



2020 ANNUAL REPORT

TO OUR FELLOW SHAREHOLDERS:

DLH enters the new year well positioned for continued growth, having weathered the unprecedented circumstances and immense challenges of 2020 with success.

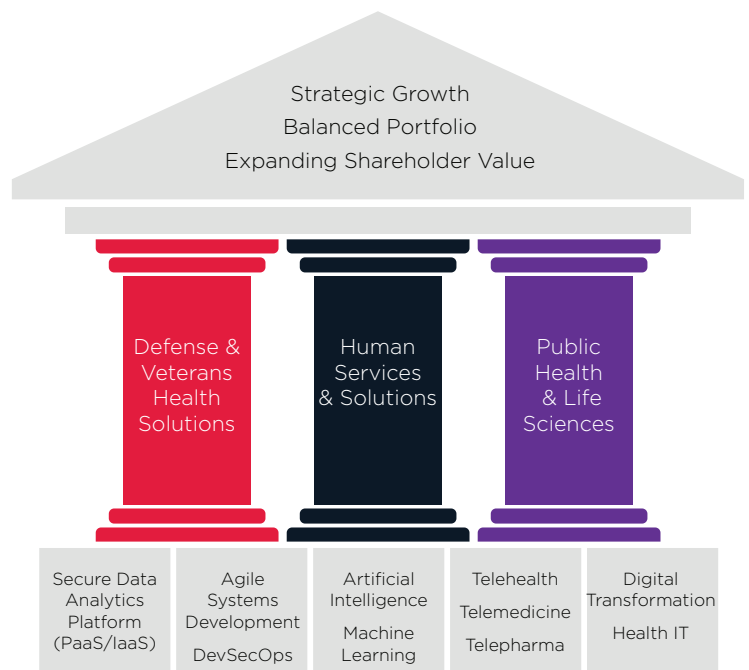
In addition to strong financial results—and a key victory on a major recompet—the company bolstered its leadership team by adding accomplished, dynamic executives recognized throughout the government contracting industry for their innovation and expertise.

We also followed up on the acquisition of Social & Scientific Systems, Inc. in 2019 with the purchase of Irving Burton Associates, LLC (IBA), a leading provider of innovative healthcare solutions to the Federal government, in 2020. Specializing in artificial intelligence, IT and program management support, application modernization, and digital transformation, IBA expands upon our health-technology capabilities and increases our reach into the military healthcare community.

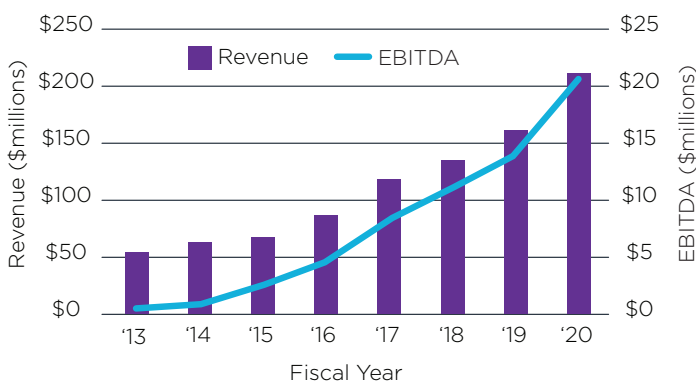
Made possible through years of consistent, organic growth, these achievements and strategic investments enable DLH to compete within our markets on a far greater scale than ever before.

DIGITAL TRANSFORMATION DRIVES GROWTH

As we initiated our acquisition program in 2016, we envisioned our company as a highly trusted provider of technology-enabled business process outsourcing and program management solutions, as well as public health research and analytics for the Federal government. We believe that our actions, over the intervening years and through 2020, have successfully transformed DLH into the well-rounded, advanced technology enterprise necessary to fulfill this vision.



Revenue and EBITDA 2013-2020



*A reconciliation of EBITDA to the comparable GAAP financial measure is presented at the end of this letter.

Exceptional technology differentiation is the key driver of future growth for our company. As such, we have made significant investments in the development of secure IT platforms, sophisticated data analytics tools and techniques, additional software development credentials for our technical staff, the implementation of a lean six sigma environment, and the introduction of our InfiniByte® secure cloud computing offering. We envision these tools and processes serving as the foundation for expanded work opportunities in all three of our market focus areas:



Defense and
Veteran Health
Solutions



Human
Services and
Solutions



Public Health
and Life
Sciences

We believe these developments have produced a more balanced portfolio, a stronger company, and, ultimately, enhanced shareholder value.

Our increased focus on technology-driven innovation is aligned with our customers' growth initiatives. Federal agencies are increasingly looking to improve and expand their online services, with the COVID-19 pandemic only heightening the urgency to innovate. In fact, the Department of Veterans Affairs (VA), Department of Defense (DOD), and Department of Health and Human Services (HHS)—all key customers of DLH—were the top three recipients of COVID-19 funding, including for technology upgrades, with VA alone receiving over \$2 billion in CARES Act funding for IT modernization.

This trend, accelerated by the pandemic, has been long in the making. Through advanced infrastructure, artificial intelligence (AI), and analytics, data management solutions throughout government are becoming easier to use, more trustworthy, and increasingly automated. Coupled with an increased focus on cybersecurity, pressure on Federal agencies to invest in innovation is high.

The scope of this digital transformation throughout government is remarkably broad. DLH can compete for valuable opportunities in cloud, cybersecurity, analytics, and AI/ML within each of our market focus areas, and at a far greater scale than ever before.

We view InfiniByte® as a cornerstone of this technology-driven future, delivering a platform to



U.S. government agencies and teaming partners facing challenges in health IT, big data, and cybersecurity. It enables those customers to develop, run, and manage applications without the need to build and maintain the underlying infrastructure. InfiniByte® is already on the FedRAMP Marketplace—the central portal for cloud offerings for Federal agencies—signifying to customers that it meets the enhanced data security requirements of civilian agencies and the DOD.

The government oversight market, which includes performance evaluation, compliance monitoring, and the detection of waste, fraud, and abuse, is an example of an area in which InfiniByte and other newly architected IT systems position us to bid on sophisticated, high-value opportunities previously unavailable to DLH.

The company is also strategically positioned to address the estimated \$2.5 billion military healthcare market, which is currently growing at approximately 9% annually. Having long served as one of the VA's top health solution vendors, DLH now also provides critical research, technology, and logistics solutions to agencies within DOD, including the Defense Health Agency (DHA), Telemedicine and Advanced Technology Research Center (TATRC), Navy Bureau of Medicine and Surgery (BUMED), and Army Medical Research and Development Command (MRDC). This work is bolstered by expanded security clearance capability through IBA's cleared workforce and top-secret facility clearance, as well as deep domain expertise in military healthcare and NextGen technology.

In addition, our telehealth capabilities are of particular interest to the company's military and VA customers due to the COVID-19 pandemic and are likely to remain integral case management tools moving forward. Our support for the VA now includes efforts to broaden the department's abilities to reach Veterans and their families through telemedicine technology and practices.

The pandemic shines a light on the critical work many of our Federal customers undertake to ensure and enhance the nation's ability to fight diseases and other medical crises. Many of our customer agencies within HHS, including the National Institutes of Health (NIH) and the Center for Disease Control and Prevention (CDC), are engaged to combat the pandemic.



NIH alone is asking for approximately \$8.8 billion to fund new COVID-19 projects, spanning from vaccine and treatment development to research into societal impacts from the disease. We believe our capabilities and past performance in these areas, which include clinical trials, epidemiology studies, and statistical programming, position us well to compete for projects sought under this budget increase.

OUTLOOK

After such an unusual and challenging year, I'm very proud of what we've accomplished and the work we've done to solidify DLH's leadership position in the Federal markets we serve. Our broad capabilities are aligned to meet the needs of customers in our core markets moving forward. Leveraging our secure, cloud-based applications, health IT capabilities, and highly credentialed staff, we will strive to increase our penetration within the agencies we serve and expand in areas where we can provide higher value-added solutions, ultimately building a stronger company and, in turn, better returns for our shareholders.

Thank you for your continued confidence and investment in DLH. We would not be the company we are today without your support.



Zach Parker
Director
President & CEO
DLH Holdings Corp.

TRENDING EBITDA RECONCILIATION

Twelve months ended September 30, 2020 | Amounts in thousands

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---------------|---------------|-----------------|-----------------|-----------------|-----------------|------------------|------------------|
| Net (loss)/income | \$ (159) | \$ 5,357 | \$ 8,728 | \$3,384 | \$3,288 | \$1,836 | \$5,324 | \$7,114 |
| (i) Interest expense/ other (income) | 407 | 4 | (744) | 823 | 1,228 | 1,116 | 2,473 | 3,441 |
| (ii) (Benefit)/provision for taxes | — | (4,597) | (5,488) | (938) | 2,114 | 5,830 | 2,171 | 2,906 |
| (iii) Depreciation and amortization | 121 | 106 | 55 | 1,244 | 1,754 | 2,242 | 3,956 | 7,003 |
| EBITDA | \$ 369 | \$ 870 | \$ 2,551 | \$ 4,513 | \$ 8,384 | \$11,024 | \$ 13,924 | \$ 20,464 |

RECONCILIATION OF NON-GAAP FINANCIAL MEASURE

We use EBITDA as a supplemental non-GAAP measure of performance. We define EBITDA as net income excluding (i) interest expense, (ii) provision for or benefit from income taxes and (iii) depreciation and amortization. We use this non-GAAP measure of performance to conduct and evaluate our business and review of operating results for the periods presented. Management and our Board utilize this non-GAAP measure to make decisions about the use of our resources, analyze performance between periods, develop internal projections and measure

management performance. We believe that this non-GAAP measure is useful to investors in evaluating our ongoing operating and financial results and understanding how such results compare with our historical performance. Non-GAAP financial measures have limitations as an analytical tool, should be used in addition, and not as an alternative to, GAAP financial measures, and should not be considered in isolation or as a substitute for income from operations, net income, or any other measure of financial performance reported in accordance with GAAP.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended September 30, 2020
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File No. 0-18492

DLH HOLDINGS CORP.

(Exact name of registrant as specified in its charter)

New Jersey
(State or other jurisdiction of
incorporation or organization)
3565 Piedmont Road, NE Building 3 Suite 700
Atlanta, Georgia
(Address of principal executive offices)

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

30305
(Zip Code)

(770) 554-3545

(Registrant's telephone number, including area code)

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

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

Securities registered pursuant to Section 12(g) of the Securities Exchange Act: **NONE**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15 (d) of the Securities Exchange Act. Yes No

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 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accountant standards provided pursuant to Section 13(a) of the Exchange Act. Yes No

Indicated by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates, as of the last business day of the registrant's most recently completed second fiscal quarter, March 31, 2020, was \$28,949,753.

As of December 3, 2020 there were 12,531,906 shares of the Registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (e) under the Securities Act of 1933.

Part III of this report incorporates information by reference from the Company's definitive proxy statement, which proxy statement is due to be filed with the Securities and Exchange Commission not later than 120 days after September 30, 2020.

TABLE OF CONTENTS

| | <u>PAGE</u> | |
|---------------------------------|---|----|
| <u>PART I</u> | | |
| <u>Item 1.</u> | <u>Business</u> | 3 |
| <u>Item 1A.</u> | <u>Risk Factors</u> | 8 |
| <u>Item 1B.</u> | <u>Unresolved Staff Comments</u> | 19 |
| <u>Item 2.</u> | <u>Properties</u> | 19 |
| <u>Item 3.</u> | <u>Legal Proceedings</u> | 19 |
| <u>Item 4.</u> | <u>Mine Safety Disclosure</u> | 19 |
| <u>PART II</u> | | |
| <u>Item 5.</u> | <u>Market For the Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities</u> | 20 |
| <u>Item 6.</u> | <u>Selected Financial Data</u> | 20 |
| <u>Item 7.</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 20 |
| <u>Item 7A.</u> | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 30 |
| <u>Item 8.</u> | <u>Financial Statements and Supplemental Data</u> | 30 |
| <u>Item 9.</u> | <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u> | 30 |
| <u>Item 9A.</u> | <u>Controls and Procedures</u> | 30 |
| <u>Item 9B.</u> | <u>Other Information</u> | 31 |
| <u>PART III</u> | | |
| <u>Item 10.</u> | <u>Directors, Executive Officers and Corporate Governance</u> | 32 |
| <u>Item 11.</u> | <u>Executive Compensation</u> | 32 |
| <u>Item 12.</u> | <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | 32 |
| <u>Item 13.</u> | <u>Certain Relationships and Related Transactions, and Director Independence</u> | 32 |
| <u>Item 14.</u> | <u>Principal Accountant Fees and Services</u> | 32 |
| <u>PART IV</u> | | |
| <u>Item 15.</u> | <u>Exhibits and Financial Statement Schedules</u> | 32 |
| <u>Item 16.</u> | <u>Form 10-K Summary</u> | 35 |

PART I

FORWARD-LOOKING STATEMENTS

Certain information included or incorporated by reference in this document may not address historical facts and, therefore, could be interpreted to be “forward-looking statements” as that term is defined in the Private Securities Litigation Reform Act of 1995 and other federal securities laws. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including projections of financial performance; statements of plans, strategies and objectives of management for future operations; any statement concerning developments, performance or industry rankings relating to products or services; any statements regarding future economic conditions or performance; any statements of assumptions underlying any of the foregoing; and any other statements that address activities, events or developments that DLH Holdings Corp and its subsidiaries (“DLH” or the “Company” and also referred to as “we,” “us” and “our”) intends, expects, projects, believes or anticipates will or may occur in the future. Forward-looking statements may be characterized by terminology such as “believe,” “anticipate,” “expect,” “should,” “intend,” “plan,” “will,” “estimates,” “projects,” “strategy” and similar expressions. These statements are based on assumptions and assessments made by the Company’s management in light of its experience and its perception of historical trends, current conditions, expected future developments and other factors it believes to be appropriate. Any such forward-looking statements are not guarantees of future performance (financial or operating), and actual results, developments and business decisions may differ materially from those envisioned by such forward-looking statements. These forward-looking statements are subject to a number of risks and uncertainties that include but are not limited to the following: 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 failure to achieve the anticipated benefits of recent acquisitions (including anticipated future financial operating performance and results); diversion of management’s attention from normal daily operations of the business and the challenges of managing larger and more widespread operations resulting from the acquisition; contract awards in connection with re-compete for present business and/or competition for new business; the risks and uncertainties associated with client interest in and purchases of new services; compliance with new bank financial and other covenants; changes in client budgetary priorities; government contract procurement (such as bid protest, small business set asides, loss of work due to organizational conflicts of interest, etc.) and termination risks; the ability to successfully integrate the operations of recent and any future acquisitions; and the other risk factors set forth under Item 1A, Risk Factors, in this Annual Report on Form 10-K and in our other SEC filings. The forward-looking statements included herein apply only as of the date of this Annual Report on Form 10-K. The Company disclaims any duty to update such forward-looking statements, all of which are expressly qualified by the foregoing, except as may be required by law.

ITEM 1. BUSINESS

Overview

DLH Holdings Corp. is a provider of technology-enabled business process outsourcing, program management solutions, and public health research and analytics; primarily focused to improve and better deploy large-scale federal health and human service initiatives. The Company derives 98% 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 September 30, 2020, we acquired Irving Burton Associates, LLC (“IBA”) and in June 2019 we acquired Social & Scientific Systems, Inc. (“S3”).

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

Defense and Veterans’ Health Solutions: DLH provides critical healthcare, technology, and logistics solutions to the VA, Defense Health Agency (“DHA”), Tele-medicine and Advanced Technology Research Center (“TATRC”), Navy Bureau of Medicine and Surgery, and Army Medical Research and Material Command (“MRDC”).

The VA is responsible for delivering medical, educational, financing and other life event services to an estimated 20.3 million veterans. There are over 9 million veterans enrolled in the VA health care program which provides services that include the distribution of prescription drugs from the network of regional processing centers. We are at the forefront of ensuring that

veterans receive their out-patient prescriptions on time, each day, through the VA CMOP pharmacy program which has been recognized for service excellence, earning the JD Powers evaluation of mail order pharmacies for each of the past nine years. Further, we have supported the VA's efforts to broaden its abilities to reach veterans and their families through telemedicine technology and practices.

The DHA is a joint, integrated combat support agency whose mission is to provide a medically ready force to the Army, Navy, and Air Force. To execute this mission the DHA supports the delivery of integrated, affordable and high quality health services to the armed forces. We support their mission by providing leading technology-enabled solutions and services. These solutions and services encompass new capabilities at the forefront of technology to include artificial intelligence, machine learning, health informatics, and robotics.

Human Services and Solutions: Our customers support local communities by promoting economic, educational, and social well-being of children. The mission extends to international communities through the prevention of epidemic diseases, response to natural disasters, and development of local economies. We support our customers by providing a wide range of services and solutions to HHS, the Department of Homeland Security ("DHS"), and the Department of State ("State"). Our range of services support the critical missions of these agencies and their respective operating divisions, to include the Office of Head Start ("OHS"), Administration for Children and Families ("ACF") and the United States Agency of International Development ("USAID"). In this market, we combine subject matter expertise with our experience in information technology and analytics to provide large-scale program monitoring and evaluation; electronic medical records migration; data collection and management; and nutritional and social health assessments. Additionally, we also provide large-scale data analytics as well as enterprise-level IT system architecture design, migration planning, and ongoing management of system implementation and capacity building using experienced subject matter experts and project management resources.

