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 March 31, 2019

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) 554-3545
(Registrant’s telephone number, including area code)

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report

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

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

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

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

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer x	Smaller Reporting Company 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: 12,036,161 shares of Common Stock, par value $0.001 per share, were outstanding as of April 30, 2019.

DLH HOLDINGS CORP.
FORM 10-Q

Table of Contents

	Page No.
Part I — Financial Information	3
Item 1. Financial Statements	3
Consolidated Statements of Operations for the three and six months ended March 31, 2019 and 2018 (Unaudited)	3
Consolidated Balance Sheets as of March 31, 2019 (Unaudited) and September 30, 2018	4
Consolidated Statements of Cash Flows for the six months ended March 31, 2019 and 2018 (Unaudited)	5
Statements of Shareholders' Equity for the three and six months ended March 31, 2019 and 2018 (unaudited)	6
Notes to Consolidated Financial Statements (Unaudited)	7
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3. Quantitative and Qualitative Disclosures about Market Risk	27
Item 4. Controls and Procedures	28
Part II — Other Information	28
Item 1. Legal Proceedings	28
Item 1A. Risk Factors	28
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	28
Item 3. Defaults Upon Senior Securities	29
Item 4. Mine Safety Disclosures	29
Item 5. Other Information	29
Item 6. Exhibits	30
Signatures	31

PART I — FINANCIAL INFORMATION

ITEM I: FINANCIAL STATEMENTS

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

	(unaudited) Three Months Ended March 31,		(unaudited) Six Months Ended March 31,	
	2019	**2018**	**2019**	**2018**
Revenue	$ 33,756	$ 34,401	$ 67,508	$ 64,616
Direct expenses	25,682	26,953	51,647	50,636
Gross margin	8,074	7,448	15,861	13,980
General and administrative expenses	5,188	4,684	9,855	9,564
Depreciation and amortization	560	560	1,123	1,066
Income from operations	**2,326**	**2,204**	**4,883**	**3,350**
Interest expense, net	544	261	721	539
Income before income taxes	1,782	1,943	4,162	2,811
Income tax expense	517	627	1,207	4,346
Net income (loss)	**$ 1,265**	**$ 1,316**	**$ 2,955**	**$ (1,535)**
Net income (loss) per share - basic	$ 0.11	$ 0.11	$ 0.25	$ (0.13)
Net income (loss) per share - diluted	$ 0.10	$ 0.10	$ 0.23	$ (0.13)
Weighted average common stock outstanding				
Basic	12,036	11,889	11,999	11,863
Diluted	13,087	12,886	13,030	11,863

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)

	March 31, 2019	September 30, 2018
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,461	$ 6,355
Accounts receivable	9,396	10,280
Other current assets	1,509	760
Total current assets	16,366	17,395
Equipment and improvements, net	1,328	1,566
Deferred taxes, net	3,160	4,137
Goodwill	25,989	25,989
Intangible assets, net	12,483	13,365
Other long-term assets	201	89
Total assets	**$ 59,527**	**$ 62,541**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accrued payroll	5,217	4,983
Accounts payable, accrued expenses, and other current liabilities	11,305	10,950
Total current liabilities	16,522	15,933
Total long term liabilities	201	7,190
Total liabilities	16,723	23,123
Commitments and contingencies		
Shareholders' equity:		
Common stock, $0.001 par value; authorized 40,000 shares; issued and outstanding 12,036 and 11,899 at March 31, 2019 and September 30, 2018, respectively	12	12
Additional paid-in capital	84,716	84,285
Accumulated deficit	(41,924)	(44,879)
Total shareholders' equity	42,804	39,418
Total liabilities and shareholders' equity	**$ 59,527**	**$ 62,541**

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

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

	(unaudited) Six Months Ended March 31,	
	2019	**2018**
Operating activities		
Net income (loss)	$ 2,955	$ (1,535)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	1,123	1,066
Amortization of deferred financing costs	534	132
Stock based compensation expense	392	928
Deferred taxes, net	978	4,166
Changes in operating assets and liabilities		
Accounts receivable	884	(427)
Other current assets	(749)	(347)
Accounts payable, accrued expenses, and other current liabilities	589	(31)
Other long term assets/liabilities	73	44
Net cash provided by operating activities	**6,779**	**3,996**
Investing activities		
Purchase of equipment and improvements	(4)	(588)
Net cash used in investing activities	**(4)**	**(588)**
Financing activities		
Repayments on senior debt	(7,708)	(4,793)
Repayments of capital lease obligations	—	(5)
Proceeds from issuance of common stock upon exercise of options	39	46
Net cash used in financing activities	**(7,669)**	**(4,752)**
Net change in cash and cash equivalents	(894)	(1,344)
Cash and cash equivalents at beginning of period	6,355	4,930
Cash and cash equivalents at end of period	**$ 5,461**	**$ 3,586**
Supplemental disclosures of cash flow information		
Cash paid during the period for interest	$ 234	$ 427
Cash paid during the period for income taxes	$ 247	$ 578
Supplemental disclosures of non-cash financing activity		
Derivative warrant liability reclassified as equity	$ —	$ (306)
Non-cash issuance of stock upon exercise of options	$ —	$ 25

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

DLH HOLDINGS CORP.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Amounts in thousands)
(unaudited)

