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

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

For the quarterly period ended June 30, 2018

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

(770) 554-1647
(Registrant’s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Exchange Act

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 11,899,494 shares of Common Stock, par value $.001 per share, were outstanding as of July 31, 2018.

DLH HOLDINGS CORP.
FORM 10-Q
For the Quarter Ended June 30, 2018

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

	(unaudited) Three Months Ended June 30,		(unaudited) Nine Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Revenue	$ 36,131	$ 29,256	$ 100,747	$ 85,272
Direct expenses	27,793	22,871	78,429	66,805
Gross margin	8,338	6,385	22,318	18,467
General and administrative expenses	5,136	4,122	14,700	12,722
Depreciation and amortization	588	510	1,654	1,264
Income from operations	**2,614**	**1,753**	**5,964**	**4,481**
Interest expense, net	262	269	801	888
Income before income taxes	2,352	1,484	5,163	3,593
Income tax expense, net	738	539	5,084	1,345
Net income	**$ 1,614**	**$ 945**	**$ 79**	**$ 2,248**
Net income per share - basic	$ 0.14	$ 0.08	$ 0.01	$ 0.20
Net income per share - diluted	$ 0.13	$ 0.08	$ 0.01	$ 0.18
Weighted average common shares outstanding				
Basic	11,899	11,299	11,875	11,250
Diluted	12,884	12,445	12,872	12,417

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

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

		June 30, 2018		September 30, 2017
		(unaudited)		
ASSETS				
Current assets:				
Cash and cash equivalents	$	6,590	$	4,930
Accounts receivable		12,420		11,911
Other current assets		856		598
Total current assets		19,866		17,439
Equipment and improvements, net		1,630		1,391
Deferred taxes, net		4,875		9,639
Goodwill		25,989		25,989
Intangible assets, net		13,805		15,127
Other long-term assets		139		139
Total assets	**$**	**66,304**	**$**	**69,724**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Debt obligations - current	$	3,633	$	6,518
Derivative financial instruments, at fair value		—		306
Accrued payroll		5,034		3,723
Accounts payable, accrued expenses, and other current liabilities		10,475		10,895
Total current liabilities		19,142		21,442
Total long term liabilities		9,707		12,427
Total liabilities		28,849		33,869
Commitments and contingencies				
Shareholders' equity:				
Common stock, $.001 par value; authorized 40,000 shares; issued and outstanding 11,899 at June 30, 2018 and 11,767 at September 30, 2017		12		12
Additional paid-in capital		84,079		82,687
Accumulated deficit		(46,636)		(46,844)
Total shareholders' equity		37,455		35,855
Total liabilities and shareholders' equity	**$**	**66,304**	**$**	**69,724**

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

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

	(unaudited) Nine Months Ended June 30, 2018	(unaudited) Nine Months Ended June 30, 2017
Operating activities		
Net income	$ 79	$ 2,248
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	1,654	1,264
Amortization of debt financing costs as interest expense	202	194
Change in fair value of derivative financial instruments	—	49
Stock based compensation expense	1,169	613
Deferred taxes, net	4,764	1,004
Changes in operating assets and liabilities		
Accounts receivable	(508)	(1,987)
Other current assets	(259)	(78)
Accounts payable, accrued payroll, accrued expenses and other current liabilities	897	1,519
Other long term assets/liabilities	(5)	145
Net cash provided by operating activities	**7,993**	**4,971**
Investing activities		
Acquisition, net of cash acquired	—	(250)
Purchase of equipment and improvements	(571)	(785)
Net cash used in investing activities	**(571)**	**(1,035)**
Financing activities		
Repayments on senior debt	(5,730)	(2,813)
Deferred debt financing costs	(70)	—
Repayments of capital lease obligations	(8)	(62)
Proceeds from issuance of stock upon exercise of options	46	113
Net cash used in financing activities	**(5,762)**	**(2,762)**
Net change in cash and cash equivalents	1,660	1,174
Cash and cash equivalents at beginning of period	4,930	3,427
Cash and cash equivalents at end of period	**$ 6,590**	**$ 4,601**
Supplemental disclosures of cash flow information		
Cash paid during the period for interest	$ 619	$ 662
Cash paid during the period for income taxes	$ 630	$ 390
Derivative warrant liability reclassified as equity	$ (306)	$ —
Noncash issuance of stock upon exercise of options	$ 25	$ —

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

1. 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. The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these statements do not include all of the information and footnotes required by U.S. generally accepted accounting principles ("GAAP") for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the period ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending September 30, 2018. Amounts as of and for the periods ended June 30, 2018 and June 30, 2017 are unaudited. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2017 filed with the Securities and Exchange Commission on December 9, 2017, as well as interim quarterly filings thereafter.

2. Business Overview

DLH is a full-service provider of technology-enabled health and readiness enhancement services to government agencies including the Department of Veteran Affairs ("VA"), Department of Health and Human Services ("HHS"), Department of Defense ("DoD"), and other government agencies. DLH Holdings Corp. (together with its subsidiaries, "DLH" or the "Company" and also referred to as "we," "us" and "our") manages its operations from its principal executive offices in Atlanta, Georgia. We have complementary headquarters offices in Silver Spring, Maryland. We employ over 1,500 skilled employees working in more than 30 locations throughout the United States.

Presently, the Company derives 100% of its revenue from agencies of the federal government, primarily as a prime contractor but also as a subcontractor to other Federal prime contractors. A major customer is defined as a customer from whom the Company derives at least 10% of its revenues.

Our largest customer continues to be the VA, which comprised approximately 64% and 58% of revenue for the nine months ended June 30, 2018 and 2017, respectively. Additionally, HHS, which comprised approximately 34% and 32% of revenue for the nine months ended June 30, 2018 and 2017, respectively, represents a major customer. Our current contracts are within the following markets: Defense/VA (65%), Human Services and Solutions (32%) and Public Health/Life Sciences (3%); of which 97% of these contracts have been awarded on a Time and Materials basis, 2% are Cost plus Fixed Fee contracts and 1% are Firm Fixed Price contracts. In addition, substantially all accounts receivable, including unbilled accounts receivable, are from agencies of the U.S. Government as of June 30, 2018 and September 30, 2017. We generally operate as a prime contractor, but have also entered into contracts as a subcontractor. The Company's current business base is 99% prime contracts and 1% subcontracts. We believe that the credit risk associated with our receivables is limited due to the creditworthiness of these customers. See Note 4, Supporting Financial Information-Accounts Receivable.

As of June 30, 2018, awards from VA and HHS have anticipated periods of performance ranging from approximately four months to up to two years. These agreements are subject to the Federal Acquisition Regulations. While there can be no assurance as to the actual amount of services that the Company will ultimately provide to VA and HHS under its current contracts, we believe that our strong working relationships and our effective service delivery support ongoing performance for the terms of the contracts.

