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, 2013

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.)
1776 Peachtree Street, NW	
Atlanta, Georgia	**30309**
(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 issuer's classes of common stock, as of the latest practicable date: 9,602,773 shares of Common Stock, par value $.001 per share, were outstanding as of January 31, 2014

DLH HOLDINGS CORP.
FORM 10-Q
For the Quarter Ended December 31, 2013

Table of Contents

DLH HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(AMOUNTS IN THOUSANDS)

	(unaudited) December 31, 2013	September 30, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,566	$ 3,408
Accounts receivable, net of allowance for doubtful accounts of $0 and $0, including unbilled receivables of $9.7 and $9.5 million, at December 31, 2013 and at September 30, 2013	13,201	11,943
Prepaid workers' compensation	199	358
Other current assets	462	241
Total current assets	**16,428**	**15,950**
EQUIPMENT AND IMPROVEMENTS		
Furniture and equipment	139	139
Computer equipment	126	126
Computer software	423	417
Leasehold improvements	24	24
	712	706
Less accumulated depreciation and amortization	(577)	(550)
Equipment and improvements, net	**135**	**156**
GOODWILL	**8,595**	**8,595**
OTHER ASSETS		
Deposit for workers' compensation insurance	—	1,030
Other assets	27	27
Total other assets	**27**	**1,057**
TOTAL ASSETS	**$ 25,185**	**$ 25,758**

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, 2013	September 30, 2013
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Bank loan payable	$ 940	$ 951
Current portion of capital lease obligations	9	22
Convertible debenture, net	—	340
Derivative financial instruments, at fair value	—	160
Accrued payroll (including $8.7 million related to unbilled receivables)	10,900	11,138
Accounts payable	1,505	370
Accrued expenses and other current liabilities	3,377	4,973
Total current liabilities	**16,731**	**17,954**
LONG TERM LIABILITIES		
Other long term liability	18	20
Total long term liabilities	**18**	**20**
Total liabilities	**16,749**	**17,974**
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Preferred stock, $.10 par value; authorized 5,000 shares, none issued and outstanding	—	—
Common stock, $.001 par value; authorized 40,000 shares; issued 9,610 at December 31, 2013 and 9,320 at September 30, 2013, outstanding 9,603 at December 31, 2013 and 9,318 at September 30, 2013	9	9
Additional paid-in capital	75,926	75,400
Accumulated deficit	(67,468)	(67,601)
Treasury stock, 7 shares at cost at December 31, 2013 and 2 shares at cost at September 30, 2013	(31)	(24)
Total shareholders' equity	**8,436**	**7,784**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 25,185**	**$ 25,758**

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

DLH HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	(unaudited) For the Three Months Ended December 31, 2013	December 31, 2012
REVENUES	$ 14,477	$ 12,994
DIRECT EXPENSES	12,365	11,206
GROSS PROFIT	**2,112**	**1,788**
GENERAL AND ADMINISTRATIVE EXPENSES	2,020	1,849
DEPRECIATION AND AMORTIZATION	26	33
Income (loss) from operations	**66**	**(94)**
OTHER INCOME (EXPENSE)		
Interest expense, net	(22)	(46)
Amortization of financing costs	(10)	(52)
Change in fair value of derivative financial instruments	99	61
Other income, net	—	3
	67	(34)
Income (loss) before income taxes	**133**	**(128)**
INCOME TAX EXPENSE	—	—
NET INCOME (LOSS)	**$ 133**	**$ (128)**
NET INCOME (LOSS) PER SHARE - BASIC AND DILUTED		
Net income (loss) per share	$ 0.01	$ (0.01)
WEIGHTED AVERAGE BASIC SHARES OUTSTANDING	9,494	9,286
WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING	9,549	9,286

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) For the Three Months Ended December 31, 2013	(unaudited) For the Three Months Ended December 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (loss)	$ 133	$ (128)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization including financing costs	36	85
Change in fair value of derivative financial instruments	(99)	(61)
Non cash equity grants	217	90
Changes in operating assets and liabilities, net of divested business:		
Accounts receivable	(1,258)	931
Prepaid workers' compensation and other current assets	(62)	(224)
Other assets	1,030	—
Accounts payable, accrued payroll, accrued expenses and other current liabilities	(697)	79
Other long term liabilities	(2)	(41)
Net cash (used in)/provided by operating activities	(702)	731
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment and improvements	(6)	(9)
Net cash used in investing activities	(6)	(9)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net payments on bank loan payable	(11)	(547)
Rights offering expenses	—	(6)
Proceeds from exercise of warrants	52	—
Repayments of capital lease obligations	(14)	(12)
Net repayment on convertible debentures	(140)	—
Purchases of treasury stock	(21)	—
Cash flows from discontinued operation	—	(7)
Net cash used in financing activities	(134)	(572)
Net (decrease)/increase in cash and cash equivalents	(842)	150
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,408	3,089
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 2,566	$ 3,239
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 92	$ 97
Cash paid during the period for income taxes	$ —	$ 13

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

DLH, HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 (UNAUDITED)

(1) ORGANIZATION AND BUSINESS:

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 1,200 skilled technicians, logisticians, engineers, healthcare and support personnel at more than 25 locations around the United States. DLH’s operating subsidiary, DLH Solutions, Inc., is organized into three broad integrated business areas: Healthcare Delivery Solutions, Logistics & Technical Services, and Contingency / Staff Augmentation Services. Our customers, a majority of whom are within the Departments of Defense ("DoD") and Veterans Affairs ("DVA"), benefit from proven leadership processes, technical excellence and differentiation, and cost management. The remaining portion of DLH's business is comprised of customers within the Center for Disease Control and Prevention, Departments of Justice, Agriculture, Interior and Federal Emergency Management Agency, 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 Loganville, Georgia and its principal executive offices are located at 1776 Peachtree Street, Atlanta, Georgia 30309.

Corporate History

DLH Holdings Corp. was originally incorporated in New Jersey in 1969 as a payroll staffing company. Through several strategic transactions over recent decades, the Company has evolved considerably and in early 2010, made the strategic decision to build the Company around its government services entity, DLH Solutions, Inc. The Company is now completely focused on government services both as a prime contractor as well as a partner with other government contractors. The Company's other wholly-owned subsidiaries are not actively operating.

(2) LIQUIDITY AND SIGNIFICANT ACCOUNTING POLICIES:

Liquidity

In recent years, the Company has financed operations and capital expenditures through the sale of equity securities, convertible notes and more recently, through the proceeds from a rights offering. The Company's immediate sources of liquidity include cash and cash equivalents, accounts receivable, unbilled receivables and access to its asset-based credit facility with Presidential Financial Corporation. The Company's operating liabilities are largely predictable and consist of vendor and payroll related obligations. The Company's operations require substantial 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.

At December 31, 2013, the Company had a net working capital deficit of approximately $0.3 million and an accumulated deficit of approximately $67.5 million. For the three months ended December 31, 2013, the Company realized operating income of approximately $66 thousand and net income of approximately $133 thousand.

As described further in Note 5, the Company has a credit facility with Presidential Financial Corporation which provides a maximum amount of $6,000,000 and includes a maximum amount available under the unbilled facility of $1,000,000. However, as described in greater detail in Note 5 below, the Company’s ability to borrow against the increased available credit is subject to the satisfaction of a number of conditions. Presently, the maximum availability under this loan facility is $3,000,000, subject to eligible accounts receivable. At December 31, 2013, the amount of unused availability was approximately $1.1 million. The amount outstanding on the loan facility as of December 31, 2013 was $0.9 million.

Management believes, at present, that: (a) cash and cash equivalents of approximately $2.6 million as of December 31, 2013; b) the amount available under its line of credit (which is limited to the amount of eligible assets); (c) forecasted operating cash flow; (d) certain liabilities not expected to be settled in cash (see Note 3) in fiscal 2014; and (e) 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. However, should any of the above- referenced factors not occur substantially as currently expected, there could be a material adverse effect on the Company's ability to access the level of liquidity necessary for it to sustain operations at current levels for the next twelve months. In such an event, management may be forced to make further reductions in spending or seek additional sources of capital to support our operations. If the Company raises additional funds by selling shares of common stock or convertible securities, the ownership of its existing shareholders would be diluted.

Presently, the Company derives all of its revenue from agencies of the Federal government. For the fiscal year ended September 30, 2013 and for the three months ended December 31, 2013, the Company derived approximately 96% and 97%, respectively, of its revenue from various contracts awarded by the DVA, the substantial majority of which relate to our provision of healthcare and logistics services to the DVA Consolidated Mail Outpatient Pharmacy (CMOP) program. As of December 31, 2013, these awards from the DVA have anticipated periods of performance ranging from approximately three to up to five years. 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 are unable to continue our relationships with the DVA.

Basis of Presentation

The accompanying 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.

Reclassifications

Certain reclassifications have been made to the prior period financial statements to conform to the current period presentation. These reclassifications had no effect on previously reported results of operations or retained earnings.

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, expected settlement amounts of accounts receivable, measurement of prepaid workers' compensation, valuation allowances established against accounts receivable and deferred tax assets, measurement of payroll tax contingencies, accounts payable, workers' compensation claims, and accrued expenses and the valuation of derivative financial instruments associated with debt agreements. 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.

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

In accordance with applicable accounting standards, DLH does not amortize 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, 2013, 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 the work performed, the Company has concluded that no impairment loss was warranted at September 30, 2013. 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. For the three months ended December 31, 2013, the Company determined that no change in business conditions occurred which would have a material adverse effect on the valuation of goodwill. If an impairment write off of all the goodwill became necessary in future periods, a charge of up to $8.6 million would 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. At December 31, 2013 and 2012, the Company recorded a 100% valuation allowance against its net deferred tax assets.

The Financial Accounting Standards Board (“FASB”) has issued authoritative guidance that clarifies the accounting for uncertainty in income taxes recognized in an entity’s financial statements and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination. Measurement of the tax uncertainty occurs if the recognition threshold has been met. This interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosures. The Company conducts business solely in the U.S. and, as a result, also files income taxes in various states and other jurisdictions. Given the substantial net operating losses and the related valuation allowance established against such amounts, the Company has concluded that it does not have any uncertain tax positions. There have been no income tax related interest or penalties for the periods presented in these consolidated financial statements. In the normal course of business, the Company and its subsidiaries are subject to examination by Federal and state taxing authorities. The Company’s income tax returns for years subsequent to fiscal 2010 are currently open, by statute, for review by authorities. However, there are no examinations currently in progress and the Company is not aware of any pending audits.

Stock-Based Compensation

Compensation costs for the portion of equity awards (for which the requisite service has not been rendered) that are outstanding are recognized as the requisite service is rendered. The compensation cost for that portion of awards shall be based on the grant-date fair value of those awards as calculated for recognition purposes under applicable guidance. As of December 31, 2013 and 2012, there was approximately $351 thousand and $208 thousand, respectively, remaining unrecognized compensation expense related to non-vested stock based awards to be recognized in future periods.

