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

FORM 10-Q

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

For the quarterly period ended December 31, 2015

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

For the transition period from to

Commission File No. 0-18492

DLH HOLDINGS CORP.
(Exact name of registrant as specified in its charter)

New Jersey	**22-1899798**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3565 Piedmont Road, NE, Bldg. 3, Suite 700	
Atlanta, Georgia	**30305**
(Address of principal executive offices)	(Zip Code)

(866) 952-1647
(Registrant’s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No o

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company x

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: On January 31, 2016 there were 9,716,929 shares outstanding of common stock of the Registrant.

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

	(Unaudited) Three Months Ended December 31, 2015	(Unaudited) Three Months Ended December 31, 2014
Revenue	$ 16,559	$ 15,682
Direct expenses	13,642	13,149
Gross margin	**2,917**	**2,533**
General and administrative expenses	2,515	2,251
Depreciation and amortization	20	23
Income from operations	**382**	**259**
Total other income (expense), net	(575)	(36)
Income (loss) before income taxes	**(193)**	**223**
Income tax (benefit) expense	(77)	89
Net income (loss)	**$ (116)**	**$ 134**
Earnings (loss) per share - basic & diluted	**$(0.01)**	**$0.01**
Weighted average common shares outstanding:		
Basic	9,568	9,601
Diluted	10,082	10,048

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)

	(unaudited) December 31, 2015	September 30, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,995	$ 5,558
Accounts receivable, net	3,373	3,286
Deferred taxes, net	982	982
Other current assets	452	429
Total current assets	10,802	10,255
Equipment and improvements, net	336	336
Deferred taxes, net	9,439	9,325
Goodwill	8,595	8,595
Other long-term assets	50	113
Total assets	**$ 29,222**	**$ 28,624**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accrued payroll	$ 2,386	$ 2,795
Accounts payable, accrued expenses, and other current liabilities	3,668	2,851
Total current liabilities	6,054	5,646
Other long term liabilities	83	109
Total liabilities	6,137	5,755
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $.10 par value; authorized 5,000 shares, none issued and outstanding	—	—
Common stock, $.001 par value; authorized 40,000 shares; issued and outstanding 9,717 at December 31, 2015 and 9,551 at September 30, 2015	10	10
Additional paid-in capital	76,707	76,375
Accumulated deficit	(53,632)	(53,516)
Total shareholders' equity	23,085	22,869
Total liabilities and shareholders' equity	**$ 29,222**	**$ 28,624**

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)

	(unaudited) Three Months Ended December 31, 2015	(unaudited) Three Months Ended December 31, 2014
Operating activities		
Net (loss) income	$ (116)	$ 134
Adjustments to reconcile net (loss)/income to changes in cash from operating activities:		
Depreciation and amortization including financing costs	20	23
Non-cash equity grants	332	273
Deferred taxes, net	(114)	89
Changes in operating assets and liabilities		
Accounts receivable	(87)	95
Other current assets	(23)	(100)
Accounts payable, accrued payroll, accrued expenses, and other current liabilities	408	(575)
Other long term assets/liabilities	60	8
Net cash provided by/(used in) operating activities	**480**	**(53)**
Investing activities		
Purchase of equipment and improvements	(20)	(94)
Net cash used in investing activities	**(20)**	**(94)**
Financing activities		
Repayments of capital lease obligations	(23)	—
Net repayment on convertible debentures	—	(3)
Net cash used in financing activities	**(23)**	**(3)**
Net increase (decrease) in cash and cash equivalents	437	(150)
Cash and cash equivalents at beginning of period	5,558	3,908
Cash and cash equivalents at end of period	**$ 5,995**	**$ 3,758**
Supplemental disclosures of cash flow information		
Cash paid during the period for interest	$ —	$ 10
Cash paid during the period for income taxes	$ 119	$ —

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

1. Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of DLH and its subsidiaries, 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 generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these statements do not include all of the information and footnotes required by generally accepted accounting principles ("GAAP") for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the quarter ended December 31, 2015 are not necessarily indicative of the results that may be expected for the year ending September 30, 2016. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2015 filed on December 16, 2015.

2. Business Overview

For more than 25 years, DLH Holdings Corp. ("DLH"), has provided professional services to the U.S. Government. Headquartered in Atlanta, Georgia, DLH employs over 1,250 skilled healthcare and support personnel, technicians, logisticians, and engineers at more than 30 locations around the United States. DLH’s operating subsidiary, DLH Solutions, Inc., provides services and solutions in two major market areas: Healthcare Delivery Solutions and Logistics & Technical Services. Our government customers, a majority of whom are within the Departments of Veterans Affairs (“DVA”) and Defense (“DoD”), benefit from our proven leadership, processes, technical excellence, industry-leading productivity and affordability enhancement tools, and Lean Six Sigma-based quality improvement processes. The remaining portion of DLH’s business is comprised of customers within other Federal agencies, including the Departments of Interior, Justice, and Agriculture at locations throughout the United States.

DLH Holdings Corp. (together with its subsidiaries, "DLH" or the "Company" and also referred to as "we," "us" and "our") manages its operations from its principal executive offices at 3565 Piedmont Road NE, Building 3 Suite 700, Atlanta Georgia 30305.

Presently, the Company derives all of its revenue from agencies of the federal government. A major customer is defined as a customer from whom the Company derives at least 10% of its revenues. In each of the fiscal years ended December 31, 2015 and 2014, revenue from the U.S. Government accounted, either directly or indirectly, for 100% of the Company’s total revenue. Within the U.S. Government, our largest customer continues to be the Department of Veterans Affairs (DVA), at 95% and 97% of revenue for the three months ended December 31, 2015 and 2014, respectively. In addition, substantially all accounts receivable, including unbilled accounts receivable, are from agencies of the U.S. Government as of December 31, 2015 and 2014. We believe that the credit risk associated with our receivables is limited due to the credit worthiness of these customers.

Accordingly, DLH remains dependent upon the continuation of its relationship with the DVA. As of December 31, 2015, contracts with the DVA have anticipated periods of performance ranging from approximately one to up to three years. These agreements are subject to the Federal Acquisition Regulations. While there can be no assurance as to the actual amount of services that the Company will ultimately provide to the DVA under its current contract, we believe that our strong working relationship and our effective service delivery support ongoing performance for the contract term. The Company's results of operations, cash flows and financial condition would be materially adversely affected in the event that we were unable to continue our relationships with the DVA.

3. New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance outlining a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers that supersedes most current revenue recognition guidance. This guidance requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, this guidance expands related disclosure requirements. In August 2015, the FASB issued updated guidance deferring the effective date for all entities by one year. Public business entities should apply the guidance to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is evaluating the impact of this guidance.

In June 2014, the FASB issued guidance related to accounting for share-based payments for certain performance stock awards. The effective date of this guidance is for annual periods and interim periods within those periods beginning after December 15, 2015, with early adoption permitted. The Company is evaluating the impact of this guidance.