The VA comprised approximately 64% and 58% of revenue for the nine months ended June 30, 2018 and 2017, which was derived from 16 separate contracts. Approximately 55% of the Company's current business base with the VA is derived from nine contracts which are currently operating under extensions through October 31, 2018. We expect further extensions until the procurement is completed. A single renewal request for proposal ("RFP") has currently been issued for these contracts that requires the prime contractor be a service-disabled veteran owned small business (SDVOSB), which precludes the Company from bidding on the RFP as a prime contractor. The Company has teamed to respond to this RFP. Should the contract be awarded to an SDVOSB partner of DLH, the Company expects to continue to perform a significant amount of the contract's volume of business.

The Company's results of operations, cash flows and financial condition would be materially adversely affected in the event that we were unable to continue our relationship with VA or HHS, or if the amount of services we provide to them was materially reduced. Given the uncertainty regarding both the outcome and the timing of the VA RFP discussed above, the Company has not reflected any current impact to its financial statements from this event.

3. New Accounting Pronouncements

Beginning in May 2014, the Financial Accounting Standards Board ("FASB") issued guidance for revenue recognition. Subsequently, the FASB issued an amendment to defer for one year the effective date of the new guidance on revenue recognition, as well as issued additional clarifying amendments. The new guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, the guidance requires improved disclosure to help the users of the financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The new guidance supersedes most current revenue recognition guidance, including industry-specific guidance, and is effective for annual periods (including interim periods therein) beginning after December 15, 2017. The guidance allows either a full retrospective or modified retrospective transition method. The Company is evaluating the effects of this guidance. The Company will adopt the new guidance beginning October 1, 2018. Given our current contract mix, where performance obligations are predominantly billed on a time and materials basis as rendered, we do not anticipate any material impact to our revenue recognition methodology or timing as a result of this new guidance.

In February 2016, the FASB issued new accounting guidance related to leases. This update, effective for the Company beginning October 1, 2019, will replace existing guidance in GAAP and will require lessees to recognize lease assets and lease liabilities on the balance sheet for all leases and disclose key information about leasing arrangements. When implemented, lessees and lessors will be required to recognize leases at the beginning of the earliest period presented using a modified retrospective approach. As shown in Note 9, the Company currently has approximately $3.0 million of lease obligations as of June 30, 2018 that would be evaluated as the implementation of this guidance becomes effective.

In July 2017, the FASB issued new accounting guidance related to certain equity-linked financial instruments with down round features, such as warrants. The guidance provides for a scope exception from derivative accounting if the instruments qualify for equity classification. Should the instruments qualify for equity classification, they would no longer be considered liabilities subject to fair value measurement at each reporting period. This update is effective for the Company as of its fiscal year beginning October 1, 2019, with early adoption permitted. The Company has elected to adopt the provisions of this ASU as of December 31, 2017.

4. Supporting Financial Information

Accounts receivable

		(in thousands)	
		June 30,	**September 30,**
	Ref	**2018**	**2017**
Billed receivables		$ 12,298	$ 11,862
Unbilled receivables		122	49
Total accounts receivable		12,420	11,911
Less: Allowance for doubtful accounts	(a)	—	—
Accounts receivable, net		**$ 12,420**	**$ 11,911**

Ref (a): Accounts receivable are non-interest bearing, unsecured and carried at net realizable value. We evaluate our receivables on a quarterly basis and determine whether an allowance is appropriate based on specific collection issues. No allowance for doubtful accounts was deemed necessary at either June 30, 2018 or September 30, 2017.

Other current assets

	Ref	June 30, 2018	September 30, 2017
		(in thousands)	
Prepaid insurance and benefits		$ 611	$ 240
Other receivables and prepaid expenses		245	358
Other current assets		**$ 856**	**$ 598**

Equipment and improvements, net

	Ref	June 30, 2018	September 30, 2017
		(in thousands)	
Furniture and equipment		$ 326	$ 331
Computer equipment		759	715
Computer software	**(a)**	1,640	1,108
Leasehold improvements		66	66
Total fixed assets		2,791	2,220
Less accumulated depreciation and amortization		(1,161)	(829)
Equipment and improvements, net	**(b)**	**$ 1,630**	**$ 1,391**

Ref (a): The Company implemented a new Enterprise Resource Planning system on January 1, 2018. Capitalized costs include $1.2 million and $0.7 million as of June 30, 2018 and September 30, 2017, respectively, of software licenses and implementation labor related to application development. The asset was placed in service as of January 1, 2018 with an estimated useful life of 5 years.

Ref (b): Equipment and improvements are stated at cost. Depreciation and amortization are provided using the straight-line method over the estimated useful asset lives (3 to 7 years) and the shorter of the initial lease term or estimated useful life for leasehold improvements. Maintenance and repair costs are expensed as incurred. Depreciation of equipment was $147 thousand and $69 thousand for the three months ended June 30, 2018 and 2017, respectively, and $332 thousand and $239 thousand for the nine months ended June 30, 2018 and 2017, respectively.

Intangible Assets

	Ref	June 30, 2018	September 30, 2017
		(in thousands)	
Intangible assets	(a)		
Customer contracts and related customer relationships		$ 16,626	$ 16,626
Covenants not to compete		480	480
Trade name		517	517
Intangible assets		**17,623**	**17,623**
Less accumulated amortization			
Customer contracts and related customer relationships		(3,602)	(2,355)
Covenants not to compete		(104)	(68)
Trade name		(112)	(73)
Total accumulated amortization		(3,818)	(2,496)
Intangible assets, net		$ 13,805	$ 15,127

Ref (a): Intangible assets subject to amortization. The intangibles are amortized on a straight-line basis over their estimated useful lives of 10 years. Total amount of amortization expense was $0.4 million and $0.4 million for the three months ended June 30, 2018 and 2017, respectively, and $1.3 million and $1.0 million for the nine months ended June 30, 2018 and 2017, respectively.

Estimated amortization expense for future years:	(in thousands)
Remaining Fiscal 2018	$ 441
Fiscal 2019	1,762
Fiscal 2020	1,762
Fiscal 2021	1,762
Fiscal 2022	1,762
Fiscal 2023	1,762
Thereafter	4,554
	$ 13,805

Accounts payable, accrued expenses and other current liabilities

	Ref	June 30, 2018 (in thousands)	September 30, 2017
Accounts payable		$ 3,890	$ 5,205
Accrued benefits		2,263	1,831
Accrued bonus and incentive compensation		1,509	1,544
Accrued workers compensation insurance		2,182	1,598
Other accrued expenses		631	717
Accounts payable, accrued expenses, and other current liabilities		**$ 10,475**	**$ 10,895**

Debt obligations

	Ref	June 30, 2018 (in thousands)	September 30, 2017
Bank term loan	(a)	$ 13,958	$ 19,688
Less unamortized debt issuance costs		(823)	(961)
Net bank debt obligation		**13,135**	**18,727**
Less current portion of bank debt obligations		(3,633)	(6,518)
Long term portion of bank debt obligation		**$ 9,502**	**$ 12,209**

Ref (a): Maturity of the bank debt obligation as follows, in thousands:

Year 1	$ 3,750
Year 2	3,750
Year 3	6,458
Total bank debt obligation	**$ 13,958**

Interest expense

	Ref	Three Months Ended June 30, (in thousands) 2018	2017	Nine Months Ended June 30, (in thousands) 2018	2017
Interest expense	(a)	$ (192)	$ (219)	$ (619)	$ (662)
Amortization of debt financing costs as interest expense	(b)	(70)	(70)	(202)	(194)
Change in fair value of derivative financial instruments		—	3	—	(49)
Other income (expense), net		—	17	20	17
Interest expense, net		**$ (262)**	**$ (269)**	**$ (801)**	**$ (888)**

Ref (a): Interest expense on borrowing
Ref (b): Amortizations of expenses related to securing financing

5. Credit Facilities

A summary of our loan facilities and subordinated debt financing as of June 30, 2018 is as follows:

	($ in Millions) As of June 30, 2018			
Lender	**Arrangement**	**Loan Balance**	**Interest**	**Maturity Date**
Fifth Third Bank	Secured term loan $25 million ceiling (a)	$ 14.0	LIBOR* + 3.0%	05/01/21
Fifth Third Bank	Secured revolving line of credit $10 million ceiling (b)	$ —	LIBOR* + 3.0%	05/01/21

*LIBOR rate as of June 30 , 2018 was 1.98%
(a) Represents the principal amounts payable on our Term Loan with Fifth Third Bank. The $25.0 million term loan from Fifth Third Bank was funded at closing and is secured by liens on substantially all of the assets of the Company. The principal of the Term Loan is payable in fifty-nine consecutive monthly installments of $312,500 with the remaining balance due on May 1, 2021.

The Term Loan agreement requires compliance with a number of financial covenants and contains restrictions on our ability to engage in certain transactions. We are in compliance with all loan covenants and restrictions.

Among other matters, we must comply with limitations on: granting liens; incurring other indebtedness; maintenance of assets; investments in other entities and extensions of credit; mergers and consolidations; and changes in nature of business. The loan agreement also requires us to comply with certain quarterly financial covenants including:

(i) a minimum fixed charge coverage ratio of at least 1.35 to 1.0 commencing with the quarter ending June 30, 2016, and for all subsequent periods, and

(ii) a Funded Indebtedness to Adjusted EBITDA ratio not exceeding the ratio of 2.99 to 1.0 at closing and thereafter a ratio ranging from 3.0 to 1.0 for the period through June 30, 2018 to 2.5 to 1.0 for the period ending September 30, 2018 through maturity. Adjusted EBITDA ratio is calculated by dividing the Company's total interest-bearing debt by net income adjusted to exclude (i) interest and other expenses, including acquisition expenses, net, (ii) provision for or benefit from income taxes, if any, (iii) depreciation and amortization, and (iv) G&A expenses - equity grants.

In addition to monthly payments of the outstanding indebtedness, the loan agreement also requires annual payments of a percentage of excess cash flow, as defined in the loan agreement. The loan agreement states that an excess cash flow recapture payment must be made equal to (a) 75% of the excess cash flow for each year in which the Funded Indebtedness to Adjusted EBITDA ratio is greater than or equal to 2.50:1.0, or (b) 50% of the Excess Cash Flow for each fiscal year in which the funded indebtedness to Adjusted EBITDA Ratio is less than 2.50:1.0 but greater than or equal to 2.0:1.0. DLH made an excess cash flow payment of $2.9 million on January 16, 2018. DLH does not expect to make any future excess cash flow payments.

(b) The secured revolving line of credit from Fifth Third Bank has a ceiling of up to $10.0 million. Borrowing on the line of credit is secured by liens on substantially all of the assets of the Company.

The Company's total borrowing availability, based on eligible accounts receivables at June 30, 2018, was $10.0 million. This capacity was comprised of $1.3 million in a stand-by letter of credit and unused borrowing capacity of $8.7 million.

The revolving line of credit has a maturity date of May 1, 2021 and is subject to loan covenants as described above in the Term Loan. DLH is fully compliant with those covenants.

6. Significant Accounting Policies

Use of Estimates

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

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. Revenue on time and materials contracts is recognized based on hours performed times the applicable hourly rate, plus materials and other direct costs incurred on the contract. Revenue on fixed fee for service contracts is recognized over the period of performance of the contract. Revenue on cost reimbursable contracts is recognized equal to allowable costs incurred, plus a ratable portion of the applicable fee.

DLH recognizes and records revenue on government contracts 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.

Fair Value of Financial Instruments

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

Goodwill and other intangible assets

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

At September 30, 2017, we performed a goodwill impairment evaluation on the year-end carrying value of approximately $26 million. We performed both a qualitative and quantitative assessment of factors to determine whether it was necessary to perform the goodwill impairment test. Based on the results of the work performed, the Company has concluded that no impairment loss was warranted at September 30, 2017. For the nine months ended June 30, 2018, the Company determined that no change in business conditions occurred which would have a material adverse effect on the valuation of goodwill. Notwithstanding this evaluation, factors including non-renewal of a major contract or other substantial changes in business conditions could have a material adverse effect on the valuation of goodwill in future periods and the resulting charge could be material to future periods' results of operations.

Long Lived Assets

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

Income Taxes

DLH accounts for income taxes in accordance with the liability method, whereby deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reflected on the consolidated balance sheet when it is determined that it is more likely than not that the asset will be realized. This guidance also requires that
deferred tax assets be reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax asset will not be realized. We account for uncertain tax positions by recognizing the financial statement effects of a tax position only when, based upon the technical merits, it is "more-likely-than-not" that the position will be sustained upon examination. We had no uncertain tax positions at either June 30, 2018 or September 30, 2017. We report interest and penalties as a component of income tax expense. In the three and nine months ended June 30, 2018 and June 30, 2017, we recognized no interest and no penalties related to income taxes.

Stock-based Equity Compensation

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

Cash and Cash Equivalents

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

Earnings per Share

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

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

Stock-based compensation expense

Options issued under equity incentive plans were designated as either an incentive stock or a non-statutory stock option. No option was granted with a term of more than 10 years from the date of grant. Exercisability of option awards may depend on achievement of certain performance measures determined by the Compensation Committee of our Board. Shares issued upon option exercise are newly issued shares. As of June 30, 2018, there were 1.7 million shares available for grant.

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

	Ref	(in thousands) Three Months Ended June 30, 2018	(in thousands) Three Months Ended June 30, 2017	(in thousands) Nine Months Ended June 30, 2018	(in thousands) Nine Months Ended June 30, 2017
DLH employees		$ 68	$ 55	$ 199	$ 117
Non-employee directors	(a)	173	8	970	496
Total stock option expense		$ 241	$ 63	$ 1,169	$ 613

Ref (a): Equity grants of restricted stock, in accordance with DLH compensation policy for non-employee directors.

Unrecognized stock-based compensation expense

	Ref	(in thousands) June 30, 2018	(in thousands) June 30, 2017
Unrecognized expense for DLH employees	(a)	$ 980	$ 398
Unrecognized expense for non-employee directors	(b)	$ —	$ —
Total unrecognized expense		$ 980	$ 398

Ref (a): Compensation expense for the portion of equity awards for which the requisite service has not been rendered is recognized as the requisite service is rendered. The compensation expense for that portion of awards has been based on the grant-date fair value of those awards as calculated for recognition purposes under applicable guidance. For options that vest based on the Company's common stock achieving and maintaining defined market prices, the Company values the awards with a binomial model that utilizes various probability factors and other criterion in establishing fair value of the grant. The related compensation expense is recognized over the derived service period determined in the valuation. The remaining term for the weighted average expense of these shares will be 53 months.