Public Health and Life Sciences: In this market, our customers support national interests by ensuring and enhancing our capability to fight diseases, respond to national and regional medical crises, and support the administration of providing health care benefits to senior and at-risk members of our communities. In support of this mission, we provide services to multiple operating divisions within HHS, including National Institutes of Health ("NIH"), the Center for Disease Control and Prevention ("CDC"), and Centers for Medicare and Medicaid Services ("CMS"). Many of these agencies are engaged to combat the COVID-19 pandemic in a variety of capacities.

Our services include clinical trials, epidemiology studies, advancing disease prevention methods and health promotion to underserved and at-risk communities. We deliver our services through development of strategic communication campaigns, research on emerging trends, health informatics analyses, and application of best practices including mobile, social, and interactive media. We leverage evidence-based methods and web technology to drive health equity to our most vulnerable populations through public engagement. Projects often involve highly specialized expertise and research methodologies.

The following table summarizes the revenues by market for the year ended September 30, 2020 and 2019, respectively:

| | (in thousands) | | | |
|------------------------------|----------------------|---------------------------------|-------------------|---------------------------------|
| | Year Ended | | | |
| | September 30, | | | |
| | 2020 | | 2019 | |
| | Revenue | Percent of total revenue | Revenue | Percent of total revenue |
| Defense/VA | \$ 101,656 | 49 % | \$ 93,412 | 58 % |
| Human Services and Solutions | 40,962 | 20 % | 40,679 | 25 % |
| Public Health/Life Sciences | 66,567 | 31 % | 26,300 | 17 % |
| Total revenue | \$ 209,185 | 100 % | \$ 160,391 | 100 % |

Irving Burton Associates, LLC Acquisition

On September 30, 2020, the Company acquired Irving Burton Associates, LLC ("IBA"), a leading provider of innovative healthcare research, services and solutions to the federal government. IBA specializes in artificial intelligence, IT and program management support, application modernization, and digital transformation. IBA expands our ability to provide complementary services across multiple government markets including the Defense Health Agency ("DHA"), and the United States Army Medical Research and Development Command ("MRDC"). Further, IBA holds a top secret facility clearance and roughly half of their approximately 115 employees hold a security clearance. Their unique set of capabilities, certifications and skill sets are expected to expand our reach into the military healthcare community.

Capabilities and certifications

We continue to invest in credentials that drive excellence in our support to current clients and create differentiation as we compete in this space. These investments include development of secure IT platforms, sophisticated data analytic tools and techniques, and implementation of a lean six sigma environment. We are actively pursuing additional credentials that will support our customer's needs in providing a secure cloud computing environment.

Our InfiniByte® Cloud solution has achieved FedRamp ready status, further enhancing our ability to demonstrate our technical expertise and offer our customers a secure cloud environment. We have invested in agile software development credentials for our technical staff, and have achieved Capability Maturity Model Integration (CMMI) level 3. We believe that these qualifications will further enhance our value propositions for current programs, as well as future business we pursue. In addition, we continue to build upon our heritage of excellent customer satisfaction in support of key federal programs. We have achieved Joint Commission certification for the safety and quality of our healthcare services delivery against national standards. These nationally recognized best practices certifications demonstrate our commitment to continuous improvement and performance excellence that is critical to our organic growth objectives.

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 92% of our revenue;
- strong past performance record, as evidenced by our VA customer scoring 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 is distributed to time and materials contracts (70%), cost reimbursable contracts (28%) and the remaining are firm fixed price contracts (2%). We also 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 multi-year periods.

Major Customers

A major customer is defined as a customer from whom we derive at least 10% of our revenues. Our two largest customers are the VA and HHS. The following table summarizes the revenues by customer for the year ended September 30, 2020 and 2019, respectively:

| | (in thousands) | | | |
|---|-------------------|--------------------------|-------------------|--------------------------|
| | Year Ended | | | |
| | September 30, | | | |
| | 2020 | | 2019 | |
| | Revenue | Percent of total revenue | Revenue | Percent of total revenue |
| Department of Veterans Affairs | \$ 100,204 | 48 % | \$ 91,949 | 57 % |
| Department of Health and Human Services | 95,026 | 45 % | 62,000 | 39 % |
| Customers with less than 10% share of total revenue | 13,955 | 7 % | 6,442 | 4 % |
| Total revenue | \$ 209,185 | 100 % | \$ 160,391 | 100 % |

Major Contracts

The revenue attributable to the VA customers was derived from 16 separate contracts for our performance of pharmacy and logistics services in support of the VA's consolidated mail outpatient pharmacy program. Nine contracts for pharmacy services, which represent approximately \$56.5 million and \$52.5 million for the years ended September 30, 2020 and 2019, are currently operating under a bridge contract 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 \$43.7 million and \$39.4 million for the years ended September 30, 2020 and 2019, have been extended to June 2021. A renewal RFP for the seven logistics contracts has been issued and provides for evaluation and award of the contract based on the classification of the bidder. The RFP initially included award preference for a SDVOSB prime contractor. The government has since removed that preference thereby making the procurement a full and open acquisition, which allows for us to be evaluated as the prime contractor.

Our contract with HHS in support of the Head Start program generated \$32.4 million and \$37.6 million revenue for the years ended September 30, 2020 and 2019, respectively. We were recently awarded a new contract to continue our long standing relationship with the Office of Head Start. This contract is on a time and materials basis and consists of a base period and four option periods through April 2025.

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 we believe 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, our major customers have historically exercised their contractual renewal options. At September 30, 2020, our total backlog was approximately \$688.4 million compared to \$414.1 million as of September 30, 2019, reflecting current year activity as well as the impact of the IBA acquisition.

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 September 30, 2020, our funded backlog was approximately \$121.3 million and our unfunded backlog was \$567.1 million.

Competitive Landscape

Competitive solicitations and long business development cycles are characteristics of the government and defense industry in which we operate. For major program competition, the business acquisition cycle typically ranges from 18 to 36 months. Companies may pursue work either as prime contractor or partner with other companies in a subcontractor role. Those competing as prime contractors normally expend substantially more resources than those in subcontractor roles. We partner and compete with several large and small-business companies in pursuit of acquiring new business.

We built InfiniByte® Cloud as a platform-as-a-service cloud computing offering. It delivers a platform to U.S. government agencies, enabling them to develop, run, and manage applications without the need to build and maintain the underlying infrastructure. InfiniByte Cloud provides the networks, servers, storage, operating systems, middleware, databases, and other services for hosting government applications and data. InfiniByte Cloud is currently in process for FedRAMP, the government's rigorous security compliance framework which provides a standardized approach to security assessment, authorization, and continuous monitoring for cloud service providers who host services used by the U.S. government, authorization and has received ready status. The solution is currently available on the FedRAMP marketplace.

Our competitors include operating units within, among others: Booz Allen Hamilton Holding Corp., CACI International, Inc., ICF International, Inc., Leidos Holdings, Inc., Mantech International Corp., MAXIMUS, Inc., UnitedHealth Group, Inc. operating under Optum, VSE Corporation, and Westat, Inc.

We compete with these companies by leveraging our differentiating suite of tools and uniquely integrating people and processes resulting in highly competitive proposals and a solid track record of past performance. We believe that our proprietary tools and processes, including e-PRAT[®] and SPOT-m[®], along with our InfiniByte[®] cloud-based management system differentiate us from our competitors. We compete for awards through a full and open competition on a best-value basis. We draw heavily from our consistently high-quality past performance ratings, proven and evolving technical differentiators, key personnel credentials and growing market recognition to compete. We believe that our track record, knowledge and processes with respect to government contract bidding represent significant competitive advantages. Further, we believe that the range and depth of educational experience and professional credentials and certifications held by our employees allows us to deploy highly-qualified teams to implement solutions to address the needs of our customers. Our recent and future success in this competitive landscape hinges on our ability to continue to uniquely integrate people, processes and technology tools to deliver best value solutions for our targeted clients (both government and industry partners).

Additionally, the Federal government may elect to restrict certain procurements, including renewals of our current contracts, to bidders that qualify for certain special statuses such as veteran owned, small, or small disadvantaged businesses. For those procurements, we would be limited to a subcontractor role.

Intellectual Property

Because our business involves providing services to government entities, our operations generally are not substantially dependent upon obtaining and/or maintaining copyright or trademark protections, although our operations make use of such protections and benefit from them as discriminators in competition. We claim copyright, trademark and other proprietary rights in a variety of intellectual property, including each of our proprietary computer software and data products and the related documentation. We hold the registered trademarks, e-PRAT[®] and SPOT-m[®], for our offerings that optimize resource allocation and supply chain management processes in connection with our business process management services, as well as the registered trademark, InfiniByte[®], for our cloud-based solution. We maintain a number of trade secrets that contribute to our success and competitive distinction and endeavor to accord such trade secrets adequate protection to ensure their continuing availability.

Government Regulation

Our business is affected by numerous laws and regulations relating to the award, administration and performance of U.S. Government contracts. In addition, many federal and state laws materially affect our operations. These laws relate to ethics, labor, tax, and employment matters. As an employer, we are subject to federal and state statutes and regulations governing their standards of business conduct with the government, including that government contracts typically contain provisions permitting government clients to terminate contracts without cause with limited notice or compensation. The development of additional statutes and regulations and interpretation of existing statutes and regulations with respect to our industry can be expected to evolve over time. Through its corporate membership with the Professional Services Council and other affiliations, we monitor proposed and pending regulations from relevant congressional committees and government agency policies that have potential impact upon our industry and our specific strategically targeted markets. As with any commercial enterprise, we cannot predict with certainty the nature or direction of the development of Federal statutes and regulations that will affect its business operations. See Risk Factors in Part I, Item 1A.

Human Capital Management and Employee Relations

As of September 30, 2020, we employed over 2,200 employees performing in over 30 locations throughout the U.S. and one location overseas. Management believes that it has good relations with its employees. In October 2014, employees at our Chicago location approved the adoption of union representation for non-management employees. Union representation has been certified for these employees and collective bargaining discussions are ongoing. Management does not expect this agreement to materially impact results of operations.

We seek to attract and retain the best people by providing them with opportunities to grow, build skills, and be appreciated for their contributions as they work to serve our clients. Our employees are critical to our success and are the reason we continue to execute at a high level. We believe our continued focus on making employee engagement a top priority will help us provide high quality insights and information to our clients.

To facilitate talent attraction and retention, we strive to make DLH a diverse, inclusive and safe workplace, with opportunities for our employees to grow and develop in their careers, supported by strong compensation, benefits and health and wellness programs, and by programs that build connections between our employees and their communities.

At DLH, we are committed to the health, safety and wellness of our employees. We provide our employees and their families with flexible and convenient health and wellness programs, including competitive benefits arrangement to address healthcare needs, including health insurance benefits, health savings and flexible spending accounts, paid time off, family leave, and family care resources. In response to the COVID-19 pandemic, we implemented significant changes that we determined were in the best interest of our employees, as well as the communities in which we operate, and which comply with government regulations. This includes having our employees work from home when possible and implementing additional safety measures for employees continuing critical on-site work.

We provide competitive compensation programs to help meet the needs of our employees. In addition to salaries, these programs include annual bonuses, stock awards, and participation in a 401(k) Plan. We have used targeted equity-based grants with performance-based vesting conditions to facilitate retention of personnel. We also invest in talent development initiatives, to include industry-leading learning management, professional credentialing, and applicant tracking systems. These will further enhance our highly qualified employee base and augment our efforts to infuse top talent into our operations through world-class recruiting and talent management tools.

Corporate

Our principal executive offices are located at 3565 Piedmont Road NE, Building 3 Suite 700, Atlanta, Georgia 30305. Our telephone number is (770) 554-3545 and our website is www.dlhcorp.com. References herein to our website are provided purely as a convenience and do not constitute, and should not be viewed as, incorporation by reference of the information contained on, or available through, the website.

Available Information

We file registration statements, periodic and current reports, proxy statements, and other materials with the Securities and Exchange Commission (SEC). You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, including our filings. We make our public filings with the SEC, including our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all exhibits and amendments to these reports available free of charge on our website, <http://www.dlhcorp.com>, as soon as reasonably practicable after we file such material with the SEC. We also make available on our website reports filed by our executive officers and directors on Forms 3, 4 and 5 regarding their ownership of our securities. These materials are available in the "Investor Relations" portion of our website, under the link "SEC Filings." We also use our website to make generally available important information about our company. Important information, including press releases, presentation and financial information regarding our company, is routinely posted on and accessible on the Investor Relations subpage of our website, which is accessible by clicking on the tab labeled "Investor Relations" on our website home page. Information contained on our website is not part of this Annual Report on Form 10-K or any other filings we make with the SEC.

ITEM 1A. RISK FACTORS

As provided for under the Private Securities Litigation Reform Act of 1995 ("1995 Reform Act"), we wish to caution shareholders and investors that the following important factors, among others discussed throughout this Annual Report on Form 10-K for the fiscal year ended September 30, 2020, have affected, and in some cases could affect, our actual results of operations and cause our results to differ materially from those anticipated in forward looking statements made herein. Our business, results of operations, cash flows and financial condition may be materially and adversely affected due to any of the following risks. The risks described below are not the only ones we face. Additional risks we are not presently aware of or that we currently believe are immaterial may also impair our business operations. The trading price of our common stock could decline due to any of these risks. In assessing these risks, you should also refer to the other information contained or incorporated by reference in this Annual Report on Form 10-K, including our consolidated financial statements and related notes.

Risks Relating to Our Business and the Industry in which we Compete

We depend on contracts with the Federal government for virtually all of our revenue and our business could be seriously harmed if the Federal government decreased or ceased doing business with us.

At present, we derive 98% of our revenue from agencies of the Federal government, primarily as a prime contractor but also as a subcontractor to other Federal prime contractors. In addition, substantially all accounts receivable, including unbilled accounts receivable, are from agencies of the U.S. Government as of September 30, 2020 and 2019. We believe that the credit risk associated with our receivables is limited due to the creditworthiness of these customers. In general, if we were suspended or

debarred from contracting with the federal government or if the government otherwise ceased doing business with us or significantly decreased the amount of business it does with us, our business, financial condition and operating results would be materially and adversely affected.

A significant portion of our revenue is concentrated in a small number of contracts and we could be seriously harmed if we were unable to continue providing services under, or unsuccessful in our recompile efforts on, these contracts.

We remain dependent upon the continuation of our relationships with the VA and HHS as a significant portion of our revenue is concentrated in a small number of contracts with these customers. There can be no assurance as to the actual amount of services that we will ultimately provide to VA and HHS under our current contracts, or that we will be successful in recompile efforts. As described in greater detail above in "Item 1 - Business - Major Contracts", our contracts with the VA for the provision of services to its CMOP operations are currently subject to renewal solicitations. We believe that our strong working relationships and effective service delivery support ongoing performance for the terms of the contracts and recompile efforts as a prime or subcontractor. 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 materially reduced.

The U.S. government may prefer veteran-owned, minority-owned, small and small disadvantaged businesses; therefore, we may have fewer opportunities to bid for or could lose a portion of our existing work to small businesses.

As a result of the Small Business Administration (SBA) set-aside program, the U.S. government may decide to restrict certain procurements only to bidders that qualify as veteran owned, minority-owned, small, or small disadvantaged businesses. In such cases, we would not be eligible to perform as a prime contractor on those programs and would be limited to work as a subcontractor on those programs. 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 the best value to the United States. The effect of these set-aside provisions may limit our ability to compete for prime contractor positions on programs that we have targeted for growth and to maintain our prime contractor position as current contracts are subject to renewal.

Loss of our GSA schedule contracts or other contracting vehicles could impair our ability to win new business and perform under existing contracts.

We currently hold multiple GSA schedule contracts, including a Federal supply schedule contract for professional and allied healthcare services and the logistics worldwide services contract. If we were to lose one or more of these contracts or other contracting vehicles, we could lose a significant revenue source and our operating results and financial condition could be materially and adversely affected.

Future legislative or government budgetary and spending changes could negatively impact our business.

U.S. Government programs are subject to annual congressional budget authorization and appropriation processes. For many programs, Congress appropriates funds on a fiscal year basis even though the program performance period may extend over several years. Consequently, programs are often partially funded initially and additional funds are committed only as Congress makes further appropriations. Further, congressional seats may change during election years, and the balance of spending priorities may change along with them.

In recent years past, we have seen frequent debates regarding the scope of funding of our customers, thereby leading to budgetary uncertainty for our Federal customers. Changes in federal government budgetary priorities could directly affect our financial performance. A significant decline in government expenditures, a shift of expenditures away from programs that we support or a change in federal government contracting policies could cause federal government agencies to reduce their purchases under contracts, to exercise their right to terminate contracts at any time without penalty or not to exercise options to renew contracts. In the event the budgets or budgetary priorities of the U.S. Government entities with which we do business are delayed, decreased or underfunded, our consolidated revenues and results of operations could be materially and adversely affected.

