted on Form 10-K for the year ended September 30, 2019. The Company implemented this reclassification as it determined that including these indirect overhead costs within the category of "contract costs" rather than "general and administrative expenses" better reflects the relationship of these overhead costs to contract performance, as these costs are generally variable based on fluctuations in business volume. This reclassification does not result in any changes to the Company's total operating costs and previously reported operating income, income before income taxes, or net income.

In management's opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the period ended June 30, 2020 are not necessarily indicative of the results that may be expected for the year ending September 30, 2020. Amounts as of and for the periods ended June 30, 2020 and June 30, 2019 are unaudited. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2019 filed with the Securities and Exchange Commission on December 11, 2019.

2. Business Overview

The Company is a full-service provider of technology-enabled health and human services, providing solutions to three market focus areas: Defense and Veterans' Health Solutions, Human Solutions and Services and Public Health and Life Sciences. We deliver domain-specific expertise, industry best-practices and innovations to customers across these markets leveraging seven core competencies: secure data analytics, clinical trials and laboratory services, case management, performance evaluation, system modernization, operational logistics and readiness, and strategic digital communications. The Company manages its operations from its principal executive offices in Atlanta, Georgia, and we have a complementary headquarters office in Silver Spring, Maryland. We employ over 2,000 skilled employees working in more than 30 locations throughout the United States and one location overseas.

At present, the Company derives essentially all revenue from agencies of the Federal government, primarily as a prime contractor but also as a subcontractor to other Federal prime contractors. A major customer is defined as a customer from whom the Company derives at least 10% of its revenues.

Our two largest customers are the Department of Veteran Affairs ("VA") and the Department of Health and Human Services ("HHS"). The VA comprised approximately 47% and 65% of revenue for the nine months ended June 30, 2020 and 2019, respectively, and HHS comprised approximately 46% and 33% of revenue for the nine months ended June 30, 2020 and 2019, respectively.

3. New Accounting Pronouncements

In February 2016, the FASB issued an Accounting Standard Update ("ASU") 2016-02, Leases (Topic 842), to improve financial reporting about leasing transactions. This accounting standard requires organizations that lease assets, referred to as "Lessees", to recognize on the balance sheet right-of-use assets and lease liabilities. Per the ASU, we determine if a contract contains a lease by identifying an asset and determining if we have the right to control the use of the identified asset for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset when the lessee has the right to direct the use of the identified asset and obtain substantially all economic benefits from its use throughout the period of its use. We also determine if a lease qualifies as an operating or finance lease. All Company leases at standard adoption were operating leases. The ASU also require lessees to identify and separate lease and non-lease components. The Company elected not to separate lease and non-lease components per the practical expedient provided in ASU 2018-11. Upon lease commencement, the lease liability and right-of-use asset are recorded on the balance sheet. The lease liability is measured as the

present value of future minimum lease payments, including all probable renewals, to be made during the lease term. The right-of-use asset is measured as the present value of future minimum lease payments to be made during the lease term, including all probable renewals, plus lease payments made to the lessor before or at commencement and indirect costs paid less lease incentives received. DLH adopted this standard on October 1, 2019 and recognized initial right-of use assets and lease liabilities of \$17.4 million and \$18.0 million, respectively. At adoption, the Company elected several practical expediciencies to facilitate the implementation of the new standard and did not recast comparative prior year information. As such we did not reassess and include initial direct costs in the measurement of right-of-use assets, capitalize leases with terms of 12 months or less, nor reassess lease classification of existing leases.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses, which requires companies to record an allowance for expected credit losses over the contractual term of certain financial assets, including short-term trade receivables and contract assets. Additionally, it expands disclosure requirements for credit quality of financial assets. ASU 2016-13 becomes effective for the Company in the first quarter of fiscal year 2021. We do not expect a material impact to our operating results, financial position or cash flows as a result of adopting this new standard.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment, which simplifies the accounting for goodwill impairments by eliminating step two from the goodwill impairment test. Instead, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. ASU 2017-04 also clarifies that an entity should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The new standard is effective for fiscal years beginning after December 15, 2019 for both interim and annual reporting periods. The Company adopted this standard in the first quarter of fiscal 2020 and adoption did not have an impact on the Company's consolidated financial statements.

4. Significant Accounting Policies

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include valuation of goodwill and intangible assets, interest rate swaps, stock-based compensation, right of use assets and lease liabilities, valuation allowances established against accounts receivable and deferred tax assets, and measurement of loss development on workers' compensation claims. We evaluate these estimates and judgments on an ongoing basis and base our estimates on historical experience, current and expected future outcomes, third-party evaluations and various other assumptions that we believe are reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. We revise material accounting estimates if changes occur, such as more experience is acquired, additional information is obtained, or there is new information on which an estimate was or can be based. Actual results could differ from those estimates. In particular, a material reduction in the fair value of goodwill could have a material adverse effect on the Company's financial position and results of operations. We account for the effect of a change in accounting estimate during the period in which the change occurs.

Fair value of financial instruments

The carrying amounts of the Company's cash and cash equivalents, accounts receivable, contract assets, accrued expenses, and accounts payable approximate fair value due to the short-term nature of these instruments. The fair values of the Company's debt instruments approximated fair value because the underlying interest rates approximate market rates that the Company could obtain for similar instruments at the balance sheet dates.

Goodwill and other intangible assets

The Company continues to review its goodwill and other intangible assets for possible impairment or loss of value at least annually or more frequently upon the occurrence of an event or when circumstances indicate that a reporting unit's carrying amount is greater than its fair value.

At September 30, 2019, we performed a goodwill impairment evaluation on the year-end carrying value of approximately \$53 million. We performed both a qualitative and quantitative assessment of factors to determine whether it was necessary to perform the goodwill impairment test. Based on the results of the work performed, the Company has concluded that no impairment loss was warranted at September 30, 2019. For the nine months ended June 30, 2020, the Company determined that no change in business conditions occurred which would have a material adverse effect on the valuation of goodwill. Our assessment incorporated effects of the COVID-19 pandemic, which is not expected to have a meaningful impact on our financial results. Notwithstanding this evaluation, factors including non-renewal of a major contract or other substantial changes in business conditions could have a material adverse effect on the valuation of goodwill in future periods and the resulting charge could be material to future periods' results of operations.

Equipment and improvements

Equipment and improvements are stated at cost. Depreciation and amortization are provided using the straight-line method over the estimated useful asset lives (3 to 7 years) and the shorter of the initial lease term or estimated useful life for leasehold improvements. Maintenance and repair costs are expensed as incurred.

Income taxes

The Company accounts for income taxes in accordance with the liability method, whereby deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reflected on the consolidated balance sheet when it is determined that it is more likely than not that the asset will be realized. This guidance also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax asset will not be realized. We account for uncertain tax positions by recognizing the financial statement effects of a tax position only when, based upon the technical merits, it is "more-likely-than-not" that the position will be sustained upon examination. We had no uncertain tax positions at either June 30, 2020 or September 30, 2019. We report interest and penalties as a component of income tax expense. In the three and nine months ended June 30, 2020 and June 30, 2019, we recognized no interest and no penalties related to income taxes.

Stock-based equity compensation

The Company uses the fair value-based method for stock-based equity compensation. Options issued are designated as either an incentive stock or a non-statutory stock option. No option may be granted with a term of more than 10 years from the date of grant. Option awards may depend on achievement of certain performance measures determined by the Compensation Committee of our Board. Shares issued upon option exercise are newly issued common shares. All awards to employees and non-employees are recorded at fair value on the date of the grant and expensed over the period of vesting. The Company uses a binomial simulation option pricing model to estimate the fair value of each stock option at the date of grant. Any consideration paid by the option holders to purchase shares is credited to capital stock.

Cash and cash equivalents

We consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. We maintain cash balances at financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. Deposits held with financial institutions may exceed the \$250,000 limit.

Earnings per share

Basic earnings per share is calculated by dividing income available to common shareholders by the weighted average number of common stock outstanding and restricted stock grants that vested or are likely to vest during the period. Diluted earnings per share is calculated by dividing income available to common shareholders by the weighted average number of basic common shares outstanding, adjusted to reflect potentially dilutive securities. Diluted earnings per share is calculated using the treasury stock method.

Treasury Stock

The Company periodically purchases its own common stock that is traded on public markets as part of announced stock repurchase programs. The repurchased common stock is classified as treasury stock on the consolidated balance sheets and held at cost. As of June 30, 2020, the Company did not hold any treasury stock.

Interest Rate Swap

The Company uses derivative financial instruments to manage interest rate risk associated with its variable rate debt. The Company's objective in using these interest rate derivatives is to manage its exposure to interest rate movements and reduce volatility of interest expense. The gains and losses due to changes in the fair value of the interest rate swap agreements completely offset changes in the fair value of the hedged portion of the underlying debt. Offsetting changes in fair value of both the interest rate swaps and the hedged portion of the underlying debt both are recognized in interest expense in the Consolidated Statements of Operations. The Company does not hold or issue any derivative instrument for trading or speculative purposes.

5. Revenue Recognition

We account for a contract when both we and the customer approve and commit; our rights and those of the customer are identified, payment terms are identified; the contract has commercial substance; and collectability of consideration is probable. At contract inception, we identify the distinct goods or services promised in the contract, referred to as performance obligations. Then we determine the total transaction price for the contract; which is the total consideration which we can expect in exchange for the promised goods or services in the contract. The transaction price may include fixed or variable amounts. Due to our contracts being predominantly time and material, the Company does not have variable consideration. The transaction price is allocated to each distinct performance obligation using our best estimate of the standalone selling price for each service promised in the contract. The primary method used to estimate standalone selling price is the hourly billing rate for each labor category identified in the contract with the customer. Revenue is recognized as the performance obligation is satisfied.

We recognize revenue over time when there is a continuous transfer of control to our customer. For our U.S. government contracts, this continuous transfer of control to the customer is supported by clauses in the contract that allow the U.S. government to unilaterally terminate the contract for convenience, pay us for costs incurred plus a reasonable profit and take control of any work in process. When control is transferred over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. For services contracts, we satisfy our performance obligations as services are rendered. We use a cost-based input method to measure progress.

Contract costs include labor, material and allocable indirect expenses. For time-and-material contracts, we bill the customer per labor hour and per material, and revenue is recognized in the amount invoiced since the amount corresponds directly to the value of our performance to date. We consider control to transfer when we have a present right to payment. Essentially, all of our contracts satisfy their performance obligations over time. Contracts are often modified to account for changes in contract specifications and requirements. Contract modifications impact performance obligations when the modification either creates new or changes the existing enforceable rights and obligations. The effect of a contract modification on the transaction price and our measure of progress for the performance obligation to which it relates is recognized as an adjustment to revenue and profit cumulatively. Furthermore, a significant change in one or more estimates could affect the profitability of our contracts. We recognize adjustments in estimated profit on contracts in the period identified.

For time-and-materials contracts, revenue is recognized to the extent of billable rates times hours delivered plus materials and other reimbursable costs incurred. Revenue for cost-reimbursable contracts is recorded as reimbursable costs are incurred, including an estimated share of the applicable contractual fees earned. Contract costs are expensed as incurred. Estimated losses are recognized when identified.

Contract assets - Amounts are invoiced as work progresses in accordance with agreed-upon contractual terms. In part, revenue recognition occurs before we have the right to bill, resulting in contract assets. These contract assets are reported within receivables, net on our consolidated balance sheets and are invoiced in accordance with payment terms defined in each contract. Period end balances will vary from period to period due to agreed-upon contractual terms.

Contract liabilities - Amounts are a result of billings in excess of costs incurred.

The following table summarizes the contract balances recognized on the Company's consolidated balance sheets:

	(in thousands)	
	June 30,	September 30,
	2020	2019
Contract assets	\$ 10,216	\$ 4,302
Contract liabilities	\$ 41	\$ 92

Disaggregation of revenue from contracts with customers

We disaggregate our revenue from contracts with customers by customer, contract type, as well as whether the Company acts as prime contractor or subcontractor. We believe these categories best depict how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors. The following series of tables presents our revenue disaggregated by these categories:

Revenue by customer:

	(in thousands)		(in thousands)	
	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Department of Veterans Affairs	\$ 24,783	\$ 23,056	\$ 74,402	\$ 68,563
Department of Health and Human Services	23,312	14,297	73,263	34,987
Other	3,364	1,347	10,830	2,658
Total revenue	\$ 51,459	\$ 38,700	\$ 158,495	\$ 106,208

Revenue by contract type:

	(in thousands)		(in thousands)	
	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Time and materials	\$ 36,315	\$ 33,426	\$ 110,918	\$ 98,841
Cost reimbursable	13,841	4,545	43,887	5,791
Firm fixed price	1,303	729	3,690	1,576
Total revenue	\$ 51,459	\$ 38,700	\$ 158,495	\$ 106,208

Revenue by whether the Company acts as a prime contractor or a subcontractor:

	(in thousands)		(in thousands)	
	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Prime contractor	\$ 47,649	\$ 36,882	\$ 147,464	\$ 103,947
Subcontractor	3,810	1,818	11,031	2,261
Total revenue	\$ 51,459	\$ 38,700	\$ 158,495	\$ 106,208

6. Leases

We have leases for facilities and office equipment. Our lease liabilities are recognized as the present value of the future minimum lease payments over the lease term. Our right-of-use assets are recognized as the present value of the future minimum lease payments over the lease term less unamortized lease incentives and the balance remaining in deferred rent liability under ASC 840 at September 30, 2019. Our lease payments consist of fixed and in-substance fixed amounts attributable to the use of the underlying asset over the lease term. Variable lease payments that do not depend on an index rate or are not in-substance fixed payments are excluded in the measurement of right-of-use assets and lease liabilities and are expensed in the period incurred. The incremental borrowing rate on our credit facility was used in determining the present value of future minimum lease payments. The Company does not have any finance leases.

Upon the adoption of ASC 842, we recorded operating lease right-of-use assets of \$17.4 million, current and long-term operating lease liabilities of \$3.6 million and \$14.4 million, and a \$2 thousand cumulative adjustment to accumulated deficit.

The impact of adopting the standard on our consolidated balance sheet at October 1, 2019 is as follows:

(in thousands)	Ref	September 30, 2019	ASC 842 Adjustments	October 1, 2019
Long-term assets:				
Operating leases right-of-use assets	\$	—	\$ 17,398	\$ 17,398
Current liabilities:				
Deferred rent liability - short-term	(a)	44	(44)	—
Operating leases liabilities - current		—	3,645	3,645
Long-term liabilities:				
Deferred rent liability - long-term	(b)	276	(276)	—
Unamortized tenant improvement allowance	(c)	297	(297)	—
Operating leases liabilities - long-term		—	14,372	14,372
Shareholders' equity:				
Accumulated deficit		(39,555)	(2)	(39,557)

Ref (a): The balance of short-term deferred rent liability was presented in our most recent annual 10K report within accounts payable, accrued expenses, and other accrued liabilities on our consolidated balance sheet at September 30, 2019.

Ref (b): The balance of long-term deferred rent liability was presented in our most recent annual 10K report within total long-term liabilities on our consolidated balance sheet at September 30, 2019.

Ref (c): The balance of unamortized tenant improvement allowance was presented in our most recent annual 10K report within total long-term liabilities on our consolidated balance sheet at September 30, 2019.

The Company executed a modification of a lease during the fiscal quarter ending December 31, 2019 and recognized adjustments to the right-of-use asset and lease liabilities in accordance with ASC 842. As a result of the modification, a gain of \$0.1 million was recognized. The gain represents the difference between the change in values of the right-of-use-asset and lease liabilities, which were \$7.3 million and \$7.2 million, respectively. For the nine months ended June 30, 2020, the increase to right-of-use assets and lease liabilities was \$24.7 million and \$25.2 million, respectively. For more information, refer to [Note 6, Supporting Financial Information](#).

As of June 30, 2020, operating leases for facilities and equipment have remaining lease terms of 0.8 to 10.8 years.

The following table summarizes lease balances in our consolidated balance sheet at June 30, 2020:

	(in thousands)	
	June 30, 2020	
Operating lease right-of-use assets	\$	22,276
Operating lease liabilities, current	\$	1,768
Operating lease liabilities - long-term		21,686
Total operating lease liabilities	\$	23,454

The Company's lease costs are included within general and administrative costs and for the three and nine months ending June 30, 2020, total lease costs for our operating leases are as follows:

	(in thousands)	
	Three Months Ended June 30, 2020	Nine Months Ended June 30, 2020
Lease Costs:		
Operating	\$ 834	\$ 3,350
Short-term	30	133
Variable	28	51
Total lease costs	\$ 892	\$ 3,534

The Company's future minimum lease payments as of June 30, 2020 are as follows:

For the Fiscal Year Ending September 30,	(in thousands)	
2020 (Remaining)	\$	758
2021		3,156
2022		3,244
2023		3,264
2024		3,215
Thereafter		17,776
Total future lease payments		31,413
Less: imputed interest		(7,959)
Present value of future minimum lease payments		23,454
Less: current portion of operating lease liabilities		(1,768)
Long-term operating lease liabilities	\$	21,686

Other information related to our leases are as follows:

	June 30, 2020	
Weighted-average remaining lease term		9.5 years
Weighted-average discount rate		6.03 %

	(in thousands)	
	Three Months Ended June 30, 2020	Nine Months Ended June 30, 2020
Cash paid for amounts included in the measurement of lease liabilities	\$ 336	\$ 2,803
Lease liabilities arising from obtaining right-of-use-assets	\$ —	\$ 245

7. Supporting Financial Information

Accounts receivable

	Ref	(in thousands)	
		June 30, 2020	September 30, 2019
Billed receivables		\$ 19,419	\$ 18,924
Contract assets		10,216	4,302
Total accounts receivable		29,635	23,226
Less: Allowance for doubtful accounts	(a)	—	—
Accounts receivable, net		\$ 29,635	\$ 23,226

Ref (a): Accounts receivable are non-interest bearing, unsecured and carried at net realizable value. We evaluate our receivables on a quarterly basis and determine whether an allowance is appropriate based on specific collection issues. No allowance for doubtful accounts was deemed necessary at either June 30, 2020 or September 30, 2019.

