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, 2021

☐ **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	**22-1899798**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3565 Piedmont Road, Building 3, Suite 700 **Atlanta**, **Georgia**	**30305**
(Address of principal executive offices)	(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 o

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 o

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 o		Accelerated filer o	
Non-accelerated filer	x	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. o

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: 12,544,906 shares of Common Stock, par value $0.001 per share, were outstanding as of July 30, 2021.

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) Three Months Ended June 30,		(unaudited) Nine Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Revenue	$ 61,555	$ 51,459	$ 180,913	$ 158,495
Cost of Operations:				
Contract costs	48,365	39,615	143,092	123,895
General and administrative costs	6,237	6,323	18,522	18,497
Depreciation and amortization	2,014	1,721	6,105	5,340
Total operating costs	56,616	47,659	167,719	147,732
Income from operations	**4,939**	**3,800**	**13,194**	**10,763**
Interest expense, net	893	813	2,977	2,659
Income before income taxes	**4,046**	**2,987**	**10,217**	**8,104**
Income tax expense	1,166	863	2,956	2,352
Net income	**$ 2,880**	**$ 2,124**	**$ 7,261**	**$ 5,752**
Net income per share - basic	$ 0.23	$ 0.17	$ 0.58	$ 0.47
Net income per share - diluted	$ 0.21	$ 0.16	$ 0.54	$ 0.44
Weighted average common stock outstanding				
Basic	12,545	12,354	12,529	12,246
Diluted	13,655	13,228	13,694	13,050

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, 2021 (unaudited)	September 30, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 739	$ 1,357
Accounts receivable	36,409	32,541
Other current assets	3,632	3,499
Total current assets	40,780	37,397
Equipment and improvements, net	2,226	3,339
Operating lease right-of-use assets	20,481	22,427
Deferred taxes, net	—	37
Goodwill	65,643	67,144
Intangible assets, net	49,115	52,612
Other long-term assets	506	606
Total assets	**$ 178,751**	**$ 183,562**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Debt obligations - current, net of deferred financing costs	$ —	$ 6,727
Operating lease liabilities - current	2,186	2,045
Accrued payroll	10,208	10,611
Accounts payable, accrued expenses, and other current liabilities	32,630	28,578
Total current liabilities	45,024	47,961
Long-term liabilities:		
Debt obligations - long-term, net of deferred financing costs	51,537	60,544
Operating lease liabilities - long-term	19,944	21,620
Total long-term liabilities	71,481	82,164
Total liabilities	116,505	130,125
Shareholders' equity:		
Common stock, $0.001 par value; authorized 40,000 shares; issued and outstanding 12,545 and 12,404 at June 30, 2021 and September 30, 2020, respectively	13	12
Additional paid-in capital	87,415	85,868
Accumulated deficit	(25,182)	(32,443)
Total shareholders' equity	62,246	53,437
Total liabilities and shareholders' equity	**$ 178,751**	**$ 183,562**

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,	
	2021	**2020**
Operating activities		
Net income	$ 7,261	$ 5,752
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,105	5,340
Amortization of deferred financing costs	610	551
Stock-based compensation expense	1,317	566
Deferred taxes, net	2,177	1,987
Gain from lease modification	—	(121)
Changes in operating assets and liabilities		
Accounts receivable	(3,868)	(6,409)
Other current assets	(133)	(1,941)
Accrued payroll	(403)	636
Accounts payable, accrued expenses, and other current liabilities	1,912	3,620
Other long-term assets/liabilities	410	726
Net cash provided by operating activities	**15,388**	**10,707**
Investing activities		
Business acquisition adjustment, net of cash acquired	59	—
Purchase of equipment and improvements	(53)	(152)
Net cash provided by (used in) investing activities	**6**	**(152)**
Financing activities		
Repayment of secured term loan	(16,200)	(11,500)
Payment of deferred financing costs	(43)	(3)
Repurchased shares of common stock held as treasury stock	—	(211)
Proceeds from issuance of common stock upon exercise of options	231	27
Net cash used in financing activities	**(16,012)**	**(11,687)**
Net change in cash and cash equivalents	(618)	(1,132)
Cash and cash equivalents at beginning of period	1,357	1,790
Cash and cash equivalents at end of period	**$ 739**	**$ 658**
Supplemental disclosures of cash flow information		
Cash paid during the period for interest	$ 2,321	$ 2,207
Cash paid during the period for income taxes	$ 396	$ 432
Supplemental disclosures of non-cash activity		
Non-cash cancellation of common stock	$ —	$ 211

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, 2021							
Balance at September 30, 2020	12,404	$ 12	—	$ —	$ 85,868	$ (32,443)	$ 53,437
Expense related to director restricted stock unit	78	—	—	—	349	—	349
Expense related to employee stock-based compensation	—	—	—	—	968	—	968
Exercise of stock options	63	1	—	—	230	—	231
Net income	—	—	—	—	—	7,261	7,261
Balance at June 30, 2021	**12,545**	**$ 13**	**—**	**$ —**	**$ 87,415**	**$ (25,182)**	**$ 62,246**
Three Months Ended June 30, 2021							
Balance at March 31, 2021	12,545	$ 13	—	$ —	$ 86,942	$ (28,062)	$ 58,893
Expense related to director restricted stock unit	—	—	—	—	117	—	117
Expense related to employee stock-based compensation	—	—	—	—	356	—	356
Exercise of stock options	—	—	—	—	—	—	—
Net income	—	—	—	—	—	2,880	2,880
Balance at June 30, 2021	**12,545**	**$ 13**	**—**	**$ —**	**$ 87,415**	**$ (25,182)**	**$ 62,246**

	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 employee stock-based compensation	90	—	—	—	260	—	260
Expense related to employee stock options	—	—	—	—	306	—	306
Repurchases of common stock	—	—	28	(113)	—	—	(113)
Cancellation of common stock	(117)	—	(28)	113	(211)	—	(98)
Exercise of stock options	345	—	—	—	27	—	27
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-based compensation	—	—	—	—	95	—	95
Net income	—	—	—	—	—	2,124	2,124
Balance at June 30, 2020	**12,354**	**$ 12**	**—**	**$ —**	**$ 85,496**	**$ (33,805)**	**$ 51,703**

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

DLH HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
June 30, 2021

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.