Our growth into government markets may be impacted by measures in place since March 2013, when the federal government began operating under sequestration required by the Budget Control Act of 2011 (BCA). Under sequestration, reductions in

both defense and civil agency expenditures have taken place in each of the government's fiscal years since 2013 and, unless the BCA is amended or repealed, will continue through the government's Fiscal Year 2021. In February 2018, the Bipartisan Budget Act of 2018 (the "2018 Budget Act") was signed into law, which increased the caps on defense and non-defense discretionary spending for the government's 2018 and 2019 fiscal years. In late July 2019, Congress passed the Bipartisan Budget Act of 2019 (BBA 2019), which increased the caps for defense and non-defense spending for fiscal 2020 and 2021, established discretionary spending caps for fiscal 2020 and 2021, and suspended the national debt limit through July 2021. On August 2, 2019, the President signed the measure into law. Subsequently, in December 2019, Congress passed two appropriations bills totaling \$1.4 trillion for the 2020 fiscal year; on December 20, 2019, both bills were signed into law.

We may experience disruption of existing programs, delays in contract awards, and other actions, including partial or complete contract terminations. VA programs, which accounted for approximately 48% and 57% of Company revenue for the years ended September 30, 2020 and 2019, respectively, were exempt from the spending caps established under Federal government sequestration targets enacted in 2013.

While we view the budget environment as stable under BBA 2019 and believe there is bipartisan support for continued investment in the areas of defense and national security, the government is currently operating under a continuing resolution (a CR) which expires December 11, 2020. When a CR expires, unless appropriations bills have been passed by Congress and signed by the President, or a new CR is passed and signed into law, the government must cease operations, or shutdown, except in certain emergency situations or when the law authorizes continued activity. We continuously review our operations in an attempt to identify programs potentially at risk from CRs so that we can consider appropriate contingency plans.

The markets in which we operate are highly competitive, and many of the companies we compete against have substantial resources. Further, the U.S. Government contract bid process is highly competitive, complex and sometimes lengthy, and is subject to protest and implementation delays.

The markets in which we operate are highly competitive. Further, many of our contracts and task orders with the Federal government are awarded through a competitive bidding process, which is complex and sometimes lengthy. We expect that much of the opportunities we will seek in the foreseeable future will be awarded through competitive bidding. Many of our competitors are larger and have greater resources than we do, larger client bases and greater brand recognition. Our competitors, individually or through relationships with third parties, may be able to provide clients with different or greater capabilities or benefits than we can provide. If we are unsuccessful in competing with these other companies, our revenues and margins may materially decline.

Overall, the competitive bidding process presents a number of risks, including the following: (i) we expend substantial cost and managerial time and effort to prepare bids and proposals for contracts that we may not win, and to defend those bids through any protest process; (ii) we may be unable to estimate accurately the resources and cost structure that will be required to service any contract we win; and (iii) we may encounter expenses and delays if our competitors protest or challenge awards of contracts to us in competitive bidding, and any such protest or challenge could result in the resubmission of bids on modified specifications, or in the termination, reduction or modification of the awarded contract. If we are unable to win particular contracts, we may be prevented from providing the services that are purchased under those contracts for a number of years. If we are unable to consistently win new contract awards over any extended period, our business and prospects will be adversely affected and that could cause our actual results to differ materially and adversely from those anticipated. In addition, upon the expiration of a contract, if the customer requires further services of the type provided by the contract, there is frequently a competitive rebidding process. There can be no assurance that we will win any particular bid, or that we will be able to replace business lost upon expiration or completion of a contract, and the termination or non-renewal of any of our significant contracts could cause our actual results to differ materially and adversely from those anticipated.

If a bid is won and a contract awarded, there still is the possibility of a bid protest or other delays in implementation. Our business could be adversely affected by delays caused by our competitors protesting major contract awards received by us, resulting in the delay of the initiation of work. It can take many months to resolve protests by one or more of our competitors of contract awards we receive. The resulting delay in the startup and funding of the work under these contracts may cause our actual results to differ materially and adversely from those anticipated, and there can be no assurance that such protest process or implementation delays will not have a material adverse effect on our financial condition or results of operations in the future.

Our business may suffer if we or our employees are unable to obtain and maintain the necessary security clearances or other qualifications required to perform services for our clients.

Many federal government contracts require us to have security clearances and employ personnel with specified levels of education, work experience and security clearances. Depending on the level of clearance, security clearances can be difficult and time-consuming to obtain. If we or our employees lose or are unable to obtain necessary security clearances, we may not be able to win new business and our existing clients could terminate their contracts with us or decide not to renew them. To the extent we cannot obtain or maintain the required security clearances for our employees working on a particular contract, we may not derive the revenue anticipated from the contract, which could cause our results to differ materially and adversely from those anticipated.

Our business is regulated by complex federal procurement and contracting laws and regulations, and we are subject to periodic compliance reviews by governmental agencies.

We must comply with complex laws and regulations relating to the formation, administration, and performance of federal government contracts, including the Federal Acquisition Regulation, which, among other things, requires us to certify and disclose cost and pricing data and to divest work in the event of certain organizational conflicts of interest. These laws and regulations create compliance risk and affect how we do business with our federal agency clients, and may impose added costs on our business. The government may in the future reform its procurement practices or adopt new contracting rules and regulations, including cost accounting standards, that could be costly to satisfy or that could impair our ability to obtain new contracts. Additionally, the government may face restrictions from new legislation, regulations or government union pressures, on the nature and amount of services the government may obtain from private contractors. Any reduction in the government's use of private contractors to provide federal services could cause our actual results to differ materially and adversely from those anticipated.

Our performance on our U.S. Government contracts and our compliance with applicable laws and regulations, including submission of invoices to our customers, are subject to audit by the government. The scope of any such audits could span multiple fiscal years. These agencies review our performance on contracts, pricing practices, cost structure and compliance with applicable laws, regulations and standards. They also evaluate the adequacy of internal controls over our business systems, including our purchasing, accounting, estimating, earned value management, and government property systems. If a government review or investigation uncovers illegal activities or activities not in compliance with a particular contract's terms or conditions, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, harm to our reputation, suspension of payments, fines, and suspension or debarment from doing business with Federal government agencies. Any of these events could lead to a material reduction in our revenues, cash flows and operating results. Further, as the reputation and relationships that we have established and currently maintain with government personnel and agencies are important to our ability to maintain existing business and secure new business, damage to our reputation or relationships could have a material adverse effect on our revenue and operating results.

Federal government contracts may be terminated at will and may contain other provisions that may be unfavorable to us.

Many of the U.S. Government programs in which we participate as a contractor or subcontractor may extend for several years. The U.S. Government may modify, curtail or terminate its contracts and subcontracts for convenience and to the extent that a contract award contemplates one or more option years, the Government may decline to exercise such option periods. Accordingly, the maximum contract value specified under a government contract or task order awarded to us is not necessarily indicative of the revenue that we will realize under that contract. Due to our dependence on these programs, the modification, curtailment or termination of our major programs or contracts may have a material adverse effect on our results of operations and financial condition. In addition, federal government contracts contain provisions and are subject to laws and regulations that give the government rights and remedies, some of which are not typically found in commercial contracts, including allowing the government to (i) cancel multi-year contracts and related orders if funds for contract performance for an subsequent year become unavailable; (ii) claim rights in systems and software developed by us; (iii) suspend or debar us from doing business with the federal government or with a governmental agency; and (iv) impose fines and penalties and subject us to criminal prosecution. If the government terminates a contract for convenience, we may recover only our incurred or committed costs, settlement expenses and profit on work completed prior to the termination. If the government terminates a contract for default, we may be unable to recover even those amounts and instead may be liable for excess costs incurred by the government in procuring undelivered items and services from another source. Depending on the value of a contract, such termination could cause our actual results to differ materially and adversely from those anticipated.

We may not receive the full amounts authorized under the contracts included in our backlog, which could reduce our revenue in future periods below the levels anticipated.

Our total backlog consists of funded and unfunded amounts and may include estimates and assumptions about matters that cannot be determined with certainty at the time the backlog is calculated. Funded backlog represents contract value that has been appropriated by a customer and is expected to be recognized into revenue. Unfunded backlog represents the sum of the unappropriated contract value on executed contracts and unexercised option years that is expected to be recognized into revenue. The maximum contract value specified under a government contract or task order awarded to us is not necessarily indicative of the revenue that we will realize under that contract. For example, we generate revenue from IDIQ contracts, which do not require the government to purchase a pre-determined amount of goods or services under the contract. Action by the government to obtain support from other contractors or failure of the government to order the quantity of work anticipated could cause our actual results to differ materially and adversely from those anticipated. Additionally, many of our multi-year contracts may only be partially-funded at any point during their term with the unfunded portion subject to future appropriations by Congress. As a result of a lack of appropriated funds or efforts to reduce federal government spending, our backlog may not result in revenue. Accordingly, our backlog may not result in actual revenue in any particular period, or at all, which could cause our actual results to differ materially and adversely from those anticipated.

Our business growth and profitable operations require that we develop and maintain strong relationships with other contractors with whom we partner or otherwise depend on.

We may enter into future teaming ventures with other companies, which carry risk in regards to maintaining strong, trusted working relationships in order to successfully fulfill contract obligations. Teaming arrangements may include being engaged as a subcontractor to a prime contractor, engaging a subcontractor on a contract for which we are the prime contractor, or entering into a joint venture with another company. We may lack control over fulfillment of such contracts, and poor performance on the contract could impact our customer relationship, even if we perform as required. We expect to depend on relationships with other contractors for a portion of our revenue in the foreseeable future. Our revenue and operating results could differ materially and adversely from those anticipated if any such prime contractor or teammate chooses to offer directly to the client services of the type that we provide or if they team with other companies to provide those services.

Our earnings and margins may vary based on the mix of our contracts and programs.

At September 30, 2020, our backlog included cost reimbursable, time-and-materials and fixed-price contracts. Our earnings and margins may vary depending on the relative mix of contract types, the costs incurred in their performance, the achievement of other performance objectives and the stage of performance at which the right to receive fees, particularly under incentive and award fee contracts, is finally determined.

Our employees, or those of our teaming partners, may engage in misconduct or other improper activities which could harm our business.

We are exposed to risk from misconduct or fraud by our employees, or employees of our teaming partners. Such violations could include intentional disregard for Federal government procurement regulations, engaging in unauthorized activities, seeking reimbursement for improper expenses, or falsifying time records. Employee misconduct could also involve the improper use of our clients' sensitive or classified information and result in a serious harm to our reputation. While we have appropriate policies in effect to deter illegal activities and promote proper conduct, it is not always possible to deter employee misconduct. Precautions to prevent and detect this activity may not be effective in controlling such risks or losses, which could materially and adversely affect our business, results of operations, financial condition, cash flows, and liquidity.

If we are unable to attract qualified personnel, our business may be negatively affected.

We rely heavily on our ability to attract and retain qualified professionals and other personnel who possess the skills, experience and licenses necessary in order to provide our solutions for our assignments. Our business is materially dependent upon the continued availability of such qualified personnel. Our inability to secure qualified personnel would have a material adverse effect on our business. The cost of attracting qualified personnel and providing them with attractive benefits packages may be higher than we anticipate and, as a result, if we are unable to pass these costs on to our clients, our profitability could decline. Moreover, if we are unable to attract and retain qualified personnel, the quality of our services may decline and, as a result, we could lose clients.

If our subcontractors do not perform their contractual obligations, our performance as a prime contractor and our ability to obtain future business could be materially and adversely impacted and our actual results could differ materially and adversely from those anticipated.

Our performance of government contracts may involve the issuance of subcontracts to other companies upon which we rely to perform all or a portion of the work we are obligated to deliver to our customers. Unsatisfactory performance by one or more of our subcontractors to deliver on a timely basis the agreed-upon supplies, perform the agreed-upon services, or appropriately manage their vendors may materially and adversely impact our ability to perform our obligations as a prime contractor. A subcontractor's performance deficiency could result in the government terminating our contract for default. A default termination could expose us to liability for excess costs of reprocurement by the government and have a material adverse effect on our ability to compete for future contracts and task orders. Depending upon the level of problem experienced, such problems with subcontractors could cause our actual results to differ materially and adversely from those anticipated.

We have a significant amount of federal net operating loss carry forwards which we may not be able to utilize in certain circumstances.

At September 30, 2020, we had net operating losses carryforwards, or NOLs, of approximately \$7.4 million for U.S. Federal tax purposes. Our U.S. NOLs begin to expire in 2030 and continue to expire through 2033. Based upon our current estimate of future taxable earnings, we expect to fully utilize these NOLs; however future taxable income may vary significantly from our current estimate.

Additionally, changes to U.S. tax laws may adversely affect our financial condition or results of operations and create the risk that we may need to adjust our accounting for these changes.

The accounting treatment of these tax law changes is complex, and some of the changes may affect both current and future periods. Consistent with guidance from the SEC, our financial statements reflect our estimates of the tax effects of the current tax laws and regulation.

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

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

Risks Relating to Our Information Technology Systems and Intellectual Property

We are highly dependent on the proper functioning of our information systems.

We are highly dependent on the proper functioning of our information systems in operating our business. Critical information systems used in daily operations match employee resources and client assignments and track regulatory credentialing. They also perform payroll, billing and accounts receivable functions. While we have multiple back up plans for these types of contingencies, our information systems are vulnerable to fire, storm, flood, power loss, telecommunication outages, physical break-ins, cyber-attack, ransomware, and similar events. If our information systems become inoperable, or are otherwise unavailable, these functions would have to be accomplished manually, which in turn could impact our financial viability, due to the increased cost associated with performing these functions manually.

Our systems and networks may be subject to cybersecurity breaches.

Many of our operations rely heavily upon technology systems and networks to receive, input, maintain and communicate participant and client data pertaining to the programs we manage. Any systems failures, whether caused by us, a third-party service provider, or unauthorized intruders and hackers, or due to situations such as computer viruses, natural disasters, or power shortages, could cause loss of data or interruptions or delays in our business or that of our customers. If our systems or networks were compromised by a security breach, we could be adversely affected by losing confidential or protected information of program participants and clients, and we could suffer reputational damage and a loss of confidence from prospective and existing clients. Similarly, if our internal networks were compromised, we could be adversely affected by the loss of proprietary, trade secret or confidential technical and financial data. The loss, theft or improper disclosure of that information could subject the Company to sanctions under the relevant laws, lawsuits from affected individuals, negative press articles and a loss of confidence from our government clients, all of which could adversely affect our existing business, future opportunities and financial condition. Further, our property and cyber insurance may be inadequate to compensate us for all losses that may occur as a result of any system or operational failure or disruption and, as a result, our actual results could differ materially and adversely from those anticipated. In addition, in order to provide services to our customers, we often depend upon or use customer systems that are supported by the customer or third parties. Any security breach or system failure in such systems could result in an interruption of our customer's operations which could cause us to experience significant delays under a contract, and a material adverse effect on our results of operations.

Additionally, a number of projects require us to receive, maintain and transmit protected health information or other types of confidential personal information. That information may be regulated by the Health Insurance Portability and Accountability Act (HIPAA), the Health Information Technology for Economic and Clinical Health Act of 2009, Internal Revenue Service regulations and other laws. The loss, theft or improper disclosure of that information could subject us to sanctions under these laws, breach of contract claims, lawsuits from affected individuals, negative press articles and a loss of confidence from our government clients, all of which could adversely affect our existing business, future opportunities and financial condition.

Failure to adequately protect, maintain, or enforce our rights in our intellectual property may adversely limit our competitive position.

We rely upon a combination of nondisclosure agreements and other contractual arrangements, as well as copyright, trademark, and trade secret laws to protect our proprietary information. We also enter into proprietary information and intellectual property agreements with employees, which require them to disclose any inventions created during employment, to convey such rights to inventions to us, and to restrict any disclosure of proprietary information. Trade secrets are generally difficult to protect. Although our employees are subject to confidentiality obligations, this protection may be inadequate to deter or prevent misappropriation of our confidential information and/or the infringement of our trademarks and copyrights. Further, we may be unable to detect unauthorized use of our intellectual property or otherwise take appropriate steps to enforce our rights. Failure to adequately protect, maintain, or enforce our intellectual property rights may adversely limit our competitive position.

We may face from time to time, allegations that we or a supplier or customer have violated the intellectual property rights of third parties. If, with respect to any claim against us for violation of third-party intellectual property rights, we are unable to prevail in the litigation or retain or obtain sufficient rights or develop non-infringing intellectual property or otherwise alter our business practices on a timely or cost-efficient basis, our business and competitive position may be adversely affected.

Any infringement, misappropriation or related claims, whether or not meritorious, are time consuming, divert technical and management personnel, and are costly to resolve. As a result of any such dispute, we may have to develop non-infringing intellectual property, pay damages, enter into royalty or licensing agreements, cease utilizing certain products or services, or take other actions to resolve the claims. These actions, if required, may be costly or unavailable on terms acceptable to us.

Risks Relating to Acquisitions

We may have difficulty identifying and executing acquisitions on favorable terms and therefore may grow at slower than anticipated rates.

One of our potential paths to growth is to selectively pursue acquisitions. Through acquisitions, we may be able to expand our base of customers, increase the range of solutions we offer to our customers and deepen our penetration of existing markets and customers. We may not identify and execute suitable acquisitions. To the extent that management is involved in identifying acquisition opportunities or integrating new acquisitions into our business, our management may be diverted from operating our core business. Without acquisitions, we may not grow as rapidly otherwise, which could cause our actual results to differ materially and adversely from those anticipated.

We may encounter other risks in regard to making acquisitions, including:

- increased competition for acquisitions may increase the costs of our acquisitions;
- non-discovery or non-disclosure of material liabilities during the due diligence process, including omissions by prior owners of any acquired businesses or their employees in complying with applicable laws or regulations, or their inability to fulfill their contractual obligations to the federal government or other customers; and
- acquisition financing may not be available on reasonable terms or at all.

