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, 2024

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File No. 0-18492

DLH HOLDINGS CORP.

(Exact name of registrant as specified in its charter)

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

(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	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller Reporting Company	☒
		Emerging Growth Company	☐

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 14,232,891 shares of Common Stock, par value $0.001 per share, were outstanding as of April 30, 2024.

DLH HOLDINGS CORP.
FORM 10-Q

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PART I FINANCIAL INFORMATION

ITEM I: FINANCIAL STATEMENTS

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

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023	Six Months Ended March 31, 2024	Six Months Ended March 31, 2023
Revenue	$ 101,007	$ 99,417	$ 198,857	$ 172,155
Cost of operations:				
Contract costs	79,112	78,238	158,193	135,494
General and administrative costs	11,710	10,693	19,407	18,117
Corporate development costs	—	—	—	1,735
Depreciation and amortization	4,243	4,535	8,496	6,937
Total operating costs	95,065	93,466	186,096	162,283
Income from operations	**5,942**	**5,951**	**12,761**	**9,872**
Interest expenses	4,190	4,765	8,848	6,595
Income before provision for income tax	**1,752**	**1,186**	**3,913**	**3,277**
Provision for income tax (benefit) expense	(60)	381	(50)	925
Net income	**$ 1,812**	**$ 805**	**$ 3,963**	**$ 2,352**
Net income per share - basic	$ 0.13	$ 0.06	$ 0.28	$ 0.17
Net income per share - diluted	$ 0.12	$ 0.06	$ 0.27	$ 0.16
Weighted average common stock outstanding				
Basic	14,205	13,759	14,118	13,530
Diluted	14,946	14,600	14,823	14,447

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

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

	March 31, 2024	September 30, 2023
	(unaudited)	
ASSETS		
Current assets:		
Cash	$ 238	$ 215
Accounts receivable	55,457	59,119
Other current assets	2,221	3,067
Total current assets	57,916	62,401
Goodwill	138,161	138,161
Intangible assets, net	116,549	124,777
Operating lease right-of-use assets	8,315	9,656
Deferred taxes, net	3,028	3,070
Equipment and improvements, net	1,787	1,590
Other long-term assets	186	186
Total assets	**$ 325,942**	**$ 339,841**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 23,035	$ 29,704
Debt obligations - current, net of deferred financing costs	17,178	17,188
Accrued payroll	11,756	13,794
Operating lease liabilities - current	3,242	3,463
Other current liabilities	996	638
Total current liabilities	56,207	64,787
Long-term liabilities:		
Debt obligations - long-term, net of deferred financing costs	147,610	155,147
Operating lease liabilities - long-term	14,242	15,908
Other long-term liabilities	1,133	1,560
Total long-term liabilities	162,985	172,615
Total liabilities	219,192	237,402
Shareholders' equity:		
Common stock, $0.001 par value; 40,000 shares authorized; 14,230 and 13,950 shares issued and outstanding at March 31, 2024 and September 30, 2023, respectively	14	14
Additional paid-in capital	100,322	99,974
Retained earnings	6,414	2,451
Total shareholders' equity	106,750	102,439
Total liabilities and shareholders' equity	**$ 325,942**	**$ 339,841**

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

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

	Six Months Ended March 31, 2024	Six Months Ended March 31, 2023
Operating activities		
Net income	$ 3,963	$ 2,352
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,496	6,937
Amortization of deferred financing costs charged to interest expense	1,040	904
Stock-based compensation expense	1,573	1,352
Deferred taxes, net	42	—
Changes in operating assets and liabilities:		
Accounts receivable	3,662	(1,057)
Other assets	2,187	719
Accounts payable and accrued liabilities	(6,669)	(4,757)
Accrued payroll	(2,038)	8
Other liabilities	(1,955)	404
Net cash provided by operating activities	**10,301**	**6,862**
Investing activities		
Business acquisition, net of cash acquired	—	(180,711)
Purchase of equipment and improvements	(466)	(463)
Net cash (used in) investing activities	**(466)**	**(181,174)**
Financing activities		
Proceeds from revolving line of credit	161,555	32,594
Repayment of revolving line of credit	(157,079)	(11,264)
Proceeds from debt obligations	—	168,000
Repayments of debt obligations	(13,063)	(7,125)
Payments of deferred financing costs	—	(7,622)
Proceeds from issuance of common stock upon exercise of options and warrants	261	287
Payment of tax obligations resulting from net exercise of stock options	(1,486)	(649)
Net cash (used in) provided by financing activities	**(9,812)**	**174,221**
Net change in cash	23	(91)
Cash - beginning of period	215	228
Cash - end of period	**$ 238**	**$ 137**
Supplemental disclosure of cash flow information		
Cash paid during the period for interest	$ 7,873	$ 5,714
Cash paid during the period for income taxes	$ 1,798	$ 3,202
Supplemental disclosure of non-cash activity		
Common stock surrendered for the exercise of stock options	$ 2,324	$ 238

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

DLH HOLDINGS CORP.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(unaudited, in thousands, except for per share data)

	Common Stock								
	Shares		Amount		Additional Paid-In Capital		Retained Earnings		Total Shareholders' Equity
Balance at September 30, 2023	**13,950**	**$**	**14**	**$**	**99,974**	**$**	**2,451**	**$**	**102,439**
Expense related to director restricted stock units	—		—		259		—		259
Expense related to employee stock-based compensation	—		—		1,314		—		1,314
Exercise of stock options	535		—		261		—		261
Common stock surrendered for the exercise of stock options	(255)		—		(1,486)		—		(1,486)
Net income	—		—		—		3,963		3,963
Balance at March 31, 2024	**14,230**	**$**	**14**	**$**	**100,322**	**$**	**6,414**	**$**	**106,750**
Balance at December 31, 2023	**14,105**	**$**	**14**	**$**	**100,186**	**$**	**4,602**	**$**	**104,802**
Expense related to director restricted stock units	—		—		180		—		180
Expense related to employee stock-based compensation	—		—		774		—		774
Exercise of stock options	315		—		—		—		—
Common stock surrendered for the exercise of stock options	(190)		—		(818)		—		(818)
Net income	—		—		—		1,812		1,812
Balance at March 31, 2024	**14,230**	**$**	**14**	**$**	**100,322**	**$**	**6,414**	**$**	**106,750**

	Common Stock								
	Shares		Amount		Additional Paid-In Capital		Retained Earnings		Total Shareholders' Equity
Balance at September 30, 2022	**13,047**	**$**	**13**	**$**	**91,057**	**$**	**990**	**$**	**92,060**
Issuance and fair value adjustment of common stock in business combination	527		1		6,538		—		6,539
Expense related to director restricted stock units	—		—		359		—		359
Expense related to employee stock-based compensation	—		—		993		—		993
Exercise of stock options	286		—		287		—		287
Common stock surrendered for the exercise of stock options	(67)		—		(650)		—		(650)
Net income	—		—		—		2,352		2,352
Balance at March 31, 2023	**13,793**	**$**	**14**	**$**	**98,584**	**$**	**3,342**	**$**	**101,940**
Balance at December 31, 2022	**13,757**	**$**	**14**	**$**	**97,958**	**$**	**2,537**	**$**	**100,509**
Issuance and fair value adjustment of common stock in business combination	—		—		(461)		—		(461)
Expense related to director restricted stock units	—		—		179		—		179
Expense related to employee stock-based compensation	—		—		621		—		621
Exercise of stock options	36		—		287		—		287
Net income	—		—		—		805		805
Balance at March 31, 2023	**13,793**	**$**	**14**	**$**	**98,584**	**$**	**3,342**	**$**	**101,940**

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

DLH HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
March 31, 2024

1. Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements include the accounts of DLH Holdings Corp. and its wholly-owned subsidiaries (together with its subsidiaries, "DLH" or the "Company" and also referred to as "we," "us" and "our"). All significant intercompany balances and transactions have been eliminated in consolidation. The accompanying financial statements have been prepared in accordance with United States generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, these statements do not include all of the information and footnotes required by GAAP for complete financial statements.

Operating results for the six months ended March 31, 2024 are not necessarily indicative of the results that may be expected for the year ending September 30, 2024 or any future period. Amounts as of March 31, 2024 and for the six and three months ended March 31, 2024 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, 2023 filed with the Securities and Exchange Commission on December 6, 2023.

2. Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. The most significant of these estimates and assumptions relate to estimating costs including overhead and its allocation, valuing and determining the amortization periods for long-lived intangible assets, interest rate swaps, stock-based compensation, and right-of-use assets and lease liabilities. 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.

Revenue

The Company's revenues from contracts with customers are derived from offerings that include technology-enabled business process outsourcing, program management solutions, and public health research and analytics, substantially within the U.S. government and its agencies. The Company has various types of contracts including time-and-materials contracts, cost-reimbursable contracts, and firm-fixed-price contracts.

We consider a contract with a customer to exist when there is a commitment by both parties (customer and Company), payment terms are determinable, there is commercial substance, and collectability is probably in accordance with Accounting Standards Codification ("ASC") No. 606, Revenue from Contracts with Customers ("Topic 606").

We recognize revenue over time when there is a continuous transfer of control to our customer as performance obligations are satisfied. For our U.S. government contracts, this continuous transfer of control to the customer is transferred over time and revenue is recognized based on the extent of progress toward completion of the performance obligation. We consider control to transfer when we have a right to payment. In some instances, the Company commences providing services prior to formal approval to begin work from the customer. The Company considers these factors, the risks associated with commencing work, and legal enforceability in determining whether a contract exists under Topic 606.

Contract modification can occur throughout the life of the contract and can affect the transaction price, extend the period of performance, adjust funding, or create new performance obligations. We review each modification to assess the impact of these contract changes to determine if it should be treated as part of the original performance obligation or as a separate contract.

Contract modifications impact performance obligations when the modification either creates new or changes the existing enforceable rights and obligations. The effect of a contract modification on the transaction price and our measure of progress for the performance obligation to which it relates is recognized as an adjustment to revenue and profit cumulatively. Furthermore, a significant change in one or more estimates could affect the profitability of our contracts. We recognize adjustments in estimated profit on contracts in the period identified.

For service contracts, we satisfy our performance obligations as services are rendered. We use cost-based input and time-based output methods to measure progress based on the contract type.

- *Time and material* - We bill the customer per labor hour and per material, and revenue is recognized in the amount invoiced as the amount corresponds directly to the value of our performance to date. Revenue is recognized to the extent of billable rates times hours delivered plus materials and other reimbursable costs incurred.
- *Cost reimbursable* - We record reimbursable costs as incurred, including an estimated share of the contractual fee earned.
- *Firm fixed price* - We recognize revenue over time using a straight-line measure of progress.

Contract costs generally include direct costs such as labor, materials, subcontract costs, and indirect costs identifiable with or allocable to a specific contract. Costs are expensed as incurred and include an estimate of the contractual fees earned. Contract costs incurred for U.S. government contracts, including indirect costs, are subject to audit and adjustment by various government audit agencies. Historically, our adjustments have not been material.

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 accounts receivable on our consolidated balance sheets and are invoiced in accordance with payment terms defined in each contract. Period end balances will vary from period to period due to agreed-upon contractual terms.

Fair Value of Financial Instruments

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

Long-Lived Assets

Our long-lived assets include equipment and improvements, intangible assets, right-of-use assets, and goodwill. The Company continues to review long-lived assets for possible impairment or loss of value at least annually, or more frequently upon the occurrence of an event or when circumstances indicate that a reporting unit's carrying amount is greater than its fair value.

Equipment and improvements are recorded at cost, less accumulated depreciation and amortization. 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. Intangible assets (other than goodwill) are originally recorded at fair value and are amortized on a straight-line basis over their estimated useful lives of 10 years.

Right-of-use assets are measured at the present value of future minimum lease payments, including all probable renewals, plus lease payments made to the lessor before or at lease commencement and indirect costs paid, less incentives received. Our right-of-use assets include long-term leases for facilities and equipment and are amortized over their respective lease terms.

Lease Liabilities

The Company has leases for facilities and office equipment. Our lease liabilities are recognized as the present value of the future minimum lease payments over the lease term. Our lease payments consist of fixed and in-substance fixed amounts attributable to the use of the underlying asset over the lease term. Variable lease payments that do not depend on an index rate or are not in-substance fixed payments are excluded in the measurement of right-of-use assets and lease liabilities and are expensed in the period incurred. The incremental borrowing rate on our secured term loan is used in determining the present value of future minimum lease payments. Some of our lease agreements include options to extend the lease term or terminate the lease. These options are accounted for in our right-of-use assets and lease liabilities when it is reasonably certain that the Company will extend the lease term or terminate the lease. The Company does not have any finance leases.

Goodwill

The Company reviews goodwill for impairment on an annual basis and on a quarterly basis the Company assesses the impact of any macroeconomic changes that may impact the business conditions to determine if these changes have any adverse impact to 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. The Company determined that no change in business conditions occurred which would have a material adverse effect on the valuation of goodwill.

Income Tax

The Company accounts for income taxes in accordance with the asset and 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 sheets 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, 2024 or September 30, 2023. We report interest and penalties as a component of provision for income taxes. During the six months ended March 31, 2024 and 2023, we recognized no interest and no penalties related to income taxes.

Stock-Based Compensation

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

Stock-based 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 stock-based compensation expense for that portion of awards has been based on the grant-date fair value of those awards as calculated for recognition purposes under applicable guidance. For options that vest based on the Company's common stock achieving and maintaining defined market prices, the Company values the awards with a Monte Carlo method that utilizes various probability factors and other criterion in establishing fair value of the grant. The related compensation expense is recognized over the service period.

Cash

The Company considers 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 up to $250,000. Deposits held with financial institutions may exceed the $250,000 limit.

Accounts Receivable

Receivables include amounts billed and currently due from customers where the right to consideration is unconditional and amounts unbilled. Both billed and unbilled amounts are non-interest bearing, unsecured, and recognized at an estimated realizable value that includes costs and fees, and are generally expected to be billed and received within a single year. We evaluate our receivables for expected credit losses on a quarterly basis and determine whether an allowance for expected credit losses is appropriate based on specific collection issues. No allowance for doubtful accounts was deemed necessary at either March 31, 2024 or September 30, 2023.

Earnings Per Share

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

Treasury Stock

The Company periodically purchases its own common stock that is traded on public markets as part of announced stock repurchase programs. The repurchased common stock is classified as treasury stock on the consolidated balance sheets and held at cost. As of March 31, 2024 and September 30, 2023, the Company did not hold any treasury stock.

Preferred Stock

Our certificate of incorporation authorizes the issuance of "blank check" preferred stock with designations, rights and preferences as may be determined from time to time by our board of directors up to an aggregate of 5,000,000 shares of preferred stock. As of March 31, 2024 and September 30, 2023, the Company has not issued any preferred stock.

Interest Rate Swap

The Company uses derivative financial instruments to manage interest rate risk associated with its variable debt. The Company's objective in using these interest rate derivatives is to manage its exposure to interest rate movements and reduce volatility of interest expense. The gains and losses due to changes in the fair value of the interest rate swap agreements completely offset changes in the fair value of the hedged portion of the underlying debt. Offsetting changes in fair value of both the interest rate swaps and the hedged portion of the underlying debt are recognized in interest expense in the consolidated statements of operations. The Company does not hold or issue any derivative instruments for trading or speculative purposes.

Risks & Uncertainties

Management evaluates the impact of global markets and economic factors on our industry and the potential for adverse effects on the Company's consolidated financial position and its operations. As of March 31, 2024, there was no indication of any global or economic impacts to our industry.

3. New Accounting Pronouncements

In November 2023, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2023-07 "Segment reporting (Topic 280): Improvements to Reportable Segment Disclosures" which provides guidance intended to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses, and each reported measure of segment profit or loss. The ASU requires that a public entity that has a single reportable segment provide all the disclosures required by the amendments in this ASU and all existing segment disclosures in Topic 280.

The amendments in this update are effective for all entities for its annual filings occurring after December 31, 2023, and interim periods after December 15, 2024. We are currently evaluating the impacts of the single reportable segment disclosures.

In December 2023, FASB issued ASU 2023-09 "Income taxes (Topic 740): Improvements to Income Tax Disclosures" which provides guidance on the requirements such as the requirement that public business entities on an annual basis (1) disclose specific categories in the rate reconciliation and (2) provide additional information for reconciling items that meet a quantitative threshold. DLH is a public company that reports income tax disclosures and therefore this ASU applies to the Company. The amendments in this update are effective for all entities for its annual filings occurring after December 31, 2023. We are currently evaluating the impacts of the improvements to income tax disclosure.