In August 2014, the Financial Accounting Standards Board (FASB) issued guidance regarding management's going concern evaluations. The guidance requires management to evaluate, at each interim and annual reporting period, whether there are conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date the financial statements are issued, and provide related disclosures. The guidance is effective for all entities for annual periods ending after December 15, 2016, and for annual and interim periods thereafter, and early adoption is permitted. We do not believe the standard will have a material impact on our financial statement disclosures.

In June 2015, the Financial Accounting Standards Board (FASB) issued guidance covering a wide range of topics in the codification to make minor corrections or minor improvements. These changes are not expected to have a significant effect on current accounting practice or create a significant administrative cost. The guidance is effective for all entities beginning after December 15, 2015, and for annual and interim periods thereafter, and early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

In August 2015, the Financial Accounting Standards Board (FASB) issued guidance regarding presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements, adding SEC paragraphs in conjunction with simplifying the presentation of debt issuance costs. The guidance requires entities to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted. This standard is not expected to have a material impact on the Company's consolidated financial statements.

In September 2015, Financial Accounting Standards Board (FASB) issued guidance regarding business combinations for which the accounting is incomplete by the end of the reporting period in which the combination occurs, and during the measurement period have an adjustment to provisional amounts recognized. To simplify the accounting for adjustments made to provisional amounts recognized in a business combination, the amendments in this update eliminate the requirement to retrospectively account for those adjustments. The amendments in this update are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this update, with earlier application permitted for financial statements that have not been issued. This standard is not expected to have a material impact on the Company’s consolidated financial statements.

In November 2015, Financial Accounting Standards Board (FASB) issued guidance to simplify the presentation of deferred income taxes, and requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. Current guidance requires an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. For public business entities, the amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The amendments may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company is evaluating the timing and method of applying this update.

4. Supporting Financial Information

Accounts Receivable

	Ref	(in thousands) December 31, 2015	September 30, 2015
Billed receivables		$ 2,336	$ 2,498
Unbilled receivables		1,037	788
Total accounts receivable		3,373	3,286
Less: Allowance for doubtful accounts	(a)	—	—
Accounts receivable, net		**$ 3,373**	**$ 3,286**

Ref (a): Accounts receivable are unsecured and carried at fair value, which is net of an allowance for doubtful accounts. We evaluate our receivables on a quarterly basis and determine whether an allowance is appropriate based on specific collection issues. Our allowance for doubtful accounts was zero at both December 31, 2015 and September 30, 2015.

Other Current Assets

	Ref	(in thousands) December 31, 2015	September 30, 2015
Prepaid insurance expense		97	156
Prepaid holiday benefits		211	—
Other prepaid expenses		144	273
Other current assets		**$ 452**	**$ 429**

Accrued Payroll

	Ref	(in thousands) December 31, 2015	September 30, 2015
Accrued payroll related to billed receivables		$ 1,664	$ 2,259
Accrued payroll related to unbilled accounts receivable		$ 722	$ 536
Total accrued payroll		**$ 2,386**	**$ 2,795**

Equipment and Improvements, net

	Ref	(in thousands) December 31, 2015	September 30, 2015
Furniture and equipment		$ 197	$ 197
Computer equipment		182	162
Computer software		297	297
Leasehold improvements		63	63
Total fixed assets		739	719
Less accumulated depreciation and amortization		(403)	(383)
Equipment and improvements, net	**(a)**	**$ 336**	**$ 336**

Ref (a): 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) and the shorter of the initial lease term or estimated useful life for leasehold improvements. Maintenance and repair costs are expensed as incurred.

Accounts Payable, Accrued Expenses, and Other Current Liabilities

	Ref	December 31, 2015	September 30, 2015
		(in thousands)	
Accounts payable		$ 950	$ 87
Accrued benefits		966	267
Accrued bonus and incentive compensation	(a)	164	858
Accrued workers compensation insurance		930	945
Other accrued expenses		658	694
Total Accrued expenses and other current liabilities		**$ 3,668**	**$ 2,851**

Ref (a): Incentive compensation related to fiscal year ended September 30, 2015 was paid in December 2015.

Other Expense, net

	Ref	Three Months Ended December 31, 2015	Three Months Ended December 31, 2014
		(in thousands)	
Interest expense, net		$ —	$ (36)
Other expense, net	(a)	(575)	—
Total other expense, net		**$ (575)**	**$ (36)**

Ref (a): Current quarter other expense includes approximately $(0.6) million non-operational expenses related to potential business acquisition activities.

5. Liquidity

At December 31, 2015, the Company had cash and cash equivalents of approximately $6.0 million, net working capital of approximately $4.7 million. The Company has a credit facility with a lending institution which provides a maximum amount of $6.0 million and includes a maximum amount available under the unbilled facility of $1.0 million. The current term of the credit facility expires on July 29, 2016 and thereafter shall automatically renew on each anniversary date thereof for subsequent twelve month terms unless terminated by either party. Presently, the maximum availability under this loan facility is $3.0 million, subject to eligible accounts receivable. The interest rate on the accounts receivable portion of the loan was 4.0% at December 31, 2015, and December 31, 2014. The interest rate on the unbilled accounts portion was 4.0% at December 31, 2015, and December 31, 2014. At December 31, 2015, our loan availability was approximately $2.6 million, comprised of a $1.4 million letter of credit reserve and $1.2 million of unused loan capacity.

Management believes, at present, that: (a) cash and cash equivalents of approximately $6.0 million as of December 31, 2015; (b) the amount available under its line of credit (which is limited to the amount of eligible assets); (c) planned operating cash flow; and (d) effects of cost reduction programs and initiatives should be sufficient to support the Company's operations for twelve months from the date of these financial statements.

6. 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, valuation allowances established against accounts receivable and deferred tax assets, measurement of loss development on workers' compensation claims, and the valuation of derivative financial instruments associated with debt agreements. We evaluate these estimates and judgments on an ongoing basis and base our estimates on historical experience, current and expected future outcomes, third-party evaluations and various other assumptions that we believe are reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. We revise material accounting estimates if changes occur, such as more experience is acquired, additional information is obtained, or there is new information on which an estimate was or can be based. Actual results could differ from those estimates. In particular, a material reduction in the fair value of goodwill could have a material adverse effect on the Company's financial position and results of operations. We account for the effect of a change in accounting estimate during the period in which the change occurs.

Revenue Recognition

DLH's revenue is derived from professional and other specialized service offerings to US Government agencies through a variety of contracts, some of which are fixed-price in nature and/or sourced through Federal Supply Schedules administered by the General Services Administration ("GSA") at fixed unit rates or hourly arrangements. We generally operate as a prime contractor, but have also entered into contracts as a subcontractor. The recognition of revenue from fixed rates is based upon objective criteria that generally do not require significant estimates that may change over time. DLH recognizes and records revenue on government contracts when it is realized, or realizable, and earned. DLH considers these requirements met when: (a) persuasive evidence of an arrangement exists; (b) the services have been delivered to the customer; (c) the sales price is fixed or determinable and free of contingencies or significant uncertainties; and (d) collectibility is reasonably assured.