Any of these risks could cause our actual results to differ materially and adversely from those anticipated.

We may have difficulty integrating the operations of companies we acquire, which could cause actual results to differ materially and adversely from those anticipated.

The success of a potential future acquisition strategy depends upon our ability to successfully integrate the businesses. We may have difficulty integrating a business that we may acquire in the future. The integration of a business into our operations may result in unforeseen operating difficulties, absorb significant management attention and require significant financial resources that would otherwise be available for the ongoing development of our business. These integration difficulties include the integration of personnel with disparate business backgrounds, the transition to new information systems, coordination of geographically dispersed organizations, loss of key employees of acquired companies, and reconciliation of different corporate cultures. For these or other reasons, we may be unable to retain key customers of acquired companies. Moreover, any acquired business may not generate the revenue or net income we expected or produce the efficiencies or cost-savings we anticipated. Any of these outcomes could cause our actual results to differ materially and adversely from those anticipated.

We have a substantial amount of goodwill on our balance sheet. Future write-offs of goodwill may have the effect of decreasing our earnings or increasing our losses.

We have obtained growth through acquisitions of other companies and businesses. Under existing accounting standards, we are required to periodically review goodwill for possible impairment. In the event that we are required to write down the value of any assets under these pronouncements, it may materially and adversely affect our earnings. See the more detailed discussion appearing as part of our [Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7](#) herein.

Risks Relating to Our Outstanding Indebtedness

We have incurred debt in connection with acquisitions and we must make the scheduled principal and interest payments on the facility and maintain compliance with other debt covenants.

On September 30, 2020, we entered into an amended and restated credit agreement with First National Bank of Pennsylvania and certain other lenders (the “Credit Agreement”). The Credit Agreement requires compliance with a number of financial covenants and contains restrictions on our ability to engage in certain transactions, including limitations on: granting liens; incurring other indebtedness; disposing assets; making investments in other entities; and completing other mergers and consolidations. Also, the Credit Agreement requires us to comply with certain financial covenants including a minimum fixed charge coverage ratio and a maximum total leverage ratio. In addition, the Credit Agreement also requires prepayments of a percentage of excess cash flow. Accordingly, a portion of our cash flow from operations will be dedicated to the repayment of our indebtedness. The loan agreement provides for customary events of default, including, among other things, a payment default, covenant default or defaults on other indebtedness or judgments in excess of a stipulated amount, change of control events, suspension or disbarment from contracting with the federal government and the material inaccuracy of our representations and warranties. If we are unable to make the scheduled principal and interest payments on the Credit Agreement or maintain compliance with other debt covenants, we may be in default under the loan agreement, which if not waived, could cause our debt to become immediately due and payable and enable the lenders to enforce their rights under the Credit Agreement. Such an event would likely have a material adverse effect on our business, financial condition and results of operations.

In addition, a transition away from the London Interbank Offering Rate (“LIBOR”) as a benchmark for establishing the applicable interest rate may affect the cost of servicing our debt under the Credit Agreement. The indebtedness outstanding under the Credit Agreement initially incurs interest based on LIBOR. The Financial Conduct Authority of the United Kingdom has announced that it plans to phase out LIBOR by the end of calendar year 2021. Although our Credit Agreement provides for an alternative base rate, the consequences of the phase out of LIBOR cannot be entirely predicted at this time. For example, if any alternative base rate or means of calculating interest with respect to our outstanding indebtedness leads to an increase in the interest rates charged, it could result in an increase in the cost of such indebtedness or otherwise have a material adverse impact on our business, financial condition and results of operations.

Risks Relating to Our Corporate Structure and Capital Stock

Our stock price may be volatile and your investment in our common stock may suffer a decline in value.

The price of our common stock could be subject to fluctuations and may decline in the future due to risks defined herein, or due to factors beyond our control, including changes in market conditions such as increased interest rates, a recession, or a change in Federal spending priorities. Stock markets in general have experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations could adversely affect the trading price of our common stock.

Since we have not paid dividends on our common stock, you cannot expect dividend income from an investment in our common stock.

We have not paid any dividends on our common stock since our inception and do not contemplate or anticipate paying any dividends on our common stock in the foreseeable future. Current lenders do and future potential lenders may prohibit us from paying dividends without prior consent. Therefore, holders of our common stock may not receive any dividends on their investment in us. Earnings, if any, may be retained and used to finance the development and expansion of our business.

We may issue preferred stock with rights senior to our common stock, which may adversely impact the voting and other rights of the holders of our common stock.

Our certificate of incorporation authorizes the issuance of "blank check" preferred stock with such 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. Accordingly, our board of directors is empowered, without stockholder approval, to issue preferred stock with dividend, liquidation, conversion, voting or other rights, which would adversely affect the voting power or other rights of the holders of our common stock. In the event of issuance, the preferred stock could be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change in control of our Company, which could have the effect of discouraging bids for our Company and thereby prevent stockholders from receiving the maximum value for their shares. Although we have no present intention to issue any shares of our preferred stock, in order to discourage or delay a change of control of our Company, we may do so in the future. In addition, we may determine to issue preferred stock in connection with capital raising efforts and the terms of the stock so issued could have special voting rights or rights related to the composition of our Board.

The exercise of our outstanding common stock options and warrants may depress our stock price and dilute your ownership of the Company.

To the extent that options and warrants are exercised or the restricted stock units vest, dilution to our shareholders will occur. We cannot foresee the impact of any potential sales of our common shares on the market, but it is possible that if a significant percentage of such available shares were attempted to be sold within a short period of time, the market for our shares would be adversely affected. It is also unclear whether or not the market for our common stock could absorb a large number of attempted sales in a short period of time. Moreover, the terms upon which we will be able to obtain additional equity capital may be adversely affected, since the holders of these securities can be expected to exercise them at a time when we would, in all likelihood, be able to obtain any needed capital on terms more favorable to us than the exercise terms provided by those securities. To the extent that these securities are exercised, dilution to our shareholders will occur. Moreover, the terms upon which we will be able to obtain additional equity capital may be adversely affected, since the holders of these securities can be expected to exercise them at a time when we would, in all likelihood, be able to obtain any needed capital on terms more favorable to us than the exercise terms provided by those securities.

Anti-takeover provisions in our Articles of Incorporation make a change in control of our Company more difficult.

The provisions of our Articles of Incorporation and the New Jersey Business Corporation Act, together or separately, could discourage potential acquisition proposals, delay or prevent a change in control and limit the price that certain investors might be willing to pay in the future for our common stock. Among other things, these provisions:

- require certain supermajority votes; and
- establish certain advance notice procedures for nomination of candidates for election as directors and for shareholders' proposals to be considered at shareholders' meetings.

In addition, the New Jersey Business Corporation Act contains provisions that, under certain conditions, prohibit business combinations with 10% shareholders and any New Jersey corporation for a period of five years from the time of acquisition of shares by the 10% shareholder. The New Jersey Business Corporation Act also contains provisions that restrict certain business combinations and other transactions between a New Jersey corporation and 10% shareholders.

Our executive officers, directors and significant stockholders will be able to influence matters requiring stockholder approval.

As of September 30, 2020, our executive officers, directors and largest shareholder (Wynnefield Capital, Inc. and its affiliates) own approximately 44% of our outstanding common stock. Within this amount, Wynnefield Capital, Inc. and its affiliates own approximately 31% of our outstanding common stock. This concentration of ownership may have the effect of delaying, preventing or deterring a change in control of the Company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale or merger of our company and may negatively affect the market price of our common stock. These transactions might include proxy contests, tender offers, mergers or other purchases of common stock that could give our stockholders the opportunity to realize a premium over the then-prevailing market price for shares of our common stock.

In addition, persons associated with Wynnefield Capital, Inc. currently serve on our Board of Directors. As a result of this share ownership and relationships on our Board of Directors, our largest stockholder will be able to influence all affairs and actions of our company, including matters requiring stockholder approval such as the election of directors and approval of significant corporate transactions. The interests of our principal stockholders may differ from the interests of the other stockholders.

General Business Risks

We may experience fluctuations in our revenues and operating results from period to period.

Our revenue and operating results may fluctuate significantly and unpredictably in the future. We have expended, and will continue to expend, substantial resources to enhance our health services offerings and expansion into the Federal health market. We may incur growth expenses before new business revenue is realized, thus showing lower profitability in a particular period or consecutive periods. We may be unable to achieve desired levels of revenue growth due to circumstances that are beyond our control, as already expressed regarding competition, government budgets, and the procurement process in general. Also, some aspects of this work can be seasonal with regard to resources and funding and it is difficult to predict the timing of when those resources will be expended. Although we continue to manage our operating costs and expenses, there is no guarantee that we will significantly increase future revenue and profit in any particular future period. Revenue levels achieved from our customers, the mix of solutions that we offer and our performance on future contracts will affect our financial results.

Our profits and revenues could suffer if we are involved in legal proceedings, investigations, and disputes.

We are exposed to legal proceedings, investigations and disputes. In addition, in the ordinary course of our business we may become involved in legal disputes regarding personal injury or employee disputes. While we provide for these types of incidents through commercial third-party insurance carriers, we often defray these types of cost through higher deductibles. Any unfavorable legal ruling against us could result in substantial monetary damages by losing our deductible portion of carried insurance. We maintain insurance coverage as part of our overall legal and risk management strategy to lower our potential liabilities. If we sustain liabilities that exceed our insurance coverage or for which we are not insured, it could have a material adverse impact on our results of operations, cash flows and financial condition, including our profits, revenues and liquidity.

We are dependent upon certain of our management personnel and do not maintain "key personnel" life insurance on our executive officers.

Our success to date has resulted in part from the significant contributions of our executive officers. Our executive officers are expected to continue to make important contributions to our success. As of September 30, 2020, certain of our officers are under employment contracts. However, we do not maintain "key personnel" life insurance on any of our executive officers. Loss for any reason of the services of our key personnel could materially affect our operations.

We may not be fully covered by the insurance we procure and our business could be adversely impacted if we were not able to renew all of our insurance plans.

Although we carry multiple lines of liability insurance (including coverage for medical malpractice and workers' compensation), they may not be sufficient to cover the total cost of any judgments, settlements or costs relating to any present or future claims, suits or complaints. If we are unable to secure renewal of our insurance contracts or the renewal of such contracts with favorable rates and with competitive benefits, our business could be adversely affected. In addition, sufficient insurance may not be available to us in the future on satisfactory terms or at all. Further, the fact that the majority of our employees are located at customer locations increases our potential liability for negligence and professional malpractice and such liabilities may not become immediately apparent. Any increase in our costs of insurance will impact our profitability to the extent that we cannot offset these increases into our costs of services. If the insurance we carry is not sufficient to cover any judgments, settlements or costs relating to any present or future claims, suits or complaints, our business, financial condition, results of operations and liquidity could be materially adversely affected.

Our financial condition may be affected by increases in employee healthcare claims and insurance premiums, and workers' compensation claims and insurance rates.

Our current workers' compensation and medical plans are partially self-funded insurance programs. The Company currently pays base premiums plus actual losses incurred, not to exceed certain individual and aggregate stop-loss limits. In addition, health insurance premiums, and workers' compensation rates for the Company are in large part determined by our claims experience. These categories of expenditure comprise a significant portion of our direct costs. If we experience a large increase in claim activity, our direct expenditures, health insurance premiums, unemployment taxes or workers' compensation rates may increase. Although we employ internal and external risk management procedures in an attempt to manage our claims incidence and estimate claims expenses and structure our benefit contracts to provide as much cost stability as reasonably possible given the self-funded nature of our plans, we may not be able to prevent increases in claim activity, accurately estimate our claims expenses or pass the cost of such increases on to our clients. Since our ability to incorporate such increases into our fees to our clients is constrained by contractual arrangements with our clients, a delay could occur before such increases could be reflected in our fees, which may reduce our profit margin. As a result, such increases could have a material adverse effect on our financial condition, results of operations and liquidity.

We are exposed to increased costs and risks associated with complying with increasing and new regulation of corporate governance and disclosure standards.

Since the implementation of the Sarbanes-Oxley Act of 2002, we spend a significant amount of management's time and resources (both internal and external) to comply with changing laws, regulations and standards relating to corporate governance and public disclosures. This compliance requires management's annual review and evaluation of our internal control systems. This process has caused us to engage outside advisory services and has resulted in additional accounting and legal expenses. We may encounter problems or delays in completing these reviews and evaluation and the implementation of improvements. If we are not able to timely comply with the requirements set forth in the Sarbanes-Oxley Act of 2002, we might be subject to sanctions or investigation by regulatory authorities. Any such action could materially adversely affect our business and our stock price.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved staff comments.

ITEM 2. PROPERTIES

We do not own any real estate or other properties. As of September 30, 2020, we operate six locations in the United States and one location in Kampala, Uganda; occupying a total of approximately 122 thousand square feet. The Company's corporate headquarters is located at 3565 Piedmont Road NE, Building 3 Suite 700, Atlanta, Georgia 30305, we presently maintain a National Capital Region office in Silver Spring, Maryland. All of our offices are in reasonably modern and well-maintained buildings and we believe that our facilities are adequate for present operations and the foreseeable future. Our leases expire between 2021 and 2031.

For the fiscal year ended September 30, 2020, the Company's total lease expense was approximately \$4.2 million. See [Note 6. Leases](#) in the Consolidated Financial Statements contained in the Annual Report on Form 10-K for additional information regarding our lease commitments.

ITEM 3. 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 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Principal Market

Our common stock is currently traded on The Nasdaq Capital Market under the symbol "DLHC."

Dividends

The Company has not declared or paid any cash dividends on its common stock since inception and has no present intention of paying any cash dividends on its common stock in the foreseeable future.

Approximate Number of Equity Security Holders

As of September 30, 2020, there were 12,404,406 shares of common stock outstanding held of record by approximately 91 persons. The number of stockholders of record is not representative of the number of beneficial stockholders due to the fact that many shares are held by depositories, brokers, or nominees. As of September 30, 2020, the Company estimates that there are approximately 1,300 beneficial owners of its common stock.

Sales of Unregistered Securities

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.

Securities Authorized for Issuance under Equity Compensation Plans

The Company presently utilizes one shareholder-approved equity compensation plan under which it makes equity compensation awards available to officers, directors, employees and consultants. The table set forth below discloses outstanding and available awards under our equity compensation plans as of September 30, 2020. All grants of equity securities made to executive officers and directors are presently made under the 2016 Omnibus Equity Incentive Plan (the "2016 Plan"). Prior to the adoption of the 2016 Plan, awards of equity securities were made under the 2006 Long Term Incentive Plan.

| Equity Compensation Plan Information | | | |
|---|--|--|--|
| Plan Category | (a) Number of Securities to be issued upon exercise of outstanding options, warrants and rights | (b) Weighted Average exercise price of outstanding options, warrants and rights (or fair value at date of grant) | (c) Number of securities remaining available for future issuances under equity compensation plans (excluding securities reflected in column (a)) |
| Equity Compensation Plans Approved by Security Holders: | | | |
| Employee stock options | 2,129,000 | \$ 6.14 | 883,958 |

ITEM 6. SELECTED FINANCIAL DATA

We are a "smaller reporting company" as defined by Regulation S-K and as such, are not required to provide the information contained in this item pursuant to Regulation S-K.

ITEM 7. 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 Annual Report on Form 10-K for the year ended September 30, 2020. This discussion 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. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry and business. Our actual results could differ materially from the results contemplated by these forward-looking statements.

Business Overview:

We are a provider of technology-enabled business process outsourcing and program management solutions, and public health research and analytics; primarily focused to improve and better deploy large-scale federal health and human service initiatives. We derive 98% of our 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").

On September 30, 2020, we acquired Irving Burton Associates, LLC ("IBA") for the base purchase price of \$32.0 million in cash. We funded the purchase price and the costs and expenses of the acquisition through funds received under our amended and restated credit agreement, as described in greater detail below. IBA provides research, systems development, and other technology-enabled solutions to the DHA, the Telemedicine & Advanced Technology Research Center of the US Army's Medical Research and Development Command, and other agencies within the DoD. IBA maintains a top-secret facility clearance, and its defense contracts provide for a range of health IT services including digital transformation, data analytics, cybersecurity, and artificial intelligence

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.

Major Customers

Our largest customer is the VA, which comprised approximately \$100.2 million and \$91.9 million of revenue for the years ended September 30, 2020 and 2019, respectively. Our second largest customer, HHS, comprised approximately \$95.0 million and \$62.0 million of revenue for the years ended September 30, 2020 and 2019, respectively. We remain dependent upon the continuation of our relationships with the VA and HHS as a significant portion of our revenue is concentrated in a small number of contracts with these customers. As described in greater detail above in "Item 1 - Business - Major Contracts", our contracts with the VA are currently subject to renewal solicitations.

Forward Looking Business Trends:

Our mission is to expand our position as a trusted provider of technology-enabled healthcare and public health services, medical logistics, and readiness enhancement services to active duty personnel, veterans, and civilian populations and communities. Our primary focus within the defense agency markets include military service members' and veterans' requirements for telehealth services, behavioral healthcare, medication therapy management, process management, clinical systems support, and healthcare delivery. Our primary focus within the civilian agency markets includes healthcare and social programs delivery and readiness. These include compliance monitoring on large scale programs, technology-enabled program management, consulting, and digital communications solutions ensuring that education, health, and social standards are being achieved within underserved and at-risk populations. We believe these business development priorities will position the Company to expand within top national priority programs and funded areas.