Ref (b): Unrecognized stock expense related to prior year's equity grants of restricted stock to non-employee directors, based on performance criteria, in accordance with DLH compensation policy for non-employee directors.

Stock option activity for the nine months ended June 30, 2018

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

	Ref	(in thousands) Number of Shares		Weighted Average Exercise Price	(in years) Weighted Average Remaining Contractual Term		(in thousands) Aggregate Intrinsic Value
Options outstanding September 30, 2017		1,994	$	3.83	6.4	$	8,489
Granted		217	$	6.33			
Exercised		(42)	$	1.69			
Options outstanding, June 30, 2018		2,169	$	4.38	5.9	$	6,514

Indication of Value Summary

Utilizing a volatility range of 50% along with assumptions of a 10 year term and the aforementioned 10-day stock price threshold results in an indicated range of value of the Options granted during the current fiscal year as follows using the Monte Carlo Method.

							Volatility
							50%
Grant Date	Strike Price	Stock Price	Vesting Threshold Price	Risk-Free Rate	Expected Term (Years)		Calculated Fair Value
11/29/2017 $	6.46 $	6.46 $	12.00	2.4%	10 $		3.98
12/01/2017 $	6.28 $	6.28 $	8.00	2.4%	10 $		3.87
12/01/2017 $	6.28 $	6.28 $	10.00	2.4%	10 $		3.82

Notes:

Results based on 100,000 simulations

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

	Ref	(in thousands) Number of Shares June 30, 2018	September 30, 2017
Vested and exercisable	(a)	1,335	1,327
Unvested		834	667
Options outstanding		2,169	1,994

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

8. Earnings Per Share

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Numerator:				
Net income	$ 1,614	$ 945	$ 79	$ 2,248
Denominator:				
Denominator for basic net income per share - weighted-average outstanding shares	11,899	11,299	11,875	11,250
Effect of dilutive securities:				
Stock options and restricted stock	985	1,146	997	1,167
Denominator for diluted net income per share - weighted-average outstanding shares	12,884	12,445	12,872	12,417
Net income per share - basic	$ 0.14	$ 0.08	$ 0.01	$ 0.20
Net income per share - diluted	$ 0.13	$ 0.08	$ 0.01	$ 0.18

9. Commitments and Contingencies

Contractual Obligations as of June 30, 2018

			Payments Due By Period			
Contractual Obligations (Amounts in thousands)	**Ref**	**Total**	**Next 12 Months**	**2-3 Years**	**4-5 Years**	**More than 5 Years**
Debt Obligations		$ 13,958	$ 3,750	$ 10,208	$ —	$ —
Facility leases		2,998	906	1,135	668	289
Equipment operating leases		48	27	21	—	—
Total Obligations		$ 17,004	$ 4,683	$ 11,364	$ 668	$ 289

Worker's Compensation

We accrue worker's compensation expense based on claims submitted, applying actuarial loss development factors to estimate the costs incurred but not yet recorded. Our accrued liability for claims development as of June 30, 2018 and September 30, 2017 was $2.18 million and $1.60 million, respectively.

Legal Proceedings

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

10. Related Party Transactions.

The Company has determined that for the three and nine months ended June 30, 2018 and 2017 there were no significant related party transactions that have occurred which require disclosure through the date that these financial statements were issued.

11. Income Taxes

DLH accounts for income taxes in accordance with the liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reflected on the balance sheet when it is determined that it is more likely than not that the asset will be realized. This guidance also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax asset will not be realized.

On December 22, 2017, the Tax Cuts and Jobs Act (the "2017 Tax Act") was enacted. The 2017 Tax Act significantly reduces U.S. federal tax rates, modifies rules regarding deductibility of executive compensation, limits deductions of interest expense, and revises rules regarding usability of net operating losses.

Net income for the nine months ended June 30, 2018 includes an aggregate net discrete tax provision of $3.4 million as a result of the 2017 Tax Act, principally associated with revaluing the benefits of our net operating loss carryforwards from the previously recognized 34% federal rate to the 21% rate enacted. As of June 30, 2018, the Company is reporting a $4.9 million deferred tax asset, which is presented on the balance sheet as deferred taxes in the long-term assets section.

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

Forward Looking and Cautionary Statements

You should read the following discussion in conjunction with the Consolidated Financial Statements and the notes to those statements included elsewhere in this Quarterly Report on Form 10-Q, as well as our Annual Report on Form 10-K for the year ended September 30, 2017, and in other reports we have subsequently filed with the SEC. This Quarterly Report on Form 10-Q contains certain statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Certain statements contained in this Management's Discussion and Analysis are forward-looking statements that involve risks and uncertainties. Any statements that refer to expectations, projections or other characterizations of future events or circumstances or that are not statements of historical fact (including without limitation statements to the effect that the Company or its management "believes", "expects", "anticipates", "plans", "intends" and similar expressions) should be considered forward looking statements that involve risks and uncertainties which could cause actual events or DLH's actual results to differ materially from those indicated by the forward-looking statements. Those risks and uncertainties include, but are not limited to, the following: failure to achieve contract awards in connection with re-competes for present business and/or competition for new business; the risks and uncertainties associated with client interest in and purchases of new services; changes in client budgetary priorities; government contract procurement (such as bid protest, small business set asides, loss of work due to organizational conflicts of interest, etc.) and termination risks; the ability to successfully integrate the operations of our recent and any future acquisitions; and other risks described in our SEC filings. For a discussion of such risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" in the Company's periodic reports filed with the SEC, including our Annual Report on Form 10-K for the fiscal year ended September 30, 2017, as well as interim quarterly filings thereafter. The forward-looking statements contained herein are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry and business. Such forward-looking statements are made as of the date hereof and may become outdated over time. The Company does not assume any responsibility for updating forward-looking statements.

Business Overview:

DLH is a provider of technology-enabled business process outsourcing and program management solutions, primarily to improve and better deploy large-scale federal health and human service initiatives. DLH derives 100% of its revenue from agencies of the Federal government, providing services to several agencies including the Department of Veteran Affairs ("VA"), Department of Health and Human Services ("HHS"), and the Department of Defense ("DoD").

Our business offerings are now focused on three primary sources of revenue within the Federal health services market space, as follows:

- Department of Defense and veteran health solutions, comprising approximately 62% of our current business base;
- Human services and solutions, approximately 34% of our current business base; and
- Public health and life sciences, approximately 4% of our current business base.

Our largest customers continue to be the VA and HHS. As of June 30, 2018, contracts with VA and HHS have anticipated periods of performance ranging from approximately four months to up to two years. These agreements are subject to the Federal Acquisition Regulations. While there can be no assurance as to the actual amount of services that we will ultimately provide to VA and HHS under our current contracts, we believe that our strong working relationships and our effective service delivery support ongoing performance for the terms of the contracts. Our results of operations, cash flows and financial condition would be materially adversely affected if we were unable to continue our relationship with either of these customers, or if the amount of services we provide to them was materially reduced.