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, 2021 are not necessarily indicative of the results that may be expected for the year ending September 30, 2021. Amounts as of and for the periods ended June 30, 2021 and June 30, 2020 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, 2020 filed with the Securities and Exchange Commission on December 7, 2020.

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 2,200 skilled employees working in more than 30 locations throughout the United States and one location overseas.

At present, the Company derives 99% of its 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 we derive at least 10% of our revenues. Our three largest customers are the Department of Veteran Affairs ("VA"), the Department of Health and Human Services ("HHS"), and the Department of Defense ("DoD"). The following table summarizes the revenues by customer for the nine months ended June 30, 2021 and 2020, respectively:

	Nine Months Ended June 30,			
	2021		2020	
(in thousands)	Revenue	Percent of total revenue	Revenue	Percent of total revenue
Department of Veterans Affairs	$ 83,010	46 %	$ 74,402	47 %
Department of Health and Human Services	66,748	37 %	73,263	46 %
Department of Defense	22,103	12 %	943	1 %
Customers with less than 10% share of total revenue	9,052	5 %	9,887	6 %
Total Revenue	**$ 180,913**	**100 %**	**$ 158,495**	**100 %**

3. New Accounting Pronouncements

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848), which provides optional expedients and exceptions for the application of U.S. GAAP to contracts, hedging relationships, and other transactions that reference the

London Interbank Offered Rate ("LIBOR") and other reference rates expected to be discontinued due to reference rate reform. ASU 2020-04 became effective on March 12, 2020 for all entities meeting certain criteria. The Company may elect to apply the amendments using a prospective approach through December 31, 2022. The Company is currently assessing the impact of electing this standard on its consolidated financial statements and related disclosures and does not expect the impact to be material.

In April 2020, the FASB issued a Staff Q&A, Topic 842 and 840: Accounting For Lease Concessions Related to the Effects of the COVID-19 Pandemic in order to provide clarity regarding the accounting treatment for lease concessions provided as a result of COVID-19. Under existing lease guidance, changes to certain lease terms not specified in the original lease agreement require modification accounting treatment. To provide relief, the FASB Staff Q&A permits alternatives to modification accounting under Topic 842. For concessions related to the effects of the COVID-19 pandemic that do not result in a substantial increase in the rights of the lessor or our obligations as the lessee, we are not required to analyze each contract to determine whether enforceable rights and obligations for concessions exist in the lease agreement and can elect to apply or not apply the lease modification guidance in Topic 842. In fiscal year 2021, we elected to account for lease concessions received for one of our operating leases as a resolution of a contingency, whereby we remeasured our lease liability and recorded the adjustment against the right-of-use asset, without reassessing lease classification or modifying the original discount rate. As a result of this election, our lease liability and right-of-use-asset decreased by less than $0.1 million.

In August 2020, the FASB issued ASU 2020-06, which amends the measurement and disclosure of convertible instruments, contracts in an entity's own equity, and EPS guidance. The guidance can be adopted using a modified retrospective method or a fully retrospective method. The amendments are effective for fiscal years beginning after December 15, 2021 for public entities, excluding those that are smaller reporting companies. The Company does not expect the update to have a material impact on its consolidated financial statements and related disclosures.

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, 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.

Long-Lived Assets

Our long-lived assets include equipment and improvements, intangible assets, right-of-use assets, and goodwill. The Company continues to review long-lived 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.

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.

Intangible assets (other than goodwill) are originally recorded at fair value and are amortized on a straight-line basis over their estimated useful lives of 10 years.

Right-of-use assets are measured at the present value of future minimum lease payments, including all probable renewals, plus lease payments made to the lessor before or at lease commencement and indirect costs paid, less incentives received. Our right-of-use assets include long-term leases for facilities and equipment and are amortized over their respective lease terms.

Goodwill

At September 30, 2020, we performed a goodwill impairment evaluation on the year-end carrying value of approximately $67 million. We performed a qualitative 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, 2020. For the nine months ended June 30, 2021, 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.

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, 2021 or September 30, 2020. We report interest and penalties as a component of income tax expense. During the three and nine months ended June 30, 2021 and June 30, 2020, we recognized no interest and no penalties related to income taxes.

Stock-Based Compensation

The Company uses the fair value-based method for stock-based compensation. Options issued are designated as either an incentive stock option 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 Monte Carlo binomial and Black Scholes option pricing models, as appropriate 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 common 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, 2021 and September 30, 2020, the Company did not hold any treasury stock.

Preferred Stock

Our certificate of incorporation authorizes the issuance of "blank check" preferred stock with designations, rights and preferences as may be determined from time to time by our board of directors up to an aggregate of 5,000,000 shares of preferred stock. As of June 30, 2021 and September 30, 2020, the Company had not issued any preferred 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 instruments for trading or speculative purposes.

Risks & Uncertainties

Management continues to evaluate the impact of the COVID-19 pandemic on the industry, primarily through the introduction of additional regulations and restrictions. Due to the nature of our work, we believe that these impacts are mitigated and concluded that while it is reasonably possible that the virus could have a negative effect on the Company's financial position and the results of its operations, the specific impact is not readily determinable as of the date of these financial statements.

5. Revenue Recognition

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. These contract liabilities are reported within accounts payable, accrued expenses, and other current liabilities on our consolidated balance sheets.