Federal budget outlook for fiscal 2021:

The President of the United States' broad agenda calls for increased military and, in certain cases, domestic spending, with reduced spending on foreign programs. Most relevant to the Company's targeted markets, the President advocates the lifting of sequestration caps in the defense sector; increasing infrastructure spending in the United States; and tightening controls on immigration. We continue to carefully follow federal budget, legislative and contracting trends and activities and evolve our strategies to take these into consideration.

In July 2019, White House and Congressional budget negotiators reached an agreement on a two-year budget deal that would increase current spending caps by \$320 billion and suspends the debt ceiling through mid-2021. The budget allocates additional spending to defense and non-defense programs. In late July 2019, Congress passed the Bipartisan Budget Act of 2019, which increased the caps for defense and non-defense spending for fiscal 2020 and 2021, established discretionary spending caps for fiscal 2020 and 2021, and suspended the national debt limit through July 2021. On August 2, 2019, the President signed the measure into law. Subsequently, in December 2019, Congress passed two appropriations bills totaling \$1.4 trillion for the 2020 fiscal year; on December 20, 2019, both bills were signed into law.

While Congress has not completed the final appropriation bills for the government's 2021 fiscal year, the Company continues to believe that its key programs benefit from bipartisan support and does not expect a material impact on its current business base from budget negotiations. If the appropriations bills are not timely enacted, government agencies operate under a continuing resolution (CR), which may negatively impact our business due to delays in new program starts, delays in contract award decisions, and other factors. While we view the budget environment as stable under BBA 2019 and believe there is bipartisan support for continued investment in the areas of defense and national security, the government is currently operating under a CR which expires December 11, 2020. When a CR expires, unless appropriations bills have been passed by Congress and signed by the President, or a new CR is passed and signed into law, the government must cease operations, or shutdown, except in certain emergency situations or when the law authorizes continued activity. We continuously review our operations in an attempt to identify programs potentially at risk from CRs so that we can consider appropriate contingency plans.

Our customer's missions have received broad support from the legislative and executive branches of the federal government. We expect that support to continue with the change of administration with amended and new priorities established by the President-Elect. As such, we do not anticipate or expect any significant changes to our operations as a result of the recent elections.

Department of Veterans Affairs (VA) health spending trends:

The Company continues to see critical need for expanded health care solutions within our sector of the Federal health market, largely focused on the needs of veterans and their families. Serving over nine million veterans each year, the VA operates the nation's largest integrated health care system, with more than 1,700 hospitals, clinics, community living centers, readjustment counseling centers, and other facilities.

The VA is requesting a budget increase in fiscal 2021 of 10.2% above the fiscal 2020 budget, an increase of \$22.5 billion. The budget increase focuses on several key veteran health issues to include several mental health initiatives. We believe the fiscal 2021 budget request supports our identified growth opportunities.

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

Department of Health and Human Services (HHS) spending trends:

HHS is the principal federal department charged with protecting the health of all Americans and providing essential human services. Over the past two government fiscal years, spending on health care initiatives has increased and is increasing in fiscal 2020 to \$1.3 trillion. The budget will provide resources for efforts aimed to increase affordability of individual health insurance, decrease the price of prescription drugs, and combat the opioid crisis. The Company has existing contracts with multiple agencies under HHS, and we are actively pursuing growth opportunities within this vital agency.

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

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

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 re-compete 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.

COVID-19 Impact

We are exposed to and impacted by macroeconomic factors and U.S. government policies. Current general economic conditions are highly volatile due to the COVID-19 pandemic, resulting in both market size contractions due to economic slowdowns and government restrictions on movement. We have seen continued demand for the services we provide under our current contract portfolio as the services we provide are largely deemed essential. While the pandemic has had minor offsetting impacts during fiscal 2020 due to social distancing and travel restrictions, we do not expect material impacts from COVID-19 in this fiscal year.

The pandemic may cause reduced demand for certain services we provide, particularly if it results in a recessionary economic environment or the spending priorities of the U.S. government shift in ways adverse to our business focus. Our ability to continue to operate without any significant negative impacts will in part depend on our continued ability to protect our employees. We have endeavored to follow recommended actions of government and health authorities to protect our employees and were able to broadly maintain our operations. Further, we have partnered with our clients to adopt particular measures to protect our employees at distribution centers, and we expect to execute on a remainder of our contracts through remote and teleworking arrangements. We intend to continue to work with government authorities and implement our employee safety measures to ensure that we are able to continue our operations during the pandemic. However, uncertainty resulting from the pandemic could result in an unforeseen disruption to our operations (for example a closure of a key distribution facility) that may not be fully mitigated. To date we have experienced continuity in the majority of our work for our government clients. While there has 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 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 material 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. For additional information on risk factors that could impact our results, please refer to “Risk Factors” in Part I, Item 1A of this Form 10-K.

Results of Operations for Fiscal Year 2020 as Compared to Fiscal Year 2019

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

| Consolidated Statement of Operations: | Year Ended | | | | Change in | |
|---------------------------------------|--------------------|--------------|--------------------|--------------|-----------------|--------------|
| | September 30, 2020 | | September 30, 2019 | | \$ | % of Rev |
| Revenue | \$ 209,185 | 100.0 % | \$ 160,391 | 100.0 % | \$ 48,794 | — % |
| Cost of operations | | | | | | |
| Contract costs | 163,596 | 78.2 % | 124,551 | 77.6 % | 39,045 | 0.6 % |
| General and administrative costs | 24,195 | 11.6 % | 20,525 | 12.8 % | 3,670 | (1.2) % |
| Acquisition costs | 930 | 0.5 % | 1,391 | 0.9 % | (461) | (0.4) % |
| Depreciation and amortization | 7,003 | 3.3 % | 3,956 | 2.5 % | 3,047 | 0.8 % |
| Total operating costs | 195,724 | 93.6 % | 150,423 | 93.8 % | 45,301 | (0.2) % |
| Income from operations | 13,461 | 6.4 % | 9,968 | 6.2 % | 3,493 | 0.2 % |
| Interest expense, net | 3,441 | 1.6 % | 2,473 | 1.5 % | 968 | 0.1 % |
| Income before income taxes | 10,020 | 4.8 % | 7,495 | 4.7 % | 2,525 | 0.1 % |
| Income tax expense | 2,906 | 1.4 % | 2,171 | 1.4 % | 735 | — % |
| Net income | \$ 7,114 | 3.4 % | \$ 5,324 | 3.3 % | \$ 1,790 | 0.1 % |
| Net income per share - basic | 0.58 | | 0.44 | | 0.14 | |
| Net income per share - diluted | 0.54 | | 0.41 | | 0.14 | |

Revenue

For the twelve months ended September 30, 2020 revenue was \$209.2 million, an increase of \$48.8 million or 30.4% over the prior year period. The increase is primarily due to the inclusion of Social & Scientific Systems, Inc. ("S3"), acquired in June 2019, for the full year in fiscal 2020.

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 twelve months ended September 30, 2020, contract costs increased by approximately \$39.0 million principally due to the growth in revenues.

General and administrative costs are for those employees not directly providing services to our customers, to include but not limited to executive management, bid & proposal, accounting, and human resources. These costs increased as compared to the prior fiscal year by \$3.7 million to approximately \$24.2 million primarily from the growth in revenues. Acquisition costs in 2020 were due to the IBA acquisition and include due diligence costs, such as legal and accounting fees.

For the year ended September 30, 2020, depreciation and amortization costs were approximately \$2.2 million and \$4.8 million, respectively, as compared to approximately \$1.2 million and \$2.7 million for the prior fiscal year, an aggregate increase of \$3.0 million. The increase was principally due to the amortization of the acquired definite-lived intangible assets of S3.

Interest Expense, net

Interest expense, net, includes items such as, interest expense and amortization of deferred financing costs on debt obligations. For the year ended September 30, 2020, interest expense, net, was \$3.4 million compared to interest expense, net of \$2.5 million in the prior year, an increase of approximately \$1.0 million over the prior year period. The increase in interest expense was due to the new credit facility used to finance the acquisition of S3.

Income Tax Expense

Income tax expense for fiscal year ended September 30, 2020 was \$2.9 million, an increase of approximately \$0.7 million from the prior fiscal year. The effective tax rate for the fiscal years ending September 30, 2020 and 2019 was approximately 29%.

Non-GAAP Financial Measures for Fiscal 2020 and 2019

The Company uses EBITDA as a supplemental non-GAAP measures of our performance. The Company 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 Taxes Depreciation and Amortization (“EBITDA”) for the year ended September 30, 2020 was approximately \$20.5 million, an increase of approximately \$6.5 million, or 47.0%, over the prior fiscal year. This increase was principally due to the contribution of S3 and effective management of general and administrative expenses.

For fiscal 2020 and fiscal 2019, our net income was impacted by transaction costs incurred as a result of the IBA and S3 acquisitions, respectively. In fiscal 2020, we incurred \$1.0 million of acquisition-related expenses and in fiscal 2019, we incurred \$1.4 million of acquisition-related expenses. We are excluding acquisition-related expenses from this measure because they were incurred as a result of specific events, do not reflect the costs of our operations, and can affect the period-over-period assessment of operating results. We are reporting this non-GAAP metric to demonstrate the impact of these events.

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:

| | (in thousands) | | |
|-------------------------------------|------------------|------------------|-----------------|
| | Year Ended | | |
| | September 30, | | |
| | 2020 | 2019 | Change |
| Net income | \$ 7,114 | \$ 5,324 | \$ 1,790 |
| (i) Interest expense, net: | 3,441 | 2,473 | 968 |
| (ii) Provision for taxes | 2,906 | 2,171 | 735 |
| (iii) Depreciation and amortization | 7,003 | 3,956 | 3,047 |
| EBITDA | \$ 20,464 | \$ 13,924 | \$ 6,540 |

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

| | (in thousands) | | |
|--|-------------------------------------|-----------------|-----------------|
| | Year Ended September 30, | | |
| | 2020 | 2019 | Change |
| Net income | \$ 7,114 | \$ 5,324 | \$ 1,790 |
| Acquisition costs | 930 | 1,391 | (461) |
| Tax effect of excluding acquisition costs | (270) | (403) | 133 |
| Net income adjusted for acquisition costs | \$ 7,774 | \$ 6,312 | \$ 1,462 |
| Net income per diluted share | \$ 0.54 | \$ 0.41 | \$ 0.13 |
| Impact of acquisition costs, net | 0.05 | \$ 0.08 | (0.03) |
| Net income per diluted share adjusted for acquisition costs | \$ 0.59 | \$ 0.49 | \$ 0.10 |

Liquidity and capital management

For the year ended September 30, 2020, the Company generated operating income of approximately \$13.5 million and net income of approximately \$7.1 million. Cash flows from operations totaled approximately \$19.5 million and \$18.0 million for the years ended September 30, 2020 and 2019, respectively. The increase in cash from operations was principally due to higher profitability.

We used \$32.8 million and \$67.5 million of cash in investing activities during fiscal 2020 and fiscal 2019, respectively. The cash utilized in each respective fiscal year was predominantly due to acquisitions, IBA in fiscal 2020 and S3 in fiscal 2019.

Cash provided by financing activities during the fiscal years ended September 30, 2020 and 2019 was approximately \$12.9 million and \$44.9 million, respectively. The activity in each fiscal year was primarily the sourcing of capital to fund acquisitions and early repayment of principal on our senior term loan. We entered into a \$95 million credit facility entered on June 7, 2019 which included a \$70.0 million term loan. During the year ended September 30, 2020, we had repayments of approximately \$19.0 million under our credit facility. We amended and restated the credit facility on September 30, 2020 to acquire IBA. We expect to continue to use operating cash flow to pay outstanding debt.

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

| | Year Ended September 30, | |
|--|-------------------------------------|-------------------|
| | 2020 | 2019 |
| Net cash provided by operating activities | \$ 19,451 | \$ 18,039 |
| Net cash used in investing activities | (32,830) | (67,484) |
| Net cash provided by financing activities | 12,946 | 44,880 |
| Net change in cash and cash equivalents | \$ (433) | \$ (4,565) |

Sources of cash and cash equivalents

As of September 30, 2020, our immediate sources of liquidity include cash and cash equivalents of approximately \$1.4 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 September 30, 2020, we had unused borrowing capacity of \$24.8 million. 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.

Loan Facility

A summary of our loan facilities and subordinated debt financing as of September 30, 2020 is as follows:

| Lender | Arrangement | (\$ in Millions) | | |
|-------------------------------------|--------------------------------------|--------------------------|---------------|---------------|
| | | As of September 30, 2020 | | |
| | | Loan Balance | Interest * | Maturity Date |
| First National Bank of Pennsylvania | Secured term loan (a) | \$ 70.0 | LIBOR* + 3.5% | 09/30/25 |
| First National Bank of Pennsylvania | Secured revolving line of credit (b) | \$ — | LIBOR* + 3.5% | 09/30/25 |

*LIBOR rate as of September 30, 2020 was 0.16%. As of September 30, 2020, our LIBOR rate is subject to a minimum floor of 0.5%. The floor affects interest payments for the periods after September 30, 2020.

(a) Represents the principal amounts payable on our secured term loan. The \$70.0 million secured term loan is secured by liens on substantially all of the assets of the Company. The principal of the term loan is payable in quarterly installments with the remaining balance due on 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: 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 commencing in December 2020 through September 2025. The annual amount of principal amortization is based on a percentage of the loan balance at September 30, 2020. 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 in equal installments. 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 is \$36 million; the remaining outstanding balance of our term loan is subject to interest rate fluctuations and the minimum LIBOR floor. On the notional amount, the Company pays a fixed rate of 1.61%, plus applicable credit spread. As a result, for the year ended September 30, 2020, interest expense increased by less than \$0.2 million.

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

The Company's total borrowing availability, based on eligible accounts receivables at September 30, 2020, was \$24.8 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.

Contractual Obligations as of September 30, 2020

| Contractual obligations (Amounts in thousands) | Total | Payments Due By Period | | | |
|---|------------|------------------------|--------------|--------------|----------------------|
| | | Next 12 Months | 2-3 Years | 4-5 Years | More than 5 Years |
| Debt Obligations | \$ 70,000 | \$ 7,000 | \$ 15,750 | \$ 47,250 | \$ — |
| Facility leases | 31,002 | 3,317 | 6,710 | 6,291 | 14,684 |
| Equipment operating leases | 309 | 91 | 166 | 52 | — |
| Total Obligations | \$ 101,311 | \$ 10,408 | \$ 22,626 | \$ 53,593 | \$ 14,684 |

Off-Balance Sheet Arrangements

The Company did not have any material off-balance sheet arrangements as of September 30, 2020 or 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, 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 Annual Report on Form 10-K.

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 Annual Report on Form 10-K for discussion relative to the Company's revenue recognition in accordance with ASC-606.

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. At September 30, 2020, we performed a goodwill impairment evaluation. 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, 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 as of September 30, 2020 and September 30, 2019, respectively.

Stock-based Equity Compensation

The Company uses the fair value-based method for stock-based equity compensation. Options issued are designated as either an incentive stock or a non-statutory stock option. No option may be granted with a term of more than 10 years from the date of grant. Option awards may depend on achievement of certain performance measures determined by the Compensation Committee of our Board. Shares issued upon option exercise are newly issued common shares. All awards to employees and non-employees are recorded at fair value on the date of the grant and expensed over the period of vesting. The Company uses a 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 Annual Report, and we incorporate such discussion by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Except as described in this Item 7A, the Company has not engaged in trading practices in securities or other financial instruments and therefore does not have any material exposure to interest rate risk, foreign currency exchange rate risk, commodity price risk or other similar risks, which might otherwise result from such practices. The Company has limited foreign operations and therefore is not materially subject to fluctuations in foreign exchange rates, commodity prices or other market rates or prices from market sensitive instruments. On September 30 2019, we executed a floating-to-fixed interest rate swap with FNB as counter party. The notional amount in the floating-to-fixed interest rate swap is \$36 million; the remaining outstanding balance of our term loan is subject to interest rate fluctuations. The Company has determined that a 1.0% increase to the LIBOR rate would impact our interest expense by \$0.2 million per year. As of September 30, 2020, the interest rate was 3.66%.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

See attached Consolidated Financial Statements beginning on page F-1 attached to this Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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.

Management's Report on Internal Control over Financial Reporting

Our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended). Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the company; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting as of September 30, 2020. In making this evaluation, management used the 2013 framework on Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation under the COSO framework, our management has concluded that our internal control over financial reporting was effective as of September 30, 2020.

This annual report does not include an attestation report of our independent registered public accounting firm regarding our internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to rules of the Securities and Exchange Commission.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Controls over Financial Reporting

There have been 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 fourth quarter of our fiscal year ended September 30, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

The Information required by Items 10, 11, 12, 13 and 14 of Part III of Form 10-K has been omitted in reliance on General Instruction G(3) and is incorporated herein by reference to our proxy statement to be filed with the SEC pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended, as set forth below:

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item with respect to our executive officers, directors, board committees, and corporate governance matters will be set forth in our definitive Proxy Statement under the captions "Executive Officers," "Election of Directors," and "Corporate Governance" of the Proxy Statement, to be filed within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, and is incorporated herein by reference to our Proxy Statement.