Other current assets

	Ref	(in thousands)	
		June 30, 2020	September 30, 2019
Prepaid insurance and benefits		\$ 833	\$ 495
Other receivables		1,407	301
Other prepaid expenses		1,532	1,035
Other current assets		\$ 3,772	\$ 1,831

Equipment and improvements, net

	Ref	(in thousands)	
		June 30, 2020	September 30, 2019
Furniture and equipment		\$ 1,262	\$ 1,262
Computer equipment		1,171	1,043
Computer software		4,008	3,985
Leasehold improvements		1,595	1,595
Total equipment and improvements		8,036	7,885
Less accumulated depreciation and amortization		(4,267)	(2,542)
Equipment and improvements, net	(a)	\$ 3,769	\$ 5,343

Ref (a): Depreciation expense was \$0.5 million and \$0.3 million for the three months ended June 30, 2020 and 2019, respectively, and \$1.7 million and \$0.5 million for the nine months ended June 30, 2020 and 2019, respectively.

Intangible assets

	Ref	(in thousands)	
		June 30, 2020	September 30, 2019
Intangible assets	(a)		
Customer contracts and related customer relationships		\$ 45,600	\$ 45,600
Covenants not to compete		480	480
Trade name		2,109	2,109
Total intangible assets		48,189	48,189
Less accumulated amortization			
Customer contracts and related customer relationships		(10,010)	(6,590)
Covenants not to compete		(200)	(164)
Trade name		(385)	(227)
Total accumulated amortization		(10,595)	(6,981)
Intangible assets, net		\$ 37,594	\$ 41,208

Ref (a): Intangible assets subject to amortization. The intangibles are amortized on a straight-line basis over their estimated useful lives of 10 years. The total amount of amortization expense was \$1.2 million and \$0.6 million for the three months ended June 30, 2020 and 2019, respectively, and \$3.6 million and \$1.5 million for the nine months ended June 30, 2020 and 2019, respectively.

Estimated amortization expense for future years:

	(in thousands)
Remaining Fiscal 2020	\$ 1,205
Fiscal 2021	4,819
Fiscal 2022	4,819
Fiscal 2023	4,819
Fiscal 2024	4,819
Thereafter	17,113
Total amortization expense	\$ 37,594

Accounts payable, accrued expenses and other current liabilities

	(in thousands)	
	June 30, 2020	September 30, 2019
Accounts payable	\$ 11,827	\$ 10,054
Accrued benefits	2,963	2,252
Accrued bonus and incentive compensation	1,819	1,951
Accrued workers' compensation insurance	4,888	4,007
Other accrued expenses	2,756	2,369
Accounts payable, accrued expenses, and other current liabilities	\$ 24,253	\$ 20,633

Debt obligations

	(in thousands)	
	June 30, 2020	September 30, 2019
Bank term loan	\$ 44,500	\$ 56,000
Less unamortized deferred financing cost	(1,958)	(2,371)
Net bank debt obligation	42,542	53,629
Less current portion of term loan debt obligations	—	—
Long-term portion of bank debt obligation	\$ 42,542	\$ 53,629

Interest expense

	(in thousands)		(in thousands)		
	Three Months Ended		Nine Months Ended		
	June 30,		June 30,		
	Ref	2020	2019	2020	2019
Interest expense	(a)	\$ (635)	\$ (297)	\$ (2,229)	\$ (485)
Amortization of deferred financing costs	(b)	(178)	(265)	(551)	(799)
Other income (expense), net	(c)	—	—	121	—
Interest expense, net		\$ (813)	\$ (562)	\$ (2,659)	\$ (1,284)

Ref (a): Interest expense on borrowing

Ref (b): Amortization of expenses related to term loan and revolving line of credit

Ref (c): Gain on lease modification due to a lease amendment

8. Credit Facilities

A summary of this loan facility as of June 30, 2020, is as follows:

Arrangement	Loan Balance	Interest	Maturity Date
Secured term loan \$70 million (a)	\$ 44.5 million	LIBOR* + 3.5%	June 7, 2024
Secured revolving line of credit \$25 million ceiling (b)	\$ — million	LIBOR* + 3.5%	June 7, 2024

*LIBOR rate as of June 30, 2020 was 0.17%

(a) Represents the principal amounts payable on our secured term loan. The \$70.0 million secured term loan was secured by liens on substantially all of the assets of the Company. The principal of the term loan is payable in quarterly installments with the remaining balance due on June 7, 2024. Required amortization is 7.5% in years 1 and 2 of the term loan, 10.0% in years 3 and 4, and 12.5% in year 5, with the balance due at maturity.

The Credit Agreement requires compliance with a number of financial covenants and contains restrictions on our ability to engage in certain transactions. Among other matters, we must comply with limitations on the following: granting liens; incurring other indebtedness; maintenance of assets; investments in other entities and extensions of credit; mergers and consolidations; and changes in nature of business. The loan agreement also requires us to comply with certain quarterly financial covenants including: (i) a minimum fixed charge coverage ratio of at least 1.25 to 1.00 commencing with the quarter ending September 30, 2019, and for all subsequent periods, and (ii) a Funded Indebtedness to Adjusted EBITDA ratio not exceeding the ratio of 4.25:1.0 to 3.25:1.0 through maturity. Adjusted EBITDA ratio is calculated by dividing the Company's total interest-bearing debt by net income adjusted to exclude (i) interest and other expenses, (ii) provision for or benefit from income taxes, if any, (iii) depreciation and amortization, and (iv) non-recurring charges, losses or expenses to include transaction and non-cash equity expense. The term loan has an interest rate spread range from 2.5% to 4.5% depending on the funded indebtedness to adjusted EBITDA ratio. We are in compliance with all loan covenants and restrictions.

We are required to pay quarterly amortization payments, which commenced in September 2019 and ends in March 2024. The quarterly payments are equal installments which started in September 2019 at \$1,312,500. The amortization amount will increase every two years by \$437,500; the first will occur September 2021 and the final increase will occur in September 2023. In addition to quarterly payments of the outstanding indebtedness, the loan agreement also requires annual payments of a percentage of excess cash flow, as defined in the loan agreement. The loan agreement states that an excess cash flow recapture payment must be made equal to (a) 75% of the excess cash flow for the immediately preceding fiscal year in which indebtedness to consolidated EBITDA ratio is greater than or equal to 2.50:1.0; (b) 50% of the excess cash flow for the immediately preceding fiscal year in which the funded indebtedness to consolidated EBITDA Ratio is less than 2.50:1.0 but greater than or equal to 1.5:1.0; or (c) 0% of the excess cash flow for the immediately preceding fiscal year in which the funded indebtedness to consolidated EBITDA Ratio is less than 1.5:1.0. In addition, the Company must make additional mandatory prepayment of amounts outstanding based on proceeds received from asset sales and sales of certain equity securities or other indebtedness. The Company has made voluntary principal prepayments that satisfy mandatory principal amortization until September 2023. For additional information regarding the schedule of future payment obligations, please refer to [Note 11, Commitments and Contingencies](#).

On September 30, 2019, we executed a floating-to-fixed interest rate swap with First National Bank ("FNB") as counter party. The notional amount in the floating-to-fixed interest rate swap is \$36 million that matures in 2024. The remaining outstanding balance of our term loan is subject to interest rate fluctuations. On the notional amount, the Company pays a base fixed rate of 1.61%, plus applicable credit spread. As a result, for the nine months ended June 30, 2020, interest expense has been increased by less than \$0.1 million.

(b) The secured revolving line of credit has a ceiling of up to \$25.0 million. Borrowing on the line of credit is secured by liens on substantially all of the assets of the Company. The Company accessed funds from the revolving credit facility during the quarter but has no outstanding balance at June 30, 2020.

The Company's total borrowing availability, based on eligible accounts receivables at June 30, 2020, was \$19.3 million. As part of the revolving credit facility, the lenders agreed to a sublimit of \$3 million for letters of credit for the account of the Company, subject to applicable procedures.

The revolving line of credit has a maturity date of June 7, 2024 and is subject to loan covenants as described above. DLH is fully compliant with those covenants.

9. Stock-based Compensation, Equity Grants, and Warrants

Stock-based compensation expense

Options issued under equity incentive plans are designated as either an incentive stock or a non-statutory stock option. No option is granted with a term of more than 10 years from the date of grant. Exercisability of option awards may depend on achievement of certain performance measures determined by the Compensation Committee of our Board. Shares issued upon option exercise are newly issued shares. As of June 30, 2020, there were 1.1 million shares available for grant.

Stock-based compensation expense, shown in the table below, is recorded in general and administrative expenses included in our statements of operations:

Ref	(in thousands) Three Months Ended		(in thousands) Nine Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
DLH employees	\$ 95	\$ 67	\$ 306	\$ 196
Non-employee directors (a)	87	132	260	395
Total stock option expense	\$ 182	\$ 199	\$ 566	\$ 591

Ref (a): Equity grants of restricted stock units, in accordance with DLH compensation policy for non-employee directors were made in the first quarter of fiscal 2020 and in total 77,500 restricted stock units were issued and outstanding.

Unrecognized stock-based compensation expense

	Ref	(in thousands) June 30, 2020
Unrecognized expense for DLH employees	(a)	\$ 1,007
Unrecognized expense for non-employee directors		87
Total unrecognized expense		\$ 1,094

Ref (a): Compensation expense for the portion of equity awards for which the requisite service has not been rendered is recognized as the requisite service is rendered. The compensation expense for that portion of awards has been based on the grant-date fair value of those awards as calculated for recognition purposes under applicable guidance. On a weighted average basis, this expense is expected to be recognized within the next 3.82 years.

Stock option activity for the nine months ended June 30, 2020

The aggregate intrinsic value in the table below represents the total pretax intrinsic value (i.e., the difference between the Company's closing stock price on the last trading day of the period and the exercise price, times the number of shares) that would have been received by the option holders had all option holders exercised their in the money options on those dates. This amount will change based on the fair market value of the Company's stock.

	Ref	(in thousands) Number of Shares	Weighted Average Exercise Price	(in years) Weighted Average Remaining Contractual Term	(in thousands) Aggregate Intrinsic Value
Options outstanding, September 30, 2019		2,134	\$ 4.36	5.9	\$ 4,815
Granted	(a)	250	\$ 4.17	—	—
Exercised		(345)	\$ 1.05	—	—
Cancelled		(160)	\$ 1.29	—	—
Options outstanding, June 30, 2020		1,879	\$ 4.60	6.5	\$ 7,280

Ref (a): Utilizing a volatility of 50% along with assumptions of a 10-year term and the aforementioned 10-day stock price threshold results in an indicated range of value of the Options granted during the quarter ended December 31, 2019, as follows using the Monte Carlo Method.

Grant Date	Ref	Strike Price	Stock Price	Vesting Threshold Price	Expected Term (Years)	Volatility	Calculated Fair Value
						50%	
October 18, 2019	(a)	\$ 4.17	\$ 4.17	Service	10		\$ 2.54
October 18, 2019		\$ 4.17	\$ 4.17	\$ 8.00	10		\$ 2.56
October 18, 2019		\$ 4.17	\$ 4.17	\$ 10.00	10		\$ 2.53
October 18, 2019		\$ 4.17	\$ 4.17	\$ 12.00	10		\$ 2.51

Notes:

Results based on 100,000 simulations

Ref (a): Options granted vest after completion of a one year service period.

Stock options shares outstanding, vested and unvested for the period ended

	Ref	(in thousands)	
		June 30, 2020	September 30, 2019
Vested and exercisable	(a)	1,072	1,300
Unvested	(b)	807	834
Options outstanding		1,879	2,134

Ref (a): Weighted average exercise price of vested and exercisable shares was \$1.61 and \$1.51 at June 30, 2020 and September 30, 2019, respectively. Aggregate intrinsic value was approximately \$5.9 million and \$3.9 million at June 30, 2020 and September 30, 2019, respectively. Weighted average contractual term remaining was 3.2 and 3.8 years at June 30, 2020 and September 30, 2019, respectively.

Ref (b): Certain awards vest upon satisfaction of certain performance criteria.

10. Earnings Per Share

The below details the calculation of basic and diluted earnings per share for the periods indicated:

	(In thousands, except per share amounts)			
	Three Months Ended June 30,		Nine Months Ended June 30,	
	2020	2019	2020	2019
Numerator:				
Net income	\$ 2,124	\$ 803	\$ 5,752	\$ 3,758
Denominator:				
Denominator for basic net income per share - weighted-average outstanding shares	12,354	12,036	12,246	12,011
Effect of dilutive securities:				
Stock options and restricted stock	874	1,041	804	1,037
Denominator for diluted net income per share - weighted-average outstanding shares	13,228	13,077	13,050	13,048
Net income per share - basic	\$ 0.17	\$ 0.07	\$ 0.47	\$ 0.31
Net income per share - diluted	\$ 0.16	\$ 0.06	\$ 0.44	\$ 0.29

11. Commitments and Contingencies

Contractual obligations as of June 30, 2020

(Amounts in thousands)	Total	Payments Due by Period			
		Next 12 Months	2-3 Years	4-5 Years	More than 5 Years
Debt obligations	\$ 44,500	\$ —	\$ —	44,500	\$ —
Facility leases	31,313	3,100	6,415	6,329	15,469
Equipment operating leases	100	34	44	22	—
Total obligations	\$ 75,913	\$ 3,134	\$ 6,459	\$ 50,851	\$ 15,469

Worker's compensation

We accrue worker's compensation expense based on claims submitted, applying actuarial loss development factors to estimate the costs incurred but not yet recorded. Our accrued liability for claims development as of June 30, 2020 and September 30, 2019 was \$4.9 million and \$4.0 million, respectively.

Legal proceedings

As a commercial enterprise and employer, the Company is subject to various claims and legal actions in the ordinary course of business. These matters can include professional liability, employment-relations issues, workers' compensation, tax, payroll and employee-related matters, other commercial disputes arising in the course of its business, and inquiries and investigations by governmental agencies regarding our employment practices or other matters. The Company is not aware of any pending or threatened litigation that it believes is reasonably likely to have a material adverse effect on its results of operations, financial position or cash flows.

12. Related Party Transactions

The Company has determined that for the three and nine months ended June 30, 2020 there were no significant related party transactions that have occurred which require disclosure through the date that these financial statements were issued.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking and Cautionary Statements

You should read the following discussion in conjunction with the Consolidated Financial Statements and the notes to those statements included elsewhere in this Quarterly Report on Form 10-Q, as well as our Annual Report on Form 10-K for the year ended September 30, 2019, and in other reports we have subsequently filed with the SEC. This Quarterly Report on Form 10-Q contains certain statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Certain statements contained in this Management's Discussion and Analysis are forward-looking statements that involve risks and uncertainties. Any statements that refer to expectations, projections or other characterizations of future events or circumstances or that are not statements of historical fact (including without limitation statements to the effect that the Company or its management "believes", "expects", "anticipates", "plans", "intends" and similar expressions) should be considered forward looking statements that involve risks and uncertainties which could cause actual events or DLH's actual results to differ materially from those indicated by the forward-looking statements. Forward-looking statements in this report include, among others, statements regarding benefits of the acquisition, estimates of future revenues, operating income, earnings, earnings per share, backlog, and cash flows. These statements reflect our belief and assumptions as to future events that may not prove to be accurate. Our actual results may differ materially from such forward-looking statements made in this report due to a variety of factors, including: the outbreak of the novel coronavirus ("COVID-19"), including the measures to reduce its spread, and its impact on the economy and demand for our services, are uncertain, cannot be predicted, and may precipitate or exacerbate other risks and uncertainties; the risk that we will not realize the anticipated benefits of an acquisition; the challenges of managing larger and more widespread operations resulting from the acquisition; contract awards in connection with re-competes for present business and/or competition for new business; compliance with new bank financial and other covenants; changes in client budgetary priorities; government contract procurement (such as bid protest, small business set asides, loss of work due to organizational conflicts of interest, etc.) and termination risks; the ability to successfully integrate the operations of future acquisitions; and other risks described in our SEC filings. For a discussion of such risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" in the Company's periodic reports filed with the SEC, including our Annual Report on Form 10-K for the fiscal year ended September 30, 2019, as well as interim quarterly filings thereafter. The forward-looking statements contained herein are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry and business. Such forward-looking statements are made as of the date hereof and may become outdated over time. The Company does not assume any responsibility for updating forward-looking statements.

Business and Markets Overview

We are a provider of technology-enabled business process outsourcing and program management solutions, primarily to improve and better deploy large-scale federal health and human service initiatives. DLH derives essentially all of its revenue from agencies of the Federal government, providing services to several agencies including the Department of Veteran Affairs ("VA"), Department of Health and Human Services ("HHS"), and the Department of Defense ("DoD").

Our business offerings are aligned to three market focus areas within the federal health services market space.