Goodwill

DLH 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, 2015, we performed a goodwill impairment evaluation. We performed both a qualitative and quantitative assessment of factors to determine whether it was necessary to perform the goodwill impairment test. Based on the results of that work performed, the Company has concluded that no impairment loss was warranted at September 30, 2015. For the three months ended December 31, 2015, the Company determined that no change in business conditions occurred which would have a material adverse effect on the valuation of goodwill.

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. If an impairment write off of all the goodwill became necessary in future periods, a charge of up to $8.6 million could be expensed in the consolidated statement of operations. All remaining goodwill is attributable to the DLH Solutions operating subsidiary.

Income Taxes

DLH 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 not be sustained upon examination. We had no uncertain tax positions at either December 31, 2015 or 2014. We report interest and penalties as a component of income tax expense. In fiscal quarters ended December 31, 2015 and 2014, we recognized no interest and no penalties related to income taxes.

The Company has adequate net operating loss carryforwards to substantially offset any taxable income in the current period. There are current taxes payable of $37 thousand, related to Federal alternative minimum tax and to state taxes in jurisdictions for which no net operating loss carryforwards are available. The Company has deferred tax assets before valuation allowance of $12.2 million and $12.1 million at December 31, 2015 and September 30, 2015, respectively. The Company recorded a valuation allowance against its net deferred tax assets of $1.8 million and $1.8 million at December 31, 2015, and September 30, 2015, respectively.

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.

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

Stock-based compensation expense

All grants of equity are presently made under the 2006 Long Term Incentive Plan. As of December 31, 2015, approximately 0.8 million shares remained available for grant under the Plan. Options issued under the Plan 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. 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.

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

		(in thousands) Three Months Ended December 31,	
	Ref	2015	2014
DLH employees		$ 8	$ 96
Non-employee directors	(a)	324	177
Total compensation expense		$ 332	$ 273

Ref (a): Equity grants of restricted stock, in accordance with DLH compensation policy for non-employee directors. The shares granted in first quarter 2016 vested immediately, and stock expense of approximately $304 thousand was recognized accordingly. For the three months ended December 31, 2015, non-employee directors stock expense includes approximately $20 thousand related to prior year equity grants for which performance criteria was achieved in October 2015.

Unrecognized stock-based compensation expense

		(in thousands) Three Months Ended December 31,	
	Ref	2015	2014
Unrecognized expense for DLH employees	(a)	$ 36	$ 249
Unrecognized expense for non-employee directors	(b)	76	125
Total unrecognized expense		$ 112	$ 374

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.

Ref (b): Unrecognized stock expense related to prior years equity grants of restricted stock to non-employee directors, based on performance criteria, in accordance with DLH compensation policy for non-employee directors. The shares will vest and expense will be recorded upon future satisfaction of specified performance.

Stock option activity for the three months ended December 31, 2015

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, 2015		2,324	$1.40	6.81	$ 3,649
Granted		—	—		
Exercised	(a)	(100)	$1.23		
Options outstanding, December 31, 2015		2,224	$1.40	6.49	$ 6,512

Ref (a): Shares exercised by an executive officer in December 2015.

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

	Ref	(in thousands) Number of Shares December 31, 2015	2014
Vested and exercisable		993	968
Unvested	(a)	1,231	1,368
Options outstanding		2,224	2,336

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

8. Fair Value of Financial Instruments

The Company has financial instruments, including accounts receivable, accounts payable, loan payable, notes payable, and accrued expense. Due to the short term nature of these instruments, DLH estimates that the fair value of all financial instruments at December 31, 2015 and September 30, 2015 does not differ materially from the aggregate carrying values of these financial instruments recorded in the accompanying consolidated balance sheets.

9. Earnings (Loss) Per Share

Basic earnings (loss) 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 (loss) 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) Three Months Ended December 31, 2015	2014
Numerator:		
Net income (loss)	$ (116)	$ 134
Denominator:		
Denominator for basic net income per share - weighted-average outstanding shares	9,568	9,601
Effect of dilutive securities:		
Stock options and restricted stock	514	447
Denominator for diluted net income per share - weighted-average outstanding shares	10,082	10,048
Net income (loss) per share - basic	$ (0.01)	$ 0.01
Net income (loss) per share - diluted	$ (0.01)	$ 0.01

10. Commitments and Contingencies

Contractual Obligations

Obligations (Amounts in thousands)	Total	Payments Due By Period Less than 1 Year	2-3 Years	4-5 Years	More than 5 Years
Loan Payable (1)	$ —	$ —	$ —	$ —	$ —
Operating Leases (2)	2,275	208	529	553	985
Total Obligations	$ 2,275	$ 208	$ 529	$ 553	$ 985

(1) Represents the amounts recorded in respect of the loan payable due to Presidential Financial Corporation in accordance with the loan agreement.

(2) On April 27, 2015, as part of its facilities consolidation effort, the Company entered into a lease agreement (the "Lease") with Piedmont Center, 1-4 LLC (the "Landlord") for the premises known as Suite 700 at Three Piedmont Center, 3565 Piedmont Road, N.E. Atlanta, Georgia 30305. The rentable floor area of the demised premises is 12,275 square feet. The Lease expires 8.7 years following the "Rental Commencement Date" which occurred on September 1, 2015.

The Company will pay base rental payments for the demised premises in the amount of $20,970 per month during the first year of the lease. The base rent due under the Lease shall increase yearly based on an agreed-upon annual rate of increase and in the final year of the Lease, the base rental payment will be $25,552 per month.

The Landlord will excuse a total of $120 thousand in rent due during the initial eight (8) months of the Lease term. Additionally, approximately 4,000 square feet of the leased premises will not be occupied, and rent will not be due, during the initial two years of the Lease term.   The monthly rent payments under the Lease include budgeted operating expenses and real estate taxes, as such terms are defined in the Lease. However, the Company will make an additional payment each year if actual operating expenses exceed the budget.

The Company has a right, at its option and subject to the terms of the Lease, to extend the term of the Lease for one (1) five year period at a market rate. In addition, the Landlord has agreed to provide the Company with a right of first refusal to lease additional space if the Landlord desires to lease a portion of certain adjacent premises.

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 for the periods ended December 31, 2015 and September 30, 2015 was approximately $0.9 million.

Legal Proceedings

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.

11. Subsequent Events:

As of January 6, 2016, approximately 547,000 additional stock options became vested and exercisable based upon satisfaction of certain performance criteria.