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

	(in thousands)	
	June 30, 2021	**September 30, 2020**
Contract assets	$ 6,084	$ 7,943
Contract liabilities	$ 355	$ 200

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 tables present our revenue disaggregated by these categories:

Revenue by customer (in thousands):

	Three Months Ended June 30,		**Nine Months Ended June 30,**	
	2021	**2020**	**2021**	**2020**
Department of Veterans Affairs	$ 27,496	$ 24,783	$ 83,010	$ 74,402
Department of Health and Human Services	23,245	23,312	66,748	73,263
Department of Defense	7,601	270	22,103	943
Other	3,213	3,094	9,052	9,887
Total Revenue	**$ 61,555**	**$ 51,459**	**$ 180,913**	**$ 158,495**

Revenue by contract type (in thousands):

	Three Months Ended June 30,		**Nine Months Ended June 30,**	
	2021	**2020**	**2021**	**2020**
Time and Materials	$ 46,790	$ 36,315	$ 137,492	$ 110,918
Cost Reimbursable	12,070	13,841	35,796	43,887
Firm Fixed Price	2,695	1,303	7,625	3,690
Total Revenue	**$ 61,555**	**$ 51,459**	**$ 180,913**	**$ 158,495**

Revenue by whether the Company acts as a prime contractor or a subcontractor (in thousands):

	Three Months Ended June 30,		**Nine Months Ended June 30,**	
	2021	**2020**	**2021**	**2020**
Prime Contractor	$ 53,407	$ 47,649	$ 159,059	$ 147,464
Subcontractor	8,148	3,810	21,854	11,031
Total Revenue	**$ 61,555**	**$ 51,459**	**$ 180,913**	**$ 158,495**

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 plus lease payments made to the lessor before or at lease commencement less unamortized lease incentives and the balance remaining in deferred rent liability under ASC 840. 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. Some of our lease agreements include options to extend the lease term or terminate the lease. These options are accounted for in our right-of-use assets and lease liabilities when it is reasonably certain that the Company will extend the lease term or terminate the lease. The Company does not have any finance leases. As of June 30, 2021, operating leases for facilities and equipment have remaining lease terms of 1.5 to 9.8 years.

The following table summarizes lease balances in our consolidated balance sheets at June 30, 2021 and September 30, 2020 (in thousands):

	June 30, 2021	September 30, 2020
Operating lease right-of-use assets	$ 20,481	$ 22,427
Operating lease liabilities, current	$ 2,186	$ 2,045
Operating lease liabilities - long-term	19,944	21,620
Total operating lease liabilities	$ 22,130	$ 23,665

The Company subleases a portion of one of its leased facilities. The sublease is classified as an operating lease with respect to the underlying asset. The sublease was assumed from the acquisition of Social & Scientific Systems, Inc. ("S3") in fiscal 2019. The sublease term is 5 years with two additional 1-year term extension options.

For the three and nine months ended June 30, 2021 and June 30, 2020, total lease costs for our operating leases are as follows (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2021	2020	2021	2020
Operating	$ 903	$ 834	$ 2,763	$ 3,399
Short-term	18	30	88	133
Variable	40	28	70	51
Sublease income	(46)	(70)	(233)	(198)
Total lease costs	**$ 915**	**$ 822**	**$ 2,688**	**$ 3,385**

The Company's future minimum lease payments as of June 30, 2021 are as follows:

For the Fiscal Year Ending September 30,	(in thousands)
2021 (remaining)	$ 823
2022	3,501
2023	3,391
2024	3,251
2025	3,092
Thereafter	14,684
Total future lease payments	28,742
Less: imputed interest	(6,612)
Present value of future minimum lease payments	22,130
Less: current portion of operating lease liabilities	(2,186)
Long-term operating lease liabilities	$ 19,944

Other information related to our leases are as follows:

	June 30, 2021
Weighted-average remaining lease term	8.5 years
Weighted-average discount rate	6.00 %

		Three Months Ended June 30,		**Nine Months Ended June 30,**	
(in thousands)	**Ref**	**2021**	**2020**	**2021**	**2020**
Cash paid for amounts included in the measurement of lease liabilities		$ 815	$ 336	$ 2,483	$ 2,803
New lease liabilities, net of new right-of-use assets	(a)	$ —	$ —	$ —	$ 245
Lease liabilities arising from obtaining right-of-use-assets	(a)	$ —	$ —	$ —	$ 7,179

Ref (a): Changes resulted from an amended and remeasured operating lease

7. Supporting Financial Information

Accounts receivable

		(in thousands)	
	Ref	**June 30, 2021**	**September 30, 2020**
Billed receivables		$ 30,325	$ 24,598
Contract assets		6,084	7,943
Total accounts receivable		36,409	32,541
Less: Allowance for doubtful accounts	(a)	—	—
Accounts receivable, net		**$ 36,409**	**$ 32,541**

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, 2021 or September 30, 2020.

Other current assets

	(in thousands)	
	June 30, 2021	**September 30, 2020**
Prepaid insurance and benefits	$ 891	$ 665
Other receivables	1,164	1,363
Other prepaid expenses	1,577	1,471
Other current assets	**$ 3,632**	**$ 3,499**

Equipment and improvements, net

		(in thousands)	
	Ref	**June 30, 2021**	**September 30, 2020**
Furniture and equipment		$ 958	$ 958
Computer equipment		1,212	1,171
Computer software		4,353	4,341
Leasehold improvements		1,595	1,595
Total equipment and improvements		8,118	8,065
Less accumulated depreciation and amortization	(a)	(5,892)	(4,726)
Equipment and improvements, net		**$ 2,226**	**$ 3,339**

Ref (a): Depreciation expense was $0.4 million and $0.5 million for the three months ended June 30, 2021 and 2020, respectively and $1.2 million and $1.7 million for the nine months ended June 30, 2021 and 2020, respectively.

Intangible assets

		(in thousands)	
	Ref	**June 30, 2021**	**September 30, 2020**
Intangible assets	(a)		
Customer contracts and related customer relationships		$ 62,281	$ 45,600
Covenants not to compete		522	480
Trade name		3,051	2,109
Acquired intangibles - IBA acquisition	(b)	—	16,223
Total intangible assets		65,854	64,412
Less accumulated amortization			
Customer contracts and related customer relationships		(15,821)	(11,150)
Covenants not to compete		(251)	(212)
Trade name		(667)	(438)
Total accumulated amortization		(16,739)	(11,800)
Intangible assets, net		**$ 49,115**	**$ 52,612**

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 $1.6 million and $1.2 million for the three months ended June 30, 2021 and 2020, respectively and $4.9 million and $3.6 million for the nine months ended June 30, 2021 and 2020, respectively.