- Defense and Veteran Health Solutions;
- Human Services and Solutions;
- Public Health and Life Sciences;

The following table summarizes the revenues by market for the nine months ended June 30, 2020 and 2019, respectively:

	(in thousands)			
	Nine Months Ended			
	June 30,			
	2020		2019	
	Revenue	Percent of total revenue	Revenue	Percent of total revenue
Defense/VA	\$ 75,353	48 %	\$ 70,026	66 %
Human Services and Solutions	31,563	20 %	29,421	28 %
Public Health/Life Sciences	51,579	32 %	6,761	6 %
Total revenue	\$ 158,495	100 %	\$ 106,208	100 %

Distribution of Services and Solutions in Our Markets

We operate primarily through prime contracts awarded by the government through competitive bidding processes. We have a diverse mix of contract vehicles with various agencies of the United States Government, which supports our overall corporate growth strategy. Our revenue is distributed to time and materials contracts (70%), cost reimbursable contracts (28%) and firm fixed price contracts (2%). We provide services under IDIQ and government wide acquisition contracts, such as General Services Administration ("GSA") schedule contracts. We currently hold multiple GSA schedule contracts, under which we provide services that constitute a significant percentage of our total revenue. These Federal contract schedules are renewed on a recurring basis for a multi-year period.

Major Customers

Our two largest customers are HHS and the VA. The following table summarizes the revenues by customer for the nine months ended June 30, 2020 and 2019, respectively:

	(in thousands)			
	Nine Months Ended			
	June 30,			
	2020		2019	
	Revenue	Percent of total revenue	Revenue	Percent of total revenue
Department of Veterans Affairs	\$ 74,402	47 %	\$ 68,563	65 %
Department of Health and Human Services	73,263	46 %	34,987	33 %
Customers with less than 10% share of total revenue	10,830	7 %	2,658	2 %
Total revenue	\$ 158,495	100 %	\$ 106,208	100 %

Major Contracts

The revenue attributable to the VA was derived from 16 separate contracts covering the Company's performance of pharmacy and logistics services in support of the VA's consolidated mail outpatient pharmacy program. Nine contracts for pharmacy

services, which represent revenues of approximately \$41.8 million and \$39.6 million for the nine months ended June 30, 2020 and 2019, are currently operating under extensions through October 2020. The customer has indicated their intent to further extend the contract through fiscal 2021.

As previously reported, a single renewal request for proposal (“RFP”) had been issued for the nine (9) pharmacy contracts that required the prime contractor be a service-disabled veteran owned small business (“SDVOSB”), which would have precluded us from bidding on the RFP as a prime contractor. We had joined a SDVOSB team as a subcontractor to respond to this RFP. However, the government has canceled the previously issued RFP for these contracts. The government has neither indicated nor announced its future procurement strategy. Due to the time required to conduct a procurement process, we expect these contracts to be further extended.

The remaining seven contracts for logistics services, which represent approximately \$32.6 million and \$29.0 million of revenues for the nine months ended June 30, 2020 and 2019, have been extended through June 2021. A renewal RFP for the seven logistics contracts has been issued and provides for evaluation and award of the contract based on the classification of the bidder, with preference given to a SDVOSB prime contractor. The Company has joined a SDVOSB team to respond to this RFP. We believe that these contracts will be extended during the procurement process. The government has not provided any updated guidance with respect to this procurement.

The Company's contract with HHS in support of its Head Start program generated \$26.8 million and \$28.6 million of its revenue for the nine months ended June 30, 2020 and 2019, respectively. This contract was awarded on a time and materials basis and provided for a base period and four option periods for a total term of five years through April 2020. We have received a fully funded contract extension through August 2020. The customer issued an RFP during the quarter. The Company submitted a proposal to the RFP. It is expected that the government will announce an award determination during the next fiscal quarter.

We remain dependent upon the continuation of our relationships with the VA and HHS. Our results of operations, cash flows, and financial condition would be materially adversely affected if we were unable to continue our relationship with either of these customers, if we were to lose any of our material current contracts, or if the amount of services we provide to them was to be materially reduced.

Backlog

Backlog represents total estimated contract value of predominantly multi-year government contracts and will vary depending upon the timing of new/renewal contract awards. Backlog is based upon customer commitments that the Company believes to be firm over the remaining performance period of our contracts. The value of multi-client, competitive Indefinite Delivery/Indefinite Quantity (“IDIQ”) contract awards is included in backlog computation only when a task order is awarded or if the contract is a single award IDIQ contract. While no assurances can be given that existing contracts will result in earned revenue in any future period, or at all, the Company's major customers have historically exercised their contractual renewal options. At June 30, 2020, our total backlog was approximately \$384.7 million compared to \$414.1 million as of September 30, 2019.

Backlog value is quantified from management's judgment and assumptions about the volume of services based on past volume trends and current planning developed with customers. Our backlog may consist of both funded and unfunded amounts under existing contracts including option periods. At June 30, 2020, our funded backlog was approximately \$95.5 million, and our unfunded backlog was \$289.2 million.

Forward Looking Business Trends

COVID-19 Impact

We are exposed to and impacted by macroeconomic factors and U.S. government policies. Current general economic conditions are highly volatile due to the COVID-19 pandemic, resulting in both market size contractions due to economic slowdowns and government restrictions on movement. We have seen continued demand for the services we provide under our current contract portfolio as the services we provide are largely deemed essential. While the pandemic has had minor offsetting impacts due to social distancing and travel restrictions, we do not expect material impacts from COVID-19 in this fiscal year.

The pandemic may cause reduced demand for certain services we provide, particularly if it results in a recessionary economic environment or the spending priorities of the U.S. government shift in ways adverse to our business focus. Our ability to continue to operate without any significant negative impacts will in part depend on our continued ability to protect our employees. We have endeavored to follow recommended actions of government and health authorities to protect our employees

and were able to broadly maintain our operations. Further, we have partnered with our clients to adopt particular measures to protect our employees at distribution centers, and we expect to execute on a remainder of our contracts through remote and teleworking arrangements. We intend to continue to work with government authorities and implement our employee safety measures to ensure that we are able to continue our operations during the pandemic. However, uncertainty resulting from the pandemic could result in an unforeseen disruption to our operations (for example a closure of a key distribution facility) that may not be fully mitigated.

Due to our ability to continue to perform under our contracts and our cash flow generation, we do not presently expect liquidity constraints related to COVID-19. We are presently in compliance with all covenants in our term loan and have access to a revolving line of credit to meet any short-term cash needs that cannot be funded by operations. Due to our reduction in term loan principal, we do not have a scheduled amortization payment until September 2023. As such, mandatory demands on our cash flow remain low. Further, we have not observed any material impairments of our assets or a significant change in the fair value of our assets due to the COVID-19 pandemic.

For additional information on risk factors that could impact our results, please refer to “Risk Factors” in Part II, Item 1A of this Form 10-Q.

Federal budget outlook for 2021:

Department of Veterans Affairs health spending trends:

The VA is requesting a total budget of \$243.3 billion, an increase in fiscal 2021 of 10.2% above the fiscal 2020 budget. The budget increase focuses on several key veteran health initiatives to include telehealth and mental health. For these initiatives the VA has requested budgets of \$1.3 and \$10.3 billion, respectively. These requests represent an approximately 27% and 7% increase from fiscal 2020. We believe our capabilities and service delivery models are aligned with our customers growth initiatives

Department of Health and Human Services spending trends:

Over the past two government fiscal years, spending on health care initiatives has increased and is expected to increase in fiscal 2021 to \$1.4 trillion. HHS is the principal federal department charged with protecting the health of all Americans and providing essential human services.

The National Institutes of Health (“NIH”), a part of HHS, is asking for approximately \$8.8 billion to fund new COVID-19 projects. These projects will focus not only on vaccines and other treatments, but will also evaluate the societal impacts of the disease. We believe our capabilities and past performance are well aligned with the service sought under this budget increase.

Results of Operations for the three months ended June 30, 2020 and 2019

The following table summarizes, for the periods indicated, consolidated statements of income data expressed in dollars in thousands except for per share amounts, and as a percentage of revenue:

	Three Months Ended					
	June 30, 2020		June 30, 2019		Change	
Revenue	\$ 51,459	100.0 %	\$ 38,700	100.0 %	\$ 12,759	
Cost of operations:						
Contract costs	39,615	77.0 %	30,038	77.6 %	9,577	
General and administrative costs	6,323	12.3 %	4,811	12.4 %	1,512	
Acquisition costs	—	— %	1,247	3.2 %	(1,247)	
Depreciation and amortization	1,721	3.3 %	914	2.4 %	807	
Total operating costs	47,659	92.6 %	37,010	95.6 %	10,649	
Income from operations	3,800	7.4 %	1,690	4.4 %	2,110	
Interest expense, net	813	1.6 %	562	1.5 %	251	
Income before income taxes	2,987	5.8 %	1,128	2.9 %	1,859	
Income tax expense	863	1.7 %	325	0.8 %	538	
Net income	\$ 2,124	4.1 %	\$ 803	2.1 %	1,321	
Net income per share - basic	\$ 0.17		\$ 0.07		\$ 0.10	
Net income per share - diluted	\$ 0.16		\$ 0.06		\$ 0.10	

Revenue

Revenue for the three months ended June 30, 2020 was \$51.5 million, an increase of \$12.8 million or 33.0% over the prior year period. The increase in revenue is due primarily to the inclusion of Social & Scientific Systems, Inc. ("S3") for the full quarter in the current year.

Cost of Operations

Contract costs primarily include the costs associated with providing services to our customers. These costs are generally comprised of direct labor and associated fringe benefit costs, subcontract cost, other direct costs, and the related management and infrastructure costs. For the three months ended June 30, 2020, contract costs increased by approximately \$9.6 million, principally due to the addition of S3.

General and administrative costs are for those employees not directly providing services to our customers, to include but not limited to executive management, bid and proposal, accounting, and human resources. These costs increased as compared to the prior fiscal year period by \$1.5 million primarily from the inclusion of S3 and increased business development costs, offset by increased operational leverage.

For the three months ended June 30, 2020, depreciation and amortization costs were approximately \$0.5 million and \$1.2 million, respectively, as compared to approximately \$0.3 million and \$0.6 million for the prior fiscal year period. The increase of \$0.8 million was principally due to the amortization of the acquired definite-lived intangible assets of S3.

Interest Expense, net

Interest expense, net, includes items such as, interest expense and amortization of deferred financing costs on debt obligations. For the three months ended June 30, 2020 and 2019, interest expense was approximately \$0.8 million and \$0.6 million, respectively. The increase in interest expense was due to the borrowing required to finance the acquisition of S3.

Income Tax Expense

For the three months ended June 30, 2020 and 2019, DLH recorded a \$0.9 million and \$0.3 million provision for tax expense, respectively. The effective tax rate for the three months ended June 30, 2020 and 2019 was 29%.

Results of Operations for the nine months ended June 30, 2020 and 2019

The following table summarizes, for the periods indicated, consolidated statements of income data expressed in dollars in thousands except for per share amounts, and as a percentage of revenue:

Consolidated Statement of Income:	Nine Months Ended				Change
	June 30, 2020		June 30, 2019		\$
Revenue	\$ 158,495	100.0 %	\$ 106,208	100.0 %	\$ 52,287
Cost of Operations:					
Contract Costs	123,895	78.2 %	82,744	77.9 %	41,151
General and administrative expenses	18,497	11.7 %	13,462	12.7 %	5,035
Acquisition costs	—	— %	1,391	1.3 %	(1,391)
Depreciation and amortization	5,340	3.4 %	2,037	1.9 %	3,303
Total operating costs	147,732	93.2 %	99,634	93.8 %	48,098
Income from operations	10,763	6.8 %	6,574	6.2 %	4,189
Interest	2,659	1.7 %	1,284	1.2 %	1,375
Income before income taxes	8,104	5.1 %	5,290	5.0 %	2,814
Income tax expense, net	2,352	1.5 %	1,532	1.4 %	820
Net income	\$ 5,752	3.6 %	\$ 3,758	3.5 %	\$ 1,994
Net income per share - basic	\$ 0.47		\$ 0.31		\$ 0.16
Net income per share - diluted	\$ 0.44		\$ 0.29		\$ 0.15

Revenue

Revenue for the nine months ended June 30, 2020 was \$158.5 million, an increase of \$52.3 million or 49.2% over the prior year period. The increase in revenue is due primarily to the inclusion of revenue from S3 for the full year, as well as increased volume in legacy contracts.

Cost of Operations

Contract costs primarily include the costs associated with providing services to our customers. These costs are generally comprised of direct labor and associated fringe benefit costs, subcontract cost, other direct costs, and the related management and infrastructure costs. For the nine months ended June 30, 2020, contract costs increased by approximately \$41.2 million principally due to the addition of S3.

General and administrative costs are for those employees not directly providing services to our customers, to include but not limited to executive management, bid and proposal, accounting, and human resources. These costs increased as compared to the same period in the prior fiscal year by \$5.0 million primarily from the inclusion of S3. As a percent of revenue, general and administrative costs decreased due to improved operating leverage derived from an expanded business base.

For the nine months ended June 30, 2020, depreciation and amortization costs were approximately \$1.7 million and \$3.6 million, respectively, as compared to approximately \$0.5 million and \$1.5 million for the prior fiscal year period. The increase of \$3.3 million was principally due to the amortization of the acquired definite-lived intangible assets of S3.

Interest Expense, net

Interest expense, net, includes interest expense on the Company's term loan and amortization of deferred financing costs on debt obligations. For the nine months ended June 30, 2020 and 2019, interest expense, net was approximately \$2.7 million and \$1.3 million, respectively. The increase in interest expense was due to the borrowing required to finance the acquisition of S3.

Income Tax Expense

For the nine months ended June 30, 2020 and 2019, DLH recorded a \$2.4 million and \$1.5 million provision for tax expense, respectively. The effective tax rate for the nine months ended June 30, 2020 and 2019 was 29%.

Non-GAAP Financial Measures

The Company uses EBITDA as a supplemental non-GAAP measure of our performance. DLH defines EBITDA as net income excluding (i) interest expense, (ii) provision for or benefit from income taxes, if any, and (iii) depreciation and amortization.

On a non-GAAP basis, Earnings Before Interest, Tax, Depreciation, and Amortization ("EBITDA") for the three and nine months ended June 30, 2020 was approximately \$5.5 million and \$16.1 million, respectively. The increase of approximately \$2.9 million and \$7.5 million from the same periods in the prior fiscal year was principally due to the contribution of S3, improved operating leverage achieved through the expansion of the Company's business base, and volume growth in legacy contracts.

Reconciliation of GAAP net income to EBITDA, a non-GAAP measure:

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Net income	\$ 2,124	\$ 803	\$ 5,752	\$ 3,758
(i) Interest expense, net	813	562	2,659	1,284
(ii) Provision for taxes	863	325	2,352	1,532
(iii) Depreciation and amortization	1,721	914	5,340	2,037
EBITDA	\$ 5,521	\$ 2,604	\$ 16,103	\$ 8,611

In fiscal 2019, the Company incurred \$1.4 million of acquisition-related expenses during the nine months ended June 30, 2019 for the acquisition of S3. The Company is excluding acquisition-related expenses from this measure because they were incurred as a result of a specific event, do not reflect the costs of our operations, and can affect the period-over-period assessment of operating results. In addition, we are including net income adjusted for the acquisition of S3, in total and on a per share basis, presented on a tax-effected basis. We are reporting this non-GAAP metric to demonstrate the impact of these events.

Reconciliation of GAAP net income to net income adjusted for the effect of the acquisition costs, a non-GAAP measure:

	Three Months Ended			Nine Months Ended		
	June 30,			June 30,		
	2020	2019	Change	2020	2019	Change
Net income	\$ 2,124	\$ 803	\$ 1,321	\$ 5,752	\$ 3,758	\$ 1,994
Acquisition costs	—	1,247	(1,247)	—	1,391	(1,391)
Tax effect of excluding acquisition costs	—	(362)	362	—	(403)	403
Net income adjusted for acquisition costs	\$ 2,124	\$ 1,688	\$ 436	\$ 5,752	\$ 4,746	\$ 1,006
Net income per diluted share	\$ 0.16	\$ 0.06	\$ 0.10	\$ 0.44	\$ 0.29	\$ 0.15
Impact of acquisition costs	—	0.07	(0.07)	—	0.08	(0.08)
Net income per diluted share adjusted for acquisition costs	\$ 0.16	\$ 0.13	\$ 0.03	\$ 0.44	\$ 0.37	\$ 0.07

These non-GAAP measures of performance are used by management to conduct and evaluate its business during its review of operating results for the periods presented. Management and the Company's Board utilize these non-GAAP measures to make decisions about the use of the Company's resources, analyze performance between periods, develop internal projections and measure management performance. We believe that these non-GAAP measures are useful to investors in evaluating the Company's ongoing operating and financial results and understanding how such results compare with the Company's historical performance.

Liquidity and capital management

As of June 30, 2020, the Company's immediate sources of liquidity include cash generated from operations, accounts receivable, and access to its secured revolving line of credit facility. This credit facility provides us with access of up to \$25 million, subject to certain conditions including eligible accounts receivable. As of June 30, 2020 we have \$19.3 million of available borrowing capacity on the revolving line of credit and no balance outstanding as of such date.

The Company's present operating liabilities are largely predictable and consist of vendor and payroll related obligations. Our current investment and financing obligations are adequately covered by cash generated from profitable operations and planned operating cash flow should be sufficient to support the Company's operations for twelve months from issuance of these consolidated financial statements.

A summary of the change in cash and cash equivalents is presented below:

	Nine Months Ended	
	June 30,	
	2020	2019
Net cash provided by operating activities	\$ 10,707	\$ 11,153
Net cash used in investing activities	(152)	(66,549)
Net cash (used in) provided by financing activities	(11,687)	55,046
Net change in cash and cash equivalents	\$ (1,132)	\$ (350)

For the nine months ended June 30, 2020, the Company generated \$10.7 million in cash flows from operations.

Cash used in investing activities during the nine months ended June 30, 2020 was \$0.2 million, mainly for the purchase of capital assets. In the same period during the prior fiscal year, we entered a credit facility, which included a \$70 million term loan, to finance the S3 acquisition.

Cash used in financing activities was \$12 million during the nine months ended June 30, 2020. We made net repayments under our credit facility of \$11.5 million during the nine months ended June 30, 2020. In the same period during the prior fiscal year, we executed the acquisition of S3 and entered a \$70 million term loan.