In March 2024, FASB issued ASU No. 2024-01, "Scope Application of Profits Interest and Similar Awards". The ASU clarifies how an entity determines whether a profits interest or similar award is (1) within the scope of ASC 718 or (2) not a share-based payment arrangement and therefore within the scope of other guidance. The guidance in ASU 2024-01 applies to all entities that issue profits interest awards as compensation to employees or non-employees in exchange for goods or services. We are currently evaluating the impacts of the improvements to our disclosure.

In March 2024, the Securities and Exchange Commission ("SEC") has released a final rule that requires registrants to provide comprehensive climate-related disclosures in their annual reports and registration statements, including those for IPOs, beginning with annual reports for the year ending December 31, 2027, for smaller reporting companies ("SRC"). Registrants must disclose climate-related financial metrics and impacts on their financial estimates and assumptions in a footnote to the audited financial statements. The disclosures will also need to be addressed as part of management's internal control over financial reporting ("ICFR") and will be subject to the financial statement and ICFR audit (if applicable) of an independent registered public accounting firm. We are currently evaluating the impacts of the improvements to our disclosure.

4. Revenue Recognition

The following table summarizes the contract balances recognized on the Company's consolidated balance sheets as follows (in thousands):

	March 31, 2024	September 30, 2023
Contract assets	$ 21,835	$ 20,542

Contract assets are included as part of the accounts receivable on the consolidated balances sheets. Contract liabilities had no balance as of March 31, 2024 and September 30, 2023.

Disaggregation of Revenue from Contracts with Customers

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

Revenue by customer was as follows (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2024	2023	2024	2023
Department of Health and Human Services	$ 47,349	$ 38,204	$ 91,636	$ 65,509
Department of Veterans Affairs	35,616	34,883	70,296	68,591
Department of Defense	16,412	18,972	33,283	29,235
Other	1,630	7,358	3,642	8,820
Total	**$ 101,007**	**$ 99,417**	**$ 198,857**	**$ 172,155**

Revenue by contract type was as follows (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2024	2023	2024	2023
Time and Materials	$ 55,487	$ 53,803	$ 110,276	$ 102,794
Cost Reimbursable	21,326	17,260	41,077	29,840
Firm Fixed Price	24,194	28,354	47,504	39,521
Total	**$ 101,007**	**$ 99,417**	**$ 198,857**	**$ 172,155**

Revenue by whether the Company acts as a prime contractor or a subcontractor was as follows (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2024	2023	2024	2023
Prime Contractor	$ 90,696	$ 93,826	$ 178,318	$ 161,807
Subcontractor	10,311	5,591	20,539	10,348
Total	**$ 101,007**	**$ 99,417**	**$ 198,857**	**$ 172,155**

5. Leases

The following table summarizes lease balances presented on our consolidated balance sheets as follows (in thousands):

	March 31, 2024	September 30, 2023
Operating lease right-of-use assets	$ 8,315	$ 9,656
Operating lease liabilities, current	$ 3,242	$ 3,463
Operating lease liabilities - long-term	14,242	15,908
Total operating lease liabilities	**$ 17,484**	**$ 19,371**

As of March 31, 2024, operating leases for facilities and equipment have remaining lease terms of less than 1 year to 7.3 years.

Total lease costs for our leases was as follows (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2024	2023	2024	2023
Operating	$ 883	$ 1,098	$ 3,884	$ 2,045
Short-term	50	27	266	70
Variable	37	32	148	63
Sublease income (a)	(67)	(71)	(273)	(142)
Total lease costs	**$ 903**	**$ 1,086**	**$ 4,025**	**$ 2,036**

(a) The Company subleases a portion of one of its leased facilities. The sublease is classified as an operating lease with respect to the underlying asset. The sublease term is 5 years and includes two additional 1 year term extension options.

The Company's future minimum lease payments as of March 31, 2024 were as follows (in thousands):

Fiscal year ending:		
2024 (remaining)	$	3,296
2025		3,928
2026		3,700
2027		2,627
2028		2,377
Thereafter		5,024
Total future lease payments		20,952
Less: imputed interest		(3,468)
Present value of future minimum lease payments		17,484
Less: current portion of operating lease liabilities		(3,242)
Long-term operating lease liabilities	$	14,242

At March 31, 2024, the weighted-average remaining lease term and weighted-average discount rate were 5.8 years and 6.3%, respectively. The calculation of the weighted-average discount rate was determined based on borrowing terms from our secured term loan.

Other information related to our leases for the six months ended March 31, 2024 and 2023 was as follows (in thousands):

		2024		2023
Cash paid for amounts included in the measurement of lease liabilities	$	2,364	$	2,171
Lease liabilities arising from obtaining right-of-use assets		—		3,541
Other lease information	**$**	**2,364**	**$**	**5,712**

6. Supporting Financial Information

Accounts receivable

The following table summarizes accounts receivable presented on our consolidated balance sheets as follows (in thousands):

		March 31, 2024		September 30, 2023
Billed receivables	$	33,622	$	38,577
Contract assets		21,835		20,542
Allowance for doubtful accounts		—		—
Accounts receivable	**$**	**55,457**	**$**	**59,119**

Other current assets

The following table summarizes other current assets presented on our consolidated balance sheets as follows (in thousands):

	March 31, 2024	September 30, 2023
Prepaid insurance and benefits	$ 1,614	$ 1,330
Prepaid licenses and other expenses	139	743
Other receivables	468	994
Other current assets	**$ 2,221**	**$ 3,067**

Goodwill

There were no activities in Goodwill for the six months ended March 31, 2024, the balance of Goodwill was $138,161 as of March 31, 2024.

Intangible assets

The following table summarizes intangible assets, net presented on our consolidated balance sheets as follows (in thousands):

	March 31, 2024	September 30, 2023
Intangible assets		
Customer contracts and related customer relationships	$ 113,622	$ 113,622
Covenants not to compete	637	637
Trade name	13,034	13,034
Backlog	37,249	37,249
Total intangible assets	164,542	164,542
Less: accumulated amortization		
Customer contracts and related customer relationships	(35,613)	(29,929)
Covenants not to compete	(410)	(378)
Trade name	(2,836)	(2,185)
Backlog	(9,134)	(7,273)
Total accumulated amortization	(47,993)	(39,765)
Intangible assets, net	**$ 116,549**	**$ 124,777**

Amortization expense was $4.1 million and $4.3 million for the three months ended March 31, 2024 and 2023, respectively, and $8.2 million and $6.5 million for the six months ended March 31, 2024 and 2023, respectively.

As of March 31, 2024, the estimated amortization expense per fiscal year was as follows (in thousands):

Fiscal year ending:	
2024 (remaining)	$ 8,226
2025	16,456
2026	15,722
2027	14,694
2028	14,694
Thereafter	46,757
Total amortization expense	**$ 116,549**

At March 31, 2024, the weighted-average remaining amortization period in total was 7.8 years. The weighted-average amortization period for customer contracts and related customer relationships, backlog, trade names and covenants not to compete was 7.7 years, 8.1 years, 8.2 years, 5.7 years, respectively.

Equipment and improvements, net

The following table summarizes equipment and improvements, net presented on our consolidated balance sheets as follows (in thousands):

	March 31, 2024	September 30, 2023
Furniture and equipment	$ 2,316	$ 1,790
Computer equipment and software	6,418	6,479
Leasehold improvements	1,614	1,614
Total equipment and improvements	10,348	9,883
Less: accumulated depreciation	(8,561)	(8,293)
Equipment and improvements, net	**$ 1,787**	**$ 1,590**

Depreciation expense was $0.1 million and $0.2 million for the three months ended March 31, 2024 and 2023, respectively, $0.3 million and $0.4 million for the six months ended March 31, 2024 and 2023, respectively.