Certain awards vest upon satisfaction of certain performance criteria. As permitted, the Company will not recognize expense on the performance based shares until it is probable that these conditions will be achieved. Such charges could be material in future periods.

Stock Options, Warrants and Restricted Stock

For options that vest based on the Company’s common stock achieving certain performance criteria, the Company values these awards with a binomial model that utilizes various probability factors and other criterion in establishing fair value of the grant. The related compensation cost is recognized over the derived service period determined in the valuation.

From time to time, the Company grants restricted stock awards to non-employee directors and employees under existing plans. The Company recognizes non-cash compensation expense over the various vesting periods.

Stock compensation expense totaled $217 thousand for all awards for the three month period ended December 31, 2013 and totaled $90 thousand for all awards for the three months ended December 31, 2012.

On November 8, 2013, the Management Resources and Compensation Committee (the “Committee”) of the Board of Directors approved for the Company’s named executive officers (the “Executive Officers”) equity awards under the Company’s 2006 Long Term Incentive Plan, as amended (the “2006 Plan”) based upon individual and corporate performance during the fiscal year ended September 30, 2013. The stock options (i) have a ten-year term, (ii) have an exercise price equal to the fair market value of the Company’s common stock as determined pursuant to the 2006 Plan, as reported on NASDAQ, on the date of grant ($1.395), and (iii) vest as follows:

(a) 50% of the options granted will vest at such time as the Company’s common stock has a closing price of at least $3.00 per share for ten consecutive trading days; and

(b) 50% of the options granted will vest on the achievement of certain financial and/or business performance objectives as determined by the Committee for the fiscal year ending September 30, 2014.

The options were awarded in the following amounts to the Executive Officers: Mr. Parker was granted 100,000 options and each of Ms. JohnBull, Mr. Armstrong and Mr. Wilson were granted 75,000 options. Further, the Management Resources and Compensation Committee allocated a pool of options for distribution to non-executive employees of the Company, subject to the same terms and pursuant to the recommendations of the executive management team. Accordingly, 42,000 additional options were granted to non-executive employees of the Company.

As further described in Note 9, 175,000 options were awarded in connection with extensions of the employment agreements of certain members of the executive management team.

Warrants are issued from time-to-time to non-employee third parties in order to induce then to enter in certain transactions with the Company. The Company recognizes non-cash expense related to such activity over the estimated period of performance.

Effective as of November 25, 2013, the Company granted an aggregate of 80,000 shares of 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(2) of the Securities Act of 1933, as amended. The shares vested immediately and stock expense of $108,800 was recognized in the three months ended December 31, 2013. Additionally, at December 31, 2013, there were 52,500 shares of unvested restricted stock outstanding from prior year grants to non-executive directors. There is $150,000 of unrecognized expense related to these unvested restricted stock awards.

The stock option activity for the three months ended December 31, 2013 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding, September 30, 2013	1,612,500	$ 1.15	7.9	$ 388,000
Granted	605,000	$ 1.35		
Options outstanding, December 31, 2013	2,217,500	$ 1.21	8.4	$ 792,000

At December 31, 2013, there were 462,500 options outstanding that were vested and exercisable and an additional 1,755,000 options outstanding that vest to the recipients when the market value of the Company's stock achieves and maintains defined levels.

The aggregate intrinsic value in the table above 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.

Changes in Shareholders' Equity

The following are the changes in Shareholders' Equity for the three months ended December 31, 2013:

(Amounts in Thousands)

	Common Stock		Additional Paid-In	Accumulated	Treasury Stock		Total Shareholders'
	Shares	Amount	Capital	Deficit	Shares	Amount	Equity
BALANCE, September 30, 2013	**9,318**	**$ 9**	**$ 75,400**	**$ (67,601)**	**2**	**$ (24)**	**$ 7,784**
Director restricted stock grants	80		109				109
Expense related to employee stock option grants			108				108
Exercise of convertible debenture	168		210				210
Exercise of warrants	54		113				113
Repurchase and cancellation of shares	(12)		(14)				(14)
Repurchase of shares	(5)				5	(7)	(7)
Net loss				133			133
BALANCE, December 31, 2013	**9,603**	**$ 9**	**$ 75,926**	**$ (67,468)**	**7**	**$ (31)**	**$ 8,436**

On September 18, 2013, we announced that our Board of Directors authorized a stock repurchase program (the Program) under which we could repurchase up to $350,000 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, and we are not obligated to acquire a particular number of shares. Through December 31, 2013, the Company repurchased an aggregate of 17,275 shares of its common stock pursuant to a trading plan entered into by the Company in September 2013 in accordance with Rules 10b5-1 and 10b-18. The average price for all shares repurchased under the program during the quarter ended December 31, 2013 was $1.20 per share. As of December 31, 2013, there is a total of $329,307 remaining for repurchases under the program

Fair Value of Financial Instruments

The Company has financial instruments, principally 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, 2013 and September 30, 2013 does not differ materially from the aggregate carrying values of these financial instruments recorded in the accompanying consolidated balance sheets. In addition, the Company has historically presented certain common stock warrants and embedded conversion features associated with Convertible Debentures and accounts for such derivative financial instruments at fair value. As further described in Note 6, those convertible debentures matured and the common stock warrants were exercised in the three months ended December 31, 2013.

Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing income (loss) 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 (loss) 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.

The effects of common stock equivalents of 2,182,804 and 1,686,346 are anti-dilutive for the three months ended December 31, 2013 and 2012, respectively.

The following table sets forth the calculation of basic and diluted net income (loss) per share (in thousands, except per share data):

	Three Months Ended December 31,	
	2013	2012
Numerator:		
Net income (loss)	$ 133	$ (128)
Denominator:		
Denominator for basic net income (loss) per share - weighted-average outstanding shares	9,494	9,286
Effect of dilutive securities:		
Stock options and restricted stock	55	—
Denominator for diluted net income (loss) per share - weighted-average outstanding shares	9,549	9,286
Net income (loss) per share - basic	$ 0.01	$ (0.01)
Net income (loss) per share - diluted	$ 0.01	$ (0.01)

(3) <u>COMMITMENTS AND CONTINGENCIES</u>:

<u>Potential Contractual Billing Adjustments</u>

Revenues related to retroactive billings in 2008 from an agency of the Federal government were recognized when: (1) the Company developed and calculated an amount for such prior period services and had a contractual right to bill for such amounts under its arrangements, (2) there were no remaining unfulfilled conditions for approval of such billings and (3) collectibility was reasonably assured based on historical practices with, and contractual requirements of, the DVA. The related direct costs, principally comprised of salaries and benefits, were accrued to match the recognized reimbursements from the Federal agency; upon approval, wages will be processed for payment to the employees.

During the year ended September 30, 2008, DLH recognized revenues of $10.8 million and direct costs of 10.1 million related to these non-recurring arrangements. At December 31, 2013 and September 30, 2013, the amount of the remaining accounts receivable with the DVA approximated 9.3 million and accrued liabilities for salaries to employees and related benefits totaled 8.7 million. The 9.3 million in accounts receivable was unbilled to the DVA at December 31, 2013 and September 30, 2013.

In April 2012, the Company received formal contract modifications from the DVA concerning the retroactive billing matter for which revenue was accrued in 2008. The contract modifications from the DVA incorporate relevant wage determinations covering largely 2006 and 2007 applying to the Company's historical contracts with DVA during those periods. These government modifications initiate the procedures whereby the Company may invoice the DVA in accordance with the modified wage determinations and subsequently make timely retroactive payments to employees (active and inactive) covering work performed at the certain locations. The Company expects to follow the process directed by and in conjunction with the Department of Labor and the DVA in generating these invoices. Although the timing cannot be guaranteed, at present, the Company expects to bill and collect such amounts within the next twelve months.

The Company continues to support the Government's review of the detailed supporting calculations for the retroactive billings and to negotiate an incremental final amount related to indirect costs and fees applied to these retroactive billings. The additional indirect costs and fees are estimated to be between 0.4 million and 0.6 million. The Company has developed these estimates under the same contractual provisions applied to the sites that were settled in 2008. However, because these amounts remain subject to government review, no assurances can be given that any amounts the Company may receive will be within the range specified above.

<u>Payroll Taxes</u>

From 2006 through 2009, DLH received notices from the Internal Revenue Service ("IRS") claiming taxes, interest and penalties due related to payroll taxes predominantly from its former PEO operations which were sold in fiscal 2003. DLH also received notices from the IRS reporting overpayments of taxes. Management believes that these notices are predominantly the result of misapplication of payroll tax payments between its legal entities. Until the sale of certain assets related to the former PEO operations, DLH operated through 17 subsidiaries, and management believes that the IRS has not correctly identified payments made through certain of the different entities, therefore leading to the notices. Through the fiscal year ended

September 30, 2009, DLH worked with the IRS to resolve these discrepancies and had certain interest and penalty claims abated. DLH also received notices from the Social Security Administration claiming variances in wage reporting compared to IRS transcripts. DLH believes the notices from the Social Security Administration are directly related to the IRS notices received. DLH believes it has fully responded to the notices issued. DLH believes that after the IRS applies all the funds correctly, any significant interest and penalties will be abated; however, there can be no assurance that each of these matters will be resolved favorably. In settling various years for specific subsidiaries with the IRS, the Company received refunds for those specific periods; however, as the process of settling and concluding on other periods and subsidiaries is not yet completed, the potential exists for related penalties and interest. The remaining liability ($1.4 million at December 31, 2013 and at September 30, 2013) has been recorded in accrued expenses and other current liabilities and includes estimated accrued penalties and interest totaling approximately $600,000.

The Company believes it has accrued for the entire estimated remaining liability, inclusive of interest and penalties through the date of the financial statements. The Company may incur additional interest and may incur possible additional penalties through the future date that this obligation is settled. However, it is not currently possible to estimate what, if any, additional amount(s) may be due in the future, given the uncertain timing and nature of any future settlement negotiations. No payments were made in fiscal 2013 or year to date in fiscal 2014. Management believes that the ultimate resolution of these remaining payroll tax matters will not have a significant adverse effect on its financial position or future results of operations. The Company's intention is that it will in due course seek to negotiate a mutually satisfactory payment plan with the IRS, but there is no assurance that it would be successful in doing so and the Company's future cash flows and liquidity could therefore be materially affected by this matter.

Legal Proceedings

As the Company has previously reported, it was advised of a claim by the U.S. Attorney based on an alleged failure to pay certain classes of employees the prevailing wages as required by the Service Contract Act during the years 2003-2010. On December 12, 2013, the Company was further advised by the U.S. Attorney that, after a review of the merits of the complaint, the U.S. Department of Justice declined to intervene and the claim has been dismissed in its entirety.