Defense and veterans' health solutions: DLH provides a wide range of healthcare services and delivery solutions to the Department of Veteran Affairs, US Army Medical Materiel Command and its subordinate US Army Medical Research Acquisition Activity, Navy Bureau of Medicine and Surgery, Defense Health Agency and Army Medical Command. We believe that our DLH-developed tools and processes, including SPOT-m ® and e-PRAT ®, along with our cloud-based case management system have been major contributors in differentiating the company within this Federal market.

Our services include advancing the technology readiness level of new development items, which is a critical priority of our federal agency customers. Our project managers and biomedical engineers perform state-of-the-art research and development, testing and evaluation, and development of new medical systems and devices intended to enhance the medical readiness of troops in combat theaters across the globe. Our medical logistics support assists the uniformed services plan for fielding these new systems and devices. Further, we deliver clinical drug and alcohol counseling services to Navy installations worldwide as part of the clinical preceptorship program, thereby improving sailor health and readiness. DLH provides a range of case management, physical and behavioral health examinations and associated medical administration services to enhance the assessment and transition process for military personnel readiness commands and individual service members. DLH is also engaged in efforts to alleviate homelessness among Veterans. We provide a range of professional case management services to support Veterans' transition back into the community. These services include mental health evaluations, behavioral readiness, skills assessment, career counseling, and job preparation services.

DLH works to ensure that veterans receive their out-patient prescriptions on time, each day, through the VA CMOP pharmacy program which has been recognized for service excellence, citing the JD Powers evaluation of mail order pharmacy for each of the past eight years. We believe that our operational efficiency and expertise is well-aligned with the VA strategic goals to manage and improve operations and to deliver seamless and integrated support. Our unique capabilities and solutions help the VA optimize efficiency and help ensure program accountability as well as better service.

Human services and solutions: DLH provides a wide range of human services and solutions to the Department of Health and Human Services' Office of Head Start and the Department of Homeland Security. DLH provides a systems-based approach toward assuring that underserved children and youth throughout the country are getting proper educational and environmental support, including health, nutritional, parental, and behavioral services. Performance verification of grantees delivering such services nationwide is conducted using an evolving system of monitoring, evaluation, tracking and reporting tools against selected key performance indicators relative to school readiness. Large scale federally-funded, regionally managed, and locally delivered services demand innovative monitoring and protocol systems integration to ensure productive and cost-effective results. DLH provides the enterprise-level IT system architecture design, migration plan, and ongoing maintenance (including call center) to manage the implementation using experienced subject matter experts and project management resources.

Public health and life sciences: DLH provides a wide range of services to Department of Health and Human Services' Center for Disease Control and Prevention, the Department of the Interior, and the Department of Agriculture. DLH services include advancing disease prevention methods and health promotion to underserved at-risk communities through development of strategic communication campaigns, research on emerging trends, health informatics analyses, and application of best practices including mobile, social, and interactive media. The company leverages evidence-based methods and web technology to drive health equity to our most vulnerable populations through public engagement. For at-risk wildlife, DLH conducts biological research and surveys covering waterways in key parts of the country to protect and conserve aquatic populations as well as manage wetlands and habitats through environmental assessments. Projects often involve highly specialized expertise and research methodologies. This work is often very seasonal with regard to resources and funding.

Forward Looking Business Trends:

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

Federal budget outlook for 2019:

The Bipartisan Budget Act of 2018 passed on March 23, 2018 funded government operations through September 30, 2018. While appropriations work on the FY 19 federal budget is underway, it is likely that a continuing resolution will be required to continue funding after September 30. The Company continues to believe that its key programs benefit from bipartisan support and that federal budgetary uncertainty will not have a material impact on our current business base for fiscal year 2019.

Department of Veterans Affairs (VA) health spending trends:

DLH continues to see critical need for expanded health care solutions within our sector of the Federal health market, largely focused on the needs of veterans and their families. Serving nearly nine million veterans each year, the VA operates the nation's largest integrated health care system, with more than 1,700 hospitals, clinics, community living centers, readjustment counseling centers, and other facilities. The Trump administration has expressed strong support for veterans and members of the armed forces and we believe there is a reasonable expectation that adequate funding will continue to be provided in support of VA programs.

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

HHS is the principal federal department charged with protecting the health of all Americans and providing essential human services. DLH has existing contracts with multiple agencies under HHS, and we are actively pursuing growth opportunities within this vital agency.

HHS spending priorities are being evaluated by the Trump administration with particular focus on the Affordable Care Act programs which are outside of our market space. While the new Administration’s budget priorities for HHS are evolving, Head Start has historically received strong bipartisan support.

Large defense companies divesting from Federal services market:

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

Industry consolidation among federal government contractors:

There has been active consolidation and a strong increase in merger and acquisition activity among federal government contractors over the past few years that we expect to continue, fueled by public companies leveraging strong balance sheets. Companies often look to acquisitions that augment core capabilities, contracts, customers, market differentiators, stability, cost synergies, and higher margin and revenue streams. We plan continued focus on our core capabilities, as we look at potential future strategic acquisitions to supplement our organic growth and enhance shareholder value.

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

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

The VA comprised approximately 64% and 58% of revenue for the nine months ended June 30, 2018 and 2017, which was derived from 16 separate contracts. Approximately 55% of the Company's current business base with the VA is derived from nine contracts which are currently operating under extensions through October 31, 2018. We expect further extensions until the procurement is completed. A single renewal request for proposal ("RFP") has currently been issued for these contracts that requires the prime contractor be a service-disabled veteran owned small business (SDVOSB), which precludes the Company from bidding on the RFP as a prime contractor. The Company has teamed to respond to this RFP. Should the contract be awarded to an SDVOSB partner of DLH, the Company expects to continue to perform a significant amount of the contract's volume of business.

However, the award of any contract is subject to an evaluation of proposals submitted and adjudication of any and all protests filed. The Company is aware that pre-award protests have been filed on the terms of the RFP, including the determination that the work is eligible for set-aside status. The Company believes that further protests may be filed for any award announcement. Based on historical experience, the Company believes that final resolution of all protests could require an extended period of time, during which the Company expects to continue to perform as prime contractor. Should the pre-award protest review result in a decision that the scope of work is not eligible for set-aside status, or should the VA fail to receive proposals from two qualified SDVOSB companies, the Company expects that the VA would reissue the RFP on a full and open basis in which DLH can respond as a prime contractor. DLH believes that its past performance on this business and track record of successfully vying for renewals provide a competitive advantage.

Potential small business team opportunities:

While the effect of set-aside provisions may limit our ability to compete for prime contractor positions on programs that we recompete or that we have targeted for growth, DLH may elect to team in support of such small businesses for specific pursuits that align with our core markets and corporate growth strategy.