Accounts payable and accrued liabilities

The following table summarizes accounts payable and accrued liabilities presented on our consolidated balance sheets as follows (in thousands):

	March 31, 2024	September 30, 2023
Accounts payable	$ 13,398	$ 12,603
Accrued benefits	4,269	6,414
Accrued workers' compensation insurance	1,999	2,369
Accrued bonus and incentive compensation	2,250	4,719
Accrued interest	1,267	1,309
Other accrued expenses	(148)	2,290
Accounts payable and accrued liabilities	**$ 23,035**	**$ 29,704**

Accrued payroll

The following table summarizes accrued payroll presented on our consolidated balance sheets as follows (in thousands):

	March 31, 2024	September 30, 2023
Accrued leave	$ 7,975	$ 9,621
Accrued payroll	2,558	2,487
Accrued payroll taxes	1,025	1,173
Accrued severance	198	513
Total accrued payroll	**$ 11,756**	**$ 13,794**

Debt obligations

The following table summarizes debt obligations presented on our consolidated balance sheets as follows (in thousands):

	March 31, 2024	September 30, 2023
Secured term loan	$ 156,750	$ 169,813
Secured revolving line of credit	14,022	9,546
Less: unamortized deferred financing costs	(5,984)	(7,024)
Net bank debt obligations	**164,788**	**172,335**
Less: current portion of debt obligations, net of deferred financing costs (a)	(17,178)	(17,188)
Long-term portion of debt obligations, net of deferred financing costs	**$ 147,610**	**$ 155,147**

As of March 31, 2024, we have satisfied mandatory principal payments on our secured term loan.

(a) As of March 31, 2024, the current portion comprises term loan amortization of $4.8 million and the $14.0 million outstanding balance on the secured revolving line of credit, net of $1.6 million of unamortized deferred financing costs.

Interest expense

The following table summarizes interest expense presented on our consolidated statements of operations as follows (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2024	2023	2024	2023
Interest expense (a)	$ 3,821	$ 4,160	$ 7,831	$ 5,714
Interest income (b)	$ (28)	$ —	$ (23)	$ —
Amortization of deferred financing costs (c)	397	605	1,040	881
Interest expense	**$ 4,190**	**$ 4,765**	**$ 8,848**	**$ 6,595**

(a) Interest expense on borrowing.
(b) Interest earned from customer payments received after the due date.
(c) Amortization of expenses related to secured term loan and secured revolving line of credit.

7. Credit Facilities

A summary of our credit facilities as presented on our consolidated balance sheets as follows (in millions):

March 31, 2024			September 30, 2023		
Arrangement	Loan Balance	Interest	Arrangement	Loan Balance	Interest
Secured term loan (a) due December 8, 2027	$ 156,750	SOFR[1] + 4.1%	Secured term loan (a) due December 8, 2027	$ 169,813	SOFR[1] + 4.1%
Secured revolving line of credit (b) due December 8, 2027	$ 14,022	SOFR[1] + 4.1%	Secured revolving line of credit (b) due December 8, 2027	$ 9,546	SOFR[1] + 4.1%

[1]Secured Overnight Financing Rate ("SOFR") as of March 31, 2024 and September 30, 2023 were 5.3% and 5.3% respectively.

(a) Represents the principal amounts payable on our term loan, which is secured by liens on substantially all of the assets of the Company. The principal of the term loan is payable in quarterly installments with the remaining balance due on December 8, 2027.

On September 19, 2019, we executed a floating-to-fixed interest rate swap with First National Bank ("FNB") as counterparty. The swap has a notional amount of $9.0 million at March 31, 2024, a fixed interest rate of 1.61% and a maturity date of June 7,

2024. On January 31, 2023, we executed an additional floating-to-fixed interest rate swap with FNB which has a notional amount of $80.0 million at March 31, 2024, a fixed interest rate of 4.10% and a maturity date of January 31, 2026. As a result of entering these agreements, for the three and six months ended March 31, 2024, interest expense has been decreased by approximately $0.3 million and $0.7 million , respectively.

The Credit Agreement requires compliance with a number of financial covenants and contains restrictions on our ability to engage in certain transactions. Among other matters, we must comply with limitations on: granting liens; incurring other indebtedness; maintenance of assets; investments in other entities and extensions of credit; mergers and consolidations; and changes in nature of business. The loan agreement also requires us to comply with certain quarterly financial covenants including: (i) a minimum fixed charge coverage ratio of at least 1.25 to 1.00, and (ii) a total leverage ratio not exceeding the ratio of 4.50:1.00 to 2.00:1.00 through maturity. The total leverage ratio is calculated by dividing the Company's total interest-bearing debt by net income adjusted to exclude (i) interest and other expenses, (ii) provision for income taxes (benefit) expense, if any, (iii) depreciation and amortization, and (iv) non-cash charges, losses or expenses, including stock-based compensation, and (v) non-recurring charges, losses or expenses to include transaction and non-cash equity expense. We are in compliance with all loan covenants and restrictions as of March 31, 2024.

We are required to pay quarterly amortization payments, which commenced in December 2022. The annual amortization amounts are $14.3 million for fiscal year 2024, $19.0 million each for fiscal years 2025 and 2026, and $23.75 million for fiscal year 2027, with the remaining unpaid loan balance due at maturity in December 2027. The quarterly payments are equal installments. The Company made voluntary prepayments of $5.9 million during six months ended March 31, 2024 bringing the outstanding principal balance on the secured term loan to $156.8 million. We have satisfied the mandatory principal payments through the end of calendar 2024.

In addition to quarterly payments of the outstanding indebtedness, the loan agreement also requires annual payments of a percentage of excess cash flow, as defined in the loan agreement. The loan agreement states that an excess cash flow recapture payment must be made equal to (a) 75% of the excess cash flow for the immediately preceding fiscal year in which indebtedness to consolidated EBITDA ratio is greater than or equal to 2.5:1; (b) 50% of the excess cash flow for the immediately preceding fiscal year in which the funded indebtedness to consolidated EBITDA Ratio is less than 2.5:1 but greater than or equal to 1.5:1; or (c) 0% of the excess cash flow for the immediately preceding fiscal year in which the funded indebtedness to consolidated EBITDA Ratio is less than 1.5:1. In addition, the Company must make additional mandatory prepayment of amounts outstanding based on proceeds received from asset sales and sales of certain equity securities or other indebtedness. Due to the voluntary prepayment of term debt, there was no excess cash flow payment required. For additional information regarding the schedule of future payment obligations, please refer to Note 10. Commitments and Contingencies.

(b) The secured revolving line of credit has a ceiling of up to $70.0 million; as of March 31, 2024, we had unused borrowing capacity of $22.5 million, which is net of outstanding letters of credit. Borrowing on the secured revolving line of credit is secured by liens on substantially all of the assets of the Company. The Company accessed funds from the secured revolving line of credit during the year, which had a $14.0 million outstanding balance at March 31, 2024. As part of the secured revolving line of credit, the lenders agreed to a sublimit of $10.0 million for letters of credit for the account of the Company, subject to applicable procedures.

8. Stock-Based Compensation and Equity Grants

Stock-based compensation expense

Options issued under equity incentive plans were designated as either an incentive stock or a non-statutory stock option. No option was granted with a term of more than 10 years from the date of grant. Exercisability of option awards may depend on achievement of certain performance measures determined by the Compensation Committee of our Board. Shares issued upon option exercise are newly issued shares. As of March 31, 2024, there were 0.8 million shares available for grant.

Stock-based compensation expense shown in the table below, is recorded in general and administrative expenses in our consolidated statements of operations as follows (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2024	2023	2024	2023
DLH employees (a)	$ 774	$ 621	$ 1,314	$ 993
Non-employee directors (b)	180	179	259	359
Total stock option expense	**$ 954**	**$ 800**	**$ 1,573**	**$ 1,352**

(a) Included in this amount are equity grants of restricted stock units ("RSU") to Executive Officers, which were issued in accordance with the DLH long-term incentive compensation policy in this fiscal year, including both RSU and stock option grants to employees during prior fiscal years. The RSUs issued and outstanding totaled 429,320 and 337,578 at March 31, 2024 and 2023, respectively. During the three months ended March 31, 2024, there was no grant awarded to Executive Officers. For the six months ended March 31, 2024, 169,544 RSUs were granted to Executive Officers. Of the RSUs granted, 84,773 have performance-based vesting criteria and the remaining 84,771 have service-based vesting criteria. The RSUs granted during the six months ended March 31, 2024, were valued as follows using the Monte Carlo Method, and will be amortized over the 3-year measurement period.