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. Other than as reported elsewhere in this report, 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.

(4) PREPAID WORKERS' COMPENSATION:

As part of the Company's discontinued PEO operations, DLH had a workers' compensation program with Zurich American Insurance Company ("Zurich") which covered the period from March 22, 2002 through November 16, 2003, inclusive. Payments for the policy were made to a trust monthly based on projected claims for the policy period. Interest on all assets held in the trust is credited to DLH. Payments for claims and claims expenses are made from the trust. From time-to-time, trust assets have been refunded to the Company based on Zurich's overall assessment of claims experience and historical and projected settlements. The final amount of trust funds that could be refunded to the Company is subject to a number of uncertainties (e.g. claim settlements and experience, review by the insurer, health care costs, the extended statutory filing periods for such claims); however, based on a third party's study of claims experience and after giving effect to agreed-upon adjustments, DLH estimates that at December 31, 2013, the remaining prepaid asset of approximately $0.2 million will be received within the next twelve months.

(5) DEBT:

Loan Facility

On July 29, 2010, DLH Solutions entered into a Loan and Security Agreement (the "Loan Agreement") with Presidential Financial Corporation (the "Lender"). Under the Loan Agreement, the Lender agreed to provide a two (2) year secured loan facility to DLH Solutions in an aggregate amount of up to $1.5 million, upon the further terms and subject to the conditions of the Loan Agreement. In November, 2010, the Lender agreed by means of an amendment to the Loan Agreement to increase the maximum amount available under the facility from $1.5 million to $2.5 million and on February 9, 2011, we entered into a further amendment to the Loan Agreement pursuant to which the Lender agreed to further increase our maximum availability under the Loan Agreement from $2.5 million to $3.0 million and to provide an unbilled receivable facility within the limits of the Loan Agreement. The February 2011 amendment also extended the term of the Loan Agreement by 12 months, to July 29, 2013, which will automatically renew annually unless terminated by either party. During the fiscal year ended September 30, 2013, the Agreement was automatically extended to July 29, 2014.

In May 2012, the Company entered into a further amendment to the Loan Agreement (the “Fifth Amendment”) pursuant to which the Lender agreed to increase the available line of credit from $3,000,000 to a maximum amount of $6,000,000 and to increase the maximum amount available under the unbilled accounts facility of the Loan Agreement from $500,000 to $1,000,000. The Company’s ability to borrow against the increased available credit, however, is subject to the satisfaction of certain conditions. The Fifth Amendment provides for an initial sublimit under the maximum loan amount of $3,000,000 (the “Initial Sublimit”) and an adjusted sublimit of $4,000,000 (the “Adjusted Sublimit”). Pursuant to a letter agreement dated May 21, 2013, the sublimit for maximum amounts available on unbilled accounts was increased from $500,000 to $750,000. The Initial Sublimits will remain in effect until the satisfaction of the following conditions: (i) the repayment of the $500,000 over-advance accommodation agreed to by Lender as of May 9, 2012, (ii) the Company's demonstration of the need for the increase, (iii) the Company's continued compliance with the Loan Agreement, and (iv) Lender, in its sole discretion, agrees to increase the Initial Sublimit. In addition, the increased availability under the unbilled accounts facility of the Loan Agreement is subject to the satisfaction of the same conditions that are applicable to Initial Sublimit. Accordingly, until these conditions are satisfied, the current borrowing limits remain in effect.

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. An interest rate premium of 2% is payable in respect of any advances secured by unbilled accounts receivable, which are subject to a sub-facility limit of $750,000 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.

In December 2013, the Loan Agreement was further modified to permit 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 $1.03 million.

Under the Loan and Security Agreement, interest accrues at the greater of (a) 3.25% or (b) (i) 1.95% above the Wall Street Journal Prime rate on the accounts receivable portion of the credit line and (ii) 3.95% above the Wall Street Journal Prime rate on the unbilled accounts portion. In addition, DLH Solutions will pay certain other related fees and expense reimbursements including a monthly service charge of 0.65% based on the average daily loan balance which shall accrue daily and be due and payable on the last day of each month so long as the Loan Agreement is outstanding. The interest rate on the Accounts Receivable portion of the loan was 5.2% at both December 31, 2013 and 2012. The interest rate on the Unbilled Accounts portion was 7.2% at both December 31, 2013 and 2012. At December 31, 2013, based on current eligible accounts receivable, the amount of the unused availability under the line was $1.1 million. The amount outstanding as of December 31, 2013 was $0.9 million.

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) enter into any transaction 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) incur any debt outside the ordinary course of business; (vii) pay or declare any dividends or other distributions; or (viii) redeem, retire or purchase any of our equity interests exceeding $50,000. Further, without the consent of the Lender, the Company is also restricted from making any payments in respect of other outstanding indebtedness. The Lender agreed to eliminate the tangible net worth covenant as part of the Fifth Amendment. 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. The defined events of default include, among other things, a material adverse change in the Company's circumstances, or if the Lender deems itself insecure in the ability of the Company to repay its obligations, or as to the sufficiency of the collateral. At present, the Company has not experienced, and the financial institution has not declared, an event of default.

In consideration of the Lender entering into the Fifth Amendment, we agreed to pay a monthly collateral monitoring fee, a documentation fee and at the time that we may borrow amounts in excess of the Initial Sublimit, an origination fee of 1% of the increased availability.

The Company has concurrently executed a Corporate Guaranty Agreement with Lender pursuant to which it has guaranteed all of the obligations of DLH Solutions under the Loan Agreement.

(6) <u>EQUITY AND CONVERTIBLE DEBENTURES FINANCING</u>:

On June 1, 2011, the Company entered into a debenture purchase agreement (the “Debenture Purchase Agreement”) with entities affiliated with Wynnefield Capital, Inc. (the “Debenture Purchasers”), providing for a standby commitment pursuant to which the Debenture Purchasers agreed to purchase convertible debentures (the “Convertible Debentures”) in an aggregate principal amount of up to $350,000 (the “Total Commitment Amount”). In addition, the Company issued the Debenture Purchasers warrants to purchase an aggregate of 53,846 shares of common stock (the “Warrants”) in consideration of their agreement to provide the Total Commitment Amount. The Debenture Purchasers are entities affiliated with Wynnefield Capital, Inc., the Company’s largest shareholder. Mr. Peter Black, a member of the Company’s Board of Directors, is an employee of Wynnefield Capital. On July 28, 2011, the Company drew down the entire amount of the Total Commitment amount available under the Debenture Purchase Agreement and issued the Convertible Debentures in the aggregate principal amount of $350,000 to the Debenture Purchasers.

The Warrants were exercisable at a price of $0.96 until June 2016 and the conversion rate of the convertible debentures was $1.25. In October 2013, Wynnefield Partners Small Cap Value, L.P. I, the holder of a principal amount of $210,000 of convertible debentures elected to convert such debentures in full into 168,000 shares of common stock. The $140,000 balance of the convertible debentures plus accrued interest was paid at maturity on October 28, 2013. In addition, in October 2013, the holders of the Warrants exercised such Warrants in full for 53,846 shares of common stock. A non-recurring gain of $119 thousand was recognized related to the closure of the convertible debt. Additionally, expense of $20 thousand was recorded in the three months ended December 31, 2013, related to fair valuation of the warrants. The accrued liability of $61 thousand with respect to the fair value of the warrants was reflected as additional paid in capital upon their exercise. The shares of the Company’s common stock s issued upon conversion of the debentures were issued in reliance on the exemption from registration provided by Section 3(a)(9) of the Securities Act of 1933, as amended. The shares of the Company’s common stock s issued upon exercise of the Warrants were issued in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended.

On March 16, 2012, the Company filed a registration statement on Form S-1 with the Securities and Exchange Commission for a rights offering in which existing stockholders of the Company received non-transferable rights to purchase $4.2 million of additional shares of its common stock. Under the terms of the rights offering, the Company distributed, at no charge to the holders of its common stock as of the record date of April 10, 2012, non-transferable subscription rights for each share of common stock owned on the record date. Each subscription right entitled the holder to purchase 0.532 shares of the Company’s common stock at a price of $1.30 per share. The rights offering also includes an over-subscription privilege, which entitled a holder who exercises its basic subscription privilege in full the right to purchase additional shares of common stock that remain unsubscribed at the expiration of the rights offering, subject to the availability and *pro rata* allocation of shares among persons exercising this over-subscription right.

In connection with the rights offering, on April 30, 2012, the Company entered into a standby purchase agreement with Wynnefield Capital, Inc. (“Wynnefield Capital”), which owned, prior to the rights offering, approximately 21% of the Company’s Common Stock through certain affiliated entities. Pursuant to the standby purchase agreement, Wynnefield Capital (or affiliated assignees) agreed to acquire from us in the rights offering, subject to the satisfactions of specified conditions, the shares of common stock that relate to any rights that remain unexercised at the expiration of the rights offering. We entered into a registration rights agreement with Wynnefield Capital whereby we agreed, at our cost and expense, to register for resale under the Securities Act of 1933, all shares of common stock beneficially owned by Wynnefield Capital, including shares purchased by Wynnefield Capital in the rights offering as well as shares potentially received upon exercise of the conversion feature of the Convertible Debt and upon exercise of the associated warrants.
This registration statement was declared effective by the SEC in January 2013.

The Company completed the closing of the rights offering on June 15, 2012 and raised gross proceeds of $4.2 million from the sale of 3,230,769 shares of its common stock. As a result, the total number of shares of the Company’s common stock outstanding increased to 9,305,702 shares. Officers and directors purchased an aggregate of 137,678 shares in the rights offering and entities affiliated with Wynnefield Capital purchased a total of 2,840,251 shares of our common stock.

(7) RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS AFFECTING THE COMPANY:

In December 2011, the FASB amended disclosure concerning offsetting assets and liabilities. The amendments in the update requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. Entities are required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This scope would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. In January 2013, the FASB issued clarifying guidance related to the amended disclosure requirements concerning offsetting assets and liabilities which had previously been issued in December 2011. The guidance is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance did not have a material effect on the financial statements.

In October 2012, the FASB issued technical corrections and improvements, which include revisions to prior guidance on numerous topics, including Convertible Debentures. The effective date of these revisions is for fiscal years beginning after December 15, 2012. The adoption of this guidance did not have a material effect on the financial statements.

In February 2013, the FASB amended its guidance related to the reporting of amounts reclassified out of accumulated other comprehensive income. The amendments are effective prospectively for reporting periods beginning after December 15, 2012. The adoption of this guidance did not have a material effect on the financial statements.

In July 2013, the FASB updated its guidance with respect to the presentation of unrecognized tax benefits. The guidance is effective for reporting periods beginning after December 15, 2013, with early adoption permitted. The Company has consistently reported in compliance with this updated guidance.