	Common Stock				Additional Paid-In Capital		Accumulated Deficit		Total Shareholders' Equity
	Shares		Amount						
Six Months Ended March 31, 2019									
Balance at September 30, 2018	11,899	$	12	$	84,285	$	(44,879)	$	39,418
Directors' stock grants and expense	102		—		263		—		263
Expense related to employee stock options	—		—		129		—		129
Exercise of stock options	35		—		39		—		39
Net income	—		—		—		2,955		2,955
Balance at March 31, 2019	**12,036**	**$**	**12**	**$**	**84,716**	**$**	**(41,924)**	**$**	**42,804**
Three Months Ended March 31, 2019									
Balance at December 31, 2018	12,036	$	12	$	84,517	$	(43,189)	$	41,340
Expense related to director restricted stock units	—		—		132		—		132
Expense related to employee stock options	—		—		67		—		67
Net income	—		—		—		1,265		1,265
Balance at March 31, 2019	**12,036**	**$**	**12**	**$**	**84,716**	**$**	**(41,924)**	**$**	**42,804**

	Common Stock				Additional Paid-In Capital		Accumulated Deficit		Total Shareholders' Equity
	Shares		Amount						
Six Months Ended March 31, 2018									
Balance at September 30, 2017	11,767	$	12	$	82,687	$	(46,844)	$	35,855
Directors' stock grants and expense	93		—		797		—		797
Expense related to employee stock options	—		—		131		—		131
Exercise of stock options	39		—		46		—		46
Change in accounting principle - reclassification of warrant liability	—		—		177		129		306
Net income	—		—		—		(1,535)		(1,535)
Balance at March 31, 2018	**11,899**	**$**	**12**	**$**	**83,838**	**$**	**(48,250)**	**$**	**35,600**
Three Months Ended March 31, 2018									
Balance at December 31, 2017	11,882	$	12	$	83,644	$	(49,566)	$	34,090
Expense related to director stock grants	—		—		104		—		104
Issuance of common stock	17		—		23		—		23
Expense related to employee stock options	—		—		67		—		67
Net income	—		—		—		1,316		1,316
Balance at March 31, 2018	**11,899**	**$**	**12**	**$**	**83,838**	**$**	**(48,250)**	**$**	**35,600**

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 Holdings Corp. and its subsidiaries (together with its subsidiaries, "DLH" or the "Company" and also referred to as "we," "us" and "our"), all of which are wholly owned. All significant intercompany balances and transactions have been eliminated in consolidation. The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these statements do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In management's opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the period ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ending September 30, 2019. Amounts as of and for the periods ended March 31, 2019 and March 31, 2018 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, 2018 filed with the Securities and Exchange Commission on December 12, 2018.

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. The Company manages its operations from its principal executive offices in Atlanta, Georgia, and we have a complementary headquarters office in Silver Spring, Maryland. We employ over 1,600 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 67% and 63% of revenue for the six months ended March 31, 2019 and 2018, respectively. Additionally, HHS, which comprised approximately 31% and 33% of revenue for the six months ended March 31, 2019 and 2018, respectively, represents a major customer. Our current contracts are within the following markets: Defense/VA (69%), Human Services and Solutions (29%) and Public Health/Life Sciences (2%); 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. For additional information, see Note 4, Revenue Recognition.

In addition, substantially all accounts receivable, including contract assets, are from agencies of the U.S. Government as of March 31, 2019 and September 30, 2018. 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 5, Supporting Financial Information - Accounts Receivable.

The VA comprised approximately 67% and 63% of revenue for the six months ended March 31, 2019 and 2018, which was derived from 16 separate contracts covering the Company's performance of pharmacy and logistics services in support of the VA's consolidated mail outpatient pharmacy program. Approximately 58% of the Company's current business base with the VA is derived from nine contracts (for pharmacy services), which are currently operating under extensions through October 31, 2019 pending completion of the procurement process for a new contract. We believe further extensions are possible 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 joined an SDVOSB team as a subcontractor 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 remaining seven contracts for logistics services to the VA are performed under contracts that the Company anticipates will be extended through November 2019. Additionally, the Company believes that these contracts will be similarly extended during the procurement process, and may be subject to the same requirement of awarding to a SDVOSB prime contractor.

Further, the Company's contract with HHS in support of its Head Start program generated 28% and 31% of our revenue for the six months ended March 31, 2019 and 2018, respectively. This contract is on a time and materials basis and consists of a base period of four option periods for a total term of five years through April 2020. The Company's Danya subsidiary has provided these and similar services to HHS since 1999. Danya was acquired by the Company in May 2016.