(b) Equity grants of RSUs were made in accordance with DLH compensation policy for non-employee directors and a total of 61,525 and 50,367 restricted stock units were issued and outstanding at March 31, 2024 and 2023, respectively. These grants have service-based vesting criteria and vest at the end of this fiscal year.

The fair value of RSUs issued during the six months ended March 31, 2024 is presented in the table below:

				Volatility 50%
Grant Date	Performance Vesting Base	Performance Vesting Criteria	(Years)	Fair Value
December 15, 2023	Revenue	Revenue increase at the end of the performance period as compared to the year ended September 30, 2023	3	$ 3.82
December 15, 2023	Stock price	Stock price is at least $25.65 per share average for the 30 days prior to the end of the performance period	3	$ 5.36

Notes:

Results based on 100,000 simulations

<u>Unrecognized stock-based compensation expense</u>

Unrecognized stock-based compensation expense is presented in the table below (in thousands):

	March 31,	
	2024	2023
Unrecognized expense for DLH employees (a)	$ 7,026	$ 8,575
Unrecognized expense for non-employee directors	359	359
Total unrecognized expense	$ 7,385	$ 8,934

(a) On a weighted average basis, the unrecognized expense as of March 31, 2024 is expected to be recognized within the next 3.29 years.

Stock option activity for the six months ended March 31, 2024

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. A summary of the Company's stock option awards is as follows:

	(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, 2023	2,278	$ 8.40	5.80	$ 8,693
Granted	—	—	—	—
Exercised	(535)	5.03	—	—
Cancelled	(25)	11.66	—	—
Options outstanding, March 31, 2024	**1,718**	**$ 9.40**	**6.00**	**$ 7,450**
Vested and exercisable, March 31, 2024	**1,458**	**$ 8.31**	**5.70**	**$ 7,374**

Stock option shares outstanding, vested and unvested balance as follows (in thousands):

	March 31, 2024	**September 30, 2023**
Vested and exercisable	1,458	1,608
Unvested (a)	260	670
Options outstanding	**1,718**	**2,278**

(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.

Earnings per share information is presented in the table below (in thousands except for per share amounts):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2024	2023	2024	2023
Numerator:				
Net income	$ 1,812	$ 805	$ 3,963	$ 2,352
Denominator:				
Denominator for basic net income per share - weighted-average outstanding shares	14,205	13,759	14,118	13,530
Effect of dilutive securities:				
Stock options and restricted stock	741	841	705	917
Denominator for diluted net income per share - weighted-average outstanding shares	14,946	14,600	14,823	14,447
Net income per share - basic	$ 0.13	$ 0.06	$ 0.28	$ 0.17
Net income per share - diluted	$ 0.12	$ 0.06	$ 0.27	$ 0.16

10. Commitments and Contingencies

Contractual obligations as of March 31, 2024 are as follows (in thousands):

		Payments Due Per Fiscal Year					
	Total	(Remaining) 2024	2025	2026	2027	2028	Thereafter
Debt obligations	$ 170,772	$ 14,022	$ 14,250	$ 19,000	$ 23,750	$ 99,750	$ —
Facility operating leases	20,947	3,291	3,928	3,700	2,627	2,377	5,024
Equipment operating leases	5	5	—	—	—	—	—
Total contractual obligations	**$ 191,724**	**$ 17,318**	**$ 18,178**	**$ 22,700**	**$ 26,377**	**$ 102,127**	**$ 5,024**

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 six months ended March 31, 2024 and 2023 there were no significant related party transactions that have occurred which require disclosure through the date that these consolidated financial statements were issued.

12. Subsequent Events

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

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

Forward-Looking and Cautionary Statements

You should read the following discussion in conjunction with the 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, 2023, 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. Forward-looking statements in this report include, among others, statements regarding benefits of the acquisition, estimates of future revenues, operating income, earnings, earnings per share, backlog, and cash flows. These statements reflect our belief and assumptions as to future events that may not prove to be accurate. Our actual results may differ materially from such forward-looking statements made in this report due to a variety of factors, including: the failure to achieve the anticipated benefits of any future acquisition (including anticipated future financial operating performance and results); the diversion of management’s attention from normal daily operations of the business and the challenges of managing larger and more widespread operations; the inability to retain employees and customers; contract awards in connection with re-competes for present business and/or competition for new business; our ability to manage our increased debt obligations; compliance with bank financial and other covenants; changes in client budgetary priorities; government contract procurement (such as bid and award protests, small business set asides, loss of work due to organizational conflicts of interest, etc.) and termination risks; the impact of inflation and higher interest rates; 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, 2023, 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.

Overview and Background

DLH Holdings Corp. ("DLH") delivers improved health and cyber readiness solutions for federal government customers through digital transformation, science research and development, and systems engineering and integration. We bring a unique combination of government sector experience, proven methodology, and unwavering commitment to solve the complex problems faced by civilian and military customers alike, doing so by leveraging multiple capabilities, including cyber technology, artificial intelligence, advanced analytics, cloud-based applications, and telehealth systems.

Competitive Advantages

We believe we are advantageously positioned within our markets through a number of features including, but not limited to:

- highly credentialed workforce;
- predominantly performing as the prime contractor;
- strong past performance record across our government contracts; and
- strong bipartisan support for our key contracts.

We have invested in leading credentials and capabilities that we expect will deliver value to our customers. These investments include development of secure Information Technology ("IT") platforms; sophisticated data analytic tools and techniques; and implementation process improvement and quality assurance programs and techniques. We are actively pursuing additional credentials that will support our customers' ever evolving missions.

Solutions and Services

We primarily focus on improved deployment of large-scale health and defense initiatives for multiple agencies within the federal government, including the Department of Health and Human Services ("HHS"), the Department of Veterans Affairs ("VA"), Department of Defense ("DoD"), and many of their sub-agencies.

We deliver services primarily through prime contracts awarded by the federal government through competitive bidding processes. We have a diverse mix of contract vehicles with various agencies of the federal government, which supports our overall corporate growth strategy. Our revenue is distributed to time and materials contracts (55.4%), firm fixed price contracts (23.9%), and cost reimbursable contracts (20.7%).

We provide the following services and solutions, which are aligned with the long-term needs of our customers:

- Digital Transformation and Cyber Security;
- Science Research and Development; and
- Systems Engineering and Integration

Digital Transformation and Cyber Security

We provide critical digital transformation and cyber security solutions across the federal civilian and cyber defense communities, leveraging advanced technology to modernize obsolete systems, protect sensitive information, manage large datasets, and enhance operational efficiency. Our suite of tools includes artificial intelligence and machine learning, cloud enablement, cybersecurity ecosystem, big data analytics, and modeling and simulation.

IT modernization and cyber security maturity are priority initiatives throughout our customer set. Our customers, including numerous institutes and centers within the National Institutes of Health ("NIH"), the Defense Health Agency ("DHA"), Tele-medicine and Advanced Technology Research Center ("TATRC"), and US Navy Naval Information Warfare Center ("NIWC"), rely on our information technology support to enable their vital missions. We work with these customers to reduce risk and build resilience to cyber and physical threats to the federal government's infrastructure, providing the full spectrum of cyber capabilities, cryptographic and true cyber engineering, Certified Information Security Officer ("CISO") / Information System Security Officer ("ISSO") support, risk management frameworks, Continuity of Operations ("COOP") / Disaster Recovery, and enterprise infrastructure and cloud governance focused on designing and implementing zero trust architecture.

Science Research and Development

We advance scientific knowledge and understanding through our extensive research portfolio and domain expertise. We primarily provide large-scale data analytics, testing and evaluation, clinical trials research services, and epidemiology studies to support multiple operating divisions within HHS, including NIH and the Center for Disease Control and Prevention ("CDC"), as well as the Military Health System.

Our employees support innovative, cutting-edge research on emerging trends, health informatics analyses, and application of best practices including mobile, social, and interactive media. We leverage evidence-based methods and web technology to drive health equity to our most vulnerable populations through public engagement. Projects often involve highly specialized expertise and transformative R&D support services. Our decades of experience designing, conducting, and analyzing studies for our diverse customer base, and our full-service clinical research solutions are designed for each customer's specific research development program. Our employees provide expert knowledge and experience that supports our customers' missions.