(8) ECONOMIC DEPENDENCY:

A major customer is defined as a customer from whom the Company derives at least 10% of its revenues. In each of the fiscal quarters ended December 31, 2013 and 2012, 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 in the fiscal quarter ended December 31, 2013 continued to be the DVA, accounting for 97% and 96% of revenue in the fiscal quarters ended December 31, 2013 and 2012, respectively, and with whom the Company held over a dozen contracts and/or task orders for logistics, pharmaceutical, and medical services, all subject to the Federal Acquisition Regulations. Accordingly, DLH remains particularly dependent on the continuation of its relationship with the DVA.

(9) EMPLOYMENT AGREEMENTS:

From time to time, we enter into employment agreements with certain key executives which provide for fixed compensation, criterion for earning bonuses and other incentives and, in certain instances, issuance of share based equity grants. These agreements generally continue until terminated by the employee or the Board of Directors or, upon the occurrence of defined certain events or circumstances (including a defined change in control), and provide for salary continuance for specified periods of generally no more than a year and or lump sum payments in the event of a change of control of up to 150% of annual salary.

On October 1, 2013, the Company entered into a new employment agreement with Kevin Wilson, who serves as the President of the Company's wholly-owned subsidiary DLH Solutions, Inc. The new employment agreement with Mr. Wilson is effective as of October 1, 2013 and will expire September 30, 2015, the terms of which are summarized below. The following description of the amendment agreement is qualified in its entirety by reference to the full text of such agreement.

Mr. Wilson will continue to serve as the President of DLH Solutions, Inc., a wholly-owned subsidiary of DLH. Under the employment agreement, Mr. Wilson will receive a base salary of $210,000 per annum. Mr. Wilson may receive an annual bonus of up to 50% of base salary based on performance targets and other key objectives established by the Management Resources and Compensation Committee of the board of directors. Target bonus will be adjusted by 2% of base salary for every 1% of variance between targets and actual results and no bonus will be awarded if results are less than 90% of target and no bonus will exceed 70% of base salary.

In addition, the Company granted Mr. Wilson options to purchase 100,000 shares of common stock under the Company's 2006 Long Term Incentive Plan, as amended. The options shall vest as follows: 50,000 options vest on the commencement date of the agreement and 50,000 options shall vest on the one year anniversary of the commencement date, provided Mr. Wilson remains in the employment of the Company as of such vesting date. The options, to the extent vested, shall be exercisable for a period of ten years at the per share exercise price equal to the fair market value of the Company's common stock, as determined pursuant to the 2006 Plan, on the date his employment agreement was executed.

On November 29, 2013, the Company entered into a new employment agreement with John F. Armstrong, who serves as the Company's Executive Vice President. The new employment agreement with Mr. Armstrong is effective as of December 1, 2013 and will expire November 30, 2015. The following description of the amendment agreement is qualified in its entirety by reference to the full text of such agreement.

Mr. Armstrong will continue to serve as DLH's Executive Vice President for business development of the Company. Under the employment agreement, Mr. Armstrong will receive a base salary of $215,000 per annum. Mr. Armstrong will be entitled to a 5% increase in his base salary in the event that the Company achieves the business development-related performance condition specified in the agreement. Mr. Armstrong may receive an annual bonus of up to 50% of base salary based on performance targets and other key objectives established by the Management Resources and Compensation Committee of the board of directors. Target bonus will be adjusted by 2% of base salary for every 1% of variance between targets and actual results and no bonus will be awarded if results are less than 90% of target and no bonus will exceed 70% of base salary.

In addition, the Company granted Mr. Armstrong options to purchase 75,000 shares of common stock under our 2006 Long Term Incentive Plan (the "2006 Plan"). The options shall vest as follows: 37,500 options vest on the one year anniversary of the commencement date and 37,500 options shall vest if the closing price of the Company's common stock equals or exceeds $3.00 per share for ten consecutive trading days, provided Mr. Armstrong remains in the employment of the Company as of such vesting dates. The options, to the extent vested, shall be exercisable for a period of ten years at the per share exercise price equal to the fair market value of the Company's common stock, as determined pursuant to the 2006 Plan, on the date his employment agreement was executed.

(10) SUBSEQUENT EVENTS:

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 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

This report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "1995 Reform Act"), Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). DLH desires to avail itself of certain "safe harbor" provisions of the 1995 Reform Act and is therefore including this special note to enable DLH to do so. Forward-looking statements are identified by words such as "believe," "anticipate," "expect," "intend," "plan," "will," "may" and other similar expressions. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. Forward-looking statements included in this report involve known and unknown risks, uncertainties and other factors which could cause DLH's actual results, performance (financial or operating) or achievements to differ from the future results, performance (financial or operating) or achievements expressed or implied by such forward-looking statements. We based these forward-looking statements on our current expectations and best estimates and projections about future events. Our actual results could differ materially from those discussed in, or implied by, these forward-looking statements. The following factors (among others) could cause our actual results to differ materially from those implied by the forward-looking statements in this report: our ability to secure contract awards, including the ability to secure renewals of contracts under which we currently provide services; our ability to enter into contracts with United States Government facilities and agencies on terms attractive to us and to secure orders related to those contracts; changes in the timing of orders for and our placement of professionals and administrative staff; the overall level of demand for the services we provide; the variation in pricing of the contracts under which we place professionals; our ability to manage growth effectively; the performance of our management information and communication systems; the effect of existing or future government legislation and regulation; changes in government and customer priorities and requirements (including changes to respond to the priorities of Congress and the Administration, budgetary constraints, and cost-cutting initiatives, such as the implementation of spending cuts (sequestration) under the Budget Control Act of 2011); economic, business and political conditions domestically (including the impact of uncertainty regarding U.S. debt limits and actions taken related thereto); 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 results of government audits and reviews; the impact of medical malpractice and other claims asserted against us; the disruption or adverse impact to our business as a result of a terrorist attack; the loss of key officers, and management personnel; the competitive environment for our services; the effect of recognition by us of an impairment to goodwill and intangible assets; other tax and regulatory issues and developments; the effect of adjustments by us to accruals for self-insured retentions; our ability to obtain any needed financing; our ability to attract and retain sales and operational personnel; and the effect of other events and important factors disclosed previously and from time to time in DLH's filings with the U.S. Securities and Exchange Commission. Other factors that could cause actual results to differ from those implied by the forward-looking statements in this Quarterly Report on Form 10-Q are set forth in our Annual Report on Form 10-K for the year ended September 30, 2013, and our other reports filed with the SEC, including this Quarterly Report on Form 10-Q. In light of the significant risks and uncertainties inherent in the forward looking statements included in the Company's reports, the inclusion of such statements should not be regarded as a representation by or on behalf of the Company that the objectives and plans of the Company will be achieved and you are cautioned not to place undue reliance on forward-looking statements. We undertake no obligation to update any forward-looking statement or statements in this filing to reflect events or circumstances that occur after the date on which the statement is made or to reflect the occurrence of unanticipated events.

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 and expenses. Actual results could differ from such estimates. These estimates and assumptions are affected by the application of our accounting policies. Critical policies and practices are both most important to the portrayal of a company's financial condition and results of operations, and require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. See Note 2, page F-8 of DLH's 2013 Annual Report on Form 10-K for the year ended September 30, 2013, as well as "Critical Accounting Policies and Estimates" beginning on page 21 therein for a discussion of our critical accounting policies and estimates. We continually review these estimates and their underlying assumptions to ensure they are appropriate for the circumstances. Changes in the estimates and assumptions we use could have a significant impact on our financial results. We consider the following policies and estimates to be the most critical in understanding the more complex judgments that are involved in preparing our consolidated financial statements and that could impact our results of operations, financial position, and cash flows:

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

In accordance with applicable accounting standards, DLH reviews 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, 2013, 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 the work performed, the Company has concluded that no impairment loss was warranted at September 30, 2013. Additional impairment analyses at future dates may be performed to determine if indicators of impairment are present, and if so, such amount will be determined and the associated charge will be recorded to the consolidated statement of operations.

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. For the three months ended December 31. 2013, the Company determined that no change in business conditions occurred which would have a material adverse effect on the valuation of goodwill. If an impairment write off of all the goodwill became necessary in future periods, a charge of up to $8.6 million would 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. At December 31, 2013 and December 31, 2012, the Company recorded a 100% valuation allowance against its net deferred tax assets.

The Financial Accounting Standards Board ("FASB") has issued authoritative guidance that clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination. Measurement of the tax uncertainty occurs if the recognition threshold has been met. This interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosures. The Company conducts business solely in the U.S. and, as a result, also files income taxes in various states and other jurisdictions. Given the substantial net operating losses and the related valuation allowance established against such amounts, the Company has concluded that it does not have any uncertain tax positions. There have been no income tax related interest or penalties for the periods presented in these consolidated financial statements. In the normal course of business, the Company and its subsidiaries are subject to examination by Federal and state taxing authorities. The Company's income tax returns for years subsequent to fiscal 2010 are currently open, by statute, for review by authorities. However, there are currently no examinations in progress and the Company is not aware of any pending audits.

Overview

Business Description

DLH, Holdings Corp., incorporated in New Jersey, provides healthcare delivery solutions, logistics & technical services, and contingency/staff augmentation services to government agencies including the Department of Veteran Affairs, the Department of Defense, and other clients. The Company principally operates through its wholly-owned subsidiary DLH Solutions, Inc. ("DLH Solutions") and is headquartered in Atlanta, Georgia.

Business Units

As part of our overall strategic planning process, the Company realigned its business into three broad integrated business areas: Healthcare Delivery Solutions, Logistics & Technical Services, and Contingency/Staff Augmentation. This structure enables us to leverage our core competencies and drive towards profitable growth within our focused target markets. We recognize that some business units may grow faster than others as a result of acquisitions or disposition of business. In either case, we intend to enhance our delivery of quality products and services.

Healthcare Delivery Solutions

The Healthcare Delivery Solutions business unit provides a broad continuum of care for our nation's servicemen/women and veterans in various settings and facilities. These include Combat Trauma Centers (CTCs), 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. Healthcare Delivery Solutions is one of our strategic focus areas for growth and a major business area that DLH Solutions services. As more and more Federal and DoD programs increase their performance-based requirements, DLH Solutions' workforce profile of medical talent and credentials (as described above) 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. For the fiscal year ended September 30, 2013 and the three months ended December 31, 2013, approximately 54% and 53% of our revenue, respectively, was derived from the Healthcare Delivery Solutions business unit.

Logistics & Technical Services

The Logistics & Technical Services business unit 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.

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. For the fiscal year ended September 30, 2013 and the three months ended December 31, 2013, approximately 45% and 46% of our revenue, respectively, was derived from the Logistics & Technical Services business unit.

Contingency/Staff Augmentation

The Contingency/Staff Augmentation business unit provides disaster and emergency response services and civilian workforce augmentation services. General staffing and selective recruitment process outsourcing are key components of this service area. For both the fiscal year ended September 30, 2013 and the three months ended December 31, 2013, less than 1% of revenue was derived from the Contingency/Staff Augmentation line of service.