We have adopted a written code of business conduct and ethics, which applies to our principal executive officer, principal financial or accounting officer or person serving similar functions and all of our other employees and members of our board of directors. We did not waive any provisions of the code of business ethics during the year ended September 30, 2020. Our code of business conduct and ethics is posted in the investor relations - corporate governance section of our website at www.dlhcorp.com. If we amend, or grant a waiver under, our code of business ethics that applies to our principal executive officer, principal financial or accounting officer, or persons performing similar functions, we intend to post information about such amendment or waiver on our website.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item will be set forth in our definitive Proxy Statement, to be filed within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, and is incorporated herein by reference to our Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item will be set forth in our definitive Proxy Statement, to be filed within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, and is incorporated herein by reference to our Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item will be set forth in our definitive Proxy Statement, to be filed within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, and is incorporated herein by reference to our Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item will be set forth in our definitive Proxy Statement under the caption "Independent Registered Public Accounting Firm", to be filed within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, and is incorporated herein by reference to our Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements

The financial statements and schedules of the Company are included in Part II, Item 8 of this report beginning on page F-1.

(a) (2) Financial Statement Schedule

All schedules have been omitted since the required information is not applicable or because the information required is included in the Consolidated Financial Statements or the notes thereto.

(a) (3) Exhibits

The exhibits designated with an asterisk (*) are filed herewith. All other exhibits have been previously filed with the Commission and, pursuant to 17 C.F.R. Secs. 201.24 and 240.12b-32, are incorporated by reference to the document referenced in brackets following the descriptions of such exhibits. The exhibits designated with a number sign (#) indicate a management contract or compensation plan or arrangement.

| Exhibit No. | Description |
|-------------|--|
| 2.1 | Stock Purchase Agreement among the Company, Social & Scientific Systems, Inc., and Social & Scientific Systems, Inc. Employee Stock Ownership Trust (filed as Exhibit 2.1 to Current Report on Form 8-K filed June 13, 2019). |
| 2.2 | Equity Purchase Agreement among DLH Holdings Corp., Irving Burton Associates, LLC, Project Insight Holdings, Inc., the Owners of the Seller and Anna L. Ryan as the Sellers' Representative (filed as Exhibit 2.1 to Current Report on Form 8-K filed October 6, 2020). |
| 3.1 | Amended and Restated Certificate of Incorporation (filed as Exhibit A to Definitive Proxy Statement dated May 1, 2000 as filed with the Securities and Exchange Commission). |
| 3.2 | Amended and Restated By-Laws of Registrant adopted as of August 27, 2020 (filed as Exhibit 3.1 to the Current Report on Form 8-K filed August 31, 2020). |
| 3.3 | Amendment to Amended and Restated Certificate of Incorporation of the Company (filed as Exhibit B to Definitive Proxy Statement dated March 13, 2008 as filed with the Securities and Exchange Commission). |
| 3.4 | Amendment to Amended and Restated Certificate of Incorporation of the Company filed June 25, 2012 (filed as Exhibit 3.1 to Current Report on Form 8-K filed on June 26, 2012). |
| 3.5 | Amendment to Amended and Restated Certificate of Incorporation filed February 12, 2015 (filed as Annex A to the Company's Proxy Statement dated December 31, 2014). |
| 4.1 | Specimen of the Common Stock Certificate (filed as Exhibit 4.1 to Annual Report on Form 10-K for the fiscal year ended September 30, 2017.) |
| 4.2 | Form of Warrant issued to Subordinated Lenders (filed as Exhibit 4.4 to Current Report on Form 8-K filed May 6, 2016). |
| 4.3 | * Description of Securities. |
| 10.1 | # Form of Stock Option Award under 2006 Long Term Incentive Plan (filed as Exhibit 10.6 to Quarterly Report on Form 10-Q filed on February 16, 2010). |
| 10.2 | # Employment Agreement between the Company and Kevin Wilson (filed as Exhibit 10.1 to Current Report on Form 8-K dated October 3, 2013). |
| 10.3 | # 2006 Long Term Incentive Plan, as amended (filed as Annex A to the Company's Proxy Statement dated January 3, 2014). |
| 10.4 | Lease Agreement dated April 27, 2015 between DLH Holdings Corp. and Piedmont Center, 1-4 LLC (filed as Exhibit 10.1 to Quarterly Report on Form 10-Q filed on August 5, 2015). |
| 10.5 | # Amendment to Employment Agreement with Kevin Wilson (filed as Exhibit 10.1 to Current Report on Form 8-K filed October 2, 2015). |
| 10.6 | # 2016 Omnibus Equity Incentive Plan, as amended (incorporated by reference to Appendix A to the Company's definitive Proxy Statement dated December 29, 2017). |
| 10.7 | # Form of Stock Option Award Agreement under the 2016 Omnibus Equity Incentive Plan (filed as Exhibit 10.8 to Quarterly Report on Form 10-Q filed May 16, 2016). |
| 10.8 | Registration Rights Agreement dated September 29, 2016 (filed as Exhibit 10.2 to Current Report on 8-K filed on October 4, 2016). |
| 10.9 | # Change in Control, Severance and Covenant Agreement with Helene Fisher, dated June 4, 2018 (filed as Exhibit 10.2 to Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2018, filed August 6, 2018). |
| 10.10 | Credit Agreement among DLH Holdings Corp., DLH Solutions, Inc., Danya International, LLC, Social & Scientific Systems, Inc., First National Bank of Pennsylvania, as Administrative Agent and other lenders party thereto (filed as Exhibit 10.1 to Current Report on Form 8-K filed on June 13, 2019). |
| 10.11 | First Amendment to Credit Agreement among DLH Holdings Corp., DLH Solutions, Inc., Danya International, LLC, Social & Scientific Systems, Inc., First National Bank of Pennsylvania, as Administrative Agent and other lenders party thereto (filed as Exhibit 10.1 to Current Report on Form 8-K filed on September 12, 2019). |
| 10.12 | Amended and Restated Credit Agreement among DLH Holdings Corp., DLH Solutions, Inc., Danya International, LLC, Social & Scientific Systems, Inc., Irving Burton Associates, LLC, First National Bank of Pennsylvania, as Administrative Agent and other lenders party thereto (filed as Exhibit 10.1 to Current Report on Form 8-K filed October 6, 2020). |
| 10.13 | # Employment Agreement between the Company and Zachary C. Parker dated October 11, 2019 (filed as Exhibit 10.1 to Current Report on 8-K filed on October 17, 2019). |
| 10.14 | # Employment Offer Letter with Kevin Beverly dated October 18, 2019 (filed as Exhibit 10.1 to Current Report on 8-K filed on October 22, 2019). |

- [10.15](#) # [Change in Control, Severance and Covenant Agreement with Kevin Beverly dated October 18, 2019 \(filed as Exhibit 10.2 to Current Report on 8-K filed on October 22, 2019\).](#)
- [10.16](#) # [Form of Restricted Stock Unit for non-employee directors under the 2016 Omnibus Equity Incentive Plan.](#)
- [10.17](#) # [Employment Offer Letter between the Company and Jeanine M. Christian \(filed as Exhibit 10.1 to Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2020, filed August 5, 2020\).](#)
- [10.18](#) # [Employment Offer Letter between the Company and Jacqueline S. Everett \(filed as Exhibit 10.2 to Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2020, filed August 5, 2020\).](#)
- [10.19](#) # [Change in Control, Severance and Covenant Agreement between the Company and Jeanine M. Christian \(filed as Exhibit 10.3 to Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2020, filed August 5, 2020\).](#)
- [10.20](#) # [Change in Control, Severance and Covenant Agreement between the Company and Jacqueline S. Everett \(filed as Exhibit 10.4 to Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2020, filed August 5, 2020\).](#)
- [10.21](#) # [Letter Agreement dated July 15, 2020 between the Company and Kevin H. Beverly \(filed as Exhibit 10.5 to Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2020, filed August 5, 2020\).](#)
- [10.22](#) # [Employment agreement between the Company and Kathryn M JohnBull dated September 14, 2020 \(filed as Exhibit 10.1 to Current Report on Form 8-K filed on September 15, 2020\)](#)
- [21.00](#) * [Subsidiaries of Registrants.](#)
- [23.10](#) * [Consent of WithumSmith+Brown, PC](#)
- [31.10](#) * [Certification of Chief Executive Officer pursuant to Section 17 CFR 240.13a-14\(a\) or 17 CFR 240.15d-14\(a\).](#)
- [31.20](#) * [Certification of Chief Financial Officer pursuant to Section 17 CFR 240.13a-14\(a\) or 17 CFR 240.15d-14\(a\).](#)
- [32.10](#) * [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.](#)
- 101.0 The following financial information from the DLH Holdings Corp. Annual Report on Form 10-K for the fiscal year ended September 30, 2020, formatted in iXBRL (Inline eXtensible Business Reporting Language) and filed electronically herewith: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Cash Flows; (iv) the Consolidated Statements of Changes in Shareholders' Equity and, (v) the Notes to the Consolidated Financial Statements. Filed electronically herewith.

DLH Holdings Corp. and Subsidiaries
Index to Consolidated Financial Statements

| | <u>Page</u> |
|--|---------------------|
| Report of Independent Registered Public Accounting Firm | F-2 |
| Consolidated Statements of Operations for the years ended September 30, 2020 and 2019 | F-3 |
| Consolidated Balance Sheets as of September 30, 2020 and 2019 | F-4 |
| Consolidated Statements of Cash Flows for the years ended September 30, 2020 and 2019 | F-5 |
| Consolidated Statements of Changes in Shareholders' Equity for the years ended September 30, 2020 and 2019 | F-6 |
| Notes to Consolidated Financial Statements | F-7 |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of DLH Holdings Corp.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of DLH Holdings Corp. and Subsidiaries (the "Company") as of September 30, 2020 and 2019, the related consolidated statements of operations, cash flows, and shareholders' equity, for each of the two years in the period ended September 30, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of September 30, 2020 and 2019, and the consolidated results of its operations and its cash flows for each of the two years in the period ended September 30, 2020, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ WithumSmith+Brown, PC

We have served as the Company's auditor since 2007.

Whippany, New Jersey
December 06, 2020

DLH HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands except per share amounts)

| | Year Ended September 30, | |
|--|-----------------------------|-----------------|
| | 2020 | 2019 |
| Revenue | \$ 209,185 | \$ 160,391 |
| Cost of Operations | | |
| Contract costs | 163,596 | 124,551 |
| General and administrative costs | 24,195 | 20,525 |
| Acquisition costs | 930 | 1,391 |
| Depreciation and amortization | 7,003 | 3,956 |
| Total operating costs | 195,724 | 150,423 |
| Income from operations | 13,461 | 9,968 |
| Interest expense, net | 3,441 | 2,473 |
| Income before income taxes | 10,020 | 7,495 |
| Income tax expense | 2,906 | 2,171 |
| Net income | \$ 7,114 | \$ 5,324 |
| Net income per share - basic | \$ 0.58 | \$ 0.44 |
| Net income per share - diluted | \$ 0.54 | \$ 0.41 |
| Weighted average common shares outstanding | | |
| Basic | 12,282 | 12,018 |
| Diluted | 13,105 | 13,041 |

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

DLH HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands except par value of shares)

| | September 30, 2020 | September 30, 2019 |
|--|-----------------------|-----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,357 | \$ 1,790 |
| Accounts receivable | 32,541 | 23,226 |
| Other current assets | 3,499 | 1,831 |
| Total current assets | 37,397 | 26,847 |
| Equipment and improvements, net | 3,339 | 5,343 |
| Operating leases right-of-use-assets | 22,427 | — |
| Deferred taxes, net | 37 | 2,345 |
| Goodwill | 67,144 | 52,758 |
| Intangible assets, net | 52,612 | 41,208 |
| Other long-term assets | 606 | 757 |
| Total assets | \$ 183,562 | \$ 129,258 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Debt obligations - current, net of deferred financing costs | \$ 6,727 | \$ — |
| Operating lease liabilities - current | 2,045 | — |
| Accrued payroll | 10,611 | 8,852 |
| Accounts payable, accrued expenses, and other current liabilities | 28,578 | 20,633 |
| Total current liabilities | 47,961 | 29,485 |
| Long-term liabilities: | | |
| Operating lease liabilities - long-term | 21,620 | — |
| Debt obligations - long term, net of deferred financing costs | 60,544 | 53,629 |
| Other long-term liabilities | — | 573 |
| Total long-term liabilities | 82,164 | 54,202 |
| Total liabilities | 130,125 | 83,687 |
| Shareholders' equity: | | |
| Common stock, \$0.001 par value; authorized 40,000 shares; issued and outstanding 12,404 and 12,036 at September 30, 2020 and 2019, respectively | 12 | 12 |
| Additional paid-in capital | 85,868 | 85,114 |
| Accumulated deficit | (32,443) | (39,555) |
| Total shareholders' equity | 53,437 | 45,571 |
| Total liabilities and shareholders' equity | \$ 183,562 | \$ 129,258 |

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

DLH HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

| | Year Ended September 30, | |
|---|-----------------------------|-----------------|
| | 2020 | 2019 |
| Operating activities | | |
| Net income | \$ 7,114 | \$ 5,324 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization expense | 7,003 | 3,956 |
| Amortization of deferred financing costs | 721 | 982 |
| Stock based compensation expense | 910 | 790 |
| Deferred taxes, net | 2,308 | 1,792 |
| Non-cash gain from lease modification | (121) | — |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (5,408) | 617 |
| Other current assets | (1,592) | (57) |
| Accrued payroll | 489 | 178 |
| Accounts payable, accrued expenses, and other current liabilities | 7,188 | 5,262 |
| Other long-term assets/liabilities | 839 | (805) |
| Net cash provided by operating activities | 19,451 | 18,039 |
| Investing activities | | |
| Business acquisition, net of cash acquired | (32,678) | (67,079) |
| Purchase of equipment and improvements | (152) | (405) |
| Net cash used in investing activities | (32,830) | (67,484) |
| Financing activities | | |
| Borrowing on senior debt | 33,000 | 70,000 |
| Repayments of senior debt | (19,000) | (21,708) |
| Repurchase of common stock | (211) | — |
| Payment of deferred financing costs | (898) | (3,451) |
| Proceeds from issuance of common stock upon exercise of options | 55 | 39 |
| Net cash provided by financing activities | 12,946 | 44,880 |
| Net change in cash and cash equivalents | (433) | (4,565) |
| Cash and cash equivalents at beginning of year | 1,790 | 6,355 |
| Cash and cash equivalents at end of year | \$ 1,357 | \$ 1,790 |
| Supplemental disclosures of cash flow information | | |
| Cash paid during the year for interest | \$ 2,806 | \$ 1,502 |
| Cash paid during the year for income taxes | \$ 917 | \$ 543 |

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

DLH HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended September 30, 2020 and 2019
(Amounts in thousands)

| | Common Stock | | Treasury Stock | | Additional Paid-In Capital | Accumulated Deficit | Total Shareholders' Equity |
|--|---------------|--------------|----------------|-------------|----------------------------|---------------------|----------------------------|
| | Shares | Amount | Shares | Amount | | | |
| Year Ended September 30, 2020 | | | | | | | |
| Balance at September 30, 2019 | 12,036 | \$ 12 | — | \$ — | \$ 85,114 | \$ (39,555) | \$ 45,571 |
| Cumulative-effect adjustment for adoption of ASC 842 | — | — | — | — | — | (2) | (2) |
| Expense related to director restricted stock unit | 90 | — | — | — | 347 | — | 347 |
| Expense related to employee stock options | — | — | — | — | 563 | — | 563 |
| Exercise of stock options | 395 | — | — | — | 55 | — | 55 |
| Repurchase of common stock | — | — | 28 | (113) | — | — | (113) |
| Cancellation of common stock | (117) | — | (28) | 113 | (211) | — | (98) |
| Net income | — | — | — | — | — | 7,114 | 7,114 |
| Balance at September 30, 2020 | 12,404 | \$ 12 | — | \$ — | \$ 85,868 | \$ (32,443) | \$ 53,437 |
| | Common Stock | | Treasury Stock | | Additional Paid-In Capital | Accumulated Deficit | Total Shareholders' Equity |
| | Shares | Amount | Shares | Amount | | | |
| Year Ended September 30, 2019 | | | | | | | |
| Balance at September 30, 2018 | 11,899 | \$ 12 | — | \$ — | \$ 84,285 | \$ (44,879) | \$ 39,418 |
| Expense related to director restricted stock unit | 102 | — | — | — | 527 | — | 527 |
| Expense related to employee stock options | — | — | — | — | 263 | — | 263 |
| Exercise of stock options | 35 | — | — | — | 39 | — | 39 |
| Net income | — | — | — | — | — | 5,324 | 5,324 |
| Balance at September 30, 2019 | 12,036 | \$ 12 | — | \$ — | \$ 85,114 | \$ (39,555) | \$ 45,571 |

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

DLH HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2020

1. Basis of Presentation

The accompanying consolidated financial statements include the accounts of DLH Holdings Corp. and its subsidiaries (together with its subsidiaries, "DLH" or the "Company" and also referred to as "we," "us," and "our"), all of which are wholly owned. All significant intercompany balances and transactions have been eliminated in consolidation. The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and with the instructions to Form 10-K, Regulation S-X, and Regulation S-K.