Ref (b): Intangible assets reported at September 30, 2020 from the acquisition of IBA were based on an estimate and revised in the first quarter of fiscal 2021. A third party valuation firm valued the acquired intangibles to be the $17.7 million; $16.7 million was attributable to customer contracts and customer relationships, and $0.9 million to trade name, and $0.1 million to covenants not to compete.

Estimated amortization expense for future fiscal years:		(in thousands)
2021 (remaining)	$	1,646
2022		6,585
2023		6,585
2024		6,585
2025		6,585
Thereafter		21,129
Total amortization expense	**$**	**49,115**

Goodwill

The changes in the carrying amount of goodwill as of June 30, 2021 are as follows:

			(in thousands)
	Ref		**Total**
Balance at September 30, 2019		$	52,758
Preliminary increase from IBA acquisition			14,386
Balance at September 30, 2020			67,144
Preliminary adjustment from IBA acquisition	(a)		(1,694)
Balance at December 31, 2020			65,450
Final adjustment from IBA acquisition	(a)		193
Balance at June 30, 2021		**$**	**65,643**

Ref (a): The adjustments were determined based upon the final valuations performed by the third party valuation.

Accounts payable, accrued expenses, and other current liabilities

	(in thousands)			
		June 30, 2021		**September 30, 2020**
Accounts payable	$	15,990	$	14,645
Accrued benefits		2,711		2,833
Accrued bonus and incentive compensation		1,786		2,340
Accrued workers' compensation insurance		6,519		5,529
Other accrued expenses		5,624		3,231
Accounts payable, accrued expenses, and other current liabilities	**$**	**32,630**	**$**	**28,578**

Debt obligations

	(in thousands)	
	June 30, 2021	September 30, 2020
Bank term loan	$ 53,800	$ 70,000
Less: unamortized deferred financing costs	(2,263)	(2,729)
Net bank debt obligations	**51,537**	**67,271**
Less: current portion of bank debt obligations, net of deferred financing costs	—	(6,727)
Long-term portion of bank debt obligations, net of deferred financing costs	**$ 51,537**	**$ 60,544**

Interest expense

		Three Months Ended June 30,		Nine Months Ended June 30,	
(in thousands)	**Ref**	**2021**	**2020**	**2021**	**2020**
Interest expense	(a)	$ (696)	$ (635)	$ (2,367)	$ (2,229)
Amortization of deferred financing costs	(b)	(197)	(178)	(610)	(551)
Other income (expense), net	(c)	—	—	—	121
Interest expense, net		**$ (893)**	**$ (813)**	**$ (2,977)**	**$ (2,659)**

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, 2021, is as follows:

		($ in Millions) As of June 30, 2021		
Lender	**Arrangement**	**Loan Balance**	**Interest**	**Maturity Date**
First National Bank of Pennsylvania ("FNB")	Secured term loan (a)	$ 53.8	LIBOR* + 3.5%	09/30/2025
First National Bank of Pennsylvania ("FNB")	Secured revolving line of credit (b)	$ —	LIBOR* + 3.5%	09/30/2025

*LIBOR rate as of June 30, 2021 was 0.09%. As of June 30, 2021, our LIBOR rate is subject to a minimum floor of 0.5%.

(a) Represents the principal amounts payable on our term loan, which 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 September 30, 2025.

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, and (ii) a Funded Indebtedness to Adjusted EBITDA ratio not exceeding the ratio of 3.75:1.0 to 2.75:1.0 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 December 2020 through September 2025. The annual amortization amounts are $7.0 million for fiscal years 2021 and 2022 and $8.75 million each for fiscal years 2023 - 2025. The quarterly payments are equal installments. The Company made voluntary prepayments of term debt of approximately $9.0 million during the quarter ended June 30, 2021 bringing the total amount paid on the secured term loan to $16.2 million. We have satisfied mandatory principal amortization until March 31, 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. 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 for the current fiscal year is $28.8 million and matures in 2024. The notional amount was $36 million in the prior fiscal year. 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, 2021, interest expense has been increased by approximately $0.3 million.

(b) The secured revolving line of credit has a ceiling of up to $25.0 million; as of June 30, 2021 we had unused borrowing capacity of $23.0 million, which is net of outstanding letters of credit. Borrowing on the line of credit is secured by liens on substantially all of the assets of the Company. The Company has no outstanding balance at June 30, 2021.
The Company's total borrowing availability, based on eligible accounts receivables at June 30, 2021, was $25.0 million. As part of the revolving credit facility, the lenders agreed to a sublimit of $5 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 September 30, 2025 and is subject to loan covenants as described above. The Company is fully compliant with those covenants.

9. Stock-Based Compensation and Equity Grants

Stock-based compensation expense

Options issued under equity incentive plans were designated as either incentive stock or non-statutory stock options. 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, 2021, there were 1.9 million shares available for grant.

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

(in thousands)	Ref	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Nine Months Ended June 30, 2021	Nine Months Ended June 30, 2020
DLH employees	(a)	$ 356	$ 95	$ 968	$ 306
Non-employee directors	(b)	117	87	349	260
Total stock option expense		**$ 473**	**$ 182**	**$ 1,317**	**$ 566**

Ref (a): Included in this amount are equity grants of restricted stock units to Named Executive Officers ("NEO"), which were issued in accordance with the DLH long-term incentive compensation policy in this fiscal year, and stock option grants to NEO and non-NEO company employees. The restricted stock units totaled 147,431 restricted stock units issued and outstanding at June 30, 2021.

Ref (b): Equity grants of restricted stock units were made in accordance with DLH compensation policy for non-employee directors and totaled 63,177 restricted stock units issued and outstanding at June 30, 2021.

Unrecognized stock-based compensation expense (in thousands)

	Ref	June 30, 2021
Unrecognized expense for DLH employees	(a)	$ 3,565
Unrecognized expense for non-employee directors		117
Total unrecognized expense		**$ 3,682**

Ref (a): The remaining compensation expense 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. For options that vest based on the Company's common stock achieving and maintaining defined market prices, the Company values the awards with a Monte Carlo binomial model that utilizes various probability factors and other criterion in establishing fair value of the grant. The related compensation expense is recognized over the derived service period determined in the valuation. On a weighted average basis, this expense is expected to be recognized within the next 4.39 years.