Recent Business Trends

The overall Federal government market today continues to be best characterized as "uncertain". This uncertainty has caused both the market and some of our prospective competitors to revisit their strategies with regard to this space. Headlines have been dominated by sequestration, deficit reduction, budget cuts, the debt ceiling, and the like. Nonetheless, DLH continues to see strong bipartisan and Pentagon support for our strategic addressable markets within the DoD and Department of Veterans Affairs. We do not expect significant impacts from sequestration or federal budget cuts to our existing contracts with the Department of Veterans Affairs or the Department of Defense. In addition, we continue to target programs and agencies that we believe are likely to maintain a large addressable long-term market. From an overall budget perspective, it remains likely that government discretionary spending will be constrained for several years to come. The budget agreement reached by the House and Senate in December 2013 provided measured relief from sequestration impacts and precluded the use of continuing resolutions to fund government programs, as has been the recent practice. Nonetheless, substantial budgetary challenges remain for the industry. Although specific funding priorities are subject to change from year to year, we believe that our strategic business alignment around selected military and veterans healthcare & health IT and logistics sustainment services allows us to remain well-placed to expand within what we consider to be top national priority programs and budget areas.

As with other companies operating in the Federal government market, the possibility remains that one or more of our targeted programs could be cut back or terminated as a result of the budget deficit negotiations. Among the marketplace factors that could impact our future results are:

- federal government budget deficits and the growing U.S. national debt increasing pressure on the U.S. government to reduce federal spending across all federal agencies together with associated uncertainty about the size and timing of those reductions;

- cost cutting and efficiency initiatives, current and future budget reductions, continued implementation of Congressionally mandated automatic spending cuts, and other efforts to reduce U.S. government spending, which could cause clients to reduce or delay funding for orders for services;

- shift to greater use of lowest priced technically acceptable contracting award approaches by governmental agencies resulting in greater pressure on margins;

- current and continued uncertainty around the timing, extent and nature of Congressional and other U.S. government action to address budgetary constraints; and

- changes in the relative mix of overall U.S. government spending and areas of spending growth, with lower spending on homeland security, intelligence and defense-related programs as overseas operations end, and continued increased spending on cyber-security, advanced analytics, technology integration and healthcare.

Results of Operations

The following table summarizes, for the periods indicated, selected consolidated statements of operations data expressed as a percentage of revenue:

	For the Three Months Ended	
Condensed Consolidated Statement of Operations:	**December 31, 2013**	**December 31, 2012**
Revenues	100.0%	100.0 %
Direct expenses	85.4%	86.2 %
Gross profit	14.6%	13.8 %
General and administrative	14.0%	14.2 %
Depreciation and amortization expense	0.2%	0.3 %
Income (loss) from operations	0.4%	(0.7)%
Other income (expense)	0.5%	(0.3)%
Income (loss) before income taxes	0.9%	(1.0)%
Income tax expense	—%	— %
Net income (loss)	0.9%	(1.0)%

Revenues

Revenues for the three months ended December 31, 2013 and 2012 were $14.5 million and $13.0 million, respectively, which represents an increase of $1.5 million or 11.4% despite extended government delays in major awards. The increase in revenue is due primarily to new business awarded in 2013 and expansion on current programs.

Direct Expenses

Direct expenses are generally comprised of direct labor (including benefits), direct material, subcontracts, and other direct costs. Direct expenses for the three months ended December 31, 2013 and 2012 were $12.4 million and $11.2 million, respectively, which represent an increase of $1.2 million or 10.3% on higher revenue. As a percentage of revenue, direct expenses for the 2013 and 2012 periods were 85.4% and 86.2%, respectively, with the improvement attributable to favorable contract performance and cost management.

Gross Profit

Gross profit for the three months ended December 31, 2013 and 2012 was $2.1 million and $1.8 million, respectively, which represents an increase of $0.3 million or 18.1%. As a percentage of revenue, gross profit was 14.6% and 13.8%, for the three months ended December 31, 2013 and 2012, respectively. The gross profit rate benefited from new business awarded in 2013 and improved contract performance and cost management.

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.

G&A expenses for the three months ended December 31, 2013 and 2012 were $2.0 million and $1.8 million, respectively, an increase of $0.2 million or 9.2%. Non-cash stock option expense was a significant contributor to the increase in G&A expenses, as those costs were $0.2 million and $0.1 million for the three months ended December 31, 2013 and 2012, respectively.

As a percent of revenue, G&A expenses were 14.0% and 14.2% for the three months ended December 31, 2013 and 2012, respectively.

Depreciation and Amortization

Depreciation and amortization expense was approximately $26 thousand and $33 thousand for the three months ended December 31, 2013 and 2012, respectively.

Income (Loss) from Operations

Income from operations for the three months ended December 31, 2013 was approximately $66 thousand as compared to loss from operations for the three months ended December 31, 2012 of approximately $(94) thousand. The improvement in income from operations results from improved gross profit described above.

Other Income (Expense)

Other income (expense), net was $67 thousand for the three months ended December 31, 2013 as compared to $(34) thousand for the three months ended December 31, 2012. The improvement is due principally to a gain recognized on the maturity of the derivative financial instruments associated with our convertible debentures.

Income Tax

The Company provided a 100% deferred tax valuation allowance because it believes that it cannot be considered more likely than not that it will be able to realize a benefit from its deferred tax asset. The Company determined that negative evidence, including historic and current taxable losses, as well as uncertainties related to the ability to utilize certain Federal and state net loss carry forwards, outweighed any objectively verifiable positive factors, and as such, concluded that a valuation allowance was necessary. In assessing the need for a valuation allowance, the Company historically has considered all positive and negative evidence, including scheduled reversals of deferred tax liabilities, prudent and feasible tax planning strategies and recent financial performance. In the three months ended December 31, 2013 and 2012, the Company recognized no tax expense.

Net Income (Loss)

Net income for the three months ended December 31, 2013 was $133 thousand, or $0.01 per basic and diluted share, as compared to net loss of $(128) thousand or $(0.01) per basic and diluted share for the three months ended December 31, 2012. This improvement is due principally to increased gross profit as described in the preceding paragraphs.

Other Data

Earnings (Loss) Before Interest Tax Depreciation and Amortization ("EBITDA") adjusted for other non-cash charges ("Adjusted EBITDA"(1)) for the three months ended December 31, 2013 was $309 thousand as compared to $29 thousand for the three months ended December 31, 2012, due principally to the increased gross profit described above.

(1) We present Adjusted EBITDA as a supplemental non-GAAP measure of our performance. We define Adjusted EBITDA as net income (loss) plus (i) interest and other expenses, net, (ii) provision for or benefit from income taxes, if any, (iii) depreciation and amortization, and (iv) G&A expenses — equity grants. This non-GAAP measure of our performance is 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 this non-GAAP measure 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 this non-GAAP measure is 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 this non-GAAP measure, as a supplement to GAAP information, we believe we are enhancing investors’ understanding of our business and our results of operations. This non-GAAP financial measure is limited in its usefulness and should be considered in addition to, and not in lieu of, US GAAP financial measures. Further, this non-GAAP measure may be unique to the Company, as it may be different from the definition of non-GAAP measures used by other companies. A reconciliation of Adjusted EBITDA with net loss from continuing operations is as follows:

	For the three months ended December 31,	
	2013	2012
Net income (loss)	$ 133	$ (128)
(i) Interest and other (income) expenses, net	(67)	34
(ii) Provision for taxes	—	—
(iii) Depreciation and amortization	26	33
(iv) G&A expenses — equity grants	217	90
EBITDA adjusted for other non-cash charges	$ 309	$ 29

Potential Contractual Billing Adjustments

Revenues related to retroactive billings in 2008 from an agency of the Federal government were recognized when: (1) the Company developed and calculated an amount for such prior period services and had a contractual right to bill for such amounts under its arrangements, (2) there were no remaining unfulfilled conditions for approval of such billings and (3) collectibility was reasonably assured based on historical practices with, and contractual requirements of, the DVA. The related direct costs, principally comprised of salaries and benefits, were accrued to match the recognized reimbursements from the Federal agency; upon approval, wages will be processed for payment to the employees.

During the year ended September 30, 2008, DLH recognized revenues of $10.8 million and direct costs of 10.1 million related to these non-recurring arrangements. At December 31, 2013 and September 30, 2013, the amount of the remaining accounts receivable with the DVA approximated 9.3 million and accrued liabilities for salaries to employees and related benefits totaled 8.7 million. The 9.3 million in accounts receivable was unbilled to the DVA at December 31, 2013 and September 30, 2013.

In April 2012, the Company received formal contract modifications from the DVA concerning the retroactive billing matter for which revenue was accrued in 2008. The contract modifications from the DVA incorporate relevant wage determinations covering largely 2006 and 2007 applying to the Company’s historical contracts with DVA during those periods. These government modifications initiate the procedures whereby the Company may invoice the DVA in accordance with the modified wage determinations and subsequently make timely retroactive payments to employees (active and inactive) covering work performed at the certain locations. The Company expects to follow the process directed by and in conjunction with the Department of Labor and the DVA in generating these invoices. Although the timing cannot be guaranteed, at present, the Company expects to bill and collect such amounts within the next twelve months.

The Company continues to support the Government’s review of the detailed supporting calculations for the retroactive billings and to negotiate an incremental final amount related to indirect costs and fees applied to these retroactive billings. The additional indirect costs and fees are estimated to be between 0.4 million and 0.6 million. The Company has developed these estimates under the same contractual provisions applied to the sites that were settled in 2008. However, because these amounts remain subject to government review, no assurances can be given that any amounts the Company may receive will be within the range specified above.

Liquidity and Capital Resources; Commitments

Liquidity

In recent years, the Company has sought to finance its operations and capital expenditures through the sale of equity securities, convertible notes and more recently, through the receipt of approximately $4.2 million in proceeds from a rights offering. The Company's immediate sources of liquidity include cash and cash equivalents, accounts receivable, unbilled receivables 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 $3,000,000, with the ability for it to increase to $6,000,000, subject to certain conditions. The Company's operating liabilities are largely predictable and consist of vendor and payroll related obligations. The Company's operations require substantial 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.

Certain entities affiliated with Wynnefield Capital, Inc., the Company’s largest stockholder, owned warrants to purchase 53,846 shares of common stock and an aggregate principal amount of $350,000 of convertible debentures, which were due October 28, 2013. The Warrants were exercisable at a price of $0.96 until June 2016 and the conversion rate of the convertible debentures was $1.25. On October 28, 2013, $350,000 of outstanding convertible debentures held by affiliates of Wynnefield Capital, Inc. became due and upon maturity, the principal amount of $210,000 of convertible debentures was converted into 168,000 shares of common stock and the principal amount of $140,000 on the remaining debenture was repaid in full. In addition, in October 2013, the holders of the Warrants exercised such Warrants in full for 53,846 shares of common stock. The shares of the Company’s common stock s issued upon conversion of the debentures were issued in reliance on the exemption from registration provided by Section 3(a)(9) of the Securities Act of 1933, as amended. The shares of the Company’s common stock s issued upon exercise of the Warrants were issued in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended.