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

In February 2016, the FASB issued new accounting guidance Accounting Standard Codification ("ASC") 842 related to leases. This new accounting guidance is intended to improve financial reporting about leasing transactions. This accounting standard will require organizations that lease assets, referred to as “Lessees”, to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with terms of more than twelve months. An organization is to provide disclosures designed to enable users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements concerning additional information about the amounts recorded in the financial statements. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP which requires only capital leases to be recognized on the balance sheet, new guidance will require both types of leases (i.e., operating and finance) to be recognized. Finance leases will be accounted for in substantially the same manner as capital leases. Public companies will be required to adopt the new leasing standard for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted for all companies and organizations. Accounting Standard Update ("ASU") 2018-11 allows companies to elect not to recast comparative period presented when transitioning to ASC 842. The Company does not have a large portfolio of leases and is not likely to see a significant increase in balance sheet assets and liabilities resulting from the adoption of this new lease accounting guidance. As shown in Note 10, the Company currently has approximately $2.3 million of lease obligations as of March 31, 2019 that would be evaluated as the implementation of this guidance becomes effective.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment, which simplifies the accounting for goodwill impairments by eliminating step two from the goodwill impairment test. Instead, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. ASU 2017-04 also clarifies that an entity should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The new standard is effective for fiscal years beginning after December 15, 2019 for both interim and annual reporting periods. The Company is currently assessing the potential impact of the adoption of ASU 2017-04 on its consolidated financial statements.

In May 2017, the FASB issued Accounting Standards Update ASU 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting. ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The Company adopted this standard in the first quarter of fiscal 2019 and adoption did not have a material impact on the Company’s consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07 Improvements to Nonemployee Share-Based Payment Accounting, which simplifies the accounting for share-based payments granted to nonemployees for goods and services. Under the ASU, most of the guidance on such payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. The amendments are effective for fiscal years beginning after December 15, 2018, including interim periods. Early adoption is permitted, but no earlier than an entity’s adoption date of Topic 606. The Company is currently assessing the potential impact on the Company’s consolidated financial statements and related disclosures.

4. Revenue Recognition

On October 1, 2018, we adopted ASC 606, Revenue from Contracts with Customers using the modified retrospective method. ASC 606 outlines a five-step model whereby revenue is recognized as performance obligations within the contract are satisfied. ASC 606 also requires new, expanded disclosures regarding revenue recognition. We recognized the impact of adopting ASC 606 but did not record an entry as the impact was immaterial at less than $10 thousand. Results for reporting periods beginning after October 1, 2018 are presented under ASC 606, while prior period amounts were not adjusted and will continue to be reported under ASC 605, the accounting standards in effect for those periods. In past periods, the Company recognized and recorded revenue on government contracts when: (a) persuasive evidence of an arrangement existed; (b) the services had been delivered to the customer; (c) the sales price was fixed or determinable and free of contingencies or significant uncertainties; and (d) collectibility was reasonably assured.

We account for a contract when both we and the customer approve and commit; our rights and those of the customer are identified, payment terms are identified; the contract has commercial substance; and collectability of consideration is probable. At contract inception, we identify the distinct goods or services promised in the contract, referred to as performance obligations. Then we determine the total transaction price for the contract; which is the total consideration which we can expect in exchange for the promised goods or services in the contract. The transaction price may include fixed or variable amounts. Due to our contracts being predominantly time and material, the Company does not have variable consideration. The transaction price is allocated to each distinct performance obligation using our best estimate of the standalone selling price for each service promised in the contract. The primary method used to estimate standalone selling price is the hourly billing rate for each labor category identified in the contract with the customer. Revenue is recognized when, or as, the performance obligation is satisfied.

We recognize revenue over time when there is a continuous transfer of control to our customer. For our U.S. government contracts, this continuous transfer of control to the customer is supported by clauses in the contract that allow the U.S. government to unilaterally terminate the contract for convenience, pay us for costs incurred plus a reasonable profit and take control of any work in process. When control is transferred over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. For services contracts, we satisfy our performance obligations as services are rendered. We use a cost-based input method to measure progress.

Contract costs include labor, material and allocable indirect expenses. For time-and-material contracts, we bill the customer per labor hour and per material, and revenue is recognized in the amount invoiced since the amount corresponds directly to the value of our performance to date. We consider control to transfer when we have a present right to payment. Essentially, all of our contracts satisfy their performance obligations over time. Contracts are often modified to account for changes in contract specifications and requirements. Contract modifications impact performance obligations when the modification either creates new or changes the existing enforceable rights and obligations. The effect of a contract modification on the transaction price and our measure of progress for the performance obligation to which it relates is recognized as an adjustment to revenue and profit cumulatively. Furthermore, a significant change in one or more estimates could affect the profitability of our contracts. We recognize adjustments in estimated profit on contracts in the period identified. The impact of adjustments in contract estimates can be reflected in either revenue or operating expenses on the consolidated statement of operations.

For time-and-materials contracts, revenue was recognized to the extent of billable rates times hours delivered plus materials and other reimbursable costs incurred. Revenue for cost-reimbursable contracts were recorded as reimbursable costs were incurred, including an estimated share of the applicable contractual fees earned. Contract costs were expensed as incurred. Estimated losses were recognized when identified.

Contract assets - Amounts are invoiced as work progresses in accordance with agreed-upon contractual terms. In part, revenue recognition occurs before we have the right to bill, resulting in contract assets. These contract assets are reported within receivables, net on our consolidated balance sheet and are invoiced in accordance with payment terms defined in each contract. Period end balances will vary from period to period due to agreed-upon contractual terms.

Contract liabilities - Presently, we do not receive advances from our customers that exceed revenue earned, resulting in contract liabilities.