Credit Facility

A summary of our secured loan facility for the period ended June 30, 2020 is as follows:

<u>Arrangement</u>	<u>Loan Balance</u>	<u>Interest*</u>	<u>Maturity Date</u>
Secured term loan \$70 million (a)	\$ 44.5 million	LIBOR* + 3.5%	June 7, 2024
Secured revolving line of credit \$25 million ceiling (b)	\$ — million	LIBOR* + 3.5%	June 7, 2024

*LIBOR rate as of June 30, 2020 was 0.17%. The credit facility has an interest rate spread range from 2.5% to 4.5% depending on the funded indebtedness to adjusted EBITDA ratio.

(a) Represents the principal amounts payable on our secured term loan. The \$70.0 million secured term loan is secured by liens on substantially all of the assets of the Company. The principal of the term loan is payable in quarterly installments with the remaining balance due on June 7, 2024.

On September 30, 2019, we executed a floating-to-fixed interest rate swap with First National Bank ("FNB") as counter party. The notional amount in the floating-to-fixed interest rate swap is \$36 million that matures in 2024. The remaining outstanding balance of our term loan is subject to interest rate fluctuations.

(b) The secured revolving line of credit has a ceiling of up to \$25.0 million and a maturity date of June 7, 2024. The Company has accessed funds from the revolving credit facility during the quarter, but had no balance outstanding at June 30, 2020.

The Term Loan and Revolving Credit Facility are secured by liens on substantially all of the assets of the Company. The provisions of the Term Loan and Revolving Credit Facility are fully described in [Note 8](#) of the consolidated financial statements.

Contractual Obligations as of June 30, 2020

<u>Contractual obligations</u> <u>(Amounts in thousands)</u>	<u>Total</u>	<u>Payments Due by Period</u>			
		<u>Next 12</u> <u>Months</u>	<u>2-3</u> <u>Years</u>	<u>4-5</u> <u>Years</u>	<u>More than 5</u> <u>Years</u>
Debt Obligations	\$ 44,500	\$ —	\$ —	\$ 44,500	\$ —
Facility Leases	31,313	3,100	6,415	6,329	15,469
Equipment operating leases	100	34	44	22	—
Total Obligations	\$ 75,913	\$ 3,134	\$ 6,459	\$ 50,851	\$ 15,469

Off-Balance Sheet Arrangements

The Company did not have any material off-balance sheet arrangements subsequent to, or upon the filing of our consolidated financial statements in our Annual Report as defined under SEC rules.

Effects of Inflation

Inflation and changing prices have not had a material effect on DLH's net revenues and results of operations, as DLH expects to be able to modify its prices and cost structure to respond to inflation and changing prices.

Significant Accounting Policies and Use of Estimates

Our consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. Preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and the related disclosure of contingent liabilities. These assumptions, estimates and judgments are based on historical experience and assumptions that are believed to be reasonable at the time. Actual results could differ from such estimates. Critical policies and practices are important to the portrayal of a company's financial condition and results of operations, and may require management's subjective judgments about the effects of matters that are uncertain. See the information under [Note 4 "Significant Accounting Policies"](#) in this Quarterly Report on Form 10Q or [Note 7](#) of the consolidated financial statements in DLH's Annual Report on Form 10-K for the year ended September 30, 2019, as well as the discussion under the caption "Critical Accounting Policies and Estimates" therein for a discussion of our critical accounting policies and estimates. DLH senior management has reviewed these critical accounting policies and related disclosures and determined that there were no significant changes in our critical accounting policies, or the estimates associated with those policies in the three months ended June 30, 2020.

New Accounting Pronouncements

A discussion of recently issued accounting pronouncements is described in [Note 3](#) in the Notes to Consolidated Financial Statements elsewhere in this Quarterly Report, and we incorporate such discussion by reference.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Except as described elsewhere in this report, the Company has not engaged in trading practices in securities or other financial instruments and therefore does not have any material exposure to interest rate risk, foreign currency exchange rate risk, commodity price risk or other similar risks, which might otherwise result from such practices. The Company has limited foreign operations and therefore is not materially subject to fluctuations in foreign exchange rates, commodity prices or other market rates or prices from market sensitive instruments. On September 30, 2019, we executed a floating-to-fixed interest rate swap with FNB as counter party. The notional amount in the floating-to-fixed interest rate swap is \$36 million; the remaining outstanding balance of our term loan is subject to interest rate fluctuations. We have determined that a 1.0% increase to the LIBOR rate would impact our interest expense by less than \$0.1 million per year. As of June 30, 2020, the interest rate on the floating interest rate debt was 4.5%.

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our CEO and President and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Exchange Act) as of the end of the period covered by this report, have concluded that, based on the evaluation of these controls and procedures, our disclosure controls and procedures were effective at the reasonable assurance level to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our CEO and President and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Our management, including our CEO and President and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. Our management, however, believes our disclosure controls and procedures are in fact effective to provide reasonable assurance that the objectives of the control system are met.

Changes in Internal Controls

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation of our internal control that occurred during the fiscal quarter ended June 30, 2020, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II — OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

As a commercial enterprise and employer, the Company is subject to various claims and legal actions in the ordinary course of business. These matters can include professional liability, employment-relations issues, workers' compensation, tax, payroll and employee-related matters, other commercial disputes arising in the course of its business, and inquiries and investigations by governmental agencies regarding our employment practices or other matters. The Company is not aware of any pending or threatened litigation that it believes is reasonably likely to have a material adverse effect on its results of operations, financial position or cash flows.

ITEM 1A: RISK FACTORS

Our operating results and financial condition have varied in the past and may in the future vary significantly depending on a number of factors. In addition to the other information set forth in this report, you should carefully consider the factors discussed in the "Risk Factors" section in our Annual Report on Form 10-K for the year ended September 30, 2019 and in our other reports filed with the SEC concerning the risks associated with our business, financial condition and results of operations. These factors, among others, could materially and adversely affect our business, results of operations, financial condition or liquidity and cause our actual results to differ materially from those contained in statements made in this report and presented elsewhere by management from time to time. The risks we have identified in our reports are not the only risks facing us. For example, these risks now include the impacts from the novel coronavirus ("COVID-19") outbreak on our business, financial condition and results of operations. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial may also materially adversely affect our business, results of operations, financial condition or liquidity. See Item 1A, Risk Factors, in our 2019 Annual Report.

The following risk factor is provided to update the risk factors previously disclosed under the heading "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended September 30, 2019 and should be read in conjunction with the risk factors appearing in our 2019 Annual Report.

Our results of operations could in the future be materially adversely impacted by global, macroeconomic events, such as coronavirus pandemic (COVID-19), and the response to contain it.

The global spread of the coronavirus (COVID-19) has created significant volatility, uncertainty and economic disruption. The extent to which the coronavirus pandemic impacts our business, operations and financial results will depend on numerous evolving factors that we may not be able to accurately predict, including: the duration and scope of the pandemic; governmental, business and individuals' actions that have been and continue to be taken in response to the pandemic; the impact of the pandemic on economic activity and actions taken in response; the effect on our clients and client demand for our services and solutions; our ability to sell and provide our services and solutions, including as a result of travel restrictions and people working from home (as described above in the Management Discussion & Analysis, this has resulted in minor delays in our provision of services) and any closures of our and our clients' offices and facilities, particularly at our pharmacy distribution centers. Furthermore, the significant increase in remote working of our employees may exacerbate certain risks to our business, including an increased demand for information technology resources and the increased risk of malicious technology-related events, such as cyberattacks and phishing attacks. Customers may also slow down decision making, delay planned work or seek to terminate existing agreements. Government agencies are our primary customers and the long-term impact of increased government spending in response to COVID-19 is uncertain. For example, we expect that the U.S. government fiscal year 2021 budget cycle may be delayed as the U.S. government focuses its attention on mitigating the impact of COVID-19, which could result in a re-evaluation of spending levels and priorities. Any of these events could materially adversely affect our business, financial condition, results of operations and the market price of our common stock.

We will continue to actively monitor the issues raised by the COVID-19 pandemic and may take further actions that alter our business operations, as may be required by federal, state, or local authorities, or that we determine are in the best interests of our employees, customers, partners and stockholders. The potential effects of COVID-19 could also heighten the risks disclosed in many of our risk factors that are included in Part I, Item 1A, Risk Factors, in our 2019 Annual Report. Because the COVID-19 situation is unprecedented and continuously evolving, other potential impacts to our risk factors that are further described in our 2019 Annual Report are uncertain.

ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the period covered by this report, the Company did not issue any securities that were not registered under the Securities Act of 1933, as amended, except as has been reported in previous filings with the SEC or as set forth elsewhere herein.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5: OTHER INFORMATION

None.

ITEM 6: EXHIBITS

Exhibits to this report which have previously been filed with the Commission are incorporated by reference to the document referenced in the following table. The exhibits designated with a number sign (#) indicate a management contract or compensation plan or arrangement.

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Dated	Exhibit	
10.1#	Employment Offer Letter between the Company and Jeanine M. Christian				X
10.2#	Employment Offer Letter between the Company and Jacqueline S. Everett				X
10.3#	Change in Control, Severance and Covenant Agreement between the Company and Jeanine M. Christian				X
10.4#	Change in Control, Severance and Covenant Agreement between the Company and Jacqueline S. Everett				X
10.5#	Letter Agreement dated July 15, 2020 between the Company and Kevin H. Beverly				X
31.1	Certification of Chief Executive Officer pursuant to Section 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a)				X
31.2	Certification of Chief Financial Officer pursuant to Section 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a)				X
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 17 CFR 240.13a-14(b) or 17 CFR 240.15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code				X
101	The following financial information from the DLH Holdings Corp. Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2020, formatted in iXBRL (Inline eXtensible Business Reporting Language) and filed electronically herewith: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Cash Flows; and, (iv) the Notes to the Consolidated Financial Statements.				X

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

DLH HOLDINGS CORP.

By: /s/ Kathryn M. JohnBull
Kathryn M. JohnBull
Chief Financial Officer
(On behalf of the registrant and as Principal
Financial and Accounting Officer)

Date: August 5, 2020



June 27, 2020

Jeanine Christian

Dear Jeanine,

We are delighted to add your talent and energy to the DLH Executive Leadership Team!

On behalf of DLH Holdings Corp. (“DLH”, or the “Company”), I am pleased to extend to you an offer of employment in the position of Operating Unit President – Social & Scientific Systems, Inc. Your role reports directly to me as CEO and you will be a Named Executive Officer (NEO) of the company and member of the DLH corporate Executive Leadership Team (ELT). In this role you will have responsibility, authority, and accountability for the operations within our Public Health and Life Sciences market area, subject to the direction of the CEO. This will include customer relationship management, program contract execution, human resources, and organic growth of your operating unit. As discussed, your start date is expected to be July 13, 2020.

Additionally, as an ELT member and NEO, you will participate in periodic Board of Directors (BoD) presentations, Annual Shareholders meetings and other executive engagements. This will include evaluating acquisition candidates, developing additional delivery capabilities and other high impact decisions. You agree to devote your full business time and best efforts in the performance of your duties for DLH and its subsidiaries. You understand that you will need to undertake regular travel to our executive and operational offices, and such other occasional travel within or outside the United States. All such travel shall be at the sole cost and expense of the Company and shall be in accordance with government Joint Travel Regulations (JTR) and current Company policy, which will include reasonable lodging and food costs incurred by you while traveling.

Cash Compensation. The Company will pay you an initial salary at the rate of \$254,800 per year, less applicable Federal, state, local and elected withholdings, which will be paid in accordance with the Company’s normal payroll procedures. This salary will be subject to adjustment pursuant to the Company’s employee compensation policies and directions from the Management Resources & Compensation Committee of the Board (the “MRC Committee”). During your employment hereunder, the MRC Committee will review your performance and consider adjustments to your compensation as part of its annual merit increase process for the Company’s senior management team.

Guaranteed Bonus. You will be issued a guaranteed bonus for our 2020 fiscal year of \$30,000, payable at 90 days following your start date.

Bonus potential. In addition, you will be eligible to be considered for an incentive bonus for each fiscal year of the Company beginning in fiscal year 2021. The bonus will be awarded based on objective or subjective criteria established by the MRC Committee, in consultation with me. Subject to the MRC Committee’s discretion, you will have an opportunity to earn a cash bonus of up to 50% of your annual base salary. The bonus will be based on the Company’s completion of preset goals as will be set forth in an annual management bonus opportunity plan, upon approval of the MRC Committee.

Equity Compensation. Subject to MRC Committee approval, you will be granted an option to purchase 250,000 shares of DLH Holdings Corp. Common Stock pursuant to the Company’s 2016 Omnibus Equity

Atlanta HQ

3565 Piedmont Road NE
Tower 3, Suite 700
Atlanta, GA 30305

National Capital Region HQ

8757 Georgia Ave
Suite 1200
Silver Spring, MD 20910



Incentive Plan (the “Plan”) (the “Options”). The exercise price of the Options shall be equal to the fair market value of the Company’s Common Stock on the grant date, as determined in accordance with the Plan. The Options shall be subject to vesting requirements, with 50,000 options vesting on the first anniversary of the grant date and the remainder vesting as follows: (i) 66,667 shares if the closing price of the Company’s Common Stock equals or exceeds \$12.00 per share for ten consecutive trading days; (ii) 66,667 shares if the closing price of the Company’s Common Stock equals or exceeds \$14.00 per share for ten consecutive trading days; and (iii) 66,666 shares if the closing price of the Company’s Common Stock equals or exceeds \$16.00 per share for ten consecutive trading days. The Options will have a ten

(10) year term from their date of grant in which they can be exercised (subject to your continued service and the vesting provisions described above) and will be subject to the terms and conditions of the Plan and option agreement(s) between you and the Company in the form approved by the MRC Committee.

Employee Benefit Program. As a DLH executive, you will be eligible for all employee benefits afforded regular fulltime DLH employees, for which details will be provided separately. (See outline below):

- Insurance: Medical, Dental, and Vision plans
- Life insurance: Company-paid coverage
- Short-term and long-term disability insurance
- Voluntary life insurance: Employee-paid coverage
- Paid Time Off (PTO): 20 days of paid leave (PTO) for your first year of employment, accrued from the date of employment, on a prorated basis proportionate to the actual number of hours worked
- Paid holidays: 6 named holidays and 3 floating holidays per year. Floating holidays will be prorated in your first year of employment based on your date of hire.
- Eligibility to participate in the Company’s 401(k) plan

Such benefits are subject to change, and may be supplemented, altered, or eliminated, in part or entirely. Any eligibility to participate in such benefit plans, as well as the terms thereof, shall be as set forth in the governing documents for such plans, or if there are no such governing documents, in the Company’s policies. Eligibility for the Healthcare Plan, Life Insurance and Voluntary Life benefits are detailed in your benefits package. Your wellness benefits commence on the first day of the month following your date of hire. In addition, you will be covered under the Company’s director and officer liability insurance coverage.

Severance and Change in Control. As an executive of the Company, you will be eligible to receive severance and change of control benefits under certain circumstances pursuant to the Change in Control, Severance and Covenant Agreement, to be provided to you separately (the “Severance Agreement”).

Accordingly, your potential severance and change of control benefits and the terms and conditions thereof shall be set forth in the Severance Agreement.

At-will Employment. Also, it is corporate policy to review performance on an annual basis. Employment is for no specified period of time and “at-will”. DLH is an “at-will” employer and employees have the right to resign their position at any time, with or without notice, and with or without cause. As an “at-will” employer, DLH can terminate its employment relationship with our employees at any time, with or without notice, and with or without cause.

Company Policies. As a Company employee, you will be expected to abide by Company rules and regulations. You will be specifically required to sign an acknowledgement that you have read and

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understand the Company rules of conduct which will be included in an Employee Handbook which the Company will distribute to you on your date of hire.

Clawback. Notwithstanding any other provision herein to the contrary, you agree and acknowledge that any incentive-based compensation, or any other compensation, paid or payable to you which is subject to recoupment or clawback under any applicable law, government regulation, or stock exchange listing requirement, including without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act and such regulations as may be promulgated thereunder by the Securities and Exchange Commission, will be subject to such deductions and clawback (recovery) as may be, but solely to the extent, required to be made pursuant to applicable law, regulation, stock exchange listing requirement or any policy of the Company mandated in accordance with any such law, government regulation, or stock exchange listing requirement. This section shall survive the termination of your employment for a period of three (3) years.

Contingencies. As a condition of employment, you will be required to sign a confidentiality agreement (attached), as well as pass a background check and drug screening.

Entire Agreement; Amendments. This letter, together with the above-referenced confidentiality and severance agreements sets forth the entire agreement between the parties and supersedes all prior agreements, letters and understandings between the parties, whether oral or written prior to the date of this letter, except for the terms of employee stock option plans, restricted stock grants and option certificates (unless otherwise expressly stated herein). No modification, amendment or waiver of the terms of this letter shall be binding on the parties unless executed in writing by the parties to this letter. No waiver of any of the provisions of this letter shall be deemed to or shall constitute a waiver of any other provisions hereof, nor shall such waiver constitute a continuing waiver unless otherwise expressly provided.

Interpretation and Review. The parties agree that they have both had the opportunity to review and negotiate this offer letter, and that any inconsistency or dispute related to the interpretation of any of the terms of this offer letter shall not be construed against either party. You have been advised and have had the opportunity to consult with an attorney or other advisor prior to executing this letter. You understand and agree that counsel to the Company (Becker & Poliakoff, LLP) has not acted and is not acting as your counsel and that you have not relied upon any legal advice except as provided by your own counsel.

Governing Law. This letter has been negotiated and executed in the State of Georgia which shall govern its construction and validity.