Stock option activity for the nine months ended June 30, 2021

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.

	(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, 2020	2,129	$ 6.14	7.4	$ 6,593
Exercised	(63)	$ 3.62	—	—
Granted	245	$ 10.04	—	—
Cancelled	(35)	$ 7.36	—	—
Options outstanding, June 30, 2021	**2,276**	**$ —**	**7.4**	**$ 15,385**

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

	Ref	(in thousands) June 30, 2021	September 30, 2020
Vested and exercisable	(a)	1,674	1,213
Unvested	(b)	602	916
Options outstanding		**2,276**	**2,129**

Ref (a): Weighted average exercise price of vested and exercisable shares was $3.52 and $2.25 at June 30, 2021 and September 30, 2020, respectively. Aggregate intrinsic value was approximately $13.7 and $6.1 million at June 30, 2021 and September 30, 2020, respectively. Weighted average contractual term remaining was 5.6 and 4.6 years at June 30, 2021 and September 30, 2020, respectively.

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

10. Earnings Per Share

Basic earnings per share is calculated by dividing income available to common shareholders by the weighted average number of common shares 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.

(In thousands, except for per share amounts)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Numerator:				
Net income	$ 2,880	$ 2,124	$ 7,261	$ 5,752
Denominator:				
Denominator for basic net income per share - weighted-average outstanding shares	12,545	12,354	12,529	12,246
Effect of dilutive securities:				
Stock options and restricted stock	1,110	874	1,165	804
Denominator for diluted net income per share - weighted-average outstanding shares	13,655	13,228	13,694	13,050
Net income per share - basic	$ 0.23	$ 0.17	$ 0.58	$ 0.47
Net income per share - diluted	$ 0.21	$ 0.16	$ 0.54	$ 0.44

11. Commitments and Contingencies

Contractual obligations as of June 30, 2021

		Payments Due Per Fiscal Year					
(in thousands)	**Total**	(Remaining) **2021**	**2022**	**2023**	**2024**	**2025**	**Thereafter**
Debt obligations	$ 53,800	$ —	$ —	$ 6,550	$ 8,750	$ 38,500	$ —
Facility leases	28,503	802	3,418	3,308	3,199	3,092	14,684
Equipment operating leases	239	21	83	83	52	—	—
Total Contractual Obligations	**$ 82,542**	**$ 823**	**$ 3,501**	**$ 9,941**	**$ 12,001**	**$ 41,592**	**$ 14,684**

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, 2021 and September 30, 2020 was $6.5 million and $5.5 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, 2021 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, 2020, 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 and award protests, 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, 2020, 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

DLH Holdings Corp. is a provider of technology-enabled business process outsourcing and program management solutions, and public health research and analytics offerings. We are primarily focused on improving and better deploying large-scale federal health and human service initiatives. The Company derives 99% 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"). Incorporated in New Jersey in 1969, the Company contracts with its government customers through its subsidiaries.

In recent years we have successfully completed acquisitions to increase future organic growth, diversify our customer base, and to expand into adjacent markets. On June 7, 2019 we acquired Social & Scientific Systems, Inc. ("S3") and on September 30, 2020, we acquired Irving Burton Associates, LLC ("IBA").

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, 2021 and 2020, respectively:

	Nine Months Ended June 30,			
	2021		2020	
(in thousands)	Revenue	Percent of total revenue	Revenue	Percent of total revenue
Defense and Veteran Health Solutions	$ 105,539	58 %	$ 75,353	48 %
Human Services and Solutions	26,711	15 %	31,563	20 %
Public Health and Life Sciences	48,663	27 %	51,579	32 %
Total Revenue	**$ 180,913**	**100 %**	**$ 158,495**	**100 %**

Position and Distribution of Services and Solutions in Our Markets

The markets in which we compete and the manner in which we are positioned within them are characterized by a number of features including, but not limited to:

- specialized credentials and licenses held by a substantial component of our employee base;
- prime contractor position in contracts representing 88% of our revenue for the nine months ended June 30, 2021;
- strong past performance record, as evidenced by our VA customer scoring among the highest in overall satisfaction in the J.D. Power National Pharmacy Study over the past nine years; and
- targeted expansion in critical national priority markets with Federal budget stability to include public health and epidemiological support related to COVID-19.

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 for the nine months ended June 30, 2021 is distributed to time and materials contracts (76%), cost reimbursable contracts (20%) and firm fixed price contracts (4%). We provide services under Indefinite Duration, Indefinite Quantity ("IDIQ") and government wide acquisition contracts, such as General Services Administration ("GSA") schedule contracts. The Company currently holds 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

A major customer is defined as a customer from whom we derive at least 10% of our revenues. The following table summarizes the revenues by customer for the nine months ended June 30, 2021 and 2020, respectively:

	Nine Months Ended June 30,			
	2021		2020	
(in thousands)	Revenue	Percent of total revenue	Revenue	Percent of total revenue
Department of Veterans Affairs	$ 83,010	46 %	$ 74,402	47 %
Department of Health and Human Services	66,748	37 %	73,263	46 %
Department of Defense	22,103	12 %	943	1 %
Customers with less than 10% share of total revenue	9,052	5 %	9,887	6 %
Total Revenue	**$ 180,913**	**100 %**	**$ 158,495**	**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 ("CMOP") program. Nine contracts for pharmacy services, which represent revenues of approximately $47.5 million and $41.8 million for the nine months ended June 30, 2021 and 2020, are currently operating under extensions through October 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 $35.5 million and $32.6 million of revenues for the nine months ended June 30, 2021 and 2020, are currently operating under extensions through November 2021. In April 2021, we were awarded a follow-on contract to provide medical logistics to the VA's CMOP program. The contract award was protested and subsequently canceled during the quarter. The contract award was canceled in accordance with procurement requirements to allow the government sufficient time to address administrative concerns raised in the protest about the procurement process. Once the government completes this process, we expect to be awarded a new contract. In the interim, the existing contract has been extended through November 2021 and may be further extended.