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

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

Forward Looking and Cautionary Statements

You should read the following discussion in conjunction with the Condensed Consolidated Financial Statements and the notes to those statements included elsewhere in this Quarterly Report on Form 10-Q for the quarter ended December 31, 2015. 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 due to a number of factors, including those discussed in other sections of this Quarterly Report on Form 10-Q and in the Company's 2015 Annual Report on Form 10-K.

Forward Looking Strategic Overview

DLH's strategic plan is to expand our proven health services and solutions within the growing Federal health field. Primary growth markets include mission-critical agency requirements (including, but not limited to, those of DoD, DVA, and HHS), such as:

- behavioral health;
- telehealth services;
- medication therapy management;
- health IT commodities;
- process management;
- case management;
- clinical systems support; and
- healthcare delivery.

Our business expansion capture initiatives include:

DLH differentiators: Leverage our differentiation tools and technology to deliver high-value performance in partnership with and in support of customers, teams, and end-users including:

DLH ePRAT® - a web-based, open-architecture, secure system to manage expert delivery and resourcing of the "continuum of care requirements" for military combatants, veterans, and retirees. Designed to meet HIPAA privacy rules, Commission on Accreditation of Rehabilitation Facilities (CARF), Federal Information Security Modernization Act (FISMA), and National Institute of Standards and Technology (NIST) requirements.

DLH SPOT-m™ - a unique approach to integration of people, processes, and technology tools to measure, manage and optimize our performance at project or enterprise levels.

Business development resources: Continue to expand our business development leadership team, strategic advisers, directors, and health industry resources to increase our opportunity to win a larger share of the Federal health market.

Teaming partner relationships: Continue our successful development and expansion of teaming partner relationships to broaden our service offerings in the growing Federal health market, and to provide our customers with cost benefits and efficiencies through synergies with our partners.

Organic growth: Continue expansion through organic growth as a prime contractor by delivering quality services and cost effective solutions to our customers. Organic growth contributed to a 10.5% compound annual growth rate (CAGR) over the past two years, from $53.5 million for fiscal year 2013 to $65.3 million for fiscal 2015.

Strategic growth: DLH will continue to actively review and position ourselves for a potential joint venture or strategic acquisition.

Business Overview

DLH provides services and solutions within two broad US Government markets: healthcare and logistics. Our offerings are segregated into two revenue streams: Healthcare Delivery Solutions and Logistics & Technical Services, which now includes our contingency staff augmentation service offering. Our services are provided to government agencies including the Department of Veteran Affairs, the Department of Defense, and other government clients.

The approximate percentage of revenue derived from our services and solutions are shown in the following table:

	Three Months Ended December 31,	
Revenue Stream	**2015**	**2014**
Healthcare Delivery Solutions % of Revenue	53%	52%
Logistics & Technical Services % of Revenue	47%	48%

Healthcare Delivery Solutions

Healthcare Delivery Solutions provides a broad continuum of care for our nation's servicemen/women and veterans in various settings and facilities. These include Military Treatment Facilities (MTFs), Medical Centers, Community-based Outpatient Clinics (CBOCs), and Pharmacy Distribution Centers (including VA Consolidated Mail-order Outpatient Pharmacy). We leverage our network of over 400 active clinicians and other healthcare workers throughout selected regions in the US, applying differentiating tools, databases and technology (including e-PRAT and SPOT-m) to deliver these services. For over a decade, DLH Solutions has been serving the DVA and DoD in providing qualified medical and other professionals in a variety of positions. As more and more federal and DoD programs increase their performance-based requirements, DLH Solutions' workforce profile of medical talent and credentials will help it to compete and differentiate itself in the market place. Our healthcare and medical service new business pipeline adds important credentials strategically linked to diversifying and profitably growing our Healthcare Delivery Solutions business base. Professional services have included case management, health and injury assessment, critical care, medical/surgical, emergency room/trauma center, counseling, behavioral health and traumatic brain injury management, medical systems analysis, and medical logistics. While the DVA is its largest customer in this business unit, the Company has focused on leveraging that experience in adjacent healthcare markets within DoD and other federal agencies.

Logistics & Technical Services

Logistics & Technical Services draws heavily upon our proven logistics expertise and processes. DLH resources possess expertise covering a wide range of logistics, readiness and project engineering. The experience of DLH Solutions' project personnel is diverse from operational unit level to systems and program office experience. Our core competencies include supply chain management, performance-based logistics, distribution center and inventory management, statistical process control, packaging/handling/storage & transportation, configuration management, readiness planning, and supply support operations. In addition, we provide program and project management, systems engineering and applicable information technology services, integrated logistics support (including operational systems), readiness assessments, training, equipment maintenance, hazardous material management, facilities and shipyard support services and more. DLH Solutions also provides professional staff to the federal government specializing in logistics, office administration, IT, and facilities/warehouse management. Contingency staff augmentation provides disaster and emergency response services and civilian workforce augmentation services.

Through competitively awarded contracts and task orders (including its LOGWORLD contract) DLH Solutions has developed a strong portfolio of logistics processes, personnel and tools to help its clients achieve nationally recognized awards for customer satisfaction. While the DVA is its largest customer in this area, the Company has taken steps to expand in adjacent logistics markets within DoD and other federal agencies.

Forward Looking Business Trends

Our strategic business capture initiatives emphasize service members and veterans requirements for telehealth services, behavioral healthcare, medication therapy management, health IT commodities, process management, clinical systems support, and healthcare delivery. We believe these business development priorities will position DLH to expand within top national priority programs and funded areas.

DLH is encouraged by recent bipartisan and Pentagon support for our strategic addressable markets within the DoD and Department of Veterans Affairs. The DVA FY 2014-2020 Strategic Plan includes the goal to enhance and develop trusted partnerships with the DoD and the private sector, among others. We believe that our operational efficiency and expertise is well-aligned with the DVA strategic goals to manage and improve operations to deliver seamless and integrated support.

Business trends that we believe relate to our current and future growth in the Federal health services market include:

Department of Veterans Affairs (DVA) health spending trends:

DLH 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. Fiscal year 2016 is the seventh year in a row that the President has requested, and Congress has approved, a significant funding increase for DVA to meet the Nation's obligations to our Veterans. Moreover, DVA programs were exempt from the spending caps established under Federal government sequestration targets enacted in 2013.

The DVA operates the nation's largest integrated health care system, with more than 1,700 hospitals, clinics, community living centers, domiciliaries, readjustment counseling centers, and other facilities. The DVA anticipates that nearly 9.4 million Veterans will be enrolled in VA health care in the year 2016, and that their largest staff increase will be in medical care services. According to the DVA, the number of unique Veteran clients who use the VHA healthcare system is up almost 20% over 2009.

