

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, 2017**

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

For the transition period from _____ to _____

Commission File No. **0-18492**

DLH HOLDINGS CORP.

(Exact name of registrant as specified in its charter)

New Jersey

(State or other jurisdiction of incorporation or organization)

22-1899798

(I.R.S. Employer Identification No.)

3565 Piedmont Road, NE, Building 3, Suite 700

Atlanta, Georgia

(Address of principal executive offices)

30305

(Zip Code)

(866) 952-1647

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

(Do not check if a 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: 11,251,614 shares of Common Stock, par value \$.001 per share, were outstanding as of April 30, 2017.

DLH HOLDINGS CORP.
FORM 10-Q
For the Quarter Ended March 31, 2017

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

	(unaudited)		(unaudited)	
	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2017	2016	2017	2016
Revenue	\$ 29,905	\$ 16,934	\$ 56,016	\$ 33,493
Direct expenses	23,504	13,710	43,804	27,352
Gross margin	6,401	3,224	12,212	6,141
General and administrative expenses	4,008	2,513	8,729	5,028
Depreciation and amortization	554	22	755	42
Income from operations	1,839	689	2,728	1,071
Other income (expense), net	(255)	(127)	(619)	(702)
Income before income taxes	1,584	562	2,109	369
Income tax expense (benefit), net	605	225	806	148
Net income	\$ 979	\$ 337	\$ 1,303	\$ 221
Net income per share - basic	\$ 0.09	\$ 0.04	\$ 0.12	\$ 0.02
Net income per share - diluted	\$ 0.08	\$ 0.03	\$ 0.10	\$ 0.02
Weighted average common shares outstanding				
Basic	11,249	9,717	11,225	9,642
Diluted	12,745	10,666	12,713	10,540

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

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

	March 31, 2017 <small>(unaudited)</small>	September 30, 2016 <small>(audited)</small>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,091	\$ 3,427
Accounts receivable, net	8,871	6,637
Other current assets	757	542
Total current assets	12,719	10,606
Equipment and improvements, net	1,120	644
Deferred taxes, net	10,773	11,415
Goodwill and other intangible assets, net	41,997	42,304
Other long-term assets	105	105
Total assets	\$ 66,714	\$ 65,074
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Debt obligations - current	\$ 3,580	\$ 3,560
Derivative financial instruments, at fair value	256	204
Accrued payroll	3,428	3,616
Accounts payable, accrued expenses, and other current liabilities	8,711	7,136
Total current liabilities	15,975	14,516
Total long term liabilities	17,096	18,782
Total liabilities	33,071	33,298
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$.10 par value; authorized 5,000 shares, none issued and outstanding	—	—
Common stock, \$.001 par value; authorized 40,000 shares; issued and outstanding 11,252 at March 31, 2017 and 11,148 at September 30, 2016	11	11
Additional paid-in capital	82,460	81,897
Accumulated deficit	(48,828)	(50,132)
Total shareholders' equity	33,643	31,776
Total liabilities and shareholders' equity	\$ 66,714	\$ 65,074

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

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

	(unaudited)	
	Six Months Ended	
	March 31,	
	2017	2016
Operating activities		
Net income (loss)	\$ 1,303	\$ 221
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	755	42
Amortization of debt financing costs	127	—
Change in fair value of derivative financial instruments	52	—
Stock based compensation expense	549	342
Deferred taxes, net	642	39
Changes in operating assets and liabilities		
Accounts receivable	(2,234)	(68)
Other current assets	(215)	(55)
Accounts payable, accrued payroll, accrued expenses and other current liabilities	1,386	784
Other long term assets/liabilities	124	153
Net cash provided by operating activities	2,489	1,458
Investing activities		
Acquisition of Danya, net of cash acquired	(250)	—
Purchase of equipment and improvements	(674)	(35)
Net cash used in investing activities	(924)	(35)
Financing activities		
Net repayments on senior debt	(1,875)	—
Repayments of capital lease obligations	(40)	(47)
Net proceeds from issuance of stock	14	—
Net cash used in financing activities	(1,901)	(47)
Net change in cash and cash equivalents	(336)	1,376
Cash and cash equivalents at beginning of period	3,427	5,558
Cash and cash equivalents at end of period	\$ 3,091	\$ 6,934
Supplemental disclosures of cash flow information		
Cash paid during the period for interest	\$ 434	\$ —
Cash paid during the period for income taxes	\$ 300	\$ 105

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

DLH HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2017

1. Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of DLH and its subsidiaries, all of which are wholly owned. All significant intercompany balances and transactions have been eliminated in consolidation. The accompanying financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these statements do not include all of the information and footnotes required by generally accepted accounting principles ("GAAP") for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the period ended March 31, 2017 are not necessarily indicative of the results that may be expected for the year ending September 30, 2017. 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, 2016 filed with the Securities and Exchange Commission on December 9, 2016.

2. Business Overview

DLH is a full-service provider of professional healthcare and social services to government agencies including the Department of Veteran Affairs ("VA"), Department of Health and Human Services ("HHS"), Department of Defense ("DoD"), and other government agencies. DLH Holdings Corp. (together with its subsidiaries, "DLH" or the "Company" and also referred to as "we," "us" and "our") manages its operations from its principal executive offices at 3565 Piedmont Road NE, Building 3 Suite 700, Atlanta Georgia 30305. We employ over 1,400 skilled employees working in more than 30 locations throughout the United States.