For the three months ended December 31, 2013, the Company generated operating income of $66 thousand and net income of approximately $133 thousand. At December 31, 2013, the Company had $2.6 million in available cash and cash equivalents, $1.1 million loan available on its line of credit, and $0.9 million loan payable on the same line of credit. The Company anticipates that it will continue to rely on operating cash flow and periodic funding, to the extent available from its line of credit, to sustain the operations of the Company. At December 31, 2013, the Company had a net working capital deficit of approximately $0.3 million and an accumulated deficit of approximately $67.5 million.

Management believes, at present, that: (a) cash and cash equivalents of approximately $2.6 million as of December 31, 2013; (b) the amounts available under its line of credit (which is limited to the amount of eligible assets); (c) forecasted operating cash flow; (d) certain liabilities not expected to be settled in cash (see Note 3) in fiscal 2014; and (e) 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. However, should any of the above- referenced factors not occur substantially as currently expected, there could be a material adverse effect on the Company's ability to access the level of liquidity necessary for it to sustain operations at current levels for the next twelve months. In such an event, management may be forced to make further reductions in spending or seek additional sources of capital to support our operations. If the Company raises additional funds by selling shares of common stock or convertible securities, the ownership of its existing shareholders would be diluted.

Presently, the Company derives all of its revenue from agencies of the Federal government. For the fiscal year ended September 30, 2013 and for the three months ended December 31, 2013, the Company derived approximately 96% and 97%, respectively, of its revenue from various contracts awarded by the DVA, the substantial majority of which relate to our provision of healthcare and logistics services to the DVA Consolidated Mail Outpatient Pharmacy (CMOP) program. As of December 31, 2013, these awards from the DVA have anticipated periods of performance ranging from approximately three to up to five years. 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 are unable to continue our relationships with the DVA.

Repurchase Program

On September 18, 2013, we announced that our Board of Directors authorized a stock repurchase program (the Program) under which we could repurchase up to $350,000 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. During the fiscal quarter ended December 31, 2013, the Company repurchased a total of 17,275 shares of its common stock pursuant to a trading plan entered into by the Company in September 2013 in accordance with Rules 10b5-1 and 10b-18. The average price for all shares repurchased under the program to date was $1.20 per share. As of December 31, 2013, there is a total of $329,307 remaining for repurchases under the program.

Cash from operating activities

Net cash used for operating activities for the three months ended December 31, 2013 was $(702) thousand. The net cash provided by operating activities for the three months ended December 31, 2012 was $731 thousand. The change in cash flow from operations is a function of the timing of collections on our largest contracts at quarter end. For all periods presented, collections on accounts receivable were within terms of the contracts.

Cash from investing activities

Net cash used in investing activities for the three months ended December 31, 2013 and 2012 was $(6) thousand and $(9) thousand, respectively.

Cash from financing activities

Net cash used in financing activities for the three months ended December 31, 2013 and 2012 was $(134) thousand and $(572) thousand, respectively.

Loan Facility

On July 29, 2010, DLH Solutions entered into a Loan and Security Agreement (the "Loan Agreement") with Presidential Financial Corporation (the "Lender"). Under the Loan Agreement, the Lender agreed to provide a two (2) year secured loan facility to DLH Solutions in an aggregate amount of up to $1.5 million, upon the further terms and subject to the conditions of the Loan Agreement. In November, 2010, the Lender agreed by means of an amendment to the Loan Agreement to increase the maximum amount available under the facility from $1.5 million to $2.5 million and on February 9, 2011, we entered into a further amendment to the Loan Agreement pursuant to which the Lender agreed to further increase our maximum availability under the Loan Agreement from $2.5 million to $3.0 million and to provide an unbilled receivable facility within the limits of the Loan Agreement. The February 2011 amendment also extended the initial term of the Loan Agreement by 12 months, to July 29, 2013, which will automatically renew annually unless terminated by either party. During the fiscal year ended September 30, 2013, the Agreement was automatically extended to July 29, 2014.

In May 2012, the Company entered into a further amendment to the Loan Agreement (the "Fifth Amendment") pursuant to which the Lender agreed to increase the available line of credit from $3,000,000 to a maximum amount of $6,000,000 and to increase the maximum amount available under the unbilled accounts facility of the Loan Agreement from $500,000 to $1,000,000. The Company's ability to borrow against the increased available credit, however, is subject to the satisfaction of certain conditions. The Fifth Amendment provides for an initial sublimit under the maximum loan amount of $3,000,000 (the "Initial Sublimit") and an adjusted sublimit of $4,000,000 (the "Adjusted Sublimit"). Pursuant to a letter agreement dated May 21, 2013, the sublimit for the maximum amount available on unbilled accounts was increased from $500,000 to $750,000. The Initial Sublimits will remain in effect until the satisfaction of the following conditions: (i) the repayment of the $500,000 over-advance accommodation agreed to by Lender as of May 9, 2012, (ii) the Company's demonstration of the need for the increase, (iii) the Company's continued compliance with the Loan Agreement, and (iv) Lender, in its sole discretion, agrees to increase the Initial Sublimit. In addition, the increased availability under the unbilled accounts facility of the Loan Agreement is subject to the satisfaction of the same conditions that are applicable to Initial Sublimit. Accordingly, until these conditions are satisfied, the current borrowing limits remain in effect.

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 receivable" (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. An interest rate premium of 2% is payable in respect of any advances secured by unbilled accounts receivable, which are subject to a sub-facility limit of $750,000 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.

In December 2013, the Loan Agreement was further modified to permit 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 $1.03 million.

Under the Loan and Security Agreement, interest accrues at the greater of (a) 3.25% or (b) (i) 1.95% above the Wall Street Journal Prime rate on the accounts receivable portion of the credit line and (ii) 3.95% above the Wall Street Journal Prime rate on the unbilled accounts portion. In addition, DLH Solutions will pay certain other related fees and expense reimbursements including a monthly service charge of 0.65% based on the average daily loan balance which shall accrue daily and be due and payable on the last day of each month so long as the Loan Agreement is outstanding. The interest rate on the Accounts Receivable portion of the loan was 5.2% at both December 31, 2013 and 2012. The interest rate on the Unbilled Accounts portion was 7.2% at both December 31, 2013 and 2012. At December 31, 2013, based on current eligible accounts receivable, the amount of the unused availability under the line was $1.1 million. The amount outstanding as of December 31, 2013 was $0.9 million.

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) enter into any transaction 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) incur any debt outside the ordinary course of business; (vii) pay or declare any dividends or other distributions; or (viii) redeem, retire or purchase any of our equity interests exceeding $50,000. Further, without the consent of the Lender, the Company is also restricted from making any payments in respect of other outstanding indebtedness. The Lender agreed to eliminate the tangible net worth covenant as part of the Fifth Amendment. 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. The defined events of default include, among other things, a material adverse change in the Company's circumstances, or if the Lender deems itself insecure in the ability of the Company to repay its obligations, or as to the sufficiency of the collateral. At present, the Company has not experienced, and the financial institution has not declared, an event of default.

In consideration of the Lender entering into the Fifth Amendment, we agreed to pay a monthly collateral monitoring fee, a documentation fee and at the time that we may borrow amounts in excess of the Initial Sublimit, an origination fee of 1% of the increased availability.

The Company has concurrently executed a Corporate Guaranty Agreement with Lender pursuant to which it has guaranteed all of the obligations of DLH Solutions under the Loan Agreement.

Payroll Taxes

DLH has received notices from the Internal Revenue Service ("IRS") claiming taxes, interest and penalties due related to payroll taxes predominantly from its former PEO operations which were sold in fiscal 2003. DLH has also received notices from the IRS reporting overpayments of taxes. Management believes that these notices are predominantly the result of misapplication of payroll tax payments between its legal entities. If not resolved favorably, the Company may incur interest and penalties. Until the sale of certain assets related to the former PEO operations, DLH operated through 17 subsidiaries, and management believes that the IRS has not correctly identified payments made through certain of the different entities, therefore leading to the notices. To date, DLH worked with the IRS to resolve these discrepancies and has had certain interest and penalty claims abated. DLH has also received notices from the Social Security Administration claiming variances in wage reporting compared to IRS transcripts. DLH believes the notices from the Social Security Administration are directly related to the IRS notices received. DLH believes that after the IRS applies all the funds correctly, any significant interest and penalties will be abated; however, there can be no assurance that each of these matters will be resolved favorably. In settling various years for specific subsidiaries with the IRS, the Company has received refunds for those specific periods; however, as the process of settling and concluding on other periods and subsidiaries is not yet completed, the potential exists for related penalties and interest. The remaining liability ($1.4 million at December 31, 2013 and September 30, 2013) has been recorded in accrued expenses and other current liabilities and includes estimated accrued penalties and interest totaling approximately $0.6 million.

The Company believes it has accrued for the entire estimated remaining liability, inclusive of interest and penalties through the date of the financial statements. The Company may incur additional interest and may incur possible additional penalties through the future date that this obligation is settled, however, it is not currently possible to estimate what, if any, additional amount(s) may be claimed in the future, given the uncertain timing and nature of any future settlement negotiations. No payments were made in fiscal 2014 and 2013. Management believes that the ultimate resolution of these remaining payroll tax matters will not have a significant adverse effect on its financial position or future results of operations. The Company's intention is that it will in due course seek to negotiate a mutually satisfactory payment plan with the IRS, but there is no assurance that it would be successful in doing so and the Company's future cash flows and liquidity could therefore be materially affected by this matter.

Contractual Obligations

Obligations (Amounts in thousands)	Total	Payments Due By Period Less than 1 Year	1-3 Years	4-5 Years
Loan Payable (1)	$ 949	$ 949	$ —	$ —
Operating Leases	430	170	208	52
Total Obligations	$ 1,379	$ 1,119	$ 208	$ 52

(1) Represents the amounts recorded in respect of the loan payable due to Presidential in accordance with the loan agreement and capital lease obligations.