Results of Operations for the three months ended June 30, 2018 and 2017

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

	Three Months Ended				Change
	June 30, 2018		June 30, 2017		
Revenue	$ 36,131	100.0%	$ 29,256	100.0%	$ 6,875
Direct expenses	27,793	76.9%	22,871	78.2%	4,922
Gross margin	**8,338**	**23.1%**	**6,385**	**21.8%**	**1,953**
General and administrative expenses	5,136	14.2%	4,122	14.1%	1,014
Depreciation and amortization	588	1.6%	510	1.7%	78
Income from operations	**2,614**	**7.2%**	**1,753**	**6.0%**	**861**
Interest expense, net	262	0.7%	269	0.9%	(7)
Income before income taxes	**2,352**	**6.5%**	**1,484**	**5.1%**	**868**
Income tax expense, net	738	2.0%	539	1.8%	199
Net income	**$ 1,614**	**4.5%**	**$ 945**	**3.2%**	**669**
Net income per share - basic	$ 0.14		$ 0.08		$ 0.06
Net income per share - diluted	$ 0.13		$ 0.08		$ 0.05

Revenue

Revenue for the three months ended June 30, 2018 was $36.1 million, an increase of $6.9 million or 23.5% over prior year period. The increase in revenue is due primarily to expansion of workload volumes on our VA and HHS contracts.

Direct Expenses

Direct expenses generally comprise of direct labor (including benefits), taxes and insurance, workers compensation expense, subcontract cost, and other direct costs. Direct expenses for the three months ended June 30, 2018 were $27.8 million, an increase of $4.9 million, or 21.5% over prior year due principally to increased professional service costs attributed to increased revenue. As a percentage of revenue, direct expenses were 76.9%, compared with 78.2% the prior year period.

Gross Margin

Gross margin for the three months ended June 30, 2018 was approximately $8.3 million, an increase of $2.0 million, or 30.6%, over prior year period, largely driven by the increase in revenue.

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 June 30, 2018 were approximately $5.1 million, an increase of $1.0 million or 24.6% over the prior year period due principally to increased spending on business development.

Depreciation and Amortization

This category comprises depreciation on fixed assets and the amortization of definite-lived intangible assets. As a professional services organization, DLH does not require significant expenditures on capital equipment and other fixed assets. For the three months ended June 30, 2018 and June 30, 2017, depreciation and amortization were approximately $0.6 million and $0.5 million, respectively.

Income from Operations

Income from operations for the three months ended June 30, 2018 was approximately $2.6 million, an increase of approximately $0.9 million over the prior year period, due primarily to the improved gross margin, offset in part by additional G&A expenses.

Interest Expense, net

Interest expense, net, includes interest expense on the Company's term loan and amortization of deferred financing costs on debt obligations, for the three months ended June 30, 2018 and 2017, interest expense, net was approximately $0.3 million and $0.3 million, respectively.

Income before Income Taxes

For the three months ended June 30, 2018, income before taxes was approximately $2.4 million, an increase of approximately $0.9 million over the prior year period, due principally to increased gross margin derived from higher revenue offset in part by increased G&A expenses.

Income Tax Expense

For the three months ended June 30, 2018 and 2017, DLH recorded a $0.7 million and $0.5 million provision for tax expense, respectively. The effective tax rates were 31.4% and 36.3% for the three months ended June 30, 2018 and 2017, respectively, due to the prorated impact of the tax rate reduction from the 2017 Tax Act enacted in December 2017.

Net Income

Net income for the three months ended June 30, 2018 was approximately $1.6 million, or $0.14 per basic and $0.13 per diluted share, an increase of approximately $0.7 million primarily due to increased gross margin derived from higher revenue offset in part by increased G&A expenses.

Results of Operations for the nine months ended June 30, 2018 and 2017

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

	Nine Months Ended				Change in
Consolidated Statement of Income:	**June 30, 2018**		**June 30, 2017**		**$**
Revenue	$ 100,747	100.0%	$ 85,272	100.0%	$ 15,475
Direct expenses	78,429	77.8%	66,805	78.3%	11,624
Gross margin	**22,318**	**22.2%**	**18,467**	**21.7%**	**3,851**
General and administrative expenses	14,700	14.6%	12,722	14.9%	1,978
Depreciation and amortization	1,654	1.6%	1,264	1.5%	390
Income from operations	**5,964**	**5.9%**	**4,481**	**5.3%**	**1,483**
Interest	801	0.8%	888	1.0%	(87)
Income before income taxes	**5,163**	**5.1%**	**3,593**	**4.2%**	**1,570**
Income tax expense, net	5,084	5.0%	1,345	1.6%	3,739
Net income	**$ 79**	**0.1%**	**$ 2,248**	**2.6%**	**$ (2,169)**
Net income per share - basic	$ 0.01		$ 0.20		$ (0.19)
Net income per share - diluted	$ 0.01		$ 0.18		$ (0.17)

Revenue

Revenue for the nine months ended June 30, 2018 was $100.7 million, an increase of $15.5 million or 18.1% over prior year period. The increase in revenue is due primarily to expansion of the workload volumes on on our VA and HHS contracts.

Direct Expenses

Direct expenses generally comprise direct labor direct labor (including benefits), taxes and insurance, workers compensation expense, subcontract cost, and other direct costs. Direct expenses for the nine months ended June 30, 2018 were $78.4 million, an increase of $11.6 million, or 17.4% over prior year due principally to increased professional service costs attributed to increased revenue. As a percentage of revenue, direct expenses were 77.8%, a favorable reduction of 0.5%.

Gross Margin

Gross margin for the nine months ended June 30, 2018 was approximately $22.3 million, an increase of $3.9 million, or 20.9%, over prior year period, largely driven by the increase in revenue.

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 nine months ended June 30, 2018 were approximately $14.7 million, an increase of $2.0 million or 15.5% over the prior year period, primarily driven by growth in our business development costs.

Depreciation and Amortization

This category comprises non-cash expenditures related to depreciation on fixed assets and the amortization of acquired definite-lived intangible assets. As a professional services organization, DLH has not required significant expenditures on capital equipment and other fixed assets. For the nine months ended June 30, 2018 and 2017, depreciation and amortization were approximately $1.7 million and $1.3 million, respectively, due principally to the amortization of acquired definite-lived intangible assets.

Income from Operations

Income from operations for the nine months ended June 30, 2018 was approximately $6.0 million, an increase of approximately $1.5 million over the prior year period. The improvement is due principally to increased gross margin offset in part by additional G&A expenses.

Interest Expense, net

Interest expense, net, includes interest expense on the Company's term loan and amortization of deferred financing costs on debt obligations, for the nine months ended June 30, 2018 and 2017, interest expense, net was approximately $0.8 million and $0.9 million, respectively.

Income before Income Taxes

For the nine months ended June 30, 2018, income before taxes were approximately $5.2 million, an improvement of approximately $1.6 million over the prior year period due principally to increased gross margin derived from higher revenue offset in part by increased G&A expenses.

Income Tax Expense

For the nine months ended June 30, 2018, DLH recorded a $5.1 million provision for tax expense, an increase of approximately $3.7 million, primarily driven by the $3.4 million write-down of deferred tax assets from revaluation of our net operating loss carryforwards from the previously recognized federal rate of 34% to the 21% rate in the 2017 Tax Act enacted in December 2017. Net of this write-down, tax expense was $1.0 million and $0.8 million for the nine months ended June 30, 2018 and 2017, respectively. Net of the write-down, the effective tax rates were 33.3% and 37.4% for the nine months ended June 30, 2018 and 2017, respectively, due to the prorated impact of the tax rate reduction from the 2017 Tax Act enacted in December 2017.