The DVA 2016 Budget and 2017 Advance Appropriations provisions fulfill President Obama's promise to provide America's veterans, their families, and survivors the care and benefits they have earned through their service, with bipartisan support from Congress. The DVA's 2016 budget of $168.8 billion includes $70.2 billion in discretionary resources and $95.3 billion in mandatory funding. The discretionary funding represents an increase of $5.2 billion, or 7.5 percent, over the 2015 enacted level, enabling the DVA to acquire resources necessary to increase Veteran access to benefits and services, sustain progress on the disability claims backlog and for ending Veteran homelessness. Year 2017 request includes Medical Care Advance Appropriations of $63.3 billion, which is $3.3 billion (5.5%) above the 2016 budget level. Year 2017 also includes $104.0 billion in mandatory funding as a first-time Advance Appropriations for Compensation and Pensions, Readjustment Benefits, and Insurance and Indemnities.

DVA proposed "New Veterans Choice Program"

As required under the Surface Transportation and Veterans Health Care Choice Improvement Act of 2015, signed into law on July 31, 2015, the DVA sent a proposal to Congress on October 31, 2015. Entitled the New Veterans Choice Program, the DVA proposal would combine at least eight of the department's community health care programs, including DVA Choice, into a single system designed to enhance veterans care and administration. The proposal would focus on improving five core areas in non-VA care: eligibility, access, health care networks, care coordination and provider payments. The plan would establish a single set of eligibility criteria for private care and expand access to emergency treatment and urgent care. The plan would also expand its health care network, with VA and other government health care networks serving as the core and enhanced by an improved external network of commercial and preferred providers. We believe that our health service offerings and our successful past performance with the DVA will allow us to compete effectively for opportunities within the proposed goals and we are closely following the legislative progress.

Federal spending increases in years 2016 and 2017:

On November 2, 2015, President Barack Obama signed into law a bipartisan budget bill that sets federal spending through fiscal years 2016 and 2017, and eases strict caps on spending by providing an additional $80 billion. The plan will lift caps on the appropriated spending passed by Congress each year by $50 billion in 2016 and $30 billion in 2017, evenly divided between defense and domestic programs. The law also increases the Pentagon's war fund by $32 billion over the next two years, evenly split between the Defense and State departments. These measures will provide stability and growth in the Federal contracting market, in general. Appropriation of the Fiscal 2016 federal budget was passed into law on December 18, 2015

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. HHS budget authority has continued to grow during the recent tight federal budget environment, having increased from $0.96 trillion in fiscal 2014 to $1.09 trillion for fiscal 2016. According to HHS projections, national health insurance spending is expected to reach $5.43 trillion and comprise 19.6% of Gross Domestic Product (GDP) by 2024. The Federal health expenditure projections are expected to reach $1.75 trillion by 2024, growing at a 5.1% compound annual growth rate (CAGR) from an estimated $1.02 trillion in 2014.

Telehealth trends:

Telehealth is a growing and relevant market for health service providers and patients. Telehealth is a mode of delivering health care utilizing information and communication technologies to enable the diagnosis, consultation, treatment, and care management of patients by health care providers. Telehealth technologies can transform health care delivery by improving access to quality care by removing traditional barriers to health care delivery such as distance, mobility, and time constraints.

In April 2015, REACH Health, Inc. released their "2015 U.S. Telemedicine Industry Benchmark Survey" conducted during late 2014 and early 2015. Among the two hundred and thirty three healthcare executives, physicians, nurses and other professionals who participated in the survey, they found that: "With a growing population of aging and unhealthy individuals, coupled with increasing shortages of specialist physicians, telemedicine is evolving from a specialty offering to a mainstream service. Nearly 60 percent of survey participants noted telemedicine as their top priority or one of their highest priorities for their healthcare organizations."

Prescription drugs spending:

The U.S. Department of Health & Human Services National Health Expenditures Projections for 2014-2024 indicate that prescription drug spending growth is projected to average 6.3 percent annual growth from 2015 through 2024 due to improving economic conditions, changes in benefit management designed to encourage better drug adherence for people with chronic health conditions, and anticipated changing clinical guidelines designed to encourage drug therapies at earlier stages of treatment.

Large defense companies divesting from Federal services market:

Large government contractors have begun divesting from the Federal services market and increasing their focus and consolidation on advanced military products, which typically generate much higher margins than services. This trend may open up increased opportunities for smaller Federal service providers such as DLH.

Continued focus on small business participation in Federal contracting

The Federal government has an overall goal of 23% of prime contracts flowing to small business contractors, with a means of achieving these goals through the structuring of set-asides in Federal agencies requests for proposal. As a part of our growth plan, DLH may elect to team in support of these small businesses for specific pursuits that align with our strategic roadmap.

Results of Operations for the three months ended December 31, 2015 and December 31, 2014

The following table summarizes, for the periods 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:	Three Months Ended December 31, 2015		December 31, 2014		Change (lower)	
Revenue	$ 16,559	100.0 %	$ 15,682	100.0 %	$ 877	— %
Direct expenses	13,642	82.4 %	13,149	83.8 %	493	(1.4)%
Gross margin	2,917	17.6 %	2,533	16.2 %	384	1.4 %
General and administrative expenses	2,515	15.2 %	2,251	14.4 %	264	0.8 %
Depreciation and amortization	20	0.1 %	23	0.1 %	(3)	— %
Income from operations	**382**	**2.3 %**	**259**	**1.7 %**	**123**	**0.6 %**
Other expense, net	(575)	(3.5)%	(36)	(0.2)%	(539)	(3.3)%
Income (loss) before income taxes	**(193)**	**(1.2)%**	**223**	**1.4 %**	**(416)**	**(2.6)%**
Income tax (benefit) expense	(77)	(0.5)%	89	0.6 %	(166)	(1.1)%
Net income (loss)	**$ (116)**	**(0.7)%**	**$ 134**	**0.9 %**	**$ (250)**	**(1.6)%**
Net income (loss) per share - basic & diluted	$ (0.01)		$ 0.01		$ (0.02)	

Revenues

For the three months ended December 31, 2015, revenue was $16.6 million, an increase of $0.9 million or 5.6% over the prior year quarter. The increase in revenue is due primarily to program management initiatives and expansion on existing contracts.

Direct Expenses

Direct expenses are generally comprised of direct labor (including benefits), taxes and insurance, workers compensation expense, subcontract cost, and other direct costs. For the three months ended December 31, 2015, direct expenses were $13.6 million, an increase of approximately $0.5 million or 3.7% over the prior year quarter on higher revenue. As a percentage of revenue, direct expenses decreased by approximately (1.4)%, with the improvement attributable to program performance and cost management.

Gross Margin

For the three months ended December 31, 2015, gross margin was approximately $2.9 million, an increase of approximately $0.4 million or 15.2% over prior year quarter on higher revenue and improved performance on contracts. As a percentage of revenue, first quarter gross margin rate of 17.6% increased by 1.4% over prior year first quarter. Favorable margin results are due principally to increased contribution from more complex contracts, and effective assignment of staff to deliver strong contract performance, with emphasis on improving productivity through application of our DLH differentiators ePRAT® and DLH SPOT-m™, as discussed earlier in this section. We continue to focus on internal measures to control costs and improve our margin.