System Engineering and Integration

Our employees specialize in delivering engineering solutions that support our customers' evolving needs by rapidly deploying resources, solutions, and services. This includes specialized engineering expertise, encompassing areas of pharmaceutical delivery logistics, fire protection engineering, biomedical equipment, and technology engineering on behalf of the VA, NIWC, HHS and other federal customers.

We utilize automation to accelerate infrastructure innovation and help customers define a lifecycle for automation assets, as well as set standards for version control, testing, and release processes that proved a robust foundation for their customers. DLH delivers IT operational resilience and efficiency in parallel with technology innovation integration, via hybrid and multi-cloud solutions, leveraging integrated services, process automation, advanced tool stacks, and mature quality processes. Our employees engineer, implement, and operate solutions that demonstrate measurable results to satisfy our customer's management requirements, thus helping customers to confidently deploy secure platforms and technologies that reduce operational costs. We have invested in agile software development credentials for our technical staff, and have achieved Capability Maturity Model Integration ("CMMI") level 3. Our enterprise lifecycle logistics support services encompass military systems deployed worldwide, as well as scientific and IT systems and peripherals for Federal civilian agencies.

Major Customers

Our revenues are from agencies of the U.S. Federal government. A major customer is defined as a customer from whom we derive at least 10% of our revenues. The following table summarizes revenue by customer as follows (in thousands and percent):

	Six Months Ended March 31,			
	2024		2023	
	Revenue	Percent of total revenue	Revenue	Percent of total revenue
Department of Health and Human Services	$ 91,636	46.1 %	$ 65,509	38.1 %
Department of Veterans Affairs	70,296	35.4 %	68,591	39.8 %
Department of Defense	33,283	16.7 %	29,235	17.0 %
Other customers with less than 10% share of total revenue	3,642	1.8 %	8,820	5.1 %
Total revenue	**$ 198,857**	**100.0 %**	**$ 172,155**	**100.0 %**

We remain dependent upon the continuation of our relationships with our major customers as a significant portion of our revenue is concentrated in each of them. Our results of operations, cash flows and financial condition would be materially adversely affected if we were unable to continue our relationship with any of these customers, if we were to lose any of our material current contracts, or if the amount of services we provide to them is materially reduced.

Major Contracts

We operate primarily through prime contracts awarded by the government through competitive bidding processes. We have a diverse mix of contract vehicles with various agencies of the U.S. government, which supports our overall corporate growth strategy. A major contract is defined as a contract or set of contracts from which we derive at least 10% of our revenues.

The revenue attributable to the VA 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 ("CMOP") program.

- Nine orders for pharmacy services, which represent approximately $39.1 million and $39.4 million of revenues for the six months ended March 31, 2024 and 2023, respectively, and operated under a bridge contract through April 30, 2024.
- Seven orders for logistics services represent approximately $31.2 million and $29.2 million of revenues for the six months ended March 31, 2024 and 2023, respectively, and operated under a bridge contract through April 30, 2024.
- As discussed below, the Company has received a new Indefinite-Delivery Indefinite-Quantity ("IDIQ") contract to continue providing prime contractor services at all eight CMOP locations while the pending procurements are evaluated. The ceiling value of the IDIQ contract is $200.0 million with the initial tasking through July 31, 2024. These initial task orders provide adequate funding to support the expected service volume of approximately $35.0 million for the three month period. Additional task orders may be issued under this IDIQ contract until the end of its period of performance.

The VA has issued eight separate requests for proposals for healthcare logistics and pharmacy services for each of its eight CMOP locations. Each of the eight procurements are being evaluated separately and may be subject to differing timelines for award. The procurements were set-aside for a service-disabled veteran owned small business ("SDVOSB") as the prime contractor. DLH responded to each request for proposal as a joint venture partner with an SDVOSB prime contractor. While the acquisition process is being conducted, DLH continues to operate as the prime contractor for all CMOP locations.

Should the new contracts for performance of these services be awarded to a partner of DLH, the Company expects to continue to perform a significant amount of the contract's volume of business as a subcontractor. Should the VA conclude that an award to an SDVOSB prime contractor is not in the best interest of the government, they may reissue a solicitation in an unrestricted competition. DLH believes that its service excellence over many years on the program would provide an advantage in any competition.

As disclosed in the Company's Form 8-K filings during the quarter ended March 31, 2024, the VA has begun the process of evaluating the proposals for the eight solicitations mentioned above. We were advised that the VA had made an award decision for the Chelmsford CMOP Staffing Services location to an SDVOSB unrelated to DLH. Between the announcement of the award and the commencement of the contract, Federal acquisition guidelines provide each of the 17 competitors for this contract the right to a debriefing to explain the results. Based on the debriefing, a bidder may then contest the decision. Our joint venture continues to pursue its remedies under the Federal acquisition regulations. A final award decision on this proposal has not yet been made.

Following the award notice for the Chelmsford location, the VA had apparently reconsidered its options for achieving the transition of CMOP operations to an SDVOSB provider through five-year contracts and issued Notices of Intent to Award Sole Source Procurements for healthcare logistics and pharmacy services by location to various SDVOSBs, including the joint venture between DLH and its SDVOSB partner, for durations of up to three months. These notices were subsequently cancelled by the VA. Accordingly, DLH expects that it will continue providing healthcare logistics and pharmacy services until award decisions on the five-year contracts are completed.

In support of DLH's continuing performance as the prime contractor during the ongoing acquisition evaluation, the VA awarded us a sole-source IDIQ contract effective May 1, 2024. The IDIQ has a ceiling value of $200 million and a period of performance extendable through April 30, 2025 with the potential for orders placed within that period to extend performance for up to 180 days through October 2025. Initial task orders have been issued for DLH's prime contractor performance through July 31, 2024.

Backlog

At March 31, 2024, our backlog was approximately $736.2 million, of which $106.9 million was funded backlog. At September 30, 2023, our backlog was approximately $704.8 million, of which $169.9 million was funded backlog.

We define backlog as our estimate of remaining future revenue from existing signed contracts, assuming the exercise of all options relating to such contracts and including executed task orders issued under Indefinite Quantity/Indefinite Delivery ("IDIQ") contracts or if the contract is a single award IDIQ contract.

We define funded backlog as the portion of backlog for which funding is appropriated and allocated to the contract by the customer and authorized for payment by the customer, once specified work is completed. Funded backlog does not include the full contract value as Congress often appropriates funding for contracts on a yearly or quarterly basis.

Circumstances and events may cause changes in the amount of our backlog and funded backlog, including the execution of new contracts, extension of existing contracts, non-renewal or completion of current contracts, early termination, and adjustments to estimates. Changes in funded backlog may be affected by the funding cycles of the government. While no assurances can be given that existing contracts will result in earned revenue in any future period, or at all, our major customers have historically exercised their contractual renewal options.

Backlog value is quantified from management's judgment and assumptions about the volume of services based on past volume trends and current planning developed with customers.

Forward-Looking Business Trends

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

Federal budget outlook for fiscal year 2025:

The President’s budget proposal for fiscal year ("FY") 2025 outlines initiatives for the federal government in its next operating year. The proposal includes key investments for our customers.

Department of Veterans Affairs

The VA is requesting a total of $369.3 billion for FY 2025, an increase of $32.9 billion above the FY 2024 enacted level. It includes $134.0 billion in discretionary funding, a decrease of $8.9 billion, and $235.3 billion in mandatory funding, an increase of $41.8 billion from FY 2024 budget request. The VA research program is expected to allocate increased funding to advance the Department’s understanding of the impact of traumatic brain injury and toxic exposure(s) on long-term health outcomes, coronavirus related research and impacts, and precision oncology. The FY 2025 budget request for the VA's research enterprise is $2.3 billion, which includes investments in understanding traumatic brain injuries, improving infectious and pandemic preparedness, and preventing suicide.

Department of Health and Human Services

The FY 2025 budget request proposes $1.8 trillion in budget authority for HHS and $1.7 trillion in mandatory funding for the department comprised mainly of spending on Medicare and Medicaid. The budget proposes $46.4 billion in discretionary and mandatory resources for NIH, an increase of $0.9 billion above FY 2024 enacted, to continue making investments in mental health, gun violence research, and women’s health research. The budget also requests $15.7 billion for the Centers for Disease Control and Prevention ("CDC"), an increase of $1.0 billion. The budget also provides for investment in programs that improve the health and well-being of young children and their families. This includes $12.5 billion for the Office of Head Start, principally to expand eligibility for participation in the program.