Execution. This letter may be executed in two or more counterparts, which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party, it being understood that both parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a “.pdf” format data file, such signature shall create a valid and binding obligation of the party executing it with the same force and effect as if such facsimile or “.pdf” signature page was an original. To indicate your acceptance of this offer letter, please sign this letter in the space provided below and return it to me.

Jeanine, we believe your contributions to DLH will be invaluable and we look forward to our future together.

Sincerely,

DLH Holdings Corp. Agreed and accepted as of the date set forth above:

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By: /s/ Zachary C. Parker By: /s/ Jeanine Christian Name: **Zachary C. Parker Jeanine Christian**
Title: Chief Executive Officer and President

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July 13, 2020

Jackie Everett

Dear Jackie,

We are delighted to add your talent and energy to the DLH Executive Leadership Team!

On behalf of DLH Holdings Corp. (“DLH”, or the “Company”), I am pleased to extend to you an offer of employment in the position of Chief Growth Officer. Your role reports directly to me as CEO and you will be a Named Executive Officer (NEO) of the company and member of the DLH corporate Executive Leadership Team (ELT). In this role you will have responsibility, authority, and accountability for organic growth across the enterprise, subject to the direction of the CEO. This will include BD/Capture Management, Proposal Operations, Market Research/Intelligence, and engagement with corporate and operating unit resources to expand the strategic new business pipeline and drive toward industry leading win rates. As discussed, your start date is expected to be July 13, 2020.

Additionally, as an ELT member and NEO, you will participate in periodic Board of Directors (BoD) presentations, Annual Shareholders meetings and other executive engagements. This will include evaluating acquisition candidates, developing additional delivery capabilities and other high impact decisions. You agree to devote your full business time and best efforts in the performance of your duties for DLH and its subsidiaries. You understand that you will need to undertake regular travel to our executive and operational offices, and such other occasional travel within or outside the United States. All such travel shall be at the sole cost and expense of the Company and shall be in accordance with government Joint Travel Regulations (JTR) and current Company policy, which will include reasonable lodging and food costs incurred by you while traveling.

Cash Compensation. The Company will pay you an initial salary at the rate of \$265,000 per year, less applicable Federal, state, local and elected withholdings, which will be paid in accordance with the Company’s normal payroll procedures. This salary will be subject to adjustment pursuant to the Company’s employee compensation policies and directions from the Management Resources & Compensation Committee of the Board (the “MRC Committee”). During your employment hereunder, the MRC Committee will review your performance and consider adjustments to your compensation as part of its annual merit increase process for the Company’s senior management team.

Guaranteed Bonus. You will be issued a guaranteed bonus for our 2020 fiscal year, according to the following terms:

- \$30,000 payable at 90 days following your start date, and
- \$30,000 payable with the normal corporate bonus cycle (NLT 12/15/2020)

Bonus potential. In addition, you will be eligible to be considered for an incentive bonus for each fiscal year of the Company beginning in fiscal year 2021. The bonus will be awarded based on objective or subjective criteria established by the MRC Committee, in consultation with me. Subject to the MRC Committee’s discretion, you will have an opportunity to earn a cash bonus of up to 50% of your annual base salary. The bonus will be based on the Company’s completion of preset goals as will be set forth in an annual management bonus opportunity plan, upon approval of the MRC Committee.

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Equity Compensation. Subject to MRC Committee approval, you will be granted an option to purchase 250,000 shares of DLH Holdings Corp. Common Stock pursuant to the Company's 2016 Omnibus Equity Incentive Plan (the "Plan") (the "Options"). The exercise price of the Options shall be equal to the fair market value of the Company's Common Stock on the grant date, as determined in accordance with the Plan. The Options shall be subject to vesting requirements, with 50,000 options vesting on the first anniversary of the grant date and the remainder vesting as follows: (i) 66,667 shares if the closing price of the Company's Common Stock equals or exceeds \$12.00 per share for ten consecutive trading days; (ii) 66,667 shares if the closing price of the Company's Common Stock equals or exceeds \$14.00 per share for ten consecutive trading days; and (iii) 66,666 shares if the closing price of the Company's Common Stock equals or exceeds \$16.00 per share for ten consecutive trading days. The Options will have a ten (10) year term from their date of grant in which they can be exercised (subject to your continued service and the vesting provisions described above) and will be subject to the terms and conditions of the Plan and option agreement(s) between you and the Company in the form approved by the MRC Committee.

Employee Benefit Program. As a DLH executive, you will be eligible for all employee benefits afforded regular fulltime DLH employees, for which details will be provided separately. (See outline below):

- Insurance: Medical, Dental, and Vision plans
- Life insurance: Company-paid coverage
- Short-term and long-term disability insurance
- Voluntary life insurance: Employee-paid coverage
- Paid Time Off (PTO): 20 days of paid leave (PTO) for your first year of employment, accrued from the date of employment, on a prorated basis proportionate to the actual number of hours worked
- Paid holidays: 6 named holidays and 3 floating holidays per year. Floating holidays will be prorated in your first year of employment based on your date of hire.
- Eligibility to participate in the Company's 401(k) plan

Such benefits are subject to change, and may be supplemented, altered, or eliminated, in part or entirely. Any eligibility to participate in such benefit plans, as well as the terms thereof, shall be as set forth in the governing documents for such plans, or if there are no such governing documents, in the Company's policies. Eligibility for the Healthcare Plan, Life Insurance and Voluntary Life benefits are detailed in your benefits package. Your wellness benefits commence on the first day of the month following your date of hire.

Severance and Change in Control. As an executive of the Company, you will be eligible to receive severance and change of control benefits under certain circumstances pursuant to the Change in Control, Severance and Covenant Agreement, to be provided to you separately (the "Severance Agreement"). Accordingly, your potential severance and change of control benefits and the terms and conditions thereof shall be set forth in the Severance Agreement.

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understand the Company rules of conduct which will be included in an Employee Handbook which the Company will distribute to you on your date of hire.

Clawback. Notwithstanding any other provision herein to the contrary, you agree and acknowledge that any incentive-based compensation, or any other compensation, paid or payable to you which is subject to recoupment or clawback under any applicable law, government regulation, or stock exchange listing requirement, including without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act and such regulations as may be promulgated thereunder by the Securities and Exchange Commission, will be subject to such deductions and clawback (recovery) as may be, but solely to the extent, required to be made pursuant to applicable law, regulation, stock exchange listing requirement or any policy of the Company mandated in accordance with any such law, government regulation, or stock exchange listing requirement. This section shall survive the termination of your employment for a period of three (3) years.

Contingencies. As a condition of employment, you will be required to sign a confidentiality agreement (attached), as well as pass a background check and drug screening.

Entire Agreement; Amendments. This letter, together with the above-referenced confidentiality and severance agreements sets forth the entire agreement between the parties and supersedes all prior agreements, letters and understandings between the parties, whether oral or written prior to the date of this letter, except for the terms of employee stock option plans, restricted stock grants and option certificates (unless otherwise expressly stated herein). No modification, amendment or waiver of the terms of this letter shall be binding on the parties unless executed in writing by the parties to this letter. No waiver of any of the provisions of this letter shall be deemed to or shall constitute a waiver of any other provisions hereof, nor shall such waiver constitute a continuing waiver unless otherwise expressly provided.

Interpretation and Review. The parties agree that they have both had the opportunity to review and negotiate this offer letter, and that any inconsistency or dispute related to the interpretation of any of the terms of this offer letter shall not be construed against either party. You have been advised and have had the opportunity to consult with an attorney or other advisor prior to executing this letter. You understand and agree that counsel to the Company (Becker & Poliakoff, LLP) has not acted and is not acting as your counsel and that you have not relied upon any legal advice except as provided by your own counsel.

Governing Law. This letter has been negotiated and executed in the State of Georgia which shall govern its construction and validity.

Execution. This letter may be executed in two or more counterparts, which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party, it being understood that both parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a “.pdf” format data file, such signature shall create a valid and binding obligation of the party executing it with the same force and effect as if such facsimile or “.pdf” signature page was an original. To indicate your acceptance of this offer letter, please sign this letter in the space provided below and return it to me.

Jackie, we believe your contributions to DLH will be invaluable and we look forward to our future together.

Sincerely,

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DLH Holdings Corp.

Agreed and accepted as of the date set forth above:

By: /s/ Zachary C. Parker
Name: **Zachary C. Parker**
Title: Chief Executive Officer and President

By: /s/ Jacqueline S. Everett
Jacqueline S. Everett

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CHANGE IN CONTROL, SEVERANCE AND COVENANT AGREEMENT

This Change in Control, Severance and Covenant Agreement (the “Agreement”) is made and entered into by and between **Jeanine M. Christian** (“Employee”) and DLH Holdings Corp., a New Jersey corporation (the “Company”), effective as of **July 13, 2020** (the “Effective Date”).

Recitals

WHEREAS, Employee is the **Operating Unit President – Social & Scientific Systems**, Inc. pursuant to an employment offer letter executed on the date first set forth above (the “Offer Letter”), and in connection with the commencement of her employment with the Company, the Employee entered into that certain Employee Invention Assignment and Confidentiality Agreement executed on the date first set forth above (the “Assignment and Confidentiality Agreement”);

WHEREAS, the Management Resources and Compensation Committee (the “Committee”) of the Company’s Board of Directors (the “Board”) believes that it is in the best interests of the Company and its stockholders (i) to assure that the Company will have the continued dedication and objectivity of Employee, notwithstanding the possibility, threat, or occurrence of a Change in Control and (ii) to provide Employee with an incentive to continue Employee’s employment prior to a Change in Control and to motivate Employee to maximize the value of the Company upon a Change in Control for the benefit of its stockholders; and

WHEREAS, the Committee believes that it is in the best interests of the Company to provide Employee with certain severance benefits upon Employee’s termination of employment under certain circumstances. These benefits will provide Employee with enhanced financial security and incentive and encouragement to remain with the Company, notwithstanding the possibility of a Change in Control.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, and in consideration of your continuing employment by the Company, the adequacy and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Agreement

1. Term of Agreement. This Agreement will have an initial term of two years commencing on the Effective Date (the “Initial Term”). On the second anniversary of the Effective Date and each anniversary thereafter, this Agreement will renew automatically for additional one (1) year terms (each an “Additional Term”), unless either party provides the other party with written notice of non-renewal at least 60 days prior to the date of automatic renewal. If a Change in Control occurs when there are fewer than 90 days remaining during the Initial Term or an Additional Term, the term of this Agreement will extend automatically through the date that is 90 days following the effective date of the Change in Control. In the event that the Company elects not to renew this Agreement for an Additional Term, such election will be treated as a termination of Employee’s employment without Cause, with applicability under Section 3(a) and Section 3(b), dependent on whether the Company’s election not to renew occurs during a Change in Control Period. Accordingly, Employee will be eligible under such circumstances for severance benefits under either Section 3(a) or Section 3(b) of this Agreement, as the case may be. Certain capitalized terms used in the Agreement are defined in Section 10 below.

2. At-Will Employment. The Company and Employee acknowledge that Employee’s employment is and will continue to be at-will, as defined under applicable law. As an at-will employee, either the Company or the Employee may terminate the employment relationship at any time, with or without Cause.

3. Severance Benefits.

a. Termination without Cause or for Good Reason. If the Company terminates Employee’s employment with the Company without Cause (excluding death or Disability) or if Employee resigns from such employment for Good Reason, and in each case such termination occurs outside of the Change in Control Period, then subject to Section 4, Employee will receive the following:

i. Accrued Compensation. The Company will pay Employee all accrued but unpaid vacation, expense reimbursements, wages, unpaid bonuses and incentive compensation earned and awarded prior to the date of termination, and other benefits due to Employee under any Company-provided plans, policies, and arrangements (the "Accrued Compensation"). Accrued Compensation shall be paid within five (5) business days after the Termination Date (or earlier, if required by applicable law).

ii. Severance Payments. Employee will be paid continuing payments of severance pay at a rate equal to Employee's base salary rate, as in effect immediately before the Termination Date, for twelve months from the date of such termination of employment (the "Severance Period"), to be paid periodically in accordance with the Company's normal payroll policies. Severance payments during the Severance Period will not commence until the first Company payroll following the Release Deadline (as defined below), or, if later, such time as required by Section 9(a). Except as required by Section 9(a), any installment payments that would have been made to Employee during the 60-day period immediately following Employee's separation from service but for the preceding sentence will be paid to Employee on the first Company payroll following the Release Deadline and the remaining payments will be made as provided in this Agreement.

iii. Continuation Coverage. The Company will provide the Continuation Benefits, as defined below, for the period of time specified in the definition of such term, as set forth in Section 10(e).

b. Termination without Cause or for Good Reason in Connection with a Change in Control. If the Company terminates Employee's employment with the Company without Cause (excluding death or Disability) or if Employee resigns from such employment for Good Reason, and, in each case, such termination occurs during the Change in Control Period, then subject to Section 4, Employee will receive the following:

i. Accrued Compensation. The Company will pay Employee the Accrued Compensation within five (5) business days after the Termination Date (or earlier, if required by applicable law).

ii. Severance Payment. Employee will receive a lump-sum payment (less applicable withholding taxes) equal to 12 months of Employee's annual base salary as in effect immediately prior to Employee's termination date. Payment of the severance payment pursuant to this Section 3(b)(ii) shall be made within 10 days of the Release Deadline or according to a payment schedule agreed upon by the Company and the Employee, or such later time as required by Section 9(a).

iii. Continuation Coverage. The Company will provide the Continuation Benefits, as defined below, for the period of time specified in the definition of such term, as set forth in Section 10(e).

c. Voluntary Resignation; Termination for Cause. If Employee's employment with the Company terminates (i) voluntarily by Employee (other than for Good Reason) or (ii) for Cause by the Company, then Employee will only receive the Accrued Compensation. Employee will not be entitled to receive severance or other benefits except for those (if any) as may then be established under the Company's then existing severance and benefits plans and practices or pursuant to other written agreements with the Company.

d. Disability; Death. If the Company terminates Employee's employment as a result of Employee's Disability, or Employee's employment terminates due to Employee's death, then Employee (or his or her estate) will be entitled to receive the Accrued Compensation and the Continuation Benefits (for the period of time specified in Section 10(e)), but will not be entitled to receive any other severance or other benefits, except for those (if any) as may then be established under the Company's then existing written severance and benefits plans and practices or pursuant to other written agreements with the Company.

e. Exclusive Remedy. In the event of a termination of Employee's employment as set forth in Section 3(a) or (b) of this Agreement, the provisions of Section 3 are intended to be and are exclusive and in lieu of any other rights or remedies to which Employee or the Company otherwise may be entitled, whether at law, tort or contract, in equity, or under this Agreement (other than the payment of accrued but unpaid wages, as required by law, and any unreimbursed reimbursable expenses). Employee will be entitled to no benefits, compensation or other

payments or rights upon a termination of employment other than those benefits expressly set forth in Section 3 of this Agreement.

f. Equity Awards. In the event of a termination of Employee's employment with the Company:

i. pursuant to Section 3(a), Section 3(b), or a voluntary termination by Employee without Good Reason, Equity Awards held by Employee as of the date hereof or subsequently granted to Employee, solely to the extent vested as of the Termination Date, shall remain exercisable in accordance with the Plan (as defined below), but in no event after the expiration of the exercise period specified in such Equity Award(s) (it being agreed and acknowledged that unvested options shall be void immediately upon the Termination Date);

ii. due to the Employee's death, or Disability, the Employee's (or his estate's or legal representative's) right to purchase shares of Common Stock of the Company pursuant to any Equity Awards held by Employee as of the date hereof or subsequently granted to Employee, solely to the extent vested as of the Termination Date, shall remain exercisable in accordance with the Plan, but in no event after the expiration of the exercise period specified in such Equity Award(s) (it being agreed and acknowledged that unvested options shall be void immediately upon the Termination Date); and

iii. for Cause, Equity Awards that have not been exercised as of the Termination Date shall terminate immediately and be null and void.

g. The Employee shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise and no such payment shall be offset or reduced by the amount of any compensation or benefits provided to the Employee in any subsequent employment, except with respect to Continuation Benefits.

4. Conditions to Receipt of Severance. The receipt of any severance payments or benefits (other than the Accrued Compensation) pursuant to this Agreement is subject to the occurrence of all of the following subparagraphs:

a. Employee signing and not revoking the Company's customary separation and release of claims agreement (the "Release"), which must become effective and irrevocable no later than the 60th day following Employee's termination of employment (the "Release Deadline"). If the Release does not become effective and irrevocable by the Release Deadline, Employee will forfeit any right to severance payments or benefits under this Agreement. In no event will severance payments or benefits be paid or provided until the Release actually becomes effective and irrevocable.

b. Employee's resignation from all positions with the Company and its subsidiaries, including service on the board of directors thereof.

c. Employee's receipt of any payments or benefits under Section 3 (other than the Accrued Compensation) will be subject to Employee continuing to comply with (x) the Release, (y) the terms of Sections 6 and 7 of this Agreement and (z) the terms of any other agreement entered into hereafter between the Employee and Company providing for confidentiality protection of the Company's Proprietary Information, assignment of work product and covenants against competing with the Company, as the Release, this Agreement or such other agreement may be amended from time to time.

5. Limitations on Payments. In the event that the severance and other benefits provided for in this Agreement, either alone or together with other payments which the Employee has the right to receive from the Company, would constitute an "excess parachute payment" as defined in Section 280G of the Code, the aggregate of such credits or payments under this Agreement and other agreements shall be reduced to the largest amount as will result in no portion of such aggregate payments being subject to the excise tax imposed by Section 4999 of the Code. The priority of the reduction of excess parachute payments shall be in the discretion of the Employee. The

Company shall give notice to the Employee as soon as practicable after its determination that Change in Control payments and benefits are subject to the excise tax, but no later than ten (10) days in advance of the due date of such Change in Control payments and benefits, specifying the proposed date of payment and the Change in Control benefits and payments subject to the excise tax. Employee shall exercise his option under this Section 5 by written

notice to the Company within five (5) days in advance of the due date of the Change in Control payments and benefits specifying the priority of reduction of the excess parachute payments.