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

	(in thousands)	
	March 31, 2019	September 30, 2018
Contract assets	$ 183	$ 214
Contract liabilities	—	—

Disaggregation of revenue from contracts with customers

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

Revenue by customer:

	(in thousands)	
	Three Months Ended March 31, 2019	Six Months Ended March 31, 2019
Department of Veterans Affairs	$ 23,197	$ 46,008
Department of Health and Human Services	9,706	19,973
Other	853	1,527
Total revenue	$ 33,756	$ 67,508

Revenue by contract type:

	(in thousands)	
	Three Months Ended March 31, 2019	Six Months Ended March 31, 2019
Time and materials	$ 32,625	$ 65,415
Cost plus fixed fee	637	1,246
Firm fixed price	494	847
Total revenue	$ 33,756	$ 67,508

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

	(in thousands)	
	Three Months Ended March 31, 2019	Six Months Ended March 31, 2019
Prime	$ 33,538	$ 67,066
Subcontractor	218	442
Total revenue	$ 33,756	$ 67,508

5. Supporting Financial Information

Accounts receivable

	Ref		(in thousands) March 31, 2019		September 30, 2018
Billed receivables		$	9,213	$	10,066
Contract assets			183		214
Total accounts receivable			9,396		10,280
Less: Allowance for doubtful accounts	(a)		—		—
Accounts receivable, net		**$**	**9,396**	**$**	**10,280**

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 March 31, 2019 or September 30, 2018.

Other current assets

		(in thousands) March 31, 2019		September 30, 2018
Prepaid insurance and benefits	$	737	$	401
Other receivables and prepaid expenses		772		359
Other current assets	**$**	**1,509**	**$**	**760**

Equipment and improvements, net

	Ref		(in thousands) March 31, 2019		September 30, 2018
Furniture and equipment		$	326	$	326
Computer equipment			748		751
Computer software			1,738		1,731
Leasehold improvements			66		66
Total equipment and improvements			2,878		2,874
Less accumulated depreciation and amortization			(1,550)		(1,308)
Equipment and improvements, net	**(a)**	**$**	**1,328**	**$**	**1,566**

Ref (a): Equipment and improvements are stated at cost. Depreciation and amortization are provided using the straight-line method over the estimated useful asset lives (3 to 7 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 expense was $0.1 million and $0.1 million for the three months ended March 31, 2019 and 2018, respectively, and $0.2 million and $0.2 million for the six months ended March 31, 2019 and 2018, respectively.

Intangible Assets

	Ref	(in thousands) March 31, 2019	September 30, 2018
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		(4,850)	(4,018)
Covenants not to compete		(140)	(116)
Trade name		(150)	(124)
Total accumulated amortization		(5,140)	(4,258)
Intangible assets, net		$ 12,483	$ 13,365

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 March 31, 2019 and 2018, respectively, and $0.9 million and $0.9 million for the six months ended March 31, 2019 and 2018, respectively.

Estimated amortization expense for future years:	(in thousands)
Remaining Fiscal 2019	$ 883
Fiscal 2020	1,762
Fiscal 2021	1,762
Fiscal 2022	1,762
Fiscal 2023	1,762
Thereafter	4,552
Total amortization expense	$ 12,483

Accounts payable, accrued expenses and other current liabilities

	(in thousands) March 31, 2019	September 30, 2018
Accounts payable	$ 3,818	$ 3,393
Accrued benefits	2,150	2,060
Accrued bonus and incentive compensation	1,051	2,191
Accrued workers compensation insurance	3,465	2,642
Other accrued expenses	821	664
Accounts payable, accrued expenses, and other current liabilities	**$ 11,305**	**$ 10,950**

Debt obligations

	Ref	(in thousands) March 31, 2019	September 30, 2018
Bank term loan		$ —	$ 7,708
Less unamortized debt issuance costs	(a)	—	(750)
Net bank debt obligation		**—**	**6,958**
Less current portion of bank debt obligations		—	—
Long term portion of bank debt obligation		**$ —**	**$ 6,958**

Ref (a): The remaining outstanding balance of the term loan was paid in full in the second quarter. As such, the remaining deferred financing costs attributable to the term loan were expensed in the period.

Interest expense

	Ref	(in thousands) Three Months Ended March 31, 2019	2018	(in thousands) Six Months Ended March 31, 2019	2018
Interest expense	(a)	$ (83)	$ (208)	$ (187)	$ (427)
Amortization of deferred financing costs	(b)	(461)	(67)	(534)	(132)
Other income (expense), net		—	14	—	20
Interest expense, net		**$ (544)**	**$ (261)**	**$ (721)**	**$ (539)**

Ref (a): Interest expense on borrowing.
Ref (b): Amortizations of expenses related to securing financing; amounts for three and six months ended March 31, 2019 include write-off of remaining deferred financing costs of $0.4 million related to term debt that was fully satisfied by that date.

6. Credit Facilities

A summary of our loan facilities and subordinated debt financing as of March 31, 2019 is as follows:

	As of March 31, 2019			
Lender	**Arrangement**	**Loan Balance**	**Interest**	**Maturity Date**
Fifth Third Bank	Secured term loan $25 million (a)	$ —	LIBOR* + 3.0%	5/1/2021
Fifth Third Bank	Secured revolving line of credit $10 million ceiling (b)	$ —	LIBOR* + 3.0%	5/1/2021

*LIBOR rate as of March 31, 2019 was 2.49%

(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 secured by liens on substantially all of the assets of the Company. The principal of the Term Loan was payable in fifty-nine consecutive monthly installments of $312,500 with the remaining balance due on May 1, 2021. Through an excess cash flow payment and a series of voluntary prepayments, the Company has fully repaid the term loan as of March 31, 2019.