Net Income

Net income for the nine months ended June 30, 2018 was approximately $0.1 million, or $0.01 and $0.01 per basic and diluted share, respectively, a decrease of approximately $2.2 million or $0.19 and $0.17 per basic and diluted share over the prior year period. The decrease was primarily due to the write-down of deferred tax assets described above which offset the increase in revenues and related gross margins.

Non-GAAP Financial Measures

On a non-GAAP basis, Earnings Before Interest Tax Depreciation and Amortization ("EBITDA") for the three months ended June 30, 2018 was approximately $3.2 million, an increase of approximately $0.9 million, or 41.5% over the prior year three months ended. The increase is attributable principally to increased gross margin from higher revenue.

On a non-GAAP basis, EBITDA for the nine months ended June 30, 2018 was approximately $7.6 million, an increase of approximately $1.9 million, or 32.6% over the prior year nine months ended. The increase is attributable principally to increased gross margin from higher revenue.

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

Beginning with the first quarter of fiscal year 2018, we have commenced reporting EBITDA rather than adjusted EBITDA, as a key non-GAAP financial measure of our business. We believe that due to the growth and maturation of our business, this change will improve the transparency of our business performance and increase the comparability of our results with peers. Non-GAAP measures for prior periods have been recast to conform to this change in our reporting. It is important to note that our GAAP results and presentation of GAAP metrics do not change and this change has no effect on our business, nor how we manage our business.

In addition, for the nine months period, we are also reporting our net income excluding the impact of the Tax Cut and Jobs Act of 2017 on the valuation of our deferred tax assets. On December 22, 2017, the Tax Cut and Jobs Act was enacted, which, among other things, reduced corporate tax rates and revised rules regarding the usability of net operating losses. These changes have resulted in a discrete charge to the first quarter tax provision of $3.4 million associated with revaluing the benefit of our net operating losses. We are reporting this non-GAAP metric to demonstrate the impact of the tax law change.

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

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

	Three Months Ended June 30,			Nine Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
Net income	$ 1,614	$ 945	$ 669	$ 79	$ 2,248	$ (2,169)
(i) Interest expense	262	269	(7)	801	888	(87)
(ii) Provision for taxes	738	539	199	5,084	1,345	3,739
(iii) Depreciation and amortization	588	510	78	1,654	1,265	389
EBITDA	**$ 3,202**	**$ 2,263**	**$ 939**	**$ 7,618**	**$ 5,746**	**$ 1,872**

Reconciliation of GAAP net income to net income excluding the effect of the 2017 Tax Act, a non-GAAP measure:

	Three Months Ended June 30,			Nine Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
Net income	$ 1,614	$ 945	$ 669	$ 79	$ 2,248	$ (2,169)
Write-down of deferred tax assets	$ —	$ —	$ —	$ 3,365	$ —	$ 3,365
Pro-forma impact of tax rate change	$ —	$ 145	$ (145)	$ —	$ 350	$ (350)
Net income, excluding effect of the 2017 Tax Act	**$ 1,614**	**$ 1,090**	**$ 524**	**$ 3,444**	**$ 2,598**	**$ 846**
Net income per fully-diluted share	$ 0.13	$ 0.08	$ 0.05	$ 0.01	$ 0.18	$ (0.17)
Impact of write-down of deferred tax asset	$ —	$ —	$ —	$ 0.26	$ —	$ 0.26
Pro-forma impact of tax rate change	$ —	$ 0.01	$ (0.01)	$ —	$ 0.03	$ (0.03)
Net income per fully-diluted share, excluding effect of the 2017 Tax Act	**$ 0.13**	**$ 0.09**	**$ 0.04**	**$ 0.27**	**$ 0.21**	**$ 0.06**

Sources of cash and cash equivalents

As of June 30, 2018, the Company's immediate sources of liquidity include cash and cash equivalents, accounts receivable, and access to its secured revolving line of credit facility with Fifth Third Bank. This credit facility provides us with access of up to $10.0 million, subject to certain conditions including eligible accounts receivable. The Company's present operating liabilities are largely predictable and consist of vendor and payroll related obligations. Our current investment and financing obligations are adequately covered by cash generated from profitable operations and planned operating cash flow should be sufficient to support the Company's operations for twelve months from issuance of these financial statements.

Loan Facility

A summary of our loan facilities and subordinated debt financing for the period ended June 30, 2018 is as follows:

($ in Millions)

Lender	Arrangement		Loan Balance	Interest*	Maturity Date
Fifth Third Bank	Secured term loan $25 million ceiling (a)	$	14.0	LIBOR + 3.0%	05/01/21
Fifth Third Bank	Secured revolving line of credit $10 million ceiling (b)	$	—	LIBOR + 3.0%	05/01/21

*LIBOR Interest rate as of June 30, 2018 was 1.98%.

(a) a secured term loan with an original aggregate principal amount of $25.0 million (the "Term Loan").

(b) a secured revolving credit facility in an aggregate principal amount of up to $10.0 million, subject to certain conditions including eligible accounts receivable (the "Revolving Credit Facility").

The Term Loan matures on May 1, 2021 and after giving effect to the extension to the loan agreement described in Note 5 to the financial statements, the Revolving Credit Facility matures on May 1, 2021.

The Term Loan and Revolving Credit Facility bear interest at the rate of LIBOR plus a margin of 3.0% and the loans are secured by liens on substantially all of the assets of the Company. The provisions of the Term Loan and Revolving Credit Facility are fully described in Note 5 of the consolidated financial statements.

Contractual Obligations as of June 30, 2018

			Payments Due by Period			
Contractual obligations (Amounts in thousands)	**Ref**	**Total**	**Next 12 Months**	**2-3 Years**	**4-5 Years**	**More than 5 Years**
Debt Obligations		$ 13,958	$ 3,750	$ 10,208	$ —	$ —
Facility Leases		2,998	906	1,135	668	289
Equipment operating leases		48	27	21	—	—
Total Obligations		**$ 17,004**	**$ 4,683**	**$ 11,364**	**$ 668**	**$ 289**

Off-Balance Sheet Arrangements

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

Effects of Inflation

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

Significant Accounting Policies and Use of Estimates

Our consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. Preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and the related disclosure of contingent liabilities. These assumptions, estimates and judgments are based on historical experience and assumptions that are believed to be reasonable at the time. Actual results could differ from such estimates. Critical policies and practices are important to the portrayal of a company's financial condition and results of operations, and may require management's subjective judgments about the effects of matters that are uncertain. See the information under Note 6 "Significant Accounting Policies" to the consolidated financial statements in DLH's Annual Report on Form 10-K for the year ended September 30, 2017, as well as the discussion under the caption "Critical Accounting Policies and Estimates" beginning on page 25 therein for a discussion of our critical accounting policies and estimates. DLH senior management has reviewed these critical accounting policies and related disclosures and determined that there were no significant changes in our critical accounting policies, or the estimates associated with those policies in the three months ended June 30, 2018.