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 98% 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 the Company derives at least 10% of its revenues.

Our two largest customers are the Department of Veteran Affairs ("VA") and the Department of Health and Human Services ("HHS"). The VA comprised approximately 48% and 57% of revenue for the years ended September 30, 2020 and 2019, respectively, and HHS comprised approximately 45% and 39% of revenue for the years ended September 30, 2020 and 2019, respectively.

3. New Accounting Pronouncements

In February 2016, the FASB issued new accounting guidance included in Accounting Standard Codification ("ASC") 842 related to leases. This new accounting guidance is intended to improve financial reporting about leasing transactions. This accounting standard will require organizations that lease assets, referred to as "Lessees", to recognize on the balance sheet the assets and liabilities. Per ASU 2016-02, Leases (Topic 842), we determine if a contract contains a lease by identifying an asset and determining if we have the right to control the use of the identified asset for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset when the lessee has the right to direct the use of the identified asset and obtain substantially all economic benefits from its use, throughout the period of its use. We also determine if a lease qualifies as an operating or finance lease. All Company leases at adoption were operating leases. The ASU also requires lessees to identify and separate lease and non-lease components. Per a practical expedient provided in the ASU, the Company elected not to separate lease and non-lease components. Upon lease commencement, the lease liability and right-of-use asset are recorded on the balance sheet. The lease liability is measured as the present value of future minimum lease payments, including all probable renewals, to be made during the lease term. The right-of-use asset is measured as the present value of future minimum lease payments to be made during the lease term, including all probable renewals, plus lease payments made to the lessor before or at lease commencement and indirect costs paid less incentives received. DLH adopted this standard on October 1, 2019 and recognized initial right of use assets and lease liabilities of \$17.4 million and \$18.0 million, respectively. At adoption, the Company elected several practical expediciencies to facilitate the implementation of the new standard and did not recast comparative prior year information. As such, we did not reassess and include initial direct costs in the measurement of right-of-use assets, capitalize leases with terms of 12 months or less, nor reassess lease classification of existing leases.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses, which requires companies to record an allowance for expected credit losses over the contractual term of certain financial assets, including short-term trade receivables and contract assets. Additionally, it expands disclosure requirements for credit quality of financial assets. ASU 2016-13

becomes effective for the Company in the first quarter of fiscal year 2021. We do not expect a material impact to our operating results, financial position, or cash flows as a result of adopting this new standard.

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

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 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. For all other entities the amendments are effective for fiscal years beginning after December 15, 2023. 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 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 would have a material adverse effect on the Company's financial position and results of operations. We account for the effect of a change in accounting estimate during the period in which the change occurs.

Fair Value of Financial Instruments

The carrying amounts of the Company's cash and cash equivalents, accounts receivable, contract assets, accrued expenses, and accounts payable approximate fair value due to the short-term nature of these instruments. The fair values of the Company's debt instruments approximate 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, 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. 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. Maintenance and repair costs are expensed as incurred.

Leases

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 \$67.1 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, 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 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. Similarly, there were no impairments during the prior year ended September 30, 2019.

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 September 30, 2020 and 2019. We report interest and penalties as a component of income tax expense. For the years ended September 30, 2020 and 2019, we recognized no interest and no penalties related to income taxes.

Stock-based Equity Compensation

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

Cash and Cash Equivalents

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

Earnings per Share

Basic earnings per share is calculated by dividing income available to common shareholders by the weighted average number of common stock outstanding and restricted stock grants that vested or are likely to vest during the period. Diluted earnings per share is calculated by dividing income available to common shareholders by the weighted average number of basic common

shares outstanding, adjusted to reflect potentially dilutive securities. Diluted earnings per share is calculated using the treasury stock method.

Treasury Stock

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

Interest Rate Swap

The Company uses derivative financial instruments to manage interest rate risk associated with its variable 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 are recognized in interest expense in the Consolidated Statements of Operations. The Company does not hold or issue any derivative instrument for trading or speculative purposes.

Risks & Uncertainties

Management continues to evaluate the impact of the COVID-19 pandemic on the industry and has 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. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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.

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

| | (in thousands) | | |
|----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2020 | September 30, 2019 | September 30, 2018 |
| Contract assets | \$ 7,943 | \$ 4,302 | \$ 214 |
| Contract liabilities | \$ 200 | \$ 92 | \$ — |

The increase in contract assets and contract liabilities is primarily due to the acquisitions of Social & Scientific Systems, Inc ("S3") on June 7, 2019 and Irving Burton Associates, LLC. ("IBA") on September 30, 2020.

Disaggregation of revenue from contracts with customers

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

Revenue by customer:

| | (in thousands) | |
|---|-----------------------------|-------------------|
| | Year Ended September 30, | |
| | 2020 | 2019 |
| Department of Veterans Affairs | \$ 100,204 | \$ 91,949 |
| Department of Health and Human Services | 95,026 | 62,000 |
| Other | 13,955 | 6,442 |
| Total revenue | \$ 209,185 | \$ 160,391 |

Revenue by contract type:

| | (in thousands) | |
|----------------------|-----------------------------|-------------------|
| | Year Ended September 30, | |
| | 2020 | 2019 |
| Time and materials | \$ 147,509 | \$ 134,136 |
| Cost reimbursable | 58,091 | 23,200 |
| Firm fixed price | 3,585 | 3,055 |
| Total revenue | \$ 209,185 | \$ 160,391 |

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

| | (in thousands) | |
|----------------------|-----------------------------|-------------------|
| | Year Ended September 30, | |
| | 2020 | 2019 |
| Prime contractor | \$ 193,448 | \$ 154,207 |
| Subcontractor | 15,737 | 6,184 |
| Total revenue | \$ 209,185 | \$ 160,391 |

6. Leases

We have leases for facilities and office equipment. Our lease liabilities are recognized as the present value of the future minimum lease payments over the lease term. Our right-of-use assets are recognized as the present value of the future minimum lease payments over the lease term less unamortized lease incentives and the balance remaining in deferred rent liability under ASC 840. 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 is 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.

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

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

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

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

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

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

The Company executed a modification of a lease during the fiscal quarter ending December 31, 2019 and recognized adjustments to the right-of-use asset and lease liabilities in accordance with ASC 842. As a result of the modification, a gain of \$0.1 million was recognized. The gain represents the difference between the change in values of the right-of-use-asset and lease liabilities, which were \$7.3 million and \$7.2 million, respectively. For the year ended September 30, 2020, the increase to right-of-use assets and lease liabilities related to the modification was \$24.7 million and \$25.2 million, respectively. For more information, refer to [Note 7. Supporting Financial Information](#).

As of September 30, 2020, operating leases for facilities and equipment have remaining lease terms of 0.6 to 10.5 years.

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

| | (in thousands) |
|--|---------------------------|
| | September 30, 2020 |
| Operating lease right-of-use assets | \$ 22,427 |
| Operating lease liabilities, current | \$ 2,045 |
| Operating lease liabilities - long-term | 21,620 |
| Total operating lease liabilities | \$ 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 in fiscal 2019. During the year ended September 30, 2020, the sublease was amended with the new terms commencing in July 2020. The sublease term is 5 years with two additional 1 year term extension options.

The Company's lease costs are included within general and administrative costs in our Consolidated Statements of Operations. For the year ended September 30, 2020, total lease costs for our operating leases are as follows:

| | (in thousands) |
|--------------------------|---------------------------|
| | Year Ended |
| | September 30, 2020 |
| Operating | \$ 4,236 |
| Short-term | 155 |
| Variable | 63 |
| Sublease income | (271) |
| Total lease costs | \$ 4,183 |

Other information related to our leases are as follows:

| | Ref | September 30, 2020 |
|---------------------------------------|------------|---------------------------|
| Weighted-average remaining lease term | | 9.1 years |
| Weighted-average discount rate | (a) | 5.99 % |

Ref (a): Calculation based off of borrowing terms from senior credit facility.

| | (in thousands) |
|--|---------------------------|
| | Year Ended |
| | September 30, 2020 |
| Cash paid for amounts included in the measurement of lease liabilities | \$ 3,586 |
| Lease liabilities arising from obtaining right-of-use-assets | \$ 229 |

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

| For the Fiscal Year Ending September 30, | | (in thousands) |
|---|-----------|----------------|
| 2021 | \$ | 3,408 |
| 2022 | | 3,501 |
| 2023 | | 3,375 |
| 2024 | | 3,251 |
| 2025 | | 3,092 |
| Thereafter | | 14,684 |
| Total future minimum lease payments | | 31,311 |
| Less: imputed interest | | (7,646) |
| Present value of future minimum lease payments | | 23,665 |
| Less: current portion of operating lease liabilities | | (2,045) |
| Long-term operating lease liabilities | \$ | 21,620 |

Under ASC 840, the Company's future minimum lease payments for the prior fiscal year ended September 30, 2019 were as follows:

| For the Fiscal Year Ending September 30, | | (in thousands) |
|---|-----------|----------------|
| 2020 | \$ | 3,484 |
| 2021 | | 3,051 |
| 2022 | | 3,136 |
| 2023 | | 3,166 |
| 2024 | | 3,100 |
| Thereafter | | 16,945 |
| Total future minimum lease payments | \$ | 32,882 |

7. Supporting Financial Information

Accounts receivable

| | Ref | (in thousands) | |
|---------------------------------------|-----------|-----------------------|-----------------------|
| | | September 30, 2020 | September 30, 2019 |
| Billed receivables | \$ | 24,598 | \$ 18,924 |
| Contract assets | | 7,943 | 4,302 |
| Total accounts receivable | | 32,541 | 23,226 |
| Less: Allowance for doubtful accounts | (a) | — | — |
| Accounts receivable, net | \$ | 32,541 | \$ 23,226 |

Ref (a): Accounts receivable are non-interest bearing, unsecured and carried at net realizable value. We evaluate our receivables on a quarterly basis and determine whether an allowance is appropriate based on specific collection issues. 0 No allowance for doubtful accounts was deemed necessary at either September 30, 2020 or September 30, 2019.

Other current assets

| | (in thousands) | |
|--------------------------------|-----------------------|-----------------------|
| | September 30, 2020 | September 30, 2019 |
| Prepaid insurance and benefits | \$ 665 | \$ 495 |
| Other receivables | 1,363 | 301 |
| Prepaid expenses | 1,471 | 1,035 |
| Other current assets | \$ 3,499 | \$ 1,831 |

Equipment and improvements, net

| | (in thousands) | |
|--|-----------------------|-----------------------|
| | September 30, 2020 | September 30, 2019 |
| Furniture and equipment | \$ 958 | \$ 1,262 |
| Computer equipment | 1,171 | 1,043 |
| Computer software | 4,341 | 3,985 |
| Leasehold improvements | 1,595 | 1,595 |
| Total equipment and improvements | 8,065 | 7,885 |
| Less accumulated depreciation and amortization | (4,726) | (2,542) |
| Equipment and improvements, net | \$ 3,339 | \$ 5,343 |

Ref (a): Depreciation and amortization was \$2.2 million and \$1.2 million for the years ended September 30, 2020 and 2019, respectively.

Intangible assets, net

| | (in thousands) | |
|---|-----------------------|-----------------------|
| | September 30, 2020 | September 30, 2019 |
| Intangible assets | (a) | |
| Customer contracts and related customer relationships | \$ 45,600 | \$ 45,600 |
| Covenants not to compete | 480 | 480 |
| Trade name | 2,109 | 2,109 |
| Acquired intangibles - IBA acquisition | (b) 16,223 | — |
| Total intangible assets | 64,412 | 48,189 |
| Less accumulated amortization | | |
| Customer contracts and related customer relationships | (11,150) | (6,590) |
| Covenants not to compete | (212) | (164) |
| Trade name | (438) | (227) |
| Total accumulated amortization | (11,800) | (6,981) |
| Intangible assets, net | \$ 52,612 | \$ 41,208 |

Ref (a): Total amount of amortization expense for the year ended September 30, 2020 and 2019 was \$4.8 million and \$2.7 million, respectively.

Ref (b): The Company is currently valuing the acquired intangible assets from the IBA acquisition. The balances provided are an estimate and subject to revision. Please refer to [Note 16](#) for more information.

| Estimated amortization expense for future years: | | (in thousands) |
|--|-----------------------------------|------------------|
| | Fiscal 2021 | \$ 6,441 |
| | Fiscal 2022 | 6,441 |
| | Fiscal 2023 | 6,441 |
| | Fiscal 2024 | 6,441 |
| | Fiscal 2025 | 6,441 |
| | Thereafter | 20,407 |
| | Total amortization expense | \$ 52,612 |

Goodwill

The changes in the carrying amount of goodwill for the years ended September 30, 2020 and 2019 are as follows:

| | Ref | (in thousands) Total |
|---|-----|-------------------------|
| Balance at September 30, 2018 | | \$ 25,989 |
| Increase from S3 acquisition | | 26,769 |
| Balance at September 30, 2019 | | 52,758 |
| Preliminary increase from IBA acquisition | (a) | 14,386 |
| Balance at September 30, 2020 | | \$ 67,144 |

Ref (a): The Company is currently valuing the goodwill from the IBA acquisition. The balance provided is an estimate and subject to revision. Please refer to [Note 16](#) for more information.

Accounts payable, accrued expenses, and other current liabilities

| | (in thousands) | |
|--|-----------------------|-----------------------|
| | September 30, 2020 | September 30, 2019 |
| Accounts payable | \$ 14,645 | \$ 10,054 |
| Accrued benefits | 2,833 | 2,252 |
| Accrued bonus and incentive compensation | 2,340 | 1,951 |
| Accrued workers' compensation insurance | 5,529 | 4,007 |
| Other accrued expenses | 3,231 | 2,369 |
| Accounts payable, accrued expenses, and other current liabilities | \$ 28,578 | \$ 20,633 |

Debt Obligations

| | (in thousands) | |
|--|-----------------------|-----------------------|
| | September 30, 2020 | September 30, 2019 |
| Bank term loan | \$ 70,000 | \$ 56,000 |
| Less unamortized deferred financing cost | (2,729) | (2,371) |
| Net bank debt obligation | 67,271 | 53,629 |
| Less current portion of term loan debt obligations | (6,727) | — |
| Long-term portion of bank debt obligation | \$ 60,544 | \$ 53,629 |

Interest expense

| | | (in thousands) | |
|--|-----|-------------------|-------------------|
| | | Year Ended | |
| | | September 30, | |
| | Ref | 2020 | 2019 |
| Interest expense | (a) | \$ (2,841) | \$ (1,512) |
| Amortization of deferred financing costs | (b) | (721) | (982) |
| Other income (expense), net | (c) | 121 | 21 |
| Interest expense, net | | \$ (3,441) | \$ (2,473) |

Ref (a): Interest expense on borrowing

Ref (b): Amortization of expenses related to term loan and revolving line of credit. For 2019, amortization included write-off of remaining deferred financing costs related to prior loan agreement that was terminated early.

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

8. Credit Facilities

A summary of our loan facility as of September 30, 2020 is as follows:

| Lender | Arrangement | (\$ in Millions) | | |
|-------------------------------------|--------------------------------------|--------------------------|---------------|---------------|
| | | As of September 30, 2020 | | |
| | | Loan Balance | Interest | Maturity Date |
| First National Bank of Pennsylvania | Secured term loan (a) | \$ 70.0 | LIBOR* + 3.5% | 09/30/25 |
| First National Bank of Pennsylvania | Secured revolving line of credit (b) | \$ — | LIBOR* + 3.5% | 09/30/25 |

*LIBOR rate as of September 30, 2020 was 0.16%. As of September 30, 2020, our LIBOR rate is subject to a minimum floor of 0.5%. The floor affects interest payments for the periods after September 30, 2020

(a) Represents the principal amounts payable on our secured term loan. The \$70.0 million secured term loan is secured by liens on substantially all of the assets of the Company. The principal of the term loan is payable in quarterly installments with the remaining balance due on 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: 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 commencing in December 2020 through September 2025. The annual amount of principal amortization is based on a percentage of the loan balance at September 30, 2020. 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 in equal installments. 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 is \$36 million that matures in 2024. The remaining outstanding balance of our term loan is subject to interest rate fluctuations and the minimum LIBOR floor. On the notional amount, the Company pays a base fixed rate of 1.61%, plus applicable credit spread. As a result, for the year ended September 30, 2020, interest expense increased by less than \$0.2 million.

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

The Company's total borrowing availability, based on eligible accounts receivables at September 30, 2020, was \$24.8 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 an incentive stock or a non-statutory stock option. No option was 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 September 30, 2020, there were 0.9 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:

| | Ref | (in thousands) Year Ended September 30, | |
|----------------------------|-----|---|--------|
| | | 2020 | 2019 |
| DLH employees | \$ | 563 | \$ 263 |
| Non-employee directors | (a) | 347 | 527 |
| Total stock option expense | \$ | 910 | \$ 790 |

Ref (a): In the first quarter of fiscal 2019, we issued 90,000 restricted stock units to the Company's non-employee directors, all of which vested as of September 30, 2020. The shares of common stock underlying such restricted stock units were issued on October 5, 2020. Equity grants of restricted stock units, in accordance with DLH compensation policy for non-employee directors, were made in the first quarter of fiscal 2020 totaling 63,177 restricted stock units. The restricted stock units were granted on October 1, 2020.