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 a voluntary prepayment of term debt of $5.6 million in September 2018 and additional voluntary prepayments in February and March 2019, resulting in the term loan being fully repaid as of March 31, 2019.

(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 March 31, 2019, was $7.2 million. This capacity was comprised of $1.1 million in a stand-by letter of credit and unused borrowing capacity of $8.3 million.

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

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

Fair value of financial instruments

The carrying amounts of the Company's cash and cash equivalents, accounts receivable, contract assets, accrued expenses, and accounts payable approximate fair value due to the short-term nature of these instruments. The fair values of the Company's debt instruments approximated 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, 2018, 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, 2018. For the six months ended March 31, 2019, 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 March 31, 2019 or September 30, 2018. We report interest and penalties as a component of income tax expense. In the three and six months ended March 31, 2019 and March 31, 2018, we recognized no interest and no penalties related to income taxes.

Stock-based equity compensation

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

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

Stock-based compensation expense

Options issued under equity incentive plans are designated as either an incentive stock or a non-statutory stock option. No option is granted with a term of more than 10 years from the date of grant. Exercisability of option awards may depend on achievement of certain performance measures determined by the Compensation Committee of our Board. Shares issued upon option exercise are newly issued shares. As of March 31, 2019, there were 1.5 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 March 31, 2019	(in thousands) Three Months Ended March 31, 2018	(in thousands) Six Months Ended March 31, 2019	(in thousands) Six Months Ended March 31, 2018
DLH employees	(a)	$ 67	$ 67	$ 129	$ 131
Non-employee directors	(b)	132	104	263	797
Total stock option expense		$ 199	$ 171	$ 392	$ 928

Ref (a): Equity grants of 35,000 stock options were made in the second quarter of fiscal year 2019 to employees in accordance with DLH compensation policy.

Ref (b): Equity grants of restricted stock units, in accordance with DLH compensation policy for non-employee directors were made in the first quarter of fiscal 2019 and in total 90,000 restricted stock units were granted.

Unrecognized stock-based compensation expense

	Ref	(in thousands) March 31, 2019
Unrecognized expense for DLH employees	(a)	$ 766
Unrecognized expense for non-employee directors	(b)	263
Total unrecognized expense		$ 1,029

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 3.34 years.

Ref (b): Unrecognized stock expense related to current year's equity grants of restricted stock units to non-employee directors in accordance with DLH compensation policy for non-employee directors.

Stock option activity for the six months ended March 31, 2019

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

	(in thousands) Number of Shares	Weighted Average Exercise Price	(in years) Weighted Average Remaining Contractual Term	(in thousands) Aggregate Intrinsic Value
Options outstanding September 30, 2018	2,134	$ 4.33	6.2	$ 5,103
Granted	35	$ 5.25	—	—
Exercised	(35)	$ 1.12	—	—
Options outstanding, March 31, 2019	2,134	$ 4.36	6.2	$ 8,056

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

	Ref	(in thousands) March 31, 2019	September 30, 2018
Vested and exercisable	(a)	1,300	1,335
Unvested		834	799
Options outstanding		2,134	2,134

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

9. 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 March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Numerator:				
Net income (loss)	$ 1,265	$ 1,316	$ 2,955	$ (1,535)
Denominator:				
Denominator for basic net income (loss) per share - weighted-average outstanding shares	12,036	11,889	11,999	11,863
Effect of dilutive securities:				
Stock options and restricted stock	1,051	997	1,031	—
Denominator for diluted net income (loss) per share - weighted-average outstanding shares	13,087	12,886	13,030	11,863
Net income (loss) per share - basic	$ 0.11	$ 0.11	$ 0.25	$ (0.13)
Net income (loss) per share - diluted	$ 0.10	$ 0.10	$ 0.23	$ (0.13)

10. Commitments and Contingencies

Contractual obligations as of March 31, 2019

		Payments Due By Period			
(Amounts in thousands)	**Total**	**Next 12 Months**	**2-3 Years**	**4-5 Years**	**More than 5 Years**
Facility leases	$ 2,315	$ 912	$ 694	$ 680	$ 29
Equipment operating leases	27	16	11	—	—
Total obligations	$ 2,342	$ 928	$ 705	$ 680	$ 29

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 March 31, 2019 and September 30, 2018 was $3.5 million and $2.6 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.

11. Related Party Transactions

The Company has determined that for the three and six months ended March 31, 2019 and 2018 there were no significant related party transactions that have occurred which require disclosure through the date that these financial statements were issued.

12. 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.

As of March 31, 2019 and September 30, 2018, the Company is reporting a $3.2 million and $4.1 million, respectively, deferred tax asset, which is presented on the balance sheets 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, 2018, 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 of government contracts; 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, 2018, 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 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 69% of our current business base;
- Human services and solutions, approximately 29% of our current business base; and
- Public health and life sciences, approximately 2% of our current business base.