6. Confidentiality, Intellectual Property Rights and Restrictive Covenants. Employee agrees that the Assignment and Confidentiality Agreement, and the parties' rights, remedies and obligations thereunder, shall remain in full force and effect in accordance with its terms, as if set forth in full herein and Employee shall abide by the provisions thereof.

7. Equitable Relief. Employee hereby acknowledges that the covenants and agreements set forth in the Assignment and Confidentiality Agreement are reasonable and valid in all respects and that the Company is entering into this Agreement, *inter alia*, on such acknowledgement. If Employee breaches, or threatens to commit a breach, of the Assignment and Confidentiality Agreement, the Company shall have the following rights and remedies, each of which rights and remedies shall be independent of the other and severally enforceable, and all of which shall be in addition to, and not in lieu of, any other rights and remedies available to the Company pursuant to the Assignment and Confidentiality Agreement, or under law or in equity: the right and remedy to have the Assignment and Confidentiality Agreement specifically enforced by any court having equity jurisdiction, it being acknowledged and agreed that any such breach or threatened breach will cause irreparable injury to the Company and that money damages will not provide an adequate remedy to the Company; and the right and remedy to require Employee to account for and pay over to the Company such damages as are recoverable at law as the result of any transactions constituting a breach of the Assignment and Confidentiality Agreement. The parties intend to and hereby confer jurisdiction to enforce the Assignment and Confidentiality Agreement upon the courts of any jurisdiction within the relevant geographical scope contemplated by such agreement. If the courts of any one or more such jurisdictions hold the Assignment and Confidentiality Agreement wholly unenforceable by reason of the breadth of such scope or otherwise, it is the intention of the parties that such determination not bar or in any way affect the Company's right to the relief provided above in the courts of any other jurisdiction within the geographical scope of the Assignment and Confidentiality Agreement, as to breaches of such agreement in such other jurisdictions, as they relate to each jurisdiction being, for this purpose, severable into diverse and independent covenants.

8. Reserved.

9. Section 409A of the Code.

a. To the extent applicable, it is intended that any amounts payable under this Agreement shall either be exempt from Section 409A of the Code or shall comply with Section 409A (including Treasury regulations and other published guidance related thereto) so as not to subject Employee to payment of any additional tax, penalty or interest imposed under Section 409A of the Code. The provisions of this Agreement shall be construed and interpreted to the maximum extent permitted to avoid the imputation of any such additional tax, penalty or interest under Section 409A of the Code yet preserve (to the nearest extent reasonably possible) the intended benefit payable to Employee. Notwithstanding the foregoing, the Company makes no representations regarding the tax treatment of any payments hereunder, and the Employee shall be responsible for any and all applicable taxes, other than the Company's share of employment taxes on the severance payments provided by the Agreement. Employee acknowledges that Employee has been advised to obtain independent legal, tax or other counsel in connection with Section 409A of the Code.

b. Notwithstanding any provisions of this Agreement to the contrary, if Employee is a "specified employee" (within the meaning of Section 409A of the Code and the regulations adopted thereunder) at the time of Employee's separation from service and if any portion of the payments or benefits to be received by Employee upon separation from service would be considered deferred compensation under Section 409A of the

Code and the regulations adopted thereunder (“Nonqualified Deferred Compensation”), amounts that would otherwise be payable pursuant to this Agreement during the six-month period immediately following Employee’s separation from service that constitute Nonqualified Deferred Compensation and benefits that would otherwise be provided pursuant to this Agreement during the six-month period immediately following Employee’s separation from service that constitute Nonqualified Deferred Compensation will instead be paid or made available on the earlier of (i) the first business day of the seventh month following the date of Employee’s separation from service and (ii) Employee’s death. Notwithstanding anything in this Agreement to the contrary, distributions upon

termination of Employee’s employment shall be interpreted to mean Employee’s “separation from service” with the Company (as determined in accordance with Section 409A of the Code and the regulations adopted thereunder). Each payment under this Agreement shall be regarded as a “separate payment” and not of a series of payments for purposes of Section 409A of the Code.

c. Except as otherwise specifically provided in this Agreement, if any reimbursement to which the Employee is entitled under this Agreement would constitute deferred compensation subject to Section 409A of the Code, the following additional rules shall apply: (i) the reimbursable expense must have been incurred, except as otherwise expressly provided in this Agreement, during the term of this Agreement; (ii) the amount of expenses eligible for reimbursement during any taxable year will not affect the amount of expenses eligible for reimbursement in any other taxable year; (iii) the reimbursement shall be made as soon as practicable after Employee’s submission of such expenses in accordance with the Company’s policy, but in no event later than the last day of Employee’s taxable year following the taxable year in which the expense was incurred; and (iv) the Employee’s entitlement to reimbursement shall not be subject to liquidation or exchange for another benefit.

10. Definition of Terms. The following terms referred to in this Agreement will have the following meanings:

a. Cause. “Cause” means any of the following: (i) an act of dishonesty made by Employee in connection with Employee’s responsibilities as an employee; (ii) Employee’s conviction of, or plea of nolo contendere to, a felony or any crime involving fraud, embezzlement or a similar crime; (iii) conduct by Employee amounting to fraud, gross negligence, willful misconduct or recurring insubordination; (iv) Employee’s willful disobedience of a material and lawful instruction of the Chief Executive Officer or the Board of Directors of the Company, including Employee’s continued failure to perform his employment duties, or Employee’s willful breach of any material obligations under any written agreement or covenant with the Company; or (v) excessive absences from work by Employee, other than for illness or Disability. Notwithstanding the foregoing, however, that the Company shall not have the right to terminate the employment of Employee pursuant to the foregoing clauses (i), (iii), (iv), and (v) above unless written notice specifying such breach shall have been given to the Employee and, in the case of breach which is capable of being cured, the Employee shall have failed to cure such breach within thirty (30) days after his receipt of such notice.

b. Change in Control. “Change in Control” means the occurrence of any of the following events:

i. An acquisition (other than directly from the Company) of any voting securities of the Company (the “Voting Securities”) by any “Person” (as the term person is used for purposes of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the “1934 Act”)) immediately after which such Person has “Beneficial Ownership” (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of twenty percent (20%) or more of the combined voting power of the Company’s then outstanding Voting Securities (49% if such Person is Wynnefield Capital Inc. and its affiliates); provided, however, that in determining whether a Change in Control has occurred, Voting Securities which are acquired in a “Non-Control Acquisition” (as defined below) shall not constitute an acquisition which would cause a Change in Control. A “Non-Control Acquisition” shall mean an acquisition by (1) an employee benefit plan (or a trust forming a part thereof) maintained by (x) the Company or (y) any corporation or other Person of which a majority of its voting power or its equity securities or equity interest is owned directly or indirectly by the Company (a “Subsidiary”), or (2) the Company or any Subsidiary. Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because a Person (the “Subject Person”) gained Beneficial Ownership of more than the permitted amount of the outstanding Voting

Securities as a result of the acquisition of Voting Securities by the Company which, by reducing the number of Voting Securities outstanding, increases the proportional number of shares Beneficially Owned by the Subject Person, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of Voting Securities by the Company, and after such share acquisition by the Company, the Subject Person becomes the Beneficial Owner of any additional Voting Securities which increases the percentage of the then outstanding Voting Securities Beneficially Owned by the Subject Person, then a Change in Control shall occur.

ii. The individuals who, as of the date this Agreement is approved by the Board, are members of the Board (the "Incumbent Board"), cease for any reason to constitute at least two-thirds of the Board; provided, however, that if the election, or nomination for election by the Company's stockholders, of any

new director was approved by a vote of at least two-thirds of the Incumbent Board, such new director shall, for purposes of this Agreement, be considered and defined as a member of the Incumbent Board; and provided, further, that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual "Election Contest" (as described in Rule 14a-11 promulgated under the 1934 Act) or other solicitation of proxies or consents by or on behalf of a Person other than the Board (a "Proxy Contest"); or

iii. Approval by the Company's stockholders of either: (A) a merger, consolidation or reorganization involving the Company, unless: (1) the stockholders of the Company, immediately before such merger, consolidation or reorganization, own, directly or indirectly immediately following such merger, consolidation or reorganization, at least sixty percent (60%) of the combined voting power of the outstanding voting securities of the corporation resulting from such merger or consolidation or reorganization (the "Surviving Corporation") in substantially the same proportion as their ownership of the Voting Securities immediately before such merger, consolidation or reorganization, (2) the individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization constitute at least two-thirds of the members of the board of directors of the Surviving Corporation, and (3) no Person (other than the Company, any Subsidiary, any employee benefit plan (or any trust forming a part thereof) maintained by the Company, the Surviving Corporation or any Subsidiary) becomes Beneficial Owner of twenty percent (20%) or more of the combined voting power of the Surviving Corporation's then outstanding voting securities as a result of such merger (49% if such Person is Wynnefield Capital Inc. and its affiliates), consolidation or reorganization, a transaction described in clauses (1) through (3) shall herein be referred to as a "Non-Control Transaction"; or (B) an agreement for the sale or other disposition of all or substantially all of the assets of the Company, to any Person, other than a transfer to a Subsidiary, in one transaction or a series of related transactions; or (C) the Company's stockholders approve any plan or proposal for the liquidation or dissolution of the Company.

iv. Notwithstanding anything herein to the contrary, if the Employee's employment is terminated prior to a Change in Control and the Employee reasonably demonstrates that such termination (i) was at the request of a third party who has indicated an intention or taken steps reasonably calculated to effect a Change in Control (a "Third Party") or (ii) otherwise occurred in connection with, or in anticipation of, a Change in Control, then for all purposes of this Agreement, the date of a Change in Control with respect to the Employee shall mean the date immediately prior to the date of such termination of the Employee's employment.

c. Change in Control Period. "Change in Control Period" means the period beginning ninety (90) days prior to, and ending ninety (90) days following, a Change in Control.

d. Code. "Code" means the Internal Revenue Code of 1986, as amended.

e. Continuation Benefits. "Continuation Benefits" shall be the continuation of the benefits, as detailed in the Offer Letter, for the period commencing on the Termination Date and terminating 12 months thereafter, or such other period as specifically stated herein (the "Continuation Period") at the Company's expense on behalf of the Employee and his dependents; and the level and availability of benefits provided during the Continuation Period shall at all times be subject to the post-employment conversion or portability provisions of the benefit plans. The Company's obligation hereunder with respect to the foregoing

benefits shall also be limited to the extent that if the Employee is eligible to obtain any such benefits pursuant to a subsequent employer's benefit plans, the Company may reduce the coverage of any benefits it is required to provide the Employee hereunder as long as the aggregate coverage and benefits of the combined benefit plans is no less favorable to the Employee than the coverage and benefits required to be provided hereunder. This definition of Continuation Benefits shall not be interpreted so as to limit any benefits to which the Employee, his dependents or beneficiaries may be entitled under any of the Company's employee benefit plans, programs or practices following the Employee's termination of employment, including, without limitation, retiree medical and life insurance benefits.

f. Disability. "*Disability*" shall mean a physical or mental infirmity which impairs the Employee's ability to substantially perform his duties with the Company for a period of ninety (90) consecutive days and the Employee has not returned to his full-time employment prior to the Termination Date as stated in the "Notice of Termination" (as defined below).

g. Equity Awards. "*Equity Awards*" means Employee's outstanding stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance stock units and any other Company equity compensation awards.

h. Good Reason. "*Good Reason*" means Employee's voluntary termination, within 30 days following the expiration of any Company cure period (discussed below) following the occurrence of one or more of the following, without Employee's consent: (a) a material breach of any provision of this Agreement by the Company; (b) failure by the Company to pay when due any compensation to the Employee; (c) a reduction in the Employee's base salary (as set forth in the Offer Letter); (d)(i) failure by the Company to maintain the Employee in the position referred to in the Offer Letter or (ii) assignment to the Employee of any duties materially inconsistent with the Employee's positions, authority, duties, responsibilities, powers, functions, reporting relationship or title or any other action by the Company that results in a material diminution of such positions, authority, duties, responsibilities, powers, functions, reporting relationship or title, as contemplated by the Offer Letter; excluding in either case of clause (i) or (ii) of this Section 10(h)(d), a reduction or change following an internal corporate restructuring or Change in Control due to the Company being part of a larger entity, and in either case where Employee assumes similar functional duties; or (e) a Change in Control, where the successor to the Company does not assume this Agreement, but provided that the event on which the Change of Control is predicated occurs within 90 days of the service of the Notice of Termination by the Employee; and *provided further*, however, that the Employee agrees not to terminate his employment for Good Reason pursuant to clauses (a) through (e) unless (i) the Employee has given the Company at least 30 days' prior written notice of his intent to terminate his employment for Good Reason, which notice shall specify the facts and circumstances constituting Good Reason; and (ii) the Company has not remedied such facts and circumstances constituting Good Reason to the reasonable and good faith satisfaction of the Employee within the cure period after receipt of such notice.

i. Notice of Termination. A "*Notice of Termination*" shall mean a written notice from the Company or Employee of termination of the Employee's employment which indicates the provision in this Agreement relied upon, if any and which sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Employee's employment under the provision so indicated. A Notice of Termination served by the Company shall specify the effective date of termination.

j. Plan. The "*Plan*" means the Company's 2016 Omnibus Equity Incentive Plan, as amended, or another plan, approved by the Board and adopted by the shareholders of the Company, pursuant to which employees of the Company may acquire equity securities of the Company.

k. Termination Date. “*Termination Date*” shall mean the date specified in the Notice of Termination which (a) in the case of the Employee’s death, shall be his date of death; (b) in the case of Disability, the Employee shall not have returned to the full-time performance of his duties within 30 days from the date such Notice of Termination is given; (c) in the case of a termination by the Company (other than a termination for Cause), shall not be less than 30 days from the date such Notice of Termination is given; and (d) in the case of a termination by Employee, shall not be less than 15 nor more than 30 days from the date such Notice of Termination is given (provided, however, if Employee seeks to terminate employment for Good Reason, then such notice must be at least 30 days from the date the Notice of Termination is given to the Company, and provided further that the Company has not remedied such facts and circumstances constituting Good Reason to the reasonable and good faith satisfaction of the Employee).

11. Successors.

a. The Company’s Successors. Any successor to the Company (whether direct or indirect and whether by purchase, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company’s business and/or assets will assume the obligations under this Agreement and agree expressly to perform the obligations under this Agreement in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term “Company” will include any successor to the Company’s business and/or assets or which becomes bound by the terms of this Agreement by operation of law.

b. Employee’s Successors. The terms of this Agreement and all rights of Employee hereunder will inure to the benefit of, and be enforceable by, Employee’s personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

12. Notice.

a. General. Notices and all other communications contemplated by this Agreement will be in writing and will be deemed to have been duly given when sent electronically or personally delivered when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid or when delivered by a nationally- recognized private courier service that has tracking capability. In the case of Employee, notices will be sent to the e- mail address or addressed to Employee at the home address, in either case which Employee most recently communicated to the Company in writing. In the case of the Company, electronic notices will be sent to the e-mail addresses of the Chief Executive Officer and mailed notices will be addressed to its corporate headquarters, and all notices will be directed to the attention of its Chief Executive Officer.

b. Notice of Termination. Any termination of Employee’s employment will be communicated by delivery of a Notice of Termination to the other party in accordance with Section 12(a) of this Agreement. Such notice will indicate the specific termination provision in this Agreement relied upon, will set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision so indicated, and will specify the termination date in accordance with Section 10(k).

13. Resignation. Upon the termination of Employee’s employment for any reason, Employee will be deemed to have resigned from all officer and/or director positions held at the Company and its affiliates voluntarily, without any further required action by Employee, as of the end of Employee’s employment and Employee, at the Board’s request, will execute any documents reasonably necessary to reflect Employee’s resignation.

14. Arbitration. Any controversy, dispute or claim arising out of or relating to this Agreement or breach thereof, with the sole exception of any claim, breach, or violation arising the Assignment and Confidentiality Agreement, shall be shall first be settled through good faith negotiation. If the dispute cannot be settled through negotiation, the parties agree to attempt in good faith to settle the dispute by mediation administered by JAMS. If the parties are unsuccessful at resolving the dispute through mediation, the parties agree to final and binding arbitration

before a single arbitrator in the State of Georgia in accordance with the Rules of the American Arbitration Association. The arbitrator shall be selected by the Association and shall be an attorney-at-law experienced in the field of corporate law. Any judgment upon any arbitration award may be entered in any court, federal or state, having competent jurisdiction of the parties.