General and Administrative Expenses

General and administrative ("G&A") expenses primarily relate to functions such as operations overhead, corporate management, legal, finance, accounting, contracts administration, human resources, management information systems, and business development. For the three months ended December 31, 2015, G&A expenses were approximately $2.5 million, an increase of approximately $0.3 million or 11.7% over the prior year quarter. The increase was due principally to managing our increased business volume and investing in business development resources. Non-cash stock option expense was $0.33 million and $0.27 million for the three months ended December 31, 2015 and 2014, respectively.

As a percentage of revenue, for the three months ended December 31, 2015, G&A expenses were approximately 15.2%, an increase of approximately 0.8% over the prior year quarter. The increase was due principally to managing our increased business volume and investing in business development resources, as previously noted.

Depreciation and Amortization

As a professional services organization, DLH has not required significant recurring expenditures on capital equipment and other fixed assets.

Income from Operations

Income from operations for the three months ended December 31, 2015, was approximately $0.4 million, an increase of approximately $0.1 million over the prior year quarter. The increase is due to improved gross margin of approximately $0.4 million, partially offset by G&A expense growth of $0.3 million, as described in the preceding paragraphs.

Other Expense, net

Other expense, net, includes interest and acquisition expenses. For the first quarter ended December 31, 2015, other expense, net, was approximately $(0.6) million, an unfavorable variance of approximately $(0.5) million over the prior year period. Consistent with our strategic growth plan, this increase is due principally to potential business acquisition activities, including advisory services, financial analysis, and legal support.

Loss before Income Taxes

For the three months ended December 31, 2015, loss before taxes was approximately $(0.2) million, an unfavorable variance of approximately $(0.4) million over the prior year first quarter. The $(0.2) million first quarter loss before income taxes is due principally to $(0.6) million other expense related to potential acquisition activities, consistent with our strategic growth plan, partially offset by $0.4 million income from operations.

Income Tax (Benefit) Expense

DLH recorded a $(0.1) million tax benefit on a $(0.2) million loss before taxes, compared to $0.1 million tax expense in the prior year period, resulting in a favorable tax variance of approximately $(0.2) million.

Net Loss

DLH incurred a net loss for the three months ended December 31, 2015 of approximately $(0.1) million, or $(0.01) per basic and diluted share, compared to net income of approximately $0.1 million, or $0.01 per basic and diluted share, in the prior year first quarter. The net loss of approximately $(0.1) million was due principally to $(0.6) million other expense related to potential acquisition activities, consistent with our strategic growth plan, partially offset by $0.4 million income from operations and an income tax benefit of $0.1 million.

Non-GAAP Financial Measures

On a non-GAAP basis, Earnings Before Interest Tax Depreciation and Amortization (“EBITDA”) adjusted for other items (“Adjusted EBITDA”) for first quarter ended December 31, 2015 was approximately $0.7 million, an increase of approximately $0.2 million, or 31.8%, over prior year first quarter. This increase was due principally to improved gross margin of approximately $0.4 million, partially offset by growth of cash expenses of $0.2 million. Diluted earnings per share on adjusted EBITDA for first quarter ended December 31, 2015 was $0.07 compared to $0.05 for prior year first quarter.

We use Earnings Before Interest Tax Depreciation and Amortization (“EBITDA”) adjusted for other items (“Adjusted EBITDA”) and “Fully-diluted EPS on adjusted EBITDA” as supplemental non-GAAP measures of our performance. We define Adjusted EBITDA as net income/(loss) adjusted to exclude (i) interest and other expenses, including acquisition expenses, net, (ii) provision for or benefit from income taxes, if any, (iii) depreciation and amortization, and (iv) G&A expenses — equity grants. We compute EPS on adjusted EBITDA using fully diluted shares outstanding as computed for GAAP.

We exclude the following items in deriving Adjusted EBITDA:

- Acquisition expenses are excluded because they do not relate to the ongoing operation of the existing business base and they tend to vary significantly based on the timing of proposed transactions. We believe that excluding this expense allows for improved comparability of results from period to period.

- Equity compensation is excluded because it is non-cash in nature. We believe that excluding this expense allows for improved comparability of results from period to period.

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 the Company's Board utilize these non-GAAP measures to make decisions about the use of the Company's resources, analyze performance between periods, develop internal projections and measure management performance. We believe that these non-GAAP measures are useful to investors in evaluating the Company's ongoing operating and financial results and understanding how such results compare with the Company's historical performance. By providing these non-GAAP measures as a supplement to GAAP information, we believe we are enhancing investors' understanding of our business and our results of operations.

Reconciliation of GAAP net income and EPS to adjusted EBITDA and EPS on adjusted EBITDA:

	Three Months Ended December 31,		
($ in thousands except per share amounts)	2015	2014	Change
Net income (loss)	**$ (116)**	**$ 134**	**$ (250)**
(i) Interest and other (income) expense (net):			
(i)(a) Interest and other expense	—	37	(37)
(i)(b) Acquisition expenses	575	—	575
(ii) Provision for (benefit from) taxes	(77)	89	(166)
(iii) Depreciation and amortization	20	23	(3)
(iv) G&A expenses - equity grants	332	274	58
Adjusted EBITDA	**$ 734**	**$ 557**	**$ 177**
Weighted-average outstanding shares fully diluted	10,082	10,048	34
Fully diluted EPS on GAAP net income (loss)	**$ (0.01)**	**$ 0.01**	**$ (0.02)**
Adjustments to derive adjusted EBITDA EPS:			
(i) Interest and other expense, net:			
(i)(a) Interest and other expense	$ —	$ —	$ —
(i)(b) Acquisition expenses	$ 0.06	$ —	$ 0.06
(ii) Provision for income taxes	$ (0.01)	$ 0.01	$ (0.02)
(iii) Depreciation and amortization	$ —	$ —	$ —
(iv) G&A expenses — equity grants	$ 0.03	$ 0.03	$ —
Diluted EPS on Adjusted EBITDA	**$ 0.07**	**$ 0.05**	**$ 0.02**

Liquidity and Capital Resources

Presently, the Company derives all of its revenue from agencies of the federal government. A major customer is defined as a customer from whom the Company derives at least 10% of its revenues. In each of the three months ended December 31, 2015 and 2014, revenue from the U.S. Government accounted, either directly or indirectly, for 100% of the Company's total revenue. Within the U.S. Government, our largest customer continues to be the Department of Veterans Affairs (DVA), at 95% and 97% of revenue for the three months ended December 31, 2015 and 2014, respectively.