Our largest customers continue to be the VA and HHS. As of March 31, 2019, contracts with VA and HHS have anticipated periods of performance up to November 2019 and April 2020, respectively, pending further extension or recompete. 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. For further discussion, see "Potential Impact of Federal Contractual Set-aside Laws and Regulations".

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

DLH is on the forefront of ensuring that veterans receive their out-patient prescriptions on time, each day, through the VA CMOP pharmacy program which has been recognized for service excellence, earning the top position in the JD Powers evaluation of mail order pharmacies 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.

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. 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 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.

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 during their formative years. Performance verification of grantors 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 require innovative monitoring and systems integration to ensure productive and cost-effective results, which we deliver. Finally, DLH provides the enterprise-level IT system architecture design, migration plan, and ongoing maintenance (including call center) to manage the system 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 and 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:

On January 25, 2019 and February 14, 2019, Congress approved and the President signed legislation to appropriate funds for several departments and agencies affected by the partial shutdown that began on December 22, 2018. The appropriations legislation funds these agencies for the remaining government fiscal year, which ends September 30, 2019.

On March 11, 2019, the President submitted his administration’s budget request for fiscal year 2020. Due to certain provisions of that request, including the imbalance between defense and non-defense discretionary spending requests, it is generally expected that budget negotiations will be protracted and may result in short-term shutdowns of certain government agencies after September 30, 2019.

The Company continues to believe that its key programs benefit from bipartisan support and does not expect a material impact from any delays in approving the federal budget for fiscal year of 2020.

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.

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.

Large defense companies divesting from Federal services market:

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

At present, the Company derives 100% of its revenue from agencies of the Federal government, including 99% as a prime contractor. Our largest customer continues to be the VA, which comprised approximately 67% and 63% of revenue for the quarter ended March 31, 2019 and 2018, respectively. HHS which comprised approximately 31% and 33% of revenue for the quarter ended March 31, 2019 and 2018, respectively, is also a major customer. 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.

Our revenues from the VA are derived from 16 separate contracts covering our performance of pharmacy and logistics services in support of the VA’s consolidated mail outpatient pharmacy program. Approximately 58% of the Company’s current business base with the VA is derived from nine contracts (for pharmacy services) that are currently operating under extensions through October 2019 pending completion of the procurement process for a new contract. A single renewal RFP has currently been issued for these nine contracts and we expect further extensions until the procurement process is completed. The RFP, however, requires the prime contractor be a SDVOSB, which precludes us from bidding on the RFP as a prime contractor. We have joined an SDVOSB team as a subcontractor to respond to this RFP. Should the contract be awarded to an SDVOSB partner of DLH, we expect to continue to perform a significant amount of the contract’s volume of business. The remaining seven contracts for logistics services to the VA are performed under contracts that the Company anticipates will be extended through November 2019. Additionally, we believe these contracts will be similarly extended during the procurement process, and may be subject to the same requirement of awarding to a SDVOSB prime contractor.

The award of any contract is subject to an evaluation of proposals submitted and adjudication of any and all protests filed. The Company believes that protests may be filed for any award announcement. Based on historical experience, the Company believes that final resolution of such protests could require an extended period of time, during which the Company would expect to continue to perform as prime contractor. Should the VA fail to receive proposals from two qualified SDVOSB companies which is required in order for the work to be eligible for set aside status, 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. The Company believes that its past performance in this business and track record of successfully vying for renewals provide a competitive advantage. 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 join an SDVOSB team as a subcontractor 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 March 31, 2019 and 2018

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							
	March 31, 2019			March 31, 2018			Change	
Revenue	$	33,756	100.0%	$	34,401	100.0%	$	(645)
Direct expenses		25,682	76.1%		26,953	78.3%		(1,271)
Gross margin		**8,074**	**23.9%**		**7,448**	**21.7%**		**626**
General and administrative expenses		5,188	15.4%		4,684	13.6%		504
Depreciation and amortization		560	1.7%		560	1.6%		—
Income from operations		**2,326**	**6.9%**		**2,204**	**6.4%**		**122**
Interest expense, net		544	1.6%		261	0.8%		283
Income before income taxes		**1,782**	**5.3%**		**1,943**	**5.6%**		**(161)**
Income tax expense		517	1.5%		627	1.8%		(110)
Net income (loss)	**$**	**1,265**	**3.7%**	**$**	**1,316**	**3.8%**		**(51)**
Net income (loss) per share - basic	$	0.11		$	0.11		$	—
Net income (loss) per share - diluted	$	0.10		$	0.10		$	—

Revenue

Revenue for the three months ended March 31, 2019 was $33.8 million, a decrease of $0.6 million or 1.9% over the prior year period. The decrease in revenue is due primarily to the timing of workload volumes on our HHS contracts in the current period versus the prior year period.

Direct Expenses

Direct expenses are generally comprised of direct labor (including benefits), taxes and insurance, workers compensation expense, subcontract cost, and other direct costs. Direct expenses for the three months ended March 31, 2019 were $25.7 million, a decrease of $1.3 million, or 4.7% over the prior year principally due to decreased professional service and travel costs attributed to decreased revenue. As a percentage of revenue, direct expenses were 76.1%, compared with 78.3% in the prior year period.

Gross Margin

Gross margin for the three months ended March 31, 2019 was approximately $8.1 million, an increase of $0.6 million, or 8.4%, over the prior year period, largely driven by improving quality of revenue through increased revenue contribution from internal resources.