Off-Balance Sheet Arrangements

We have not created, and are not party to, any special-purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating parts of our business that are not consolidated into our financial statements. We do not have any arrangements or relationships with entities that are not consolidated into our financial statements that are reasonably likely to materially affect our liquidity or the availability of our capital resources. We have entered into various agreements by which we may be obligated to indemnify the other party with respect to certain matters. Generally, these indemnification provisions are included in contracts arising in the normal course of business under which we customarily agree to hold the indemnified party harmless against losses arising from a breach of representations related to such matters as intellectual property rights. Payments by us under such indemnification clauses are generally conditioned on the other party making a claim. Such claims are generally subject to challenge by us and to dispute resolution procedures specified in the particular contract. Further, our obligations under these arrangements may be limited in terms of time and/or amount and, in some instances, we may have recourse against third parties for certain payments made by us. It is not possible to predict the maximum potential amount of future payments under these indemnification agreements due to the conditional nature of our obligations and the unique facts of each particular agreement. Historically, we have not made any payments under these agreements that have been material individually or in the aggregate. As of our most recent fiscal year end we were not aware of any obligations under such indemnification agreements that would require material payments.

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.

Recently Issued Accounting Pronouncements Affecting the Company

Refer to Note 7 under Item 1, Financial Statements, for a detailed disclosure regarding Recent Accounting Pronouncements.

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. In connection with DLH's prior workers' compensation programs, prepayments of future claims were deposited into trust funds for possible future payments of these claims in accordance with the policies. The interest income resulting from these prepayments is for the benefit of DLH, and is used to offset workers' compensation expense. Interest rates payable on these funds have been relatively static and at a level where any further downward rate adjustments would not be expected to result in a material adverse impact on the Company's exposure to workers' compensation expense. 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 Lenders.

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

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 fiscal quarter ended December 31, 2013, 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 the Company has previously reported, it was advised of a claim by the U.S. Attorney based on an alleged failure to pay certain classes of employees the prevailing wages as required by the Service Contract Act during the years 2003-2010. On December 12, 2013, the Company was further advised by the U.S. Attorney that, after a review of the merits of the complaint, the U.S. Department of Justice declined to intervene and the claim has been dismissed in its entirety.

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. Other than as reported elsewhere in this report, 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, 2013 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, 2013.

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

The following table provides certain information with respect to our purchases of shares of our common stock during the three months ended December 31, 2013:

Period	Total Number of Shares Purchased(1)	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Programs	Maximum Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 2013	11,700	$ 1.1749	11,700	$ 336,253
November 2013	3,725	1.2638	14,975	332,114
December 2013	2,300	1.2205	17,275	329,307
Fiscal quarter ended December 31, 2013	**17,275**	**$ 1.1979**	**17,275**	**$ 329,307**

(1) On September 18, 2013, we announced that our Board of Directors authorized a stock repurchase program (the Program) under which we could repurchase up to $350,000 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. The repurchases included in the above table were repurchased pursuant to a trading plan entered into by the Company in September 2013 in accordance with Rules 10b5-1 and 10b-18.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5: OTHER INFORMATION

None.

ITEM 6: EXHIBITS

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

Exhibit Number		Exhibit Description	Incorporated by Reference Form	Dated	Exhibit	Filed Herewith
10.1	#	Employment Agreement with Kevin Wilson	8K	10/3/13	10.1	
10.2	#	Form of Option Agreement Granted to Named Executive Officers as of November 8, 2013				X
10.3	#	Employment Agreement with John F. Armstrong	8K	12/3/13	10.1	
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, 2013, formatted in XBRL (eXtensible Business Reporting Language) and furnished 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 5, 2014

EXHIBIT 10.2

DLH HOLDINGS CORP.
EMPLOYEE STOCK OPTION CERTIFICATE
AND AGREEMENT

Date of Grant:	November 8, 2013	**Option No.:** 2013-
Name of Optionee:		
Number of Shares:		
Exercise Price Per Share:	$1.395	
Expiration Date:	November 8, 2023	

Effective on the date of grant specified above, DLH HOLDINGS CORP. (the "Company") has granted to the above-named Optionee under the Company's 2006 Long Term Incentive Plan, as amended (the "Plan"), an option to purchase from the Company the number of shares of Common Stock of the Company set forth above. This option is subject to all the terms and conditions of the Plan which is incorporated in this option as though set forth in full.

The terms and conditions of this option are as follows:

1. Number and Price of Options. The number and price of the shares subject to this option shall be the number and price set forth above, subject to any adjustments which may be made under Section 11 below.

2. Vesting and Exercisability. This option may not be exercised until it is vested. Subject to the terms and conditions set forth in this Option, this option may be exercised to purchase the shares of Common Stock covered by this Option in accordance with the provisions of this paragraph.

(a) With respect to the shares covered by this Option, and provided Optionee is an employee of the Company on each vesting date, and unless otherwise provided by this Option Agreement, this Option, may be exercised to purchase the Shares as follows:

(i) Options to purchase [50% of the]Shares shall vest on the date the Management Resources and Compensation Committee of the Board of Directors of the Company (the "Committee") determines that the Company has achieved the Company's [adjusted EBITDA]/ [new business bookings] target for the fiscal year ending September 30, 2014 (the "Performance Target"), as established by the Committee and communicated to the Optionee (the Options described in this Section 2(a)(i) may be referred to herein as the "Performance Options"); and

(ii) Options to purchase [50% of the] Shares shall vest if the closing price of the Company's Common Stock equals or exceeds $3.00 per share (as shall be adjusted to give effect to any stock splits, reverse stock splits, stock dividends, recapitalizations and other similar transactions after the Date of Grant) for ten consecutive trading days prior to 5:00 p.m., New York time on the Expiration Date.

(iii) For the purpose of determining the closing price of the Company's Common Stock, the closing price of a share of Common Stock shall mean (A) if the Common Stock is traded on a national securities exchange, including on the Nasdaq Stock Market ("Nasdaq"), the per share closing price of the Common Stock shall be the reported closing price the principal securities exchange on which they are listed on the date of determination (or if there is no closing price for such date of determination, then the last preceding business day on which there was a closing price); or (B) if the Common Stock is traded in the over-the-counter market but bid quotations are not published on Nasdaq, the per share closing price of the Common Stock shall be the closing bid price per share for the Common Stock as furnished by a broker-dealer which regularly furnishes price quotations for the Common Stock on the date of determination (or if there is no closing price for such date of determination, then the last preceding business day on which there was a closing price).

(b) Subject to the other terms and conditions of this Option, the Performance Options described in Section 2(a)(i) hereof shall only vest if the Committee determines, based on the audited financial statements of the Company for the fiscal year ending September 30, 2014, that the Performance Target has been achieved, which determination shall be made prior to the time that the Company files its Annual Report on Form 10-K for the fiscal year ending September 30, 2014 with the Securities and Exchange Commission. All determinations by the Committee shall be final and binding. Notwithstanding any other provision of the Employment Agreement (as defined below), with respect to the Performance Options, the specific amount of Performance Options that vests shall be determined by the Committee based on the Company's performance towards achieving the Performance Target, as follows:

- If the Company meets or exceeds the Performance Target, one hundred percent (100%) of the Performance Options shall vest.

- If the Company's achievement is ninety percent (90%) of the Performance Target (the "Threshold Level") or greater, but less than the Performance Target, a *pro rata* portion (based on linear interpolation) of the Performance Options shall vest, and the number of Performance Options vesting shall be determined based on the amount by which the Company's performance exceeded the Threshold Level, up to achievement of the Performance Target, with the number of Performance Options that may vest being reduced by 2% for every 1% of variance below the Performance Target (but above the Threshold Level).

- If the degree of variance below the Performance Target is not a whole number, then for the purpose of determining whether the Threshold Level is achieved, or the degree of variance below the Performance Target, the Committee shall round the resulting number down to the nearest whole number.

- If the Company does not achieve the Threshold Level of performance, no portion of the Performance Options shall vest and the Performance Options shall be immediately void.

- In no event shall any Performance Options vest as to more than one hundred percent (100%) of the shares subject to the Performance Target.

(c) This Option expires at 5:00 p.m. (New York time) on the Expiration Date (the "Expiration Time") as stated above whether or not it has been duly exercised, unless sooner terminated as provided below. Subject to the terms and conditions set forth in the Optionee's employment agreement with the Company, dated ______________ (the "Employment Agreement"), this Option may also terminate sooner as provided below if your employment is terminated for any reason. This Option shall terminate and no Shares may be purchased after the Expiration Time.

3. Acceptance of Option Agreement. Your acceptance of this stock option agreement will indicate your acceptance of and your agreement to be bound by its terms and the terms of the Plan. It imposes no obligation upon you to purchase any of the shares subject to the option. Your obligation to purchase shares can arise only upon your exercise of the option in the manner set forth herein. This stock option agreement shall be subject in all respects to the terms and conditions of the Plan and in the event of any question or controversy relating to the terms of the Plan, the decision of the Board of Directors shall be final.

4. Condition of Employment. Except as provided in Section 9, this option may not be exercised unless the Optionee is employed by the Company or one of its parent or subsidiary corporations on the date of such exercise and shall have been an employee continuously since the date of grant.

5. Exercise Procedure. This option is exercisable by a written notice signed by you and delivered to the Company at its executive offices, signifying your election to exercise the option. A form of the notice is attached to this option certificate. The notice must state the number of shares of Common Stock for which your option is being exercised and must be accompanied by the full purchase price of the shares being purchased. Payment shall be either (i) in cash, or by certified or bank cashier's check payable to the order of the Company, free from all collection charges; (ii) by delivery of shares of Common Stock of the Company already owned by the Optionee for at least six months prior to the date of exercise, which Common Stock shall be valued at Fair Market Value on the date of exercise; or (iii) by a combination of the methods of payment specified in (i) and (ii) above.

For these purposes, the market value per share of Common Stock shall be: (i) if the Common Stock is traded on a national securities exchange or on the NASDAQ Stock Market System ("Nasdaq"), the per share closing price of the Common Stock on the principal securities exchange on which they are listed or on Nasdaq, as the case may be, on the date of exercise (or if there is no closing price for such date of exercise, then the last preceding business day on which there was a closing price); or (ii) if the Common Stock is traded in the over-the-counter market and quotations are published on an inter-dealer quotation system (but not on Nasdaq), the closing bid price of the Common Stock on the date of exercise as reported by thereon (or if there are no closing bid prices for such date of exercise, then the last preceding business day on which there was a closing bid price); or (iii) if the Common Stock is traded in the over-the-counter market but bid quotations are not published on an inter-dealer quotation system, the closing bid price per share for the Common Stock as furnished by a broker-dealer which regularly furnishes price quotations for the Common Stock. If notice of the exercise of this option is given by the person or persons other than you, the Company may require, as a condition to the exercise of this option, the submission to the Company of appropriate proof of the right of such person or person to exercise this option.

6. **Issuance of Shares.** Certificate for the shares purchased will be issued as soon as practicable. The Company, however, shall not be required to issue or deliver a certificate for any shares until it has complied with all requirements of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, any stock exchange on which the Company's Common Stock may then be listed and all applicable state laws in connection with the issuance or sale of such shares or the listing of such shares.

7. **No Rights Until Exercise**. Until the issuance of the certificate for the shares, you or such other person as may be entitled to exercise this option, shall have none of the rights of a stockholder with respect to shares issuable upon exercise of this option.