15. Miscellaneous Provisions.

a. Amendments and Waiver. No provision of this Agreement will be amended, modified, waived or discharged unless the amendment, modification, waiver or discharge is agreed to in writing and signed by Employee and by an authorized officer of the Company (other than Employee). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party will be considered a waiver of any other condition or provision or of the same condition or provision at another time. Any failure to insist upon strict compliance with any of the terms and conditions of this Agreement shall not be deemed a waiver of any such terms or conditions.

b. Headings. All captions and section headings used in this Agreement are for convenient reference only and do not form a part of this Agreement.

c. Entire Agreement. This Agreement, together with the Assignment and Confidentiality Agreement and Offer Letter, constitutes the entire agreement of the parties hereto and supersedes in their entirety all prior representations, understandings, undertakings or agreements (whether oral or written and whether expressed or implied) of the parties with respect to the subject matter hereof, including, but not limited to, any prior severance agreement and/or any accelerated vesting terms set forth in an individual equity award agreement. Notwithstanding the foregoing, however, nothing herein shall be interpreted to supersede or otherwise reduce or limit the (i) specific

compensation arrangements (including the bonus and equity award) and (ii) eligibility for benefits, in each case as set forth in the Offer Letter.

d. Choice of Law. The validity, interpretation, construction and performance of this Agreement will be governed by the laws of the State of Georgia (with the exception of its conflict of laws provisions).

e. Severability. The invalidity or unenforceability of any provision or provisions of this Agreement will not affect the validity or enforceability of any other provision hereof, which will remain in full force and effect. If any provision is held invalid or unenforceable with respect to particular circumstances, it shall remain in full force and effect in all other circumstances.

f. Withholding. All payments made pursuant to this Agreement will be subject to withholding of applicable income, employment and other taxes.

g. Execution. This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party, it being understood that both parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a “.pdf” format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or “.pdf” signature page was an original thereof.

h. Interpretation and Independent Representation. The parties agree that they have both had the opportunity to review and negotiate this Agreement, and that any inconsistency or dispute related to the interpretation of any of the provisions of this Agreement shall not be construed against either

party. The headings used in this Agreement are for convenience only and are not to be considered in construing or interpreting this Agreement. The Employee has been advised and had the opportunity to consult with an attorney or other advisor prior to executing this agreement. The Employee understands, confirms and agrees that counsel to the Company (Becker & Poliakoff LLP) has not acted and is not acting as counsel to the Employee and that Employee has not relied upon any legal advice except as provided by its own counsel.

Remainder of page intentionally left blank; signature page follows.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the Effective Date.

DLH Holdings Corp.

By: /s/ Zachary C. Parker

Zachary C. Parker

Chief Executive Officer and President

Employee

By: /s/ Jeanine M. Christian

Jeanine M. Christian

[signature page of the Change in Control, Severance and Covenant Agreement]

CHANGE IN CONTROL, SEVERANCE AND COVENANT AGREEMENT

This Change in Control, Severance and Covenant Agreement (the “Agreement”) is made and entered into by and between Jacqueline S. Everett (“Employee”) and DLH Holdings Corp., a New Jersey corporation (the “Company”), effective as of July 13, 2020 (the “Effective Date”).

Recitals

WHEREAS, Employee is the Chief Growth Officer of the Company pursuant to an employment offer letter executed as of the date first set forth above (the “Offer Letter”), and in connection with the commencement of her employment with the Company, the Employee entered into that certain Employee Invention Assignment and Confidentiality Agreement executed on the date first set forth above (the “Assignment and Confidentiality Agreement”);

WHEREAS, the Management Resources and Compensation Committee (the “Committee”) of the Company’s Board of Directors (the “Board”) believes that it is in the best interests of the Company and its stockholders (i) to assure that the Company will have the continued dedication and objectivity of Employee, notwithstanding the possibility, threat, or occurrence of a Change in Control and (ii) to provide Employee with an incentive to continue Employee’s employment prior to a Change in Control and to motivate Employee to maximize the value of the Company upon a Change in Control for the benefit of its stockholders; and

WHEREAS, the Committee believes that it is in the best interests of the Company to provide Employee with certain severance benefits upon Employee’s termination of employment under certain circumstances. These benefits will provide Employee with enhanced financial security and incentive and encouragement to remain with the Company, notwithstanding the possibility of a Change in Control.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, and in consideration of your continuing employment by the Company, the adequacy and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Agreement

1. Term of Agreement. This Agreement will have an initial term of two years commencing on the Effective Date (the “Initial Term”). On the second anniversary of the Effective Date and each anniversary thereafter, this Agreement will renew automatically for additional one (1) year terms (each an “Additional Term”), unless either party provides the other party with written notice of non-renewal at least 60 days prior to the date of automatic renewal. If a Change in Control occurs when there are fewer than 90 days remaining during the Initial Term or an Additional Term, the term of this Agreement will extend automatically through the date that is 90 days following the effective date of the Change in Control. In the event that the Company elects not to renew this Agreement for an Additional Term, such election will be treated as a termination of Employee’s employment without Cause, with applicability under Section 3(a) and Section 3(b), dependent on whether the Company’s election not to renew occurs during a Change in Control Period. Accordingly, Employee will be eligible under such circumstances for severance benefits under either Section 3(a) or Section 3(b) of this Agreement, as the case may be. Certain capitalized terms used in the Agreement are defined in Section 10 below.

2. At-Will Employment. The Company and Employee acknowledge that Employee’s employment is and will continue to be at-will, as defined under applicable law. As an at-will employee, either the Company or the Employee may terminate the employment relationship at any time, with or without Cause.

3. Severance Benefits.

a. Termination without Cause or for Good Reason. If the Company terminates Employee’s employment with the Company without Cause (excluding death or Disability) or if Employee resigns from such

employment for Good Reason, and in each case such termination occurs outside of the Change in Control Period, then subject to Section 4, Employee will receive the following:

(i) Accrued Compensation. The Company will pay Employee all accrued but unpaid vacation, expense reimbursements, wages, unpaid bonuses and incentive compensation earned and awarded prior to the date of termination, and other benefits due to Employee under any Company-provided plans, policies, and arrangements (the "Accrued Compensation"). Accrued Compensation shall be paid within five (5) business days after the Termination Date (or earlier, if required by applicable law).

(ii) Severance Payments. Employee will be paid continuing payments of severance pay at a rate equal to Employee's base salary rate, as in effect immediately before the Termination Date, for twelve months from the date of such termination of employment (the "Severance Period"), to be paid periodically in accordance with the Company's normal payroll policies. Severance payments during the Severance Period will not commence until the first Company payroll following the Release Deadline (as defined below), or, if later, such time as required by Section 9(a). Except as required by Section 9(a), any installment payments that would have been made to Employee during the 60-day period immediately following Employee's separation from service but for the preceding sentence will be paid to Employee on the first Company payroll following the Release Deadline and the remaining payments will be made as provided in this Agreement.

(iii) Continuation Coverage. The Company will provide the Continuation Benefits, as defined below, for the period of time specified in the definition of such term, as set forth in Section 10(e).

b. Termination without Cause or for Good Reason in Connection with a Change in Control. If the Company terminates Employee's employment with the Company without Cause (excluding death or Disability) or if Employee resigns from such employment for Good Reason, and, in each case, such termination occurs during the Change in Control Period, then subject to Section 4, Employee will receive the following:

(i) Accrued Compensation. The Company will pay Employee the Accrued Compensation within five (5) business days after the Termination Date (or earlier, if required by applicable law).

(ii) Severance Payment. Employee will receive a lump-sum payment (less applicable withholding taxes) equal to 12 months of Employee's annual base salary as in effect immediately prior to Employee's termination date. Payment of the severance payment pursuant this Section 3(b)(ii) shall be made within 10 days of the Release Deadline or according to a payment schedule agreed upon by the Company and the Employee, or such later time as required by Section 9(a).

(iii) Continuation Coverage. The Company will provide the Continuation Benefits, as defined below, for the period of time specified in the definition of such term, as set forth in Section 10(e).

c. Voluntary Resignation; Termination for Cause. If Employee's employment with the Company terminates (i) voluntarily by Employee (other than for Good Reason) or (ii) for Cause by the Company, then Employee will only receive the Accrued Compensation. Employee will not be entitled to receive severance or other benefits except for those (if any) as may then be established under the Company's then existing severance and benefits plans and practices or pursuant to other written agreements with the Company.

d. Disability; Death. If the Company terminates Employee's employment as a result of Employee's Disability, or Employee's employment terminates due to Employee's death, then Employee (or his or her estate) will be entitled to receive the Accrued Compensation and the Continuation Benefits (for the period of time specified in Section 10(e)), but will not be entitled to receive any other severance or other benefits, except for those (if any) as may then be established under the Company's then existing written severance and benefits plans and practices or pursuant to other written agreements with the Company.

e. Exclusive Remedy. In the event of a termination of Employee's employment as set forth in Section 3(a) or (b) of this Agreement, the provisions of Section 3 are intended to be and are exclusive and in lieu of any other rights or remedies to which Employee or the Company otherwise may be entitled, whether at law, tort or contract, in equity, or under this Agreement (other than the payment of accrued but unpaid wages, as required by law, and any unreimbursed reimbursable expenses). Employee will be entitled to no benefits, compensation or other payments or rights upon a termination of employment other than those benefits expressly set forth in Section 3 of this Agreement.

f. Equity Awards. In the event of a termination of Employee's employment with the Company:

(i) pursuant to Section 3(a), Section 3(b), or a voluntary termination by Employee without Good Reason, Equity Awards held by Employee as of the date hereof or subsequently granted to Employee, solely to the extent vested as of the Termination Date, shall remain exercisable in accordance with the Plan (as defined below), but in no event after the expiration of the exercise period specified in such Equity Award(s) (it being agreed and acknowledged that unvested options shall be void immediately upon the Termination Date);

(ii) due to the Employee's death, or Disability, the Employee's (or his estate's or legal representative's) right to purchase shares of Common Stock of the Company pursuant to any Equity Awards held by Employee as of the date hereof or subsequently granted to Employee, solely to the extent vested as of the Termination Date, shall remain exercisable in accordance with the Plan, but in no event after the expiration of the exercise period specified in such Equity Award(s) (it being agreed and acknowledged that unvested options shall be void immediately upon the Termination Date); and

(iii) for Cause, Equity Awards that have not been exercised as of the Termination Date shall terminate immediately and be null and void.

g. The Employee shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise and no such payment shall be offset or reduced by the amount of any compensation or benefits provided to the Employee in any subsequent employment, except with respect to Continuation Benefits.

4. Conditions to Receipt of Severance. The receipt of any severance payments or benefits (other than the Accrued Compensation) pursuant to this Agreement is subject to the occurrence of all of the following subparagraphs:

a. Employee signing and not revoking the Company's customary separation and release of claims agreement (the "Release"), which must become effective and irrevocable no later than the 60th day following Employee's termination of employment (the "Release Deadline"). If the Release does not become effective and irrevocable by the Release Deadline, Employee will forfeit any right to severance payments or benefits under this Agreement. In no event will severance payments or benefits be paid or provided until the Release actually becomes effective and irrevocable.

b. Employee's resignation from all positions with the Company and its subsidiaries, including service on the board of directors thereof.

c. Employee's receipt of any payments or benefits under Section 3 (other than the Accrued Compensation) will be subject to Employee continuing to comply with (x) the Release, (y) the terms of Sections 6 and 7 of this Agreement and (z) the terms of any other agreement entered into hereafter between the Employee and Company providing for confidentiality protection of the Company's Proprietary Information, assignment of work product and covenants against competing with the Company, as the Release, this Agreement or such other agreement may be amended from time to time.

5. Limitations on Payments. In the event that the severance and other benefits provided for in this Agreement, either alone or together with other payments which the Employee has the right to receive from the Company, would constitute an “excess parachute payment” as defined in Section 280G of the Code, the aggregate of such credits or payments under this Agreement and other agreements shall be reduced to the largest amount as will result in no portion of such aggregate payments being subject to the excise tax imposed by Section 4999 of the Code. The priority of the reduction of excess parachute payments shall be in the discretion of the Employee. The Company shall give notice to the Employee as soon as practicable after its determination that Change in Control payments and benefits are subject to the excise tax, but no later than ten (10) days in advance of the due date of such Change in Control payments and benefits, specifying the proposed date of payment and the Change in Control benefits and payments subject to the excise tax. Employee shall exercise his option under this Section 5 by written notice to the Company within five (5) days in advance of the due date of the Change in Control payments and benefits specifying the priority of reduction of the excess parachute payments.

6. Confidentiality, Intellectual Property Rights and Restrictive Covenants. Employee agrees that the Assignment and Confidentiality Agreement, and the parties’ rights, remedies and obligations thereunder, shall remain in full force and effect in accordance with its terms, as if set forth in full herein and Employee shall abide by the provisions thereof.

7. Equitable Relief. Employee hereby acknowledges that the covenants and agreements set forth in the Assignment and Confidentiality Agreement are reasonable and valid in all respects and that the Company is entering into this Agreement, *inter alia*, on such acknowledgement. If Employee breaches, or threatens to commit a breach, of the Assignment and Confidentiality Agreement, the Company shall have the following rights and remedies, each of which rights and remedies shall be independent of the other and severally enforceable, and all of which shall be in addition to, and not in lieu of, any other rights and remedies available to the Company pursuant to the Assignment and Confidentiality Agreement, or under law or in equity: the right and remedy to have the Assignment and Confidentiality Agreement specifically enforced by any court having equity jurisdiction, it being acknowledged and agreed that any such breach or threatened breach will cause irreparable injury to the Company and that money damages will not provide an adequate remedy to the Company; and the right and remedy to require Employee to account for and pay over to the Company such damages as are recoverable at law as the result of any transactions constituting a breach of the Assignment and Confidentiality Agreement. The parties intend to and hereby confer jurisdiction to enforce the Assignment and Confidentiality Agreement upon the courts of any jurisdiction within the relevant geographical scope contemplated by such agreement. If the courts of any one or more such jurisdictions hold the Assignment and Confidentiality Agreement wholly unenforceable by reason of the breadth of such scope or otherwise, it is the intention of the parties that such determination not bar or in any way affect the Company’s right to the relief provided above in the courts of any other jurisdiction within the geographical scope of the Assignment and Confidentiality Agreement, as to breaches of such agreement in such other jurisdictions, as they relate to each jurisdiction being, for this purpose, severable into diverse and independent covenants.

8. Reserved.

9. Section 409A of the Code.

a. To the extent applicable, it is intended that any amounts payable under this Agreement shall either be exempt from Section 409A of the Code or shall comply with Section 409A (including Treasury regulations and other published guidance related thereto) so as not to subject Employee to payment of any additional tax, penalty or interest imposed under Section 409A of the Code. The provisions of this Agreement shall be construed and interpreted to the maximum extent permitted to avoid the imputation of any such additional tax, penalty or interest under Section 409A of the Code yet preserve (to the nearest extent reasonably possible) the intended benefit payable to Employee. Notwithstanding the foregoing, the Company makes no representations regarding the tax treatment of any payments hereunder, and the Employee shall be responsible for any and all applicable taxes, other than the Company’s share of employment taxes on the severance payments provided by the

Agreement. Employee acknowledges that Employee has been advised to obtain independent legal, tax or other counsel in connection with Section 409A of the Code.

b. Notwithstanding any provisions of this Agreement to the contrary, if Employee is a “specified employee” (within the meaning of Section 409A of the Code and the regulations adopted thereunder) at the time of Employee’s separation from service and if any portion of the payments or benefits to be received by Employee upon separation from service would be considered deferred compensation under Section 409A of the Code and the regulations adopted thereunder (“Nonqualified Deferred Compensation”), amounts that would otherwise be payable pursuant to this Agreement during the six-month period immediately following Employee’s separation from service that constitute Nonqualified Deferred Compensation and benefits that would otherwise be provided pursuant to this Agreement during the six-month period immediately following Employee’s separation from service that constitute Nonqualified Deferred Compensation will instead be paid or made available on the earlier of (i) the first business day of the seventh month following the date of Employee’s separation from service and (ii) Employee’s death. Notwithstanding anything in this Agreement to the contrary, distributions upon termination of Employee’s employment shall be interpreted to mean Employee’s “separation from service” with the Company (as determined in accordance with Section 409A of the Code and the regulations adopted thereunder). Each payment under this Agreement shall be regarded as a “separate payment” and not of a series of payments for purposes of Section 409A of the Code.

c. Except as otherwise specifically provided in this Agreement, if any reimbursement to which the Employee is entitled under this Agreement would constitute deferred compensation subject to Section 409A of the Code, the following additional rules shall apply: (i) the reimbursable expense must have been incurred, except as otherwise expressly provided in this Agreement, during the term of this Agreement; (ii) the amount of expenses eligible for reimbursement during any taxable year will not affect the amount of expenses eligible for reimbursement in any other taxable year; (iii) the reimbursement shall be made as soon as practicable after Employee’s submission of such expenses in accordance with the Company’s policy, but in no event later than the last day of Employee’s taxable year following the taxable year in which the expense was incurred; and (iv) the Employee’s entitlement to reimbursement shall not be subject to liquidation or exchange for another benefit.