Accordingly, DLH remains dependent upon the continuation of its relationship with the DVA. As of December 31, 2015, these awards from the DVA have stated periods of performance ranging from approximately one to three years. Our existing DVA Consolidated Mail Order Pharmacy Healthcare contract began in November, 2011 and is anticipated to run through October 2016, though these terms may be extended or bridged to allow for a competitive procurement event. The contract is expected to recompete for another five year term beginning in November 2016, and DLH intends to aggressively pursue the renewal contract. Our existing DVA Consolidated Mail Order Pharmacy Medical Logistics contract began in December 2013, with an anticipated five-year period of performance ending in November 2018. These agreements are subject to the Federal Acquisition Regulations, and there can be no assurance as to the actual amount of services that the Company will ultimately provide to the

DVA under these awards. The Company's results of operations, cash flows and financial condition would be materially adversely affected in the event that we were unable to continue our relationships with the DVA.

Cash position at December 31, 2015

For the first quarter ended December 31, 2015, the Company generated operating income of $0.4 million and incurred a net loss of approximately $(0.1) million attributed to non-operational expense described earlier in this section. At December 31, 2015, the Company had cash and cash equivalents of approximately $6.0 million, net working capital surplus of approximately $4.7 million, and no debt on our line of credit.

Our cash position continued to improve during the first quarter ended December 31, 2015. Selected sources and uses of cash are shown in the table below, (amounts in millions):

	Ref	First Quarter Ended 12/31/15
Cash and cash equivalents	(a)	$6.0
Borrowing on line of credit	(b)	$0.0
Line of credit availability	(c)	$2.6
Adjusted EBITDA	(d)	$0.7
Cash flows from operating activities	(e)	$0.5
Cash flows used in investing and financing activities	(f)	$0.0
Working capital (current assets minus current liabilities)	(g)	$4.7

Ref (a): At December 31, 2015, the Company had cash deposits on hand of approximately $6.0 million.

Ref (b): The Company had no borrowing on our line of credit at December 31, 2015.

Ref (c): At December 31, 2015, our available loan reserves were approximately $2.6 million, comprised of approximately $1.4 million in stand by letter of credit reserve and $1.2 million of unused loan capacity.

Ref (d): Adjusted EBITDA of approximately $0.7 million represents income from operations before reductions for non-cash operating expenses and depreciation. It is an internal measure used by management to gauge the amount of cash generated from operations.

Ref (e): Cash flows from operating activities increased $0.5 million due principally to improved profitability.

Ref (f): Cash flows used in investing and financing activities for the year ended December 31, 2015 were minimal, at approximately $(0.04) million.

Ref (g): We had approximately $4.7 million in surplus working capital at December 31, 2015, a $0.1 million improvement during the first quarter of 2016. This was due principally to generating $0.7 million from profitable cash operations, as shown in our Adjusted EBITDA table above, offset by non-operational other expense of $(0.6) million as described earlier in this section.

Sources of cash and cash equivalents

The Company's immediate sources of liquidity include cash and cash equivalents, accounts receivable, and access to its asset-based credit facility with Presidential Financial Corporation. As described in greater detail below, presently, this credit facility provides us with access of up $3.0 million with the ability for it to increase to $6.0 million, subject to certain conditions. The Company's present operating liabilities are largely predictable and consist of vendor and payroll related obligations. The Company's operations may require working capital to fund the future growth of its business model with expanded business development efforts, and planned capital expenditures to support a larger customer base.

Management's assessment of cash and cash equivalents at December 31, 2015

Management believes, at present, that: (a) cash and cash equivalents of approximately $6.0 million as of December 31, 2015; (b) the amount available under its line of credit (which is limited to the amount of eligible assets); (c) planned operating cash flow; and (d) continued emphasis on cost control initiatives should be sufficient to support the Company's operations for twelve months from the date of these financial statements.

Loan Facility

On July 29, 2010, DLH Solutions entered into a Loan and Security Agreement (the “Loan Agreement”), as amended, with Presidential Financial Corporation (the “Lender”). Under the Loan Agreement, the Lender agreed to provide an initial two (2) year secured loan facility with renewal options to DLH Solutions. The current term of the Loan Agreement expires on July 29, 2016 and thereafter shall automatically renew on each anniversary date thereof for subsequent twelve month terms unless terminated by either party. The current available line of credit maximum amount is $6.0 million, with an unbilled accounts facility of the Loan Agreement currently set at a maximum of $1.0 million. Presently, the maximum availability under this loan facility is $3.0 million (the "Sublimit"), subject to eligible accounts receivable, excluding retroactive billings. The Company’s ability to increase the Sublimit of its available credit is subject to the satisfaction of certain conditions, including (i) the Company's (a) demonstrated need for the increase and (b) compliance with the Loan Agreement, and (ii) the Lender’s consent, in its sole discretion, to increase the Sublimit. At December 31, 2015, our loan availability was approximately $2.57 million, comprised of a $1.35 million letter of credit reserve and $1.22 million of unused loan capacity. As of December 31, 2015, there was no outstanding loan balance.

In addition, the Loan Agreement permits letters of credit to be issued under the overall credit facility, subject to availability provided by eligible billed and unbilled accounts receivable and further subject to a limit of $1.35 million. The letter of credit had an expiration date of May 16, 2015, which was renewed for one year and will automatically extend for additional one-year periods unless either party provides written notice of non-renewal within 60 days of the annual expiration date.

DLH Solutions’ ability to request loan advances under the Loan Agreement is subject to (i) computation of DLH Solutions’ advance availability limit based on “eligible accounts receivables” (as defined in the Loan Agreement) multiplied by the “Accounts Advance Rate” established by the Lender which initially shall be 85% and may be increased or decreased by the Lender in exercise of its discretion; and (ii) compliance with the covenants and conditions of the loan. Unbilled accounts receivable are subject to a sub-facility limit of $1.0 million and an advance rate of 75%. The loan is secured by a security interest and lien on all of DLH Solutions’ cash accounts, account deposits, letters of credit and investment property, chattel paper, furniture, fixtures and equipment, instruments, investment property, general intangibles, deposit accounts, inventory, other property, all proceeds and products of the foregoing (including proceeds of any insurance policies and claims against third parties for loss of any of the foregoing) and all books and records related thereto.

The Loan Agreement has been amended, from time to time, to support the Company’s changing business requirements.
The Loan Agreement requires compliance with customary covenants and contains restrictions on the Company’s ability to engage in certain transactions. Among other matters, under the loan agreement we may not, without consent of the Lender, (i) merge or consolidate with another entity, form any new subsidiary or acquire any interest in a third party; (ii) acquire any assets except in the ordinary course of business; (iii) incur debt or enter into transactions outside the ordinary course of business; (iv) sell or transfer collateral; (v) make any loans to, or investments in, any affiliate or enter into any transaction with an affiliate other than on an arms-length basis; (vi) pay or declare any dividends or other distributions; or (vii) redeem, retire or purchase any of our equity interests exceeding $50,000 or repay other outstanding indebtedness. Either party may terminate the Loan Agreement at any time upon 60 days written notice and the Loan Agreement provides for customary events of default following which the Lender may, at its option, immediately terminate the loan agreement and accelerate the repayment of any amount outstanding. At present, the Company has not experienced, and the financial institution has not declared, an event of default.