The Company's contract with HHS in support of its Head Start program generated $21.4 million and $26.8 million of its revenue for the nine months ended June 30, 2021 and 2020, respectively. This contract has a period of performance through April 2025.

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, 2021, our total backlog was approximately $566.2 million compared to $688.4 million as of September 30, 2020.

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, 2021, our funded backlog was approximately $76.4 million, and our unfunded backlog was $489.8 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 continue to be highly volatile due to the COVID-19 pandemic, which has resulted in both market size contractions due to economic slowdowns and government restrictions on movement. While the rollout of vaccines has positively correlated to an improvement in macroeconomic indicators and a reduction of many restrictions on economic activity, there continues to be significant uncertainty as to the effects of the pandemic on the economy, which may continue to impact our results of operations or cash flows. 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 continues to have minor offsetting impacts due to social distancing and travel restrictions, we do not expect material impacts to our consolidated results of operations 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 have been 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 have been and expect to continue to execute on the remainder of our contracts through remote and teleworking arrangements. We continue to monitor the evolving situation related to the COVID-19 pandemic and intend to continue to work with government authorities and other stakeholders to assess further potential implications to us, continue with employee safety measures to ensure that we are able to continue our operations during the pandemic, and take other actions where appropriate to mitigate other adverse consequences. 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. To date we have experienced continuity in the majority of our work for our government clients. While there have been postponements of events and challenges around some project work requiring travel, overall, our government clients have continued to require our services. We are unable to predict whether, and to what extent, this trend will continue. It would be reasonable to expect some deterioration of certain client activities due to COVID-19. The longer the duration of the pandemic, the rise of new strains of the virus, and challenges faced in the rollout of vaccines, the more likely it is that it could have an adverse effect on our business, financial position, results of operations and/or cash flows. However, we also believe that we are likely to see additional demand from federal agencies such as the CDC and the NIH for our services.

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. 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.

Federal budget outlook for 2022

The President’s budget proposal for fiscal year ("FY") 2022 outlines many initiatives to include focusing on rebuilding and investing in our country’s physical infrastructure; expand access to early childhood education; improve the affordability of child and health care; and enact broad tax reform. The budget also details additional proposals to expand economic opportunity, tackle the climate crisis, ensure strong national defense, and invest in public health infrastructure. Specifically, the investment in public health infrastructure involves improving the nation’s readiness for future public health crises, expanding access to healthcare, and defeating diseases and epidemics such as, but not limited to, the opioid and HIV/AIDs epidemics. These initiatives are further reflected in the budget requests for the Department of Health and Human Services, Department of Veterans Affairs, and Department of Defense.

Department of Health and Human Services

The FY 2022 budget request proposes $131.7 billion in discretionary budget authority for HHS, an increase of $25 billion from FY 2021 and $1.5 trillion in mandatory funding. The budget includes $52 billion for the National Institutes of Health ("NIH"), an agency of HHS, an increase of $9 billion above FY 2021, reflecting the Administration’s commitment to increasing investments in transformative biomedical research to advance the health of the nation and promote innovation. The budget requests $37 million for Telehealth which is $3 million above FY 2021 enacted, to promote health services and distance learning with telehealth technologies. The budget also invests in programs that improve the health and well-being of young children and their families. This includes $11.9 billion for the Office of Head Start.

Department of Veterans Affairs

The VA is requesting a total of $269.9 billion for FY 2022, a 10% increase above fiscal 2021 enacted levels. It includes $117.2 billion in discretionary funding, an increase of $9.7 billion, and $152.7 billion in mandatory funding, an increase of $14.9 billion from FY 2021. The VA research program is expected to allocate increased funding to advance the Department’s understanding of the impact of traumatic brain injury and toxic exposure(s) on long-term health outcomes, coronavirus related research and impacts, and precision oncology. The budget also includes $2.6 billion (from all funding sources) for the total telehealth program. The VA is continuing to expand this program because of its ability to leverage VA providers and provide better services to veterans.

In June 2021, the House Appropriations Committee approved the FY 2022 funding bill for VA. The bill provides $155.4 billion in mandatory funding and $113.1 billion in discretionary funding for VA.

Department of Defense

The Military Health System ("MHS") is one of the largest health care systems and the world’s preeminent military medical enterprise, serving over 9 million beneficiaries. As a part of the DoD, the Defense Health Agency ("DHA") manages a global health care network of military and civilian medical professionals, more than 400 military hospitals and clinics around the world, and supports the delivery of integrated, affordable, quality health services to MHS beneficiaries. The funding and personnel to support the MHS’s mission is referred to as the Unified Medical Budget. The FY 2022 UMB request for the Defense Health program is $35.6 billion.

In June 2021, the House Appropriations Subcommittee on Defense approved the Defense Funding Bill for FY2022, granting $36.7 billion in funding for medical and health care programs of DoD. Of this, approximately $1.1 billion is to be made available for the United States Army Research and Development Command to carry out the directed medical research programs as directed by Congress.

Industry consolidation among federal government contractors:

There has been active consolidation and a strong increase in merger and acquisition activity among federal government contractors over the past few years that we expect to continue, fueled by public companies leveraging strong balance sheets. Companies often look to acquisitions that augment core capabilities, contracts, customers, market differentiators, stability, cost synergies, and higher margin and revenue streams.

Potential impact of Federal Contractual set-aside Laws and Regulations:

The Federal government has an overall goal of 23% of prime contracts flowing through small businesses. As previously reported, various agencies within the federal government have policies that support small business goals, including the adoption of the "Rule of Two" by the VA, which provides that the agency shall award contracts by restricting competition for the contract to service-disabled or other veteran owned businesses. To restrict competition pursuant to this rule, the contracting officer must reasonably expect that at least two of these businesses, which are capable of delivering the services, will submit offers and that the award can be made at a fair and reasonable price that offers best value to the United States. When two qualifying small businesses cannot be identified, the VA may proceed to award contracts following a full and open bid process.