Department of Defense

The Military Health System ("MHS") is one of the largest health care systems, serving over 9.5 million beneficiaries. As a part of the DoD, the Defense Health Agency ("DHA") manages a global health care network of military and civilian medical professionals, military hospitals and clinics around the world, and supports the delivery of integrated health services to MHS beneficiaries. The funding and personnel to support MHS’s mission is referred to as the Unified Medical Budget ("UMB"). The FY 2025 UMB request for the Defense Health Program ("DHP") is $61.4 billion, an increase of 4.6% from FY 2024 enacted.

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 U.S. When two qualifying small businesses cannot be identified, the VA may proceed to award contracts following a full and open bid process.

The Company believes that its past performance in this market and track record of success provide a competitive advantage. However, the effect of set-aside provisions may limit our ability to compete for prime contractor positions on programs that we recompete or that we have targeted for growth. In these cases, the Company may elect to join a team with an eligible contractor as prime for specific pursuits that align with our core markets and corporate growth strategy.

Results of Operations

The following table summarizes results of operations for the three months ended March 31, 2024 and 2023 (in thousands except for per share amounts, and percentage of revenue):

	Three Months Ended March 31,				
Consolidated Statements of Operations:	**2024**		**2023**		**Change**
Revenue	$ 101,007	100.0 %	$ 99,417	100.0 %	$ 1,590
Cost of operations:					
Contract costs	79,112	78.3 %	78,238	78.7 %	874
General and administrative costs	11,710	11.6 %	10,693	10.8 %	1,017
Depreciation and amortization	4,243	4.2 %	4,535	4.6 %	(292)
Total operating costs	95,065	94.1 %	93,466	94.0 %	1,599
Income from operations	**5,942**	**5.9 %**	**5,951**	**6.0 %**	**(9)**
Interest expense	4,190	4.1 %	4,765	4.8 %	(575)
Income before provision for income tax	**1,752**	**1.7 %**	**1,186**	**1.2 %**	**566**
Provision for income tax (benefit) expense	(60)	(0.1)%	381	0.4 %	(441)
Net income	**$ 1,812**	**1.8 %**	**$ 805**	**0.8 %**	**$ 1,007**
Net income per share - basic	$ 0.13		$ 0.06		$ 0.07
Net income per share - diluted	$ 0.12		$ 0.06		$ 0.06

Revenue

Revenue increased $1.6 million for the three months ended March 31, 2024 over 2023, reflecting growth across the Company's programs, particularly in public health and IT services, offset in part by national security contracts converting to small business set-aside companies.

Cost of Operations

Contract costs primarily include the costs associated with providing services to our customers. These costs are generally comprised of direct labor and associated fringe benefit costs, subcontract cost, other direct costs, and the related management and infrastructure costs. Contract costs increased $0.9 million for the three months ended March 31, 2024 over 2023, the increase was primarily due to the increase in revenue

General and administrative costs are for those employees not directly providing services to our customers, to include but not limited to executive management, business development accounting, and human resources. These costs increased $1.0 million for the three months ended March 31, 2024 over 2023. As a percentage of revenue general administrative costs increased to 11.6% from 10.8%, the increase as a percentage of revenue was primarily due to increase in legal costs associated with customer procurements and strategic corporate planning costs.

For the three months ended March 31, 2024, depreciation and amortization expense were approximately $0.1 million and $4.1 million, respectively, as compared to approximately $0.2 million and $4.3 million for the three months ended March 31, 2023, respectively.

Interest Expense, net

Interest expense, net, includes interest expense on the Company's term loan and amortization of deferred financing costs on debt obligations. Interest expense decreased $0.6 million for the three months ended March 31, 2024 over 2023, primarily due to the prepayment of debt resulting in reduced interest payments.

Provision for Income Tax Expense and Benefit

Provision for income tax expense and benefit decreased $0.4 million for the three months ended March 31, 2024 over 2023. The effective tax rate for the three months ended March 31, 2024 and 2023 was (3.4)% and 32.1%, respectively. The decrease in the tax provision is primarily due to the beneficial impact of stock-based compensation expense as options are exercised.

The following table summarizes results of operations for the six months ended March 31, 2024 and 2023 (in thousands except for per share amounts, and percentage of revenue):

	Six Months Ended March 31,				
Consolidated Statements of Operations:	**2024**		**2023**		**Change**
Revenue	$ 198,857	100.0 %	$ 172,155	100.0 %	$ 26,702
Cost of operations:					
Contract costs	158,193	79.6 %	135,494	78.7 %	22,699
General and administrative costs	19,407	9.8 %	18,117	10.5 %	1,290
Corporate development costs	—	— %	1,735	1.0 %	(1,735)
Depreciation and amortization	8,496	4.3 %	6,937	4.0 %	1,559
Total operating costs	186,096	93.6 %	162,283	94.2 %	23,813
Income from operations	**12,761**	**6.4 %**	**9,872**	**5.7 %**	**2,889**
Interest expense	8,848	4.4 %	6,595	3.8 %	2,253
Income before provision for income tax	**3,913**	**2.0 %**	**3,277**	**1.9 %**	**636**
Provision for income tax (benefit) expense	(50)	— %	925	0.5 %	(975)
Net income	**$ 3,963**	**2.0 %**	**$ 2,352**	**1.4 %**	**$ 1,611**
Net income per share - basic	$ 0.28		$ 0.17		$ 0.11
Net income per share - diluted	$ 0.27		$ 0.16		$ 0.11

Revenue

Revenue increased $26.7 million for the six months ended March 31, 2024 over 2023 . The increase in revenue is primarily due to the December 2022 acquisition.

Cost of Operations

Contract costs primarily include the costs associated with providing services to our customers. These costs are generally comprised of direct labor and associated fringe benefit costs, subcontract cost, other direct costs, and the related management and infrastructure costs. Contract costs increased $22.7 million for the six months ended March 31, 2024 over 2023. The increase in costs is primarily due to increased revenue.

General and administrative costs are for those employees not directly providing services to our customers, to include but not limited to executive management, business development, accounting, and human resources. These costs increased $1.3 million for the six months ended March 31, 2024 over 2023. As a percentage of revenue general administrative costs decreased to 9.8% from 10.5%. The decrease was primarily due to increased operating leverage and timing of strategic corporate planning and business development expenses.

For the six months ended March 31, 2024, depreciation and amortization expense were approximately $0.3 million and $8.2 million, respectively, as compared to approximately $0.4 million and $6.5 million for the six months ended March 31, 2023, respectively.

Interest Expense, net

Interest expense, net, includes interest expense on the Company's term loan and amortization of deferred financing costs on debt obligations. Interest expense increased $2.3 million for six months ended March 31, 2024 over 2023, primarily due to the borrowing required to finance the December 2022 acquisition.

Provision for Income Tax Expense and Benefit

Provision for income tax expense and benefit decreased $1.0 million for the six months ended March 31, 2024 over 2023. The effective tax rate for the six months ended March 31, 2024 and 2023 was (1.3)% and 28.2%, respectively. The decrease in the tax provision is primarily due to the beneficial impact of stock based compensation expense as options are exercised..

Non-GAAP Financial Measures

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

On a non-GAAP basis, Earnings Before Interest, Tax, Depreciation, and Amortization ("EBITDA") for the six months ended March 31, 2024 and 2023 was approximately $21.3 million and $16.8 million, respectively. The increase was principally due to the contribution of the December 2022 acquisition.

This non-GAAP measure of our performance is used by management to conduct and evaluate its business during its regular review of operating results for the periods presented. Management and our Board utilize this non-GAAP measure to make decisions about the use of our resources, analyze performance between periods, develop internal projections and measure management's performance. We believe that this non-GAAP measure is useful to investors in evaluating our ongoing operating and financial results and understanding how such results compare with our historical performance. By providing this non-GAAP measure as a supplement to GAAP information, we believe this enhances investors understanding of our business and results of operations. EBITDA is not a recognized measurement under accounting principles generally accepted in the United States, or GAAP, and when analyzing our performance investors should (i) evaluate adjustments in our reconciliation to the nearest GAAP financial measures and (ii) use non-GAAP measures in addition to, and not as an alternative to, measures of our operating results as defined under GAAP.