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 March 31, 2019 were approximately $5.2 million, an increase of $0.5 million or 10.8% over the prior year period principally due to increased corporate development costs.

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 March 31, 2019 and March 31, 2018, depreciation and amortization were approximately $0.6 million and $0.6 million, respectively.

Income from Operations

Income from operations for the three months ended March 31, 2019 was approximately $2.3 million, an increase of approximately $0.1 million over the prior year period, due primarily to the improved gross margin.

Interest Expense

Interest expense includes interest expense on the Company's term loan and amortization of deferred financing costs on debt obligations. For the three months ended March 31, 2019 and 2018, interest expense was approximately $0.5 million and $0.3 million, respectively. The increase from the prior period was principally due to the write-off of unamortized deferred financing costs from the term loan being repaid in current quarter of $0.4 million.

Income before Income Taxes

For the three months ended March 31, 2019, income before taxes was approximately $1.8 million, a decrease of approximately $0.2 million over the prior year period, principally due to increased G&A expenses.

Income Tax Expense

For the three months ended March 31, 2019 and 2018, DLH recorded a $0.5 million and $0.6 million provision for tax expense, respectively. The effective tax rate for the three months ended March 31, 2019 was 29%.

Net Income

Net income for the three months ended March 31, 2019 was approximately $1.3 million, or $0.11 per basic and $0.10 per diluted share, a decrease of approximately $0.1 million primarily due to increased G&A expenses and the write-off of deferred financing costs as interest expense.

<u>Results of Operations for the six months ended March 31, 2019 and 2018</u>

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

	Six Months Ended				Change in
Consolidated Statement of Income:	**March 31, 2019**		**March 31, 2018**		**$**
Revenue	$ 67,508	100.0%	$ 64,616	100.0 %	$ 2,892
Direct expenses	51,647	76.5%	50,636	78.4 %	1,011
Gross margin	**15,861**	**23.5%**	**13,980**	**21.6 %**	**1,881**
General and administrative expenses	9,855	14.6%	9,564	14.8 %	291
Depreciation and amortization	1,123	1.7%	1,066	1.6 %	57
Income from operations	**4,883**	**7.2%**	**3,350**	**5.2 %**	**1,533**
Interest	721	1.1%	539	0.8 %	182
Income before income taxes	**4,162**	**6.2%**	**2,811**	**4.4 %**	**1,351**
Income tax expense, net	1,207	1.8%	4,346	6.7 %	(3,139)
Net income (loss)	**$ 2,955**	**4.4%**	**$ (1,535)**	**(2.4)%**	**$ 4,490**
Net income (loss) per share - basic	$ 0.25		$ (0.13)		$ 0.38
Net income (loss) per share - diluted	$ 0.23		$ (0.13)		$ 0.36

Revenue

Revenue for the six months ended March 31, 2019 was $67.5 million, an increase of $2.9 million or 4.5% over the prior year period. The increase in revenue is due primarily to expansion of the workload volumes on our VA and HHS contracts.

Direct Expenses

Direct expenses are generally comprised of direct labor (including benefits), taxes and insurance, workers compensation expense, subcontract cost, and other direct costs. Direct expenses for the six months ended March 31, 2019 were $51.6 million, an increase of $1.0 million, or 2.0% over the prior year principally due to increased direct labor costs attributed to increased revenue for the year to date period. As a percentage of revenue, direct expenses were 76.5%, a favorable reduction of 1.9%.

Gross Margin

Gross margin for the six months ended March 31, 2019 was approximately $15.9 million, an increase of $1.9 million, or 13.5%, over the prior year period, largely driven by improving quality of revenue through increased revenue contribution from internal resources.

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 six months ended March 31, 2019 were approximately $9.9 million, an increase of $0.3 million or 3.0% over the prior year period, primarily driven by growth in our corporate 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 does not require significant expenditures on capital equipment and other fixed assets. For the six months ended March 31, 2019 and 2018, depreciation and amortization were approximately $1.1 million and $1.1 million, respectively, principally due to the amortization of acquired definite-lived intangible assets.

Income from Operations

Income from operations for the six months ended March 31, 2019 was approximately $4.9 million, an increase of approximately $1.5 million over the prior year period. The improvement is principally due to increased gross margin, offset in part by increased 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 six months ended March 31, 2019 and 2018, interest expense, net was approximately $0.7 million and $0.5 million, respectively. The increase from the prior period was principally due to the write-off of unamortized deferred financing costs of $0.4 million from the term loan being repaid in the current quarter.

Income before Income Taxes

For the six months ended March 31, 2019, income before taxes were approximately $4.2 million, an improvement of approximately $1.4 million over the prior year period, principally due to increased gross margins derived from higher revenue for the current year period.

Income Tax Expense

For the six months ended March 31, 2019, DLH recorded a $1.2 million provision for tax expense, a decrease of approximately $3.1 million from the prior year period. The prior year tax provision was primarily driven by the $3.4 million write-down of deferred tax assets due to the revaluation of our net operating loss carryforwards from the previously recognized federal rate of 34% to the 21% rate in the 2017 Tax Cut and Jobs Act enacted in December 2017. Net of this write-down, tax expense was $1.2 million and $1.0 million for the six months ended March 31, 2019 and 2018, respectively. Net of the write-down, the effective tax rates were 29.0% and 34.9% for the six months ended March 31, 2019 and 2018.