The Company believes that its past performance in this market and track record of success provide a competitive advantage. However, the effect of set-aside provisions may limit our ability to compete for prime contractor positions on programs that we recompete or that we have targeted for growth. In these cases, the Company may elect to join a team with an eligible contractor as prime in support of such small businesses for specific pursuits that align with our core markets and corporate growth strategy.

Results of Operations for the three months ended June 30, 2021 and 2020

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, 2021		June 30, 2020		Change
Revenue	$ 61,555	100.0 %	$ 51,459	100.0 %	$ 10,096
Cost of operations:					
Contract costs	48,365	78.6 %	39,615	77.0 %	8,750
General and administrative costs	6,237	10.1 %	6,323	12.3 %	(86)
Depreciation and amortization	2,014	3.3 %	1,721	3.3 %	293
Total operating costs	56,616	92.0 %	47,659	92.6 %	8,957
Income from operations	**4,939**	**8.0 %**	**3,800**	**7.4 %**	**1,139**
Interest expense, net	893	1.5 %	813	1.6 %	80
Income before income taxes	**4,046**	**6.5 %**	**2,987**	**5.8 %**	**1,059**
Income tax expense	1,166	1.9 %	863	1.7 %	303
Net income	**$ 2,880**	**4.6 %**	**$ 2,124**	**4.1 %**	**$ 756**
Net income per share - basic	$ 0.23		$ 0.17		$ 0.06
Net income per share - diluted	$ 0.21		$ 0.16		$ 0.05

Revenue

Revenue for the three months ended June 30, 2021 was $61.6 million, an increase of $10.1 million or 19.6% over the prior year period. The increase in revenue is due primarily to the inclusion of revenue from our acquisition of Irving Burton Associates, LLC ("IBA"), which generated $7.3 million of revenue and increased volume on existing 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 three months ended June 30, 2021, contract costs increased by approximately $8.8 million, principally due to the addition of IBA.

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 decreased as compared to the prior fiscal year period by $0.1 million, reflecting improved operating leverage derived from an expanded business base.

For the three months ended June 30, 2021, depreciation and amortization costs were approximately $0.4 million and $1.6 million, respectively, as compared to approximately $0.5 million and $1.2 million for the prior fiscal year period. The increase of $0.3 million was principally due to the amortization of the acquired definite-lived intangible assets of IBA.

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, 2021 and 2020, interest expense was approximately $0.9 million and $0.8 million, respectively. The increase in interest expense was due to the borrowing required to finance the acquisition of IBA.

Income Tax Expense

For the three months ended June 30, 2021 and 2020, DLH recorded a $1.2 million and $0.9 million provision for tax expense, respectively. The effective tax rate for the three months ended June 30, 2021 and 2020 was 29%.

<u>Results of Operations for the nine months ended June 30, 2021 and 2020</u>

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:

	Nine Months Ended				Change
Consolidated Statement of Income:	**June 30, 2021**		**June 30, 2020**		**$**
Revenue	$ 180,913	100.0 %	$ 158,495	100.0 %	$ 22,418
Cost of Operations:					
Contract Costs	143,092	79.1 %	123,895	78.2 %	19,197
General and administrative expenses	18,522	10.2 %	18,497	11.7 %	25
Depreciation and amortization	6,105	3.4 %	5,340	3.4 %	765
Total operating costs	**167,719**	**92.7 %**	**147,732**	**93.2 %**	19,987
Income from operations	**13,194**	**7.3 %**	**10,763**	**6.8 %**	**2,431**
Interest	2,977	1.6 %	2,659	1.7 %	318
Income before income taxes	**10,217**	**5.6 %**	**8,104**	**5.1 %**	**2,113**
Income tax expense, net	2,956	1.6 %	2,352	1.5 %	604
Net income	**$ 7,261**	**4.0 %**	**$ 5,752**	**3.6 %**	**$ 1,509**
Net income per share - basic	$ 0.58		$ 0.47		$ 0.11
Net income per share - diluted	$ 0.54		$ 0.44		$ 0.10

Revenue

Revenue for the nine months ended June 30, 2021 was $180.9 million, an increase of $22.4 million or 14.1% over the prior year period. The increase in revenue is due primarily to the inclusion of revenue from IBA, which generated $21.6 million of revenue.

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, 2021, contract costs increased by approximately $19.2 million principally due to the addition of IBA.

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 were consistent with the same period in the prior fiscal year due to the continued improvement of operating leverage derived from an expanded business base.

For the nine months ended June 30, 2021, depreciation and amortization costs were approximately $1.2 million and $4.9 million, respectively, as compared to approximately $1.7 million and $3.6 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 IBA.

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, 2021 and 2020, interest expense, net was approximately $3.0 million and $2.7 million, respectively. The increase in interest expense was due to the borrowing required to finance the acquisition of IBA.

Income Tax Expense

For the nine months ended June 30, 2021 and 2020, DLH recorded a $3.0 million and $2.4 million provision for tax expense, respectively. The effective tax rate for the nine months ended June 30, 2021 and 2020 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, 2021 was approximately $7.0 million and $19.3 million, respectively. The increase of approximately $1.4 million and $3.2 million from the same periods in the prior fiscal year was principally due to the contribution of IBA and effective management of general and administrative expenses.

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

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

	Three Months Ended June 30,			Nine Months Ended June 30,		
(in thousands)	**2021**	**2020**	**Change**	**2021**	**2020**	**Change**
Net income	$ 2,880	$ 2,124	$ 756	$ 7,261	$ 5,752	$ 1,509
(i) Interest expense, net	893	813	80	2,977	2,659	318
(ii) Provision for taxes	1,166	863	303	2,956	2,352	604
(iii) Depreciation and amortization	2,014	1,721	293	6,105	5,340	765
EBITDA	**$ 6,953**	**$ 5,521**	**$ 1,432**	**$ 19,299**	**$ 16,103**	**$ 3,196**

Liquidity and capital management

As of June 30, 2021, 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, 2021, we have $25.0 million of available borrowing capacity on the revolving line of credit and do not have an outstanding balance.