Reconciliation of GAAP net income to EBITDA, a non-GAAP measure (in thousands):

	Three Months Ended March 31,			Six Months Ended March 31,		
	2024	**2023**	**Change**	**2024**	**2023**	**Change**
Net income	$ 1,812	$ 805	$ 1,007	$ 3,963	$ 2,352	$ 1,611
(i) Interest expense, net	4,190	4,765	(575)	8,848	6,595	2,253
(ii) Provision for income tax (benefit) expense	(60)	381	(441)	(50)	925	(975)
(iii) Depreciation and amortization	4,243	4,535	(292)	8,496	6,937	1,559
EBITDA	**$ 10,185**	**$ 10,486**	**$ (301)**	**$ 21,257**	**$ 16,809**	**$ 4,448**

Liquidity and capital management

The following table summarizes changes in available liquidity (in thousands):

	March 31, 2024	September 30, 2023	Change
Cash	$ 238	$ 215	$ 23
Credit facility	22,511	31,964	(9,453)
Total available liquidity	**$ 22,749**	**$ 32,179**	**$ (9,430)**

A summary of the change in cash is presented as follows (in thousands):

	Six Months Ended		
	2024	2023	Change
Net cash provided by operating activities	$ 10,301	$ 6,862	$ 3,439
Net cash used in investing activities	(466)	(181,174)	180,708
Net cash (used in) provided by financing activities	(9,812)	174,221	(184,033)
Net change in cash	**$ 23**	**$ (91)**	**$ 114**

Cash flows provided by operating activities totaled approximately $10.3 million and $6.9 million for the six months ended March 31, 2024 and 2023, respectively. The increase in cash from operations was principally due to a improvement in the collection cycle for accounts receivable.

Cash used in investing activities totaled $0.5 million and $181.2 million for the six months ended March 31, 2024 and 2023, respectively. The cash utilized in the prior fiscal year period was predominantly due to the December 2022 acquisition.

Cash used in and provided by financing activities during the six months ended March 31, 2024 and 2023 were approximately $9.8 million and $174.2 million, respectively, was principally due to retiring outstanding term debt while in the six months ended March 31, 2023 the cash provided was to finance the December 2022 acquisition.

Sources of cash

As of March 31, 2024, our immediate sources of liquidity include cash of approximately $0.2 million, accounts receivable, and access to our secured revolving line of credit facility. This credit facility provides us with access of up to $70.0 million, subject to certain conditions including eligible accounts receivable. As of March 31, 2024, we had unused borrowing capacity of $22.5 million, which is net of outstanding letters of credit. The Company's present operating liabilities are largely predictable and consist of vendor and payroll related obligations. We believe that our current investment and financing obligations are adequately covered by cash generated from profitable operations and that planned operating cash flow should be sufficient to support our operations for twelve months from the date of issuance of these consolidated financial statements.

Credit Facilities

A summary of our credit facilities for the period ended March 31, 2024 is as follows (in thousands):

Arrangement	Loan Balance	Interest*	Maturity Date
Secured term loan (a) due December 8, 2027	$ 156,750	SOFR[1] + 4.1%	December 8, 2027
Secured revolving line of credit (b) due December 8, 2027	$ 14,022	SOFR[1] + 4.1%	December 8, 2027

[1]Secured Overnight Financing Rate ("SOFR") as of March 31, 2024 was 5.3%.

On September 19, 2019, we executed a floating-to-fixed interest rate swap with First National Bank ("FNB") as counter party. The swap has a notional of $9.0 million at March 31, 2024, a fixed interest rate of 1.61% and a maturity date of June 7, 2024. On January 31, 2023, we executed an additional floating-to-fixed interest rate swap with FNB which has a notional amount of $80.0 million at March 31, 2024, a fixed interest rate is 4.10% and a maturity date of January 31, 2026. As a result of entering these agreements, for the six months ended March 31, 2024, interest expense has been decreased by approximately $0.7 million.

(a) Represents the principal amounts payable on our term loan, which is secured by liens on substantially all of the assets of the Company. The principal of the term loan is payable in quarterly installments with the remaining balance due on December 8, 2027

(b) The secured revolving line of credit has a ceiling of up to $70.0 million and a maturity date of December 8, 2027. The Company has accessed funds from the revolving credit facility during the quarter and has a balance outstanding at March 31, 2024 of $14.0 million
The secured term loan and secured revolving line of credit are secured by liens on substantially all of the assets of the Company. The provisions of our credit facilities are fully described in Note 7. Credit Facilities to the consolidated financial statements.

Contractual Obligations

Contractual obligations as of March 31, 2024 are as follows (in thousands):

		Payments Due by Period			
	Total	Next 12 Months	2-3 Years	4-5 Years	More than 5 Years
Debt obligations	$ 170,772	$ 18,772	$ 40,375	$ 111,625	$ —
Facility operating leases	20,947	3,236	7,682	5,004	5,024
Equipment operating leases	5	5	—	—	—
Total contractual obligations	**$ 191,724**	**$ 22,013**	**$ 48,057**	**$ 116,629**	**$ 5,024**

Critical Accounting Policies and Estimates

Our critical accounting policies and estimates are disclosed in the Critical Accounting Policies and Estimates section in Part II, "Item 7. Management's Discussion of our Annual Report on Form 10-K for the year ended September 30, 2023. There have been no significant changes to the Company's critical accounting policies as disclosed in our Annual Report on Form 10-K for the year ended September 30, 2023. For a detailed discussion on the application of accounting policies, refer to Note 2. Significant Accounting Policies.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Except as described elsewhere in this report, the Company has not engaged in trading practices in securities or other financial instruments and therefore does not have any material exposure to interest rate risk, foreign currency exchange rate risk, commodity price risk or other similar risks, which might otherwise result from such practices. The Company has limited foreign operations and therefore is not materially subject to fluctuations in foreign exchange rates, commodity prices or other market rates or prices from market sensitive instruments. We have executed a set of floating-to-fixed interest rate swaps with a total notional amount of $89 million at March 31, 2024. The remaining balance of our debt is subject to floating interest rates.

We have determined that a 1.0% increase to SOFR would impact our interest expense by approximately $0.8 million per year. As of March 31, 2024, the interest rate on the floating interest rate debt was 9.4%.

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our CEO and President and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. 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 Securities Exchange Act of 1934 (i) is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) 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 Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) identified in connection with the evaluation of our internal controls that occurred during the fiscal quarter ended March 31, 2024, 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, 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, 2023, in our Quarterly Report on Form 10-Q for the quarter ended December 31, 2023, and in our other reports filed with the SEC concerning the risks associated with our business, financial condition and results of operations. These factors, among others, could materially and adversely affect 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 we have identified in our reports are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial may also materially adversely affect our business, results of operations, financial condition or liquidity. See Item 1A, Risk Factors, in our Annual Report on Form 10-K for the fiscal year ended September 30, 2023. We believe that there have been no material changes from the risk factors described in our Annual Report on Form 10-K for the fiscal year ended September 30, 2023.

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.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5: OTHER INFORMATION

(a) None

(b) None

(c) During the three months ended March 31, 2024, no director or office of the Company adopted or terminated a "rule 10b5-1 trading arrangement" or "non-rule 10b5-1 trading arrangement," as each term is defined in Item 408 (a) of Regulation S-K.

ITEM 6: EXHIBITS

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

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Dated	Exhibit	
31.1	Certification of Chief Executive Officer pursuant to Section 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a)				X
31.2	Certification of Chief Financial Officer pursuant to Section 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a)				X
32	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
101.0	The following financial information from the DLH Holdings Corp. Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2024, formatted in iXBRL (Inline eXtensible Business Reporting Language) and filed electronically herewith: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Cash Flows; and, (iv) the Notes to the Consolidated Financial Statements.				X
104.0	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)				

SIGNATURE

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/ Kathryn M. JohnBull
Kathryn M. JohnBull
Chief Financial Officer
(On behalf of the Registrant and as
Principal Financial and Accounting Officer)

Dated: May 01, 2024

EXHIBIT 31.1

Certification

I, Zachary C. Parker, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 1, 2024

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

EXHIBIT 31.2

Certification

I, Kathryn M. JohnBull, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 1, 2024

/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, 2024 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 1, 2024

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

/s/ Kathryn M. JohnBull
Kathryn M. JohnBull
Chief Financial 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.