10. Definition of Terms. The following terms referred to in this Agreement will have the following meanings:

a. Cause. “*Cause*” means any of the following: (i) an act of dishonesty made by Employee in connection with Employee’s responsibilities as an employee; (ii) Employee’s conviction of, or plea of nolo contendere to, a felony or any crime involving fraud, embezzlement or a similar crime; (iii) conduct by Employee amounting to fraud, gross negligence, willful misconduct or recurring insubordination; (iv) Employee’s willful disobedience of a material and lawful instruction of the Chief Executive Officer or the Board of Directors of the Company, including Employee’s continued failure to perform his employment duties, or Employee’s willful breach of any material obligations under any written agreement or covenant with the Company; or (v) excessive absences from work by Employee, other than for illness or Disability. Notwithstanding the foregoing, however, that the Company shall not have the right to terminate the employment of Employee pursuant to the foregoing clauses (i), (iii), (iv), and (v) above unless written notice specifying such breach shall have been given to the Employee and, in the case of breach which is capable of being cured, the Employee shall have failed to cure such breach within thirty (30) days after his receipt of such notice.

b. Change in Control. “*Change in Control*” means the occurrence of any of the following events:

i. An acquisition (other than directly from the Company) of any voting securities of the Company (the “Voting Securities”) by any “Person” (as the term person is used for purposes of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the “1934 Act”)) immediately after which such Person has “Beneficial Ownership” (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of twenty percent (20%) or more of the combined voting power of the Company’s then outstanding Voting Securities (49% if such Person is Wynnefield Capital Inc. and its affiliates); provided, however, that in determining whether a Change in

Control has occurred, Voting Securities which are acquired in a “Non-Control Acquisition” (as defined below) shall not constitute an acquisition which would cause a Change in Control. A “Non-Control Acquisition” shall mean an acquisition by (1) an employee benefit plan (or a trust forming a part thereof) maintained by (x) the Company or (y) any corporation or other Person of which a majority of its voting power or its equity securities or equity interest is owned directly or indirectly by the Company (a “Subsidiary”), or (2) the Company or any Subsidiary. Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because a Person (the “Subject Person”) gained Beneficial Ownership of more than the permitted amount of the outstanding Voting Securities as a result of the acquisition of Voting Securities by the Company which, by reducing the number of Voting Securities outstanding, increases the proportional number of shares Beneficially Owned by the Subject Person, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of Voting Securities by the Company, and after such share acquisition by the Company, the Subject Person becomes the Beneficial Owner of any additional Voting Securities which increases the percentage of the then outstanding Voting Securities Beneficially Owned by the Subject Person, then a Change in Control shall occur.

ii. The individuals who, as of the date this Agreement is approved by the Board, are members of the Board (the “Incumbent Board”), cease for any reason to constitute at least two-thirds of the Board; provided, however, that if the election, or nomination for election by the Company’s stockholders, of any new director was approved by a vote of at least two-thirds of the Incumbent Board, such new director shall, for purposes of this Agreement, be considered and defined as a member of the Incumbent Board; and provided, further, that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual “Election Contest” (as described in Rule 14a-11 promulgated under the 1934 Act) or other solicitation of proxies or consents by or on behalf of a Person other than the Board (a “Proxy Contest”); or

iii. Approval by the Company’s stockholders of either: (A) a merger, consolidation or reorganization involving the Company, unless: (1) the stockholders of the Company, immediately before such merger, consolidation or reorganization, own, directly or indirectly immediately following such merger, consolidation or reorganization, at least sixty percent (60%) of the combined voting power of the outstanding voting securities of the corporation resulting from such merger or consolidation or reorganization (the “Surviving Corporation”) in substantially the same proportion as their ownership of the Voting Securities immediately before such merger, consolidation or reorganization, (2) the individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization constitute at least two-thirds of the members of the board of directors of the Surviving Corporation, and (3) no Person (other than the Company, any Subsidiary, any employee benefit plan (or any trust forming a part thereof) maintained by the Company, the Surviving Corporation or any Subsidiary) becomes Beneficial Owner of twenty percent (20%) or more of the combined voting power of the Surviving Corporation’s then outstanding voting securities as a result of such merger (49% if such Person is Wynnefield Capital Inc. and its affiliates), consolidation or reorganization, a transaction described in clauses (1) through (3) shall herein be referred to as a “Non-Control Transaction”; or (B) an agreement for the sale or other disposition of all or substantially all of the assets of the Company, to any Person, other than a transfer to a Subsidiary, in one transaction or a series of related transactions; or (C) the Company’s stockholders approve any plan or proposal for the liquidation or dissolution of the Company.

iv. Notwithstanding anything herein to the contrary, if the Employee’s employment is terminated prior to a Change in Control and the Employee reasonably demonstrates that such termination (i) was at the request of a third party who has indicated an intention or taken steps reasonably calculated to effect a Change in Control (a “Third Party”) or (ii) otherwise occurred in connection with, or in anticipation of, a Change in Control, then for all purposes of this Agreement, the date of a Change in Control with respect to the Employee shall mean the date immediately prior to the date of such termination of the Employee’s employment.

c. Change in Control Period. “Change in Control Period” means the period beginning ninety (90) days prior to, and ending ninety (90) days following, a Change in Control.

d. Code. “Code” means the Internal Revenue Code of 1986, as amended.

e. Continuation Benefits. “*Continuation Benefits*” shall be the continuation of the benefits, as detailed in the Offer Letter, for the period commencing on the Termination Date and terminating 12 months thereafter, or such other period as specifically stated herein (the “Continuation Period”) at the Company’s expense on behalf of the Employee and his dependents; and the level and availability of benefits provided during the Continuation Period shall at all times be subject to the post-employment conversion or portability provisions of the benefit plans. The Company’s obligation hereunder with respect to the foregoing benefits shall also be limited to the extent that if the Employee is eligible to obtain any such benefits pursuant to a subsequent employer’s benefit plans, the Company may reduce the coverage of any benefits it is required to provide the Employee hereunder as long as the aggregate coverage and benefits of the combined benefit plans is no less favorable to the Employee than the coverage and benefits required to be provided hereunder. This definition of Continuation Benefits shall not be interpreted so as to limit any benefits to which the Employee, his dependents or beneficiaries may be entitled under any of the Company’s employee benefit plans, programs or practices following the Employee’s termination of employment, including, without limitation, retiree medical and life insurance benefits.

f. Disability. “*Disability*” shall mean a physical or mental infirmity which impairs the Employee’s ability to substantially perform his duties with the Company for a period of ninety (90) consecutive days and the Employee has not returned to his full-time employment prior to the Termination Date as stated in the “Notice of Termination” (as defined below).

g. Equity Awards. “*Equity Awards*” means Employee’s outstanding stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance stock units and any other Company equity compensation awards.

h. Good Reason. “*Good Reason*” means Employee’s voluntary termination, within 30 days following the expiration of any Company cure period (discussed below) following the occurrence of one or more of the following, without Employee’s consent: (a) a material breach of any provision of this Agreement by the Company; (b) failure by the Company to pay when due any compensation to the Employee; (c) a reduction in the Employee’s base salary (as set forth in the Offer Letter); (d)(i) failure by the Company to maintain the Employee in the position referred to in the Offer Letter or (ii) assignment to the Employee of any duties materially inconsistent with the Employee’s positions, authority, duties, responsibilities, powers, functions, reporting relationship or title or any other action by the Company that results in a material diminution of such positions, authority, duties, responsibilities, powers, functions, reporting relationship or title, as contemplated by the Offer Letter; excluding in either case of clause (i) or (ii) of this Section 10(h)(d), a reduction or change following an internal corporate restructuring or Change in Control due to the Company being part of a larger entity, and in either case where Employee assumes similar functional duties; or (e) a Change in Control, where the successor to the Company does not assume this Agreement, but provided that the event on which the Change of Control is predicated occurs within 90 days of the service of the Notice of Termination by the Employee; and *provided further*, however, that the Employee agrees not to terminate his employment for Good Reason pursuant to clauses (a) through (e) unless (i) the Employee has given the Company at least 30 days’ prior written notice of his intent to terminate his employment for Good Reason, which notice shall specify the facts and circumstances constituting Good Reason; and (ii) the Company has not remedied such facts and circumstances constituting Good Reason to the reasonable and good faith satisfaction of the Employee within the cure period after receipt of such notice.

i. Notice of Termination. A “*Notice of Termination*” shall mean a written notice from the Company or Employee of termination of the Employee’s employment which indicates the provision in this Agreement relied upon, if any and which sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Employee’s employment under the provision so indicated. A Notice of Termination served by the Company shall specify the effective date of termination.

j. Plan. The “*Plan*” means the Company’s 2016 Omnibus Equity Incentive Plan, as amended, or another plan, approved by the Board and adopted by the shareholders of the Company, pursuant to which employees of the Company may acquire equity securities of the Company.

k. Termination Date. “*Termination Date*” shall mean the date specified in the Notice of Termination which (a) in the case of the Employee’s death, shall be his date of death; (b) in the case of Disability, the Employee shall not have returned to the full-time performance of his duties within 30 days from the date such Notice of Termination is given; (c) in the case of a termination by the Company (other than a termination for Cause), shall not be less than 30 days from the date such Notice of Termination is given; and (d) in the case of a termination by Employee, shall not be less than 15 nor more than 30 days from the date such Notice of Termination is given (provided, however, if Employee seeks to terminate employment for Good Reason, then such notice must be at least 30 days from the date the Notice of Termination is given to the Company, and provided further that the Company has not remedied such facts and circumstances constituting Good Reason to the reasonable and good faith satisfaction of the Employee).

11. Successors.

a. The Company’s Successors. Any successor to the Company (whether direct or indirect and whether by purchase, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company’s business and/or assets will assume the obligations under this Agreement and agree expressly to perform the obligations under this Agreement in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term “Company” will include any successor to the Company’s business and/or assets or which becomes bound by the terms of this Agreement by operation of law.

b. Employee’s Successors. The terms of this Agreement and all rights of Employee hereunder will inure to the benefit of, and be enforceable by, Employee’s personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

12. Notice.

a. General. Notices and all other communications contemplated by this Agreement will be in writing and will be deemed to have been duly given when sent electronically or personally delivered when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid or when delivered by a nationally-recognized private courier service that has tracking capability. In the case of Employee, notices will be sent to the e-mail address or addressed to Employee at the home address, in either case which Employee most recently communicated to the Company in writing. In the case of the Company, electronic notices will be sent to the e-mail addresses of the Chief Executive Officer and mailed notices will be addressed to its corporate headquarters, and all notices will be directed to the attention of its Chief Executive Officer.

b. Notice of Termination. Any termination of Employee’s employment will be communicated by delivery of a Notice of Termination to the other party in accordance with Section 12(a) of this Agreement. Such notice will indicate the specific termination provision in this Agreement relied upon, will set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision so indicated, and will specify the termination date in accordance with Section 10(k).

13. Resignation. Upon the termination of Employee’s employment for any reason, Employee will be deemed to have resigned from all officer and/or director positions held at the Company and its affiliates voluntarily, without any further required action by Employee, as of the end of Employee’s employment and Employee, at the Board’s request, will execute any documents reasonably necessary to reflect Employee’s resignation.

14. Arbitration. Any controversy, dispute or claim arising out of or relating to this Agreement or breach thereof, with the sole exception of any claim, breach, or violation arising the Assignment and Confidentiality Agreement, shall be shall first be settled through good faith negotiation. If the dispute cannot be settled through negotiation, the parties agree to attempt in good faith to settle the dispute by mediation administered by JAMS. If the

parties are unsuccessful at resolving the dispute through mediation, the parties agree to final and binding arbitration before a single arbitrator in the State of Georgia in accordance with the Rules of the American Arbitration Association. The arbitrator shall be selected by the Association and shall be an attorney-at-law experienced in the field of corporate law. Any judgment upon any arbitration award may be entered in any court, federal or state, having competent jurisdiction of the parties.

15. Miscellaneous Provisions.

a. Amendments and Waiver. No provision of this Agreement will be amended, modified, waived or discharged unless the amendment, modification, waiver or discharge is agreed to in writing and signed by Employee and by an authorized officer of the Company (other than Employee). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party will be considered a waiver of any other condition or provision or of the same condition or provision at another time. Any failure to insist upon strict compliance with any of the terms and conditions of this Agreement shall not be deemed a waiver of any such terms or conditions.

b. Headings. All captions and section headings used in this Agreement are for convenient reference only and do not form a part of this Agreement.

c. Entire Agreement. This Agreement, together with the Assignment and Confidentiality Agreement and Offer Letter, constitutes the entire agreement of the parties hereto and supersedes in their entirety all prior representations, understandings, undertakings or agreements (whether oral or written and whether expressed or implied) of the parties with respect to the subject matter hereof, including, but not limited to, any prior severance agreement and/or any accelerated vesting terms set forth in an individual equity award agreement. Notwithstanding the foregoing, however, nothing herein shall be interpreted to supersede or otherwise reduce or limit the (i) specific compensation arrangements (including the bonus and equity award) and (ii) eligibility for benefits, in each case as set forth in the Offer Letter.

d. Choice of Law. The validity, interpretation, construction and performance of this Agreement will be governed by the laws of the State of Georgia (with the exception of its conflict of laws provisions).

e. Severability. The invalidity or unenforceability of any provision or provisions of this Agreement will not affect the validity or enforceability of any other provision hereof, which will remain in full force and effect. If any provision is held invalid or unenforceable with respect to particular circumstances, it shall remain in full force and effect in all other circumstances.

f. Withholding. All payments made pursuant to this Agreement will be subject to withholding of applicable income, employment and other taxes.

g. Execution. This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party, it being understood that both parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a “.pdf” format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or “.pdf” signature page was an original thereof.

h. Interpretation and Independent Representation. The parties agree that they have both had the opportunity to review and negotiate this Agreement, and that any inconsistency or dispute related to the interpretation of any of the provisions of this Agreement shall not be construed against either party. The headings used in this Agreement are for convenience only and are not to be considered in construing or interpreting this Agreement. The Employee has been advised and had the opportunity to consult with an attorney or other advisor

prior to executing this agreement. The Employee understands, confirms and agrees that counsel to the Company (Becker & Poliakoff LLP) has not acted and is not acting as counsel to the Employee and that Employee has not relied upon any legal advice except as provided by its own counsel.

Remainder of page intentionally left blank; signature page follows.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the Effective Date.

DLH Holdings Corp.

By: /s/ Zachary C. Parker

Zachary C. Parker

Chief Executive Officer and President

Employee

By: /s/ Jacqueline S. Everett

Jacqueline S. Everett

[signature page of the Change in Control, Severance and Covenant Agreement]



July 15, 2020

Kevin H. Beverly

Dear Kevin,

This letter agreement will confirm the mutual understandings that we have agreed upon concerning your employment with DLH Holdings Corp. ("DLH") as President - Social & Scientific Systems, Inc.

Effective July 13, 2020, you acknowledge and agree that you are no longer employed by DLH as the President - Social & Scientific Systems, Inc. However, as we have discussed, you agree to remain in the employ of DLH for a transition period as Special Advisor to the CEO in order to provide transition support services to DLH and the Social & Scientific Systems, Inc. leadership team. The duration of the transition services is anticipated to be for a period of three weeks from July 13, 2020 to July 30th, after which your employment with DLH will end; provided, however, such transition period may be reduced or extended upon our mutual written agreement.

During the term of this letter agreement, you agree to perform such services and duties as are delegated to you by the Chief Executive Officer of the Company and shall devote such time and attention to the discharge of your duties as may be necessary and appropriate to accomplish and complete such duties.

During the term hereof, you will continue to be compensated at the same rate as was in effect immediately prior to your execution of this letter.

DLH agrees that upon the termination of your employment, you shall be entitled to Accrued Compensation, Severance Payments, and Continuation Coverage in accordance with Paragraph 3(a) of the Change in Control, Severance and Covenant Agreement effective as of October 18, 2019 (the "Severance Agreement"), and a pro-rated incentive bonus for fiscal year 2020 (through the fiscal quarter ended June 30, 2020) equal to 50% of your current base salary, subject to your execution and non-revocation of a separation and release of claims agreement as set forth in the Severance Agreement.

In addition, you acknowledge and agree that you hold a stock option to acquire 250,000 shares of DLH's common stock pursuant to an Employee Stock Option Certificate and Agreement ("Option Agreement") by and between DLH and you, dated October 18, 2020, granted under DLH's 2016 Omnibus Equity Incentive Plan, as amended (the "Plan"), of which, as of the date hereof, all Option shares were unvested. Subject to your compliance with the terms and conditions of this letter agreement, the Management Resources and Compensation Committee of the Board of Directors of DLH has agreed to accelerate the vesting of 50,000 unvested Option shares that were otherwise scheduled to vest on the one-year anniversary of the grant date. You will be eligible to vest in these Option shares as of your final date of employment, to the extent that it occurs prior to the originally scheduled initial vesting date set forth in your Option Agreement. For the avoidance of doubt, all Option shares that do not vest as of your last date of employment shall be forfeited immediately in connection with your termination.

This letter sets forth the entire agreement between the parties concerning its subject matter and supersedes all prior agreements, letters and understandings between the parties, whether oral or written prior to the

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date of this letter, provided, however, that the terms and conditions of each of your Option Agreement, the Plan, and your Severance Agreement (each as amended by this letter), shall remain in full force and effect.

Atlanta HQ

3565 Piedmont Road NE
Tower 3, Suite 700
Atlanta, GA 30305

National Capital Region HQ

8757 Georgia Ave
Suite 1200
Silver Spring, MD 20910



To indicate your agreement with the terms of this letter, please sign this letter in the space provided below and return it to me.

Sincerely,

DLH Holdings Corp.

Agreed and accepted as of the date set forth above:

By: /s/ Zachary C. Parker
Name: **Zachary C. Parker**
Title: Chief Executive Officer and President

By: /s/ Kevin H. Beverly
Kevin H. Beverly

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Atlanta HQ
3565 Piedmont Road NE
Tower 3, Suite 700
Atlanta, GA 30305

National Capital Region HQ
8757 Georgia Ave
Suite 1200
Silver Spring, MD 20910

Certification

I, Zachary C. Parker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of DLH Holdings Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2020

/s/ Zachary C. Parker
Zachary C. Parker
Chief Executive Officer
(Principal Executive Officer)

Certification

I, Kathryn M. JohnBull, certify that:

1. I have reviewed this quarterly report on Form 10Q of DLH Holdings Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles
 - c) 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
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2020

/s/ Kathryn M. JohnBull
Kathryn M. JohnBull
Chief Financial Officer
(Principal Accounting Officer)

**Certification of Chief Executive Officer and Chief Financial Officer
Pursuant to 18 U.S.C Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of DLH Holdings Corp. (the "Company") on Form 10-Q for the period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, being, Zachary C. Parker, Chief Executive Officer, and Kathryn M. JohnBull, Chief Financial Officer and Principal Accounting Officer, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) 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 result of operations of the Company.

Dated: August 5, 2020

/s/ ZACHARY C. PARKER
Zachary C. Parker
Chief Executive Officer
(Principal Executive Officer)

/s/ KATHRYN M. JOHNBULL
Kathryn M. JohnBull
Chief Financial Officer
(Principal Accounting Officer)

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