Unrecognized stock-based compensation expense

| | Ref | (in thousands) Year Ended September 30, | |
|--|--------|---|--------|
| | | 2020 | 2019 |
| Unrecognized expense for DLH employees | (a) \$ | 2,633 | \$ 631 |

Ref (a): Compensation expense for the portion of equity awards for which the requisite service has not been rendered is recognized as the requisite service is rendered. The compensation expense for that portion of awards has been based on the grant-date fair value of those awards as calculated for recognition purposes under applicable guidance. 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 4.58 years.

Stock option activity for the year ended September 30, 2020:

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

| | Ref | (in thousands) Number of Shares | Weighted Average Exercise Price | (in years) Weighted Average Remaining Contractual Term | (in thousands) Aggregate Intrinsic Value |
|--|-----|---------------------------------------|--|---|---|
| Options outstanding, September 30, 2019 | | 2,134 | \$4.36 | 5.9 | \$ 4,815 |
| Granted | (a) | 750 | \$6.74 | — | — |
| Exercised | | (395) | \$0.99 | — | — |
| Cancelled | | (360) | \$2.89 | — | — |
| Options outstanding, September 30, 2020 | | 2,129 | — | 7.4 | \$ 6,583 |

Ref (a): Utilizing a volatility of 50% along with assumptions of a 10-year term and the aforementioned 10-day stock price threshold results in an indicated range of value of the Options granted during the year ended September 30, 2020, as follows using the Monte Carlo and Black Scholes methods.

| Grant Date | Ref | Strike Price | Stock Price | Vesting Threshold Price | Expected Term (Years) | Volatility 50% | Calculated Fair Value |
|---------------|-----|--------------|-------------|-------------------------|-----------------------|-------------------|-----------------------|
| July 13, 2020 | (a) | \$ 8.02 | \$ 8.02 | Service | 10 | | \$ 4.69 |
| July 13, 2020 | | \$ 8.02 | \$ 8.02 | 12.00 | 10 | | \$ 4.79 |
| July 13, 2020 | | \$ 8.02 | \$ 8.02 | 14.00 | 10 | | \$ 4.76 |
| July 13, 2020 | | \$ 8.02 | \$ 8.02 | 16.00 | 10 | | \$ 4.76 |

Notes:

Results based on 100,000 simulations

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

Stock options shares outstanding, vested and unvested for the years ended:

| | Ref | (in thousands) Number of Shares September 30, | |
|----------------------------|-----|---|--------------|
| | | 2020 | 2019 |
| Vested and exercisable | (a) | 1,213 | 1,300 |
| Unvested | (b) | 916 | 834 |
| Options outstanding | | 2,129 | 2,134 |

Ref (a): Weighted average exercise price of vested and exercisable shares was \$2.25 and \$1.51 at September 30, 2020 and 2019, respectively. Aggregate intrinsic value was approximately \$6.1 million and \$3.9 million at September 30, 2020 and 2019, respectively. Weighted average contractual term remaining was 4.6 years and 3.8 years at September 30, 2020 and 2019, 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) | |
|--|----------------------|-------------|
| | Year Ended | |
| | September 30, | |
| | 2020 | 2019 |
| Numerator: | | |
| Net income | \$ 7,114 | \$ 5,324 |
| Denominator: | | |
| Denominator for basic net income per share - weighted-average outstanding shares | 12,282 | 12,018 |
| Effect of dilutive securities: | | |
| Stock options and restricted stock | 823 | 1,023 |
| Denominator for diluted net income per share - weighted-average outstanding shares | 13,105 | 13,041 |
| Net income per share - basic | \$ 0.58 | \$ 0.44 |
| Net income per share - diluted | \$ 0.54 | \$ 0.41 |

11. Commitments and Contingencies

Contractual Obligations as of September 30, 2020:

| Contractual obligations (Amounts in thousands) | Total | Payments Due Per Fiscal Year | | | | | |
|---|-------------------|------------------------------|------------------|------------------|------------------|------------------|------------------|
| | | 2021 | 2022 | 2023 | 2024 | 2025 | Thereafter |
| Debt obligations | \$ 70,000 | \$ 7,000 | \$ 7,000 | \$ 8,750 | \$ 8,750 | \$ 38,500 | \$ — |
| Facility leases | 31,002 | 3,317 | 3,418 | 3,292 | 3,199 | 3,092 | 14,684 |
| Equipment operating leases | 309 | 91 | 83 | 83 | 52 | — | — |
| Total Contractual Obligations | \$ 101,311 | \$ 10,408 | \$ 10,501 | \$ 12,125 | \$ 12,001 | \$ 41,592 | \$ 14,684 |

Workers' Compensation

We accrue workers' 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 September 30, 2020 and September 30, 2019 was approximately \$5.5 million and \$4.0 million, respectively.

Legal Proceedings

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

12. Related Party Transactions

The Company has determined that for the years ended September 30, 2020 and 2019 and through the filing date of this report, there were no significant related party transactions that have occurred which require disclosure through the date that these consolidated financial statements were issued.

13. Income Taxes

The Company accounts for income taxes in accordance with the liability method. Under this method, 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 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 will also set up a valuation allowance, reducing the carrying value of deferred tax assets if it is more likely than not that some or all of the deferred tax asset will not be realized, based on estimated future taxable income. Presently, the Company has no deferred tax asset valuation allowances.

At September 30, 2020 and 2019, respectively, the Company had federal net operating losses of approximately \$7.4 million and \$18.9 million. The Company utilized approximately \$11.5 million of federal net operating losses to offset taxes otherwise currently due in 2020. The federal NOLs begin to expire in 2030 and continue to expire through 2033. The Company has no material state net operating losses carryforward.

However, the Coronavirus Aid, Relief, and Economic Security (CARES) Act modifies the credit for prior-year minimum tax liability of corporations, including to accelerate the recovery of remaining minimum tax credits of a corporation for its 2019 taxable year from its 2021 taxable year and to permit a corporation to elect instead to recover 100 percent of any of its remaining minimum tax credits in its 2018 taxable year. The Company has AMT credits of \$366 thousand as of the year ended September 30, 2020, of which 100 percent has been established as an income tax receivable in current assets.

An analysis of the Company's deferred tax assets and liabilities is as follows:

| (amounts in thousands) | Year Ended | |
|-----------------------------------|---------------|----------|
| | September 30, | |
| | 2020 | 2019 |
| Deferred income tax assets: | | |
| Net operating loss carry forwards | \$ 1,554 | \$ 3,926 |
| AMT credit carryforward | — | 183 |
| Stock based compensation | 140 | 140 |
| Accrued expenses | 1,698 | 1,666 |
| Other items, net | 258 | 45 |
| Total deferred tax asset | 3,650 | 5,960 |
| Deferred tax liability: | | |
| Equipment and intangible assets | (3,613) | (3,615) |
| Net deferred tax asset | \$ 37 | \$ 2,345 |

The significant components of income tax expense for income taxes from continuing operations are summarized as follows:

| (amounts in thousands) | Year Ended September 30, | |
|------------------------|-----------------------------|-----------------|
| | 2020 | 2019 |
| Current expense | \$ 598 | \$ 379 |
| Deferred expense | 2,308 | 1,792 |
| Total expense | <u>\$ 2,906</u> | <u>\$ 2,171</u> |

The following table indicates the significant differences between our income taxes at the federal statutory rate and the Company's effective tax rate for continuing operations:

| (amounts in thousands) | Ref | Year Ended September 30, | |
|----------------------------------|-----------|-----------------------------|-----------------|
| | | 2020 | 2019 |
| Federal statutory rate | \$ | 2,104 | \$ 1,574 |
| State taxes, net | | 554 | 407 |
| Other permanent items | | 160 | 91 |
| Deferred tax estimate adjustment | | 88 | 99 |
| Total | <u>\$</u> | <u>2,906</u> | <u>\$ 2,171</u> |

We file income tax returns in the U.S. federal jurisdiction and in various state jurisdictions. We are no longer subject to income tax examinations for years before 2015.

14. Quarterly Financial Data (Unaudited)

A summary of quarterly information is as follows (in thousands, except per share data)

| | Ref | 2020 Quarters | | | |
|-----------------------------------|-----|-----------------|-----------------|-----------------|-----------------|
| | | First | Second | Third | Fourth |
| Revenue | | \$ 52,238 | \$ 54,798 | \$ 51,459 | \$ 50,691 |
| Income from operations | | 3,126 | 3,837 | 3,800 | 2,698 |
| Interest expense, net | | (941) | (906) | (813) | (781) |
| Income before income taxes | | 2,185 | 2,931 | 2,987 | 1,917 |
| Income tax expense | | 634 | 855 | 863 | 554 |
| Net income | | \$ 1,551 | \$ 2,076 | \$ 2,124 | \$ 1,363 |
| Earnings per share: | | | | | |
| Basic | | \$ 0.13 | \$ 0.17 | \$ 0.17 | \$ 0.11 |
| Diluted | | \$ 0.12 | \$ 0.16 | \$ 0.16 | \$ 0.10 |

| | Ref | 2019 Quarters | | | |
|-----------------------------------|-----|-----------------|-----------------|---------------|-----------------|
| | | First | Second | Third | Fourth |
| Revenue | (a) | \$ 33,752 | \$ 33,756 | \$ 38,700 | \$ 54,183 |
| Income from operations | | 2,557 | 2,327 | 1,690 | 3,394 |
| Interest expense, net | | (177) | (545) | (562) | (1,190) |
| Income before income taxes | | 2,380 | 1,782 | 1,128 | 2,204 |
| Income tax expense | | 690 | 517 | 325 | 639 |
| Net income (loss) | | \$ 1,690 | \$ 1,265 | \$ 803 | \$ 1,565 |
| Earnings (loss) per share: | | | | | |
| Basic | | \$ 0.14 | \$ 0.11 | \$ 0.07 | \$ 0.13 |
| Diluted | | \$ 0.13 | \$ 0.10 | \$ 0.06 | \$ 0.12 |

Ref (a): The inclusion of S3 for Fiscal 2019 impacts part of quarter three and all of quarter four versus the full year for Fiscal 2020.

15. Employee Benefit Plans

As of September 30, 2020, the Company and its subsidiaries maintain a 401(k) Plan (the "401(k) Plan"), a defined contribution and supplemental pension plan for the benefit of its eligible employees. The Company may provide a discretionary matching contribution of a participant's elective contributions under the 401 (k) Plan. The Company recorded related expense of \$1.2 million in fiscal 2020 and \$577 thousand in fiscal year 2019. The increase was primarily due to headcount growth from the S3 acquisition. A participant is always fully vested in his or her elective contributions and vests in Company matching contributions over a four year period.

16. Business Combinations:

Acquisition of Irving Burton Associates, LLC

On September 30, 2020, the Company acquired 100% of the equity interests of IBA for a net preliminary purchase price of \$32.7 million, inclusive of the preliminary working capital adjustment. The acquisition was financed through a combination of:

- borrowings of \$33 million under the Company's amended senior credit facility
- cash on hand to pay transaction expenses and financings costs of \$1.8 million

The acquisition of IBA is consistent with the Company's growth strategy, as it provided contract diversification, addition of key capabilities and increased presence in the military health market. The estimated goodwill derived from this transaction is primarily due to these attributes.

We have used the acquisition method of accounting for this transaction, whereby the assets acquired and liabilities assumed are recognized based upon their estimated fair values at the acquisition date.

The preliminary base purchase price for IBA was \$32 million adjusted to reflect acquired cash, assumed liabilities and preliminary net working capital adjustments.

Subject to certain limitations and conditions, the Company will be indemnified by the seller for damages resulting from breaches or inaccuracies of the representations, warranties, and covenants of the seller and IBA as set forth in the Purchase Agreement. The Purchase Agreement further provides that escrow funds of an aggregate amount of approximately \$0.4 million were established at closing. The Company does not expect to draw on these funds as both the buyer and seller have agreed on the final purchase price. A representations and warranties insurance policy has been purchased by the Company in connection with the Purchase Agreement, under which the Company may seek recourse for breaches of the seller's representations and warranties to supplement the indemnity escrow. The representations and warranties insurance policy is subject to certain customary exclusions and a deductible.

In accordance with ASU 2017-01, which was previously adopted, the Company is accounting for this transaction as an acquisition of a business. We have not completed the process of allocating the acquisition price to the fair value of the assets and liabilities of IBA at the acquisition date. We are awaiting the fair values of the intangibles assets from the third party valuation firm. The preliminary purchase price and its allocation are shown below. Based on the unaudited financial statements of IBA on September 30, 2020, we accounted for the total acquisition consideration and allocation of fair value to the related assets and liabilities on a preliminary basis as follows:

(Amounts in thousands)

| | |
|---|------------------|
| Preliminary purchase price for IBA | \$ 32,706 |
| Net assets acquired | |
| Cash and cash equivalents | \$ 28 |
| Accounts receivable | 3,907 |
| Other current assets | 124 |
| Total current assets | 4,059 |
| Accounts payable and accrued expenses | (758) |
| Payroll liabilities | (1,269) |
| Other current liabilities | (177) |
| Net working capital | 1,855 |
| Equipment and improvements, net | 28 |
| Other long-term assets/liabilities | 214 |
| Net identifiable assets acquired | 2,097 |
| Goodwill and other identifiable intangible assets | 30,609 |
| Net assets acquired | \$ 32,706 |

All operating units are aggregated into a single reportable segment. The acquisition of IBA did not create an additional reportable segment as all operations report to a single Chief Operating Decision Maker (CODM), serve a similar customer base, and provide similar services within a common regulatory environment. The goodwill represents intellectual capital and the acquired workforce, of which both do not qualify as a separate intangible asset. The tax deductible goodwill is in the process of being calculated.

The following table presents certain results for the years ended September 30, 2019 as though the acquisition of IBA had occurred on October 1, 2018. The unaudited pro forma information is presented for informational purposes only and is not necessarily indicative of our results if the acquisition had taken place on that date. The pro forma information was prepared by combining our reported historical results with the historical results of IBA for the pre-acquisition periods. In addition, the reported historical amounts were adjusted for the following items, net of associated tax effects:

- The impact of acquisition financing.
- The removal of certain IBA operations due to completed and nonrecurring contracts.
- The impact of recording IBA's intangible asset amortization.

- The impact of interest expense for the new credit facility.
- The removal of transaction costs incurred by IBA for the acquisition.

| | (unaudited) (in thousands) | |
|--|-------------------------------|-----------------------------|
| | Year ended September 30, | Year ended September 30, |
| | 2020 | 2019 |
| Pro forma results | | |
| Revenue | \$ 234,443 | \$ 228,117 |
| Net income (loss) | 7,170 | 2,464 |
| Number of shares outstanding - basic | 12,282 | 12,018 |
| Number of shares outstanding - diluted | 13,105 | 13,041 |
| Basic earnings per share (loss) | \$ 0.58 | \$ 0.21 |
| Diluted earnings per share (loss) | \$ 0.55 | \$ 0.19 |

17. Subsequent Events

Management has evaluated subsequent events through the date that the Company's consolidated financial statements were issued. Based on this evaluation, the Company has determined that no further subsequent events have occurred which require disclosure through the date that these consolidated financial statements were issued.

BOARD OF DIRECTORS

Frederick G. Wasserman

Chairman of the Board and President
FGW Partners, LLC

Zachary C. Parker

Chief Executive Officer
DLH Holdings Corp.

James P. Allen

*Former Executive Vice President and
Chief Financial Officer*
Global Defense Technology & Systems, Inc.

Martin J. Delaney

Former Chief Executive Officer
Winthrop University Hospital

Elder Granger, M.D., M.G., USA

Chief Executive Officer
The 5 Ps LLC

Frances M. Murphy, M.D.

Chief Executive Officer
Sigma Health Consulting, LLC

Austin J. Yerks, III

President
AJY III Government Strategies, LLC

Stephen J. Zelkowicz

Equity Research Analyst
Wynnefield Capital, Inc.

SHAREHOLDER INFORMATION

DLH Corporate Headquarters

DLH Holdings Corp.
3565 Piedmont Road, NE
Building 3, Suite 700
Atlanta, GA 30305
www.dlhcorp.com

Stock Listing

DLHC: DLH common stock is traded on the Nasdaq
Capital Market under the symbol DLHC

TRANSFER AGENT AND REGISTRAR

Continental Stock Transfer & Trust Company
One State Street, 30th Floor
New York, NY 10004
(212) 509-4000
www.continentalstock.com

INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

Withum Smith + Brown, PC
Whippany, New Jersey

IR CONTACT

Chris Witty, DLH Investor Relations
cwitty@darrowir.com
(646) 438-9385

FORWARD-LOOKING STATEMENT

All statements and assumptions contained in this Annual Report that do not relate to historical facts constitute “forward-looking statements.” These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often include the use of words such as “may,” “will,” “expect,” “intend,” “anticipate,” “believe,” “estimate,” “plan,” and words and terms of similar substance in connection with discussions of future events, situations or financial performance. While these statements represent our current expectations, no assurance can be given that the results or events described in such statements will be achieved. These forward-looking statements are inherently subject to risks and uncertainties, and actual results and outcomes may differ materially from the results and outcomes we anticipate. These and other risk factors are more fully discussed in the section entitled “Risk Factors” in DLH’s Annual Report on Form 10-K previously filed with the Securities and Exchange Commission and in our other filings with the SEC. We urge you not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report. We undertake no obligation to update any forward-looking statement made herein following the date of this Annual Report, whether as a result of new information, subsequent events or circumstances, changes in expectations or otherwise.