Contractual Obligations

		Payments Due By Period			
Obligations		**Less than**	**2-3**	**4-5**	**More than 5**
(Amounts in thousands)	**Total**	**1 Year**	**Years**	**Years**	**Years**
Loan Payable (1)	$ —	$ —	$ —	$ —	$ —
Operating Leases (2)	2,275	208	529	553	985
Total Obligations	$ 2,275	$ 208	$ 529	$ 553	$ 985

(1) Represents the amounts recorded in respect of the loan payable due to Presidential Financial Corporation in accordance with the loan agreement.

(2) On April 27, 2015, as part of its facilities consolidation effort, the Company entered into a lease agreement (the “Lease”) with Piedmont Center, 1-4 LLC (the “Landlord”) for the premises known as Suite 700 at Three Piedmont Center, 3565 Piedmont Road, N.E. Atlanta, Georgia 30305. The rentable floor area of the demised premises is 12,275 square feet. The Lease expires 8.7 years following the “Rental Commencement Date” which occurred on September 1, 2015.

The Company will pay base rental payments for the demised premises in the amount of $20,970 per month during the first year of the lease. The base rent due under the Lease shall increase yearly based on an agreed-upon annual rate of increase and in the final year of the Lease, the base rental payment will be $25,552 per month.

The Landlord agreed to excuse a total of $120 thousand in rent due during the initial eight (8) months of the Lease term, subject to our compliance with our obligations under the Lease. Additionally, approximately 4,000 square feet of the leased premises will not be occupied, and rent will not be due, during the initial two years of the Lease term. The monthly rent payments under the Lease include budgeted operating expenses and real estate taxes, as such terms are defined in the Lease. However, the Company will make an additional payment each year if actual operating expenses exceed the budget.

The Company has a right, at its option and subject to the terms of the Lease, to extend the term of the Lease for one (1) five year period at a market rate. In addition, the Landlord has agreed to provide the Company with a right of first refusal to lease additional space if the Landlord desires to lease a portion of certain adjacent premises.

Off-Balance Sheet Arrangements

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

Effects of Inflation

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

Critical Accounting Policies and Estimates

Our consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. Preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and the related disclosure of contingent liabilities. These assumptions, estimates and judgments are based on historical experience and assumptions that are believed to be reasonable at the time. Actual results could differ from such estimates. Critical policies and practices are important to the portrayal of a company’s financial condition and results of operations, and may require management’s subjective judgments about the effects of matters that are uncertain. See the information under Note 6 "Significant Accounting Policies" to the consolidated financial statements in DLH’s Annual Report on Form 10-K for the year ended September 30, 2015, as well as the discussion under the caption “Critical Accounting Policies and Estimates” beginning on page 29 therein for a discussion of our critical accounting policies and estimates. DLH senior management has reviewed these critical accounting policies and related disclosures and determined that there were no significant changes in our critical accounting policies in the three months ended December 31, 2015. Also, there were no significant changes in our estimates associated with those policies.

New Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

DLH does not undertake 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. DLH is not materially subject to fluctuations in foreign exchange rates, commodity prices or other market rates or prices from market sensitive instruments. DLH believes it does not have a material interest rate risk with respect to our prior workers' compensation programs, for which funds were deposited into trust for possible future payments of claims. DLH does not believe the level of exposure to interest rate fluctuations on its debt instruments is material given the amount of debt subject to variable interest rates and the prime rate interest rate floors of at least 3.25% applied by the Lender.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Controls over Financial Reporting

There have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the Company's first fiscal quarter ended December 31, 2015, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A: RISK FACTORS

Our operating results and financial condition have varied in the past and may in the future vary significantly depending on a number of factors. In addition to the other information set forth in this report, you should carefully consider the factors discussed in the "Risk Factors" section in our Annual Report on Form 10-K for the year ended September 30, 2015 and in our other reports filed with the SEC for a discussion of the risks associated with our business, financial condition and results of operations. These factors, among others, could have a material adverse effect upon our business, results of operations, financial condition or liquidity and cause our actual results to differ materially from those contained in statements made in this report and presented elsewhere by management from time to time. The risks identified by DLH in its reports are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial also may materially adversely affect our business, results of operations, financial condition or liquidity. We believe there have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

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

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

Registrant Repurchases of Securities

On September 18, 2013, the Company announced that our Board of Directors authorized a stock repurchase program (the Program) under which we could repurchase up to $350 thousand of shares of our common stock through open market transactions in compliance with Securities and Exchange Commission Rule 10b-18, privately negotiated transactions, or other means. This repurchase program does not have an expiration date.

During fiscal first quarter ended December 31, 2015, the Company did not repurchase any shares of its common stock pursuant to the program. As of December 31, 2015 there is a total of $77 thousand remaining for repurchases under the program.

The following table provides certain information with respect to the status of our stock repurchase program as of first quarter ended December 31, 2015:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Programs	($ in thousands) Dollar Value of Shares that May Yet Be Purchased Under the Plan or Program
October 2015	—	$ —	—	$ 77
November 2015	—	$ —	—	$ 77
December 2015	—	$ —	—	$ 77
First Quarter Total	**—**	**$ —**	**—**	**$ 77**

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

On December 22, 2015, the Company granted an aggregate of 92,500 shares of non-restricted stock to its non-executive directors consistent with its compensation policy for non-executive directors. These shares were issued pursuant to the exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended.

ITEM 6: EXHIBITS

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

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Dated	Exhibit	
31.1	Certification of Chief Executive Officer pursuant to Section 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a)				X
31.2	Certification of Chief Financial Officer pursuant to Section 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a)				X
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 17 CFR 240.13a-14(b) or 17 CFR 240.15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code				X
101	The following financial information from the DLH Holdings Corp. Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2015, formatted in XBRL (eXtensible Business Reporting Language) and filed electronically herewith: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Cash Flows; and, (iv) the Notes to the Consolidated Financial Statements.				X

Signatures

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

DLH HOLDINGS CORP.

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

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

Dated: February 9, 2016

EXHIBIT 31.1

Certification

I, Zachary C. Parker, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of DLH Holdings Corp.;

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

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

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

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

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: February 9, 2016

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

EXHIBIT 31.2

Certification

I, Kathryn M. JohnBull, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of DLH Holdings Corp.;

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

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

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

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

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: February 9, 2016

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

EXHIBIT 32.1

Certification of Chief Executive Officer and Chief Financial Officer

Pursuant to 18 U.S.C Section 1350,

As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of DLH Holdings Corp. (the "Company") on Form 10-Q for the period ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, being, Zachary C. Parker, Chief Executive Officer, and Kathryn M. JohnBull, Chief Financial Officer and Principal Accounting Officer, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: February 9, 2016

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

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