Net Income

Net income for the six months ended March 31, 2019 was approximately $3.0 million, or $0.25 and $0.23 per basic and diluted share, respectively, an increase of approximately $4.5 million or $0.38 and $0.36 per basic and diluted share over the prior year period. The write-down of our deferred tax assets in first quarter fiscal 2018, due to the Tax Cut and Jobs Act of 2017, was a one-time event. The event's non-recurring nature was the primary cause of net income improvement in fiscal 2019.

Non-GAAP Financial Measures

On a non-GAAP basis, Earnings Before Interest Tax Depreciation and Amortization ("EBITDA") for the three months ended March 31, 2019 was approximately $2.9 million, an increase of approximately $0.1 million, or 4.4% over the prior year three months ended. The increase is attributable principally to improved gross margin.

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

On 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. 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. These changes have resulted in a discrete charge to the first quarter tax provision for fiscal 2018 of $3.4 million associated with revaluing the benefit of our net operating losses. Net of the write-down of our deferred tax assets, the increase to net income would have been $1.0 million or $0.08 and $0.08 per basic and diluted shares, respectively. Additionally, for comparability, the tax provision for the prior year periods has been restated using the current year rate of 29%. 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 (loss) to EBITDA, a non-GAAP measure:

	Three Months Ended March 31,			Six Months Ended March 31,		
	2019	2018	Change	2019	2018	Change
Net income (loss)	$ 1,265	$ 1,316	$ (51)	$ 2,955	$ (1,535)	$ 4,490
(i) Interest expense	544	261	283	721	539	182
(ii) Provision for taxes	517	627	(110)	1,207	4,346	(3,139)
(iii) Depreciation and amortization	560	560	—	1,123	1,066	57
EBITDA	**$ 2,886**	**$ 2,764**	**$ 122**	**$ 6,006**	**$ 4,416**	**$ 1,590**

Reconciliation of GAAP net income (loss) to net income adjusted for the effect of the 2017 Tax Act, a non-GAAP measure:

	Six Months Ended March 31,		
	2019	2018	Change
Net income (loss)	$ 2,955	$ (1,535)	$ 4,490
Write-down of deferred tax assets	—	3,365	(3,365)
Pro-forma impact of tax rate change	—	166	(166)
Net income, adjusted for the effect of the 2017 Tax Act	**$ 2,955**	**$ 1,996**	**$ 959**
Net income (loss) per diluted share	$ 0.23	$ (0.13)	$ 0.36
Impact of write-down of deferred tax asset	$ —	$ 0.28	$ (0.28)
Pro-forma impact of tax rate change	$ —	$ 0.01	$ (0.01)
Net income per diluted share, adjusted for the effect of the 2017 Tax Act	**$ 0.23**	**$ 0.16**	**$ 0.07**

Sources of cash and cash equivalents

As of March 31, 2019, 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 March 31, 2019 is as follows:

Lender	Arrangement	Loan Balance	Interest*	Maturity Date
Fifth Third Bank	Secured term loan $25 million (a)	$ —	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 March 31, 2019 was 2.49%.

(a) a secured term loan with an original aggregate principal amount of $25.0 million (the "Term Loan"). The Company has fully repaid the term loan as of March 31, 2019. See Note 6 to the consolidated financial statements included in this Quarterly Report on Form 10-Q for more information.

(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 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.

The Term Loan and Revolving Credit Facility are secured by liens on substantially all of the assets of the Company. The provisions of the Term Loan and Revolving Credit Facility are fully described in Note 6 of the consolidated financial statements.

Contractual Obligations as of March 31, 2019

		Payments Due By Period			
Contractual obligations (Amounts in thousands)	**Total**	**Next 12 Months**	**2-3 Years**	**4-5 Years**	**More than 5 Years**
Facility Leases	$ 2,315	$ 912	$ 694	$ 680	$ 29
Equipment operating leases	27	16	11	—	—
Total Obligations	**$ 2,342**	**$ 928**	**$ 705**	**$ 680**	**$ 29**

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 7 "Significant Accounting Policies" in this 10Q or Note 6 of the consolidated financial statements in DLH's Annual Report on Form 10-K for the year ended September 30, 2018, as well as the discussion under the caption "Critical Accounting Policies and Estimates" 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 March 31, 2019.

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, as the Company presently does not carry an outstanding balance on the bank term loan or line of credit.

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 March 31, 2019, 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, 2018 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, 2018.

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 second quarter ended March 31, 2019:

				($ in thousands)
Period	**Total Number of Shares Purchased**	**Average Price Paid Per Share**	**Total Number of Shares Purchased As Part of Publicly Announced Programs**	**Dollar Value of Shares that May Yet Be Purchased Under the Plan or Program**
January 2019	—	$ —	—	$ 77
February 2019	—	—	—	77
March 2019	—	—	—	77
Second 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	
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 March 31, 2019, 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: May 7, 2019

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: May 7, 2019

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

EXHIBIT 31.2

Certification

I, Kathryn M. JohnBull, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 7, 2019

/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 March 31, 2019 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: May 7, 2019

/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.