8. **Transferability**. This option is personal to the Optionee and during the Optionee's lifetime may be exercised only by the Optionee. This option shall not be transferable other than by will or the laws of descent and distribution, and as may be permitted under the Internal Revenue Code, the federal securities laws and the rules and regulations promulgated thereunder. If notice of the exercise of this option is given by the person or persons other than you, the Company may require, as a condition to the exercise of this option, the submission to the Company of appropriate proof of the right of such person or person to exercise this option.

9. **Termination of Employment**. Unless otherwise provided in the Employment Agreement (or a superseding employment agreement entered into between the Company and Optionee) and as set forth below, in the event that the Optionee ceases to be an employee of the Company or of any subsidiary, this Option shall terminate in accordance with the terms of the Plan.

(a) Notwithstanding the foregoing, however, unless otherwise provided in an employment agreement between the Company and the Optionee or elsewhere in this Option Agreement, upon termination of employment by the Optionee other than for "good reason" (as defined in the Employment Agreement), the Optionee shall continue to have the right to exercise any unexercised portion of this option, solely to the extent vested as of the date of termination of employment of Optionee, for such period of time as is provided for in the Plan, but in no event after the Expiration Time. Unless otherwise provided in an employment agreement between the Company and the Optionee, in the event of the death of Optionee during the foregoing period of time, this Option shall be exercisable by his or her personal representatives, heirs or legatees to the same extent that the Optionee could have exercised this option if he or she had not died, for twelve months from the date of death, but in no event after the Expiration Time. In the event the employment of the Optionee was terminated for "cause" (as defined in the Employment Agreement), this Option will terminate on the date of that the Optionee ceases to be an employee of the Company or a subsidiary.

(b) In the event Optionee's employment with the Company or any subsidiary is terminated by the Company without "cause" (as defined in the Employment Agreement) or by Optionee for "good reason" (as such term is defined in the Employment Agreement), this Option shall remain exercisable, solely to the extent it was vested as of the date of termination of employment of Optionee, for such period of time as is provided for in the Plan, but in no event after the Expiration Time.

(c) Unless otherwise provided in an employment agreement between the Company and the Optionee, in the event the Optionee's employment is terminated due to his death or permanent disability, this Option shall remain exercisable solely to the extent vested as of the date of the termination of his employment, for such period of time as provided for in the Plan, but in no event after the Expiration Time. In the event of the death of the Optionee during the one year period after the date of permanent disability of the Optionee, that portion of the Option which was exercisable shall be exercisable by his or her personal representatives, heir or legatees at any time prior to the expiration of one year from the date of the death of Optionee, but in no event after the Expiration Time.

10. **<u>Not an Employment Agreement</u>**. This option does not confer on the Optionee any right to continue in the employ of the Company or interfere in any way with the right of the Company to determine the terms of the Optionee's employment.

11. **<u>Corporate Transactions and Change in Control</u>**. Subject to the terms and conditions which may be provided in the Employment Agreement (or a superseding employment agreement entered into between the Company and Optionee), in the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, rights offering, or any other change in the corporate structure or stock of the Company, the Board shall make such adjustments, if any, as it deems appropriate in the number and kind of shares covered by this Option, or in the option price, or both. Notwithstanding the foregoing, however, in the event of a Change of Control, as defined in the Employment Agreement, Options which are vested as of the effective date of the termination of Employee's employment (pursuant to the Employment Agreement) shall remain exercisable in accordance with the Plan, but in no event after the Expiration Time. Notwithstanding any provision to the contrary, the Committee or the Board may cancel, amend, alter or supplement any term or provision of this option to avoid the penalty provisions of Section 4999 of the Code, subject to the terms of an employment agreement between the Company and the Optionee.

12. **<u>Capital Adjustments.</u>** The existence of the Option shall not affect in any way the right or power of Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations, or other changes in Company's capital structure or its business, or any merger or consolidation of Company or any issue of bonds, debentures, preferred stock having a preference to or affecting Company's common stock or of any rights thereof, or the issuance of any securities convertible into any such common stock or of any rights, options, or warrants to purchase any common stock, or the dissolution or liquidation of Company, any sale or transfer of all or any part of its assets or business, or any other act or proceeding of Company, whether of a similar character or otherwise. The securities with respect to which the Option is granted are shares of common stock of the Company as presently constituted, but if and whenever, prior to the delivery by Company of all the shares with respect to which the Option is granted, the Company shall effect a subdivision or consolidation of shares of its common stock or other capital readjustment, the payment of a stock dividend, or other increase or reduction of the number of shares of such common stock outstanding, the number of shares subject to the Option and the applicable Exercise Price shall be adjusted as provided for in the Plan.

13. **<u>Securities Law Compliance</u>**. This option shall be subject to the requirement that if at any time the Board shall determine that the registration, listing or qualification of the shares covered hereby upon any securities exchange or under any federal or state law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the granting of this option or the purchase of the shares, this option may not be exercised unless and until such registration, listing, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board. The Board may require that the person exercising this option shall make such representations and agreements and furnish such information as it deems appropriate to assure compliance with the foregoing or any other applicable legal requirements.

14. **<u>Tax Matters</u>**. To the maximum extent permissible under the Code, this Option is intended to qualify for "incentive stock option" treatment under the provisions of Section 422 of the

Code. It is understood and acknowledged by Optionee, however, that all of the options represented by this Option Certificate may not qualify as Incentive Stock Options. You are therefore urged to consult with your individual tax advisor prior to exercising this Option since the exercise of this Option may result in adverse tax consequences including the payment of additional federal and/or state income taxes.

15 **Withholding Tax**. The Company shall have the power and the right to deduct or withhold, or require a Optionee to remit to the Company as a condition precedent for the fulfillment of any option exercise, an amount sufficient to satisfy Federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this option. Whenever Shares are to be issued or cash paid to an Optionee upon exercise of an option, the Company shall have the right to require the Optionee to remit to the Company, as a condition of exercise of the option, an amount sufficient to satisfy federal, state and local withholding tax requirements at the time of exercise. However, notwithstanding the foregoing, to the extent that a Optionee is an insider (as determined by the Board of Directors), satisfaction of withholding requirements by having the Company withhold Shares may only be made to the extent that such withholding of Shares (1) has met the requirements of an exemption under Rule 16b-3 promulgated under the Exchange Act, or (2) is a subsequent transaction the terms of which were provided for in a transaction initially meeting the requirements of an exemption under Rule 16b-3 promulgated under the Exchange Act.

16. Notices. All notices hereunder to the Company shall be delivered or mailed to the following address:

DLH HOLDINGS CORP.
1776 Peachtree Street, N.W.
Atlanta, GA 30309
Attention: Chief Financial Officer

Such address for the service of notices may be changed at any time provided notice of such change is furnished in advance to the Optionee.

17. Governing Law. This Agreement is granted and delivered in the State of New Jersey and is intended to be construed and enforced under the laws thereof. The Holder submits to the exclusive jurisdiction and venue of the federal or state courts of New Jersey, to resolve any and all issues that may arise out of or relate to this Option Agreement.

18. Certain Definitions. Capitalized terms used herein, to the extent not defined in this Stock Option Agreement shall have the meanings ascribed to such term in the Plan.

Signature page follows.

19. <u>General Provisions</u>. This Option constitutes the entire agreement of the parties and supersede all prior undertakings and agreements with respect to the subject matter hereof. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular, and the singular shall include the plural. In the event any provision of this Agreement shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of this Agreement and this Agreement shall be construed and enforced as if the illegal or invalid provision had not been included. No fractional shares of Common Stock shall be issued or delivered pursuant to this Option. The Company shall determine whether cash or other property shall be issued or paid in lieu of fractional shares of Common Stock or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

DLH HOLDINGS CORP.

By:___________________________________
Name:
Title:

ATTEST:

Corporate Secretary

By:___________________________________
Name:
Title:

ACKNOWLEDGMENT

The Optionee acknowledges receipt of a copy of the Company’s 2006 Long-Term Incentive Plan, as amended, (the “Plan”), and represents that he or she has read and is familiar with the terms and provisions thereof and hereby accepts this Option subject to all of the terms and provisions of the Option Agreement and the Plan. The Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Board or the Committee upon any questions arising under the Plan.

Date:__________

Signature of Optionee

Name of Optionee

Address

City, State, Zip Code

OPTION EXERCISE FORM

TO: DLH HOLDINGS CORP.
1776 Peachtree Street, N.W.
Atlanta, GA 30309
Attn: Chief Financial Officer

Ladies/Gentlemen:

I irrevocably elect to exercise my right to purchase _________ shares of Common Stock covered by this Option Agreement and make full payment of the Exercise Price of such shares as follows (PLEASE CHOOSE FORM OF PAYMENT).

o **Cash Purchase**. I hereby elect to pay the exercise price in cash, and enclose a CERTIFIED CHECK (or has wired payment) in the amount of $____________.

o **Cashless Exercise**. I have enclosed _________ shares of Common Stock of DLH Holdings Corp. in accordance with the Option Agreement. I represent that I have owned the shares being delivered for at least six months prior to the date of exercise.

o **Combination of Cash and Cashless**. I elect to pay the exercise price in cash and stock, and encloses a CERTIFIED CHECK (or has wired payment) in the amount of $____________ and have enclosed _________ shares of Common Stock of DLH Holdings Corp. in accordance with the Option Agreement. I represent that I have owned the shares being delivered for at least six months prior to the date of exercise.

I understand and agree that DLH Holdings Corp. shall have the power and the right to deduct or withhold, or require me to remit to it, as a condition precedent for the fulfillment of any option exercise, an amount sufficient to satisfy Federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this option. Further, I acknowledge that DLH Holdings Corp. shall have the right to require me to remit to DLH Holdings Corp., as a condition of exercise of the option, an amount sufficient to satisfy federal, state and local withholding tax requirements at the time of exercise. However, notwithstanding the foregoing, to the extent that a Optionee is an insider (as determined by the Board of Directors), satisfaction of withholding requirements by having DLH Holdings Corp. withhold Shares may only be made to the extent that such withholding of Shares (1) has met the requirements of an exemption under Rule 16b-3 promulgated under the Exchange Act, or (2) is a subsequent transaction the terms of which were provided for in a transaction initially meeting the requirements of an exemption under Rule 16b-3 promulgated under the Exchange Act.

Further, I agree to promptly notify DLH Holdings Corp. of the sale of any of the shares I received upon exercise of this option during the one year period commencing on the date I receive the certificate for the shares.

Kindly deliver to me a certificate representing the shares as follows:

INSTRUCTIONS FOR DELIVERY

Name: ____
(please typewrite or print in block letters)

Address: _________________________________
____
____

Dated: _________________________

Signature ________________________________

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 5, 2014

/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 5, 2014

/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, 2013 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 5, 2014

/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.