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 (in thousands):

	Nine Months Ended June 30,	
	2021	**2020**
Net cash provided by operating activities	$ 15,388	$ 10,707
Net cash provided by (used in) investing activities	6	(152)
Net cash used in financing activities	(16,012)	(11,687)
Net change in cash and cash equivalents	**$ (618)**	**$ (1,132)**

For the nine months ended June 30, 2021, the Company generated $15.4 million in cash flows from operations. The increase of operating cash was primarily a result of cash derived from operations. Cash provided by investing activities during the nine months ended June 30, 2021 was less than $0.1 million and primarily due to the final working capital adjustment from the IBA acquisition. Cash used in financing activities was $16.0 million during the nine months ended June 30, 2021. We made net repayments under our credit facility of $16.2 million during the nine months ended June 30, 2021. We intend to continue using cash to make debt prepayments in future quarters.

Sources of cash and cash equivalents

As of June 30, 2021, our immediate sources of liquidity include cash and cash equivalents of approximately $0.7 million, accounts receivable, and access to our secured revolving line of credit facility. This credit facility provides us with access of up to $25.0 million, subject to certain conditions including eligible accounts receivable. As of June 30, 2021, we had unused borrowing capacity of $23.0 million, which is net of outstanding letters of credit. The Company's present operating liabilities are largely predictable and consist of vendor and payroll related obligations. We believe that our current investment and financing obligations are adequately covered by cash generated from profitable operations and that planned operating cash flow should be sufficient to support our operations for twelve months from the date of issuance of these consolidated financial statements.

Credit Facility

A summary of our secured loan facility for the period ended June 30, 2021 is as follows:

Arrangement	Loan Balance	Interest*	Maturity Date
Secured term loan $70 million (a)	$ 53.8 million	LIBOR* + 3.5%	September 30, 2025
Secured revolving line of credit $25 million ceiling (b)	$ — million	LIBOR* + 3.5%	September 30, 2025

*LIBOR rate as of June 30, 2021 was 0.09%. 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 term loan, which 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 September 30, 2025.

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 for the current fiscal year is $28.8 million and matures in 2024. The notional amount was $36 million in the prior fiscal year. 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 September 30, 2025. The Company has accessed funds from the revolving credit facility during the quarter, but has no balance outstanding at June 30, 2021.

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 to the consolidated financial statements.

Contractual Obligations as of June 30, 2021

		Payments Due by Period			
(in thousands)	**Total**	**Next 12 Months**	**2-3 Years**	**4-5 Years**	**More than 5 Years**
Debt obligations	$ 53,800	$ —	$ 13,112	$ 40,688	$ —
Facility leases	28,503	3,373	6,593	6,235	12,302
Equipment operating leases	239	83	156	—	—
Total Contractual Obligations	**$ 82,542**	**$ 3,456**	**$ 19,861**	**$ 46,923**	**$ 12,302**

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 impact on the Company’s net revenues, results of operations, and cash flows as inflation has generally been limited. However, the Company has been able to modify its prices and cost structure to respond to inflation and changing prices as needed and expects to be able to do so in future periods.

Critical Accounting Policies and Estimates

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 deferred tax assets, and measurement of loss development on workers' compensation claims. In addition, the Company estimates overhead charges and allocates such charges throughout the year. Actual results could differ from those estimates. In particular, a material reduction in the fair value of goodwill would have a material adverse effect on the Company’s financial position and results of operations. For a detailed discussion on the application of these and other accounting policies, you should review the discussion under the caption Significant Accounting Policies in Note 4 of the notes to our Consolidated Financial Statements contained elsewhere in this report on Form 10-Q.

Revenue Recognition

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.

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.

Refer to Note 5 of the accompanying notes to our Consolidated Financial Statements contained elsewhere in this report.

Long-Lived Assets

Our long-lived assets include equipment and improvements, right-of-use assets, intangible assets, and goodwill. The Company continues to review its long-lived 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.

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.

Costs incurred to place the asset in service are capitalized and costs incurred after implementation are expensed. Amortization expense is recorded when the software is placed in service on a straight-line basis over the estimated useful life of the software.

Right-of-use assets are measured at the present value of future minimum lease payments, including all probable renewals, plus lease payments made to the lessor before or at lease commencement and indirect costs, less incentives received. Our right-of-use assets include long-term leases for facilities and equipment and are amortized over their respective lease terms.

Intangible assets are originally recorded at fair value and amortized on a straight-line basis over their assessed useful lives. The assessed useful lives of the assets are 10 years.

Goodwill

The Company continues to review its goodwill 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. Based on the results of the work performed, the Company has concluded that no impairment loss was warranted, as 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 did not 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.

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. The Company believes it has adequate sources of taxable income to fully utilize its net operating loss carryforwards before their expiration. The Company recorded no valuation allowance.

Stock-based Compensation

The Company uses the fair value-based method for stock-based 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 Monte Carlo binomial and Black Scholes option pricing models 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.

New Accounting Pronouncements

A discussion of recently issued accounting pronouncements is described in Note 3 of the accompanying Notes to our Consolidated Financial Statements contained elsewhere in this 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 $28.8 million for the current fiscal year and was $36 million in the prior fiscal year; 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 $0.3 million per year. As of June 30, 2021, the interest rate on the floating interest rate debt was 3.59%.

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, 2021, 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, 2020 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. 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 Annual Report on Form 10-K for the fiscal year ended September 30, 2020. Other than as described in this report, we believe that there have been no material changes from the risk factors described in our Annual Report on Form 10-K for the fiscal year ended September 30, 2020.

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	
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, 2021, 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
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)				

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 4, 2021

EXHIBIT 31.1

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 4, 2021

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

EXHIBIT 31.2

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 4, 2021

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

EXHIBIT 32

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, 2021 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 4, 2021

/s/ ZACHARY C. PARKER	/s/ KATHRYN M. JOHNBULL
Zachary C. Parker	Kathryn M. JohnBull
Chief Executive Officer	*Chief Financial Officer*
(Principal Executive 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.