New Accounting Pronouncements

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

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

DLH does not undertake trading practices in securities or other financial instruments and therefore does not have any material exposure to interest rate risk, foreign currency exchange rate risk, commodity price risk or other similar risks, which might otherwise result from such practices. DLH is not materially subject to fluctuations in foreign exchange rates, commodity prices or other market rates or prices from market sensitive instruments. DLH believes it does not have a material interest rate risk with respect to our prior workers' compensation programs, for which funds were deposited into trust for possible future payments of claims. DLH does not believe the level of exposure to interest rate fluctuations on its debt instruments is material, and has determined that a 1.0% increase to the LIBOR rate would impact our interest expense by $0.1 million per year. As of June 30, 2018 the Lender's interest rate was 4.98%.

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 were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation of our internal control that occurred during the fiscal quarter ended June 30, 2018, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II — OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

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

ITEM 1A: RISK FACTORS

Our operating results and financial condition have varied in the past and may in the future vary significantly depending on a number of factors. In addition to the other information set forth in this report, you should carefully consider the factors discussed in the “Risk Factors” section in our Annual Report on Form 10-K for the year ended September 30, 2017 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. Other than the risks described elsewhere in this Quarterly Report, 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, 2017.

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

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

Registrant Repurchases of Securities

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

The following table provides certain information with respect to the status of our publicly announced stock repurchase program during third quarter ended June 30, 2018:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Programs	($ in thousands) Dollar Value of Shares that May Yet Be Purchased Under the Plan or Program
April 2018	—	$ —	—	$ 77
May 2018	—	—	—	77
June 2018	—	—	—	77
Third Quarter Total	**—**	**$ —**	**—**	$ 77

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.

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Dated	Exhibit	
10.1	First Amendment to Loan Agreement with Fifth Third Bank, dated May 10, 2018.	8-K	05/14/18	10.1	
10.2	Change in Control, Severance and Covenant Agreement with Helene Fisher, dated June 4, 2018				X
31.1	Certification of Chief Executive Officer pursuant to Section 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a)				X
31.2	Certification of Chief Financial Officer pursuant to Section 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a)				X
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 17 CFR 240.13a-14(b) or 17 CFR 240.15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code				X
101	The following financial information from the DLH Holdings Corp. Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2018, formatted in XBRL (eXtensible Business Reporting Language) and filed electronically herewith: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Cash Flows; and, (iv) the Notes to the Consolidated Financial Statements.				X

Signatures

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

DLH HOLDINGS CORP.

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

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

Date: August 6, 2018

CHANGE IN CONTROL, SEVERANCE AND COVENANT AGREEMENT

This Change in Control, Severance and Covenant Agreement (the "Agreement") is made and entered into by and between Helene Fisher ("Employee") and DLH Holdings Corp., a New Jersey corporation (the "Company"), effective as of June 4, 2018 (the "Effective Date").

Recitals

WHEREAS, Employee is the President of the Company's Danya International LLC subsidiary and has served in such capacity since January 3, 2017, pursuant to an employment offer letter dated November 3, 2016 (the "Offer Letter"), and in connection with the commencement of her employment with the Company, the Employee entered into that certain Employee Invention Assignment and Confidentiality Agreement dated January 2, 2017 (the "Assignment and Confidentiality Agreement");

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

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

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

Agreement

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

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

3. Severance Benefits.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

8. Clawback. Notwithstanding any other provisions herein to the contrary, Employee agrees and acknowledges that any incentive-based compensation, or any other compensation, paid or payable to you which is subject to recoupment or clawback under any applicable law, government regulation, or stock exchange listing requirement, including without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act and

such regulations as may be promulgated thereunder by the Securities and Exchange Commission, will be subject to such deductions and clawback (recovery) as may be, but solely to the extent, required to be made pursuant to applicable law, government regulation, stock exchange listing requirement or any policy of the Company mandated in accordance with any such law, government regulation, or stock exchange listing requirement. This section shall survive the termination of your employment for a period of three (3) years

9. Section 409A of the Code.

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

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

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

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

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

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

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

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

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

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

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

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

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

f. Disability. "*Disability*" shall mean a physical or mental infirmity which impairs the Employee's ability to substantially perform his duties with the Company for a period of sixty (60) consecutive days and the Employee has not returned to his full time employment prior to the Termination Date as stated in the "Notice of Termination" (as defined below).

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

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

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

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

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

11. Successors.

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

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

12. Notice.

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

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

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

14. Arbitration. Any controversy, dispute or claim arising out of or relating to this Agreement or breach thereof, with the sole exception of any claim, breach, or violation arising the Assignment and Confidentiality Agreement, shall be shall first be settled through good faith negotiation. If the dispute cannot be settled through negotiation, the parties agree to attempt in good faith to settle the dispute by mediation administered by JAMS. If the parties are unsuccessful at resolving the dispute through mediation, the parties agree to final and binding arbitration before a single arbitrator in the State of Georgia in accordance with the Rules of the American Arbitration Association. The arbitrator shall be selected by the Association and shall be an attorney-at-law experienced in the field of corporate law. Any judgment upon any arbitration award may be entered in any court, federal or state, having competent jurisdiction of the parties.

15. Miscellaneous Provisions.

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

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

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

d. Choice of Law. The validity, interpretation, construction and performance of this Agreement will be governed by the laws of the State of Georgia (with the exception of its conflict of laws provisions). Any claims or legal actions by one party against the other arising out of the relationship between the parties contemplated herein (whether or not arising under this Agreement) will be commenced or maintained in any state or federal court located in the State of Georgia and the Employee and Company each hereby consent to the jurisdiction of any local, state, or federal court located within the State of Georgia.

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

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

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

h. Interpretation and Independent Representation. The parties agree that they have both had the opportunity to review and negotiate this Agreement, and that any inconsistency or dispute related to the interpretation of any of the provisions of this Agreement shall not be construed against either party. The headings used in this Agreement are for convenience only and are not to be considered in construing or interpreting this Agreement. The Employee has been advised and had the opportunity to consult with an attorney or other advisor prior to executing this agreement. The Employee understands, confirms and agrees that counsel to the Company (Becker & Poliakoff LLP) has not acted and is not acting as counsel to the Employee and that Employee has not relied upon any legal advice except as provided by its own counsel.

Remainder of page intentionally left blank; signature page follows.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the day and year set forth below.

DLH Holdings Corp.

By: /s/ Zachary C. Parker

Zachary C. Parker
Chief Executive Officer and President

Employee

By: /s/ Helene Fisher

Helene Fisher

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

EXHIBIT 31.1

Certification

I, Zachary C. Parker, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 6, 2018

/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: August 6, 2018

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

EXHIBIT 32

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

In connection with the Quarterly Report of DLH Holdings Corp. (the “Company”) on Form 10-Q for the period ended June 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, being, Zachary C. Parker, Chief Executive Officer, and Kathryn M. JohnBull, Chief Financial Officer and Principal Accounting Officer, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: August 6, 2018

/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.