On May 3, 2016, DLH acquired Danya International, LLC ("Danya") which provides technology-enabled program management, consulting, and digital communications solutions to the federal government and other customers. We acquired Danya to expand our ability to provide complementary business services and offerings across government markets. This acquisition is in line with our strategic growth initiatives, and we intend to continue to review and position ourselves for other potential corporate transactions in the future.

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

Our largest customer continues to be the VA, which comprised approximately 58% and 95% of revenue for the six months ended March 31, 2017 and 2016, respectively. Additionally, HHS represents a major customer, comprising 30% of revenue for the six months ended March 31, 2017. In addition, substantially all accounts receivable, including unbilled accounts receivable, are from agencies of the U.S. Government as of March 31, 2017 and September 30, 2016. We believe that the credit risk associated with our receivables is limited due to the creditworthiness of these customers. See Note 4, Supporting Financial Information-Accounts Receivable.

As of March 31, 2017, awards from VA and HHS have anticipated periods of performance of up to three years. These agreements are subject to the Federal Acquisition Regulations. While there can be no assurance as to the actual amount of services that the Company will ultimately provide to VA and HHS under its current contracts, we believe that our strong working relationships and our effective service delivery support ongoing performance for the contract term. The Company's results of operations, cash flows and financial condition would be materially adversely affected in the event that we were unable to continue our relationship with VA or HHS.

3. New Accounting Pronouncements

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

In June 2014, the FASB issued guidance related to accounting for share-based payments for certain performance stock awards. In March 2016, the FASB issued updated guidance intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. The amendments in this update affect all entities that issue share-based payment awards to their employees. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company has adopted this guidance and concluded that it will not significantly affect the Company.

In September 2015, the FASB issued guidance regarding business combinations for which the accounting is incomplete by the end of the reporting period in which the combination occurs, and during the measurement period have an adjustment to provisional amounts recognized. To simplify the accounting for adjustments made to provisional amounts recognized in a business combination, the amendments in this update eliminate the requirement to retrospectively account for those adjustments. The amendments in this update are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this update, with earlier application permitted for financial statements that have not been issued. Refer to Note 4 for the impact of the adoption of this guidance.

In February 2016, the FASB issued guidance intended to improve financial reporting for leasing transactions with a lease term of more than 12 months. The new guidance will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The recognition, measurement, and presentation of expenses and cash flow arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP - which requires only capital leases to be recognized on the balance sheet, the new guidance will require both types of leases to be recognized on the balance sheet. The standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. The Company is evaluating the impact of this guidance.

4. Supporting Financial Information

Accounts receivable

		(in thousands)	
		March 31,	September 30,
	Ref	2017	2016
Billed receivables		\$ 7,459	\$ 5,265
Unbilled receivables		1,412	1,372
Total accounts receivable		8,871	6,637
Less: Allowance for doubtful accounts	(a)	—	—
Accounts receivable, net		\$ 8,871	\$ 6,637

Ref (a): Accounts receivable are non-interest bearing, unsecured and carried at fair value, which is net of an allowance for doubtful accounts. We evaluate our receivables on a quarterly basis and determine whether an allowance is appropriate based on specific collection issues. Our allowance for doubtful accounts was zero at both March 31, 2017 and September 30, 2016.

Other current assets

(in thousands)

	Ref	March 31, 2017	September 30, 2016
Prepaid insurance and benefits		\$ 332	\$ 168
Total other prepaid expenses		425	374
Other current assets		\$ 757	\$ 542

Equipment and improvements, net

(in thousands)

	Ref	March 31, 2017	September 30, 2016
Furniture and equipment		\$ 670	\$ 638
Computer equipment		330	202
Computer software	(a)	800	309
Leasehold improvements		38	38
Total fixed assets		1,838	1,187
Less accumulated depreciation and amortization		(718)	(543)
Equipment and improvements, net	(b)	\$ 1,120	\$ 644

Ref (a): The Company is in the process of configuring a new Enterprise Resource Planning system. Capitalized costs include software licenses and implementation labor related to application development. Since the asset has not been placed in service, no depreciation related to the asset has been recognized. Prior to the asset being placed in service a useful life will be determined.

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

Goodwill and Intangibles

(in thousands)

	Ref	Goodwill	Customer Relationships (a)	Non Compete Agreement (a)	Trade Name (a)	Total
Gross Balance at September 30, 2016		\$ 34,745	\$ 7,247	\$ 1,370	\$ —	\$ 43,362
Measurement period adjustment	(b)	(8,756)	9,379	(890)	517	250
Adjusted Gross Balance at March 31, 2017		\$ 25,989	\$ 16,626	\$ 480	\$ 517	\$ 43,612

		(in thousands)				
	Ref	Goodwill	Customer Relationships (a)	Non Compete Agreement (a)	Trade Name (a)	Total
Accumulated amortization at September 30, 2016		\$ —	\$ (993)	\$ (65)	\$ —	\$ (1,058)
Prior period amortization adjustment	(b)	—	300	45	(21)	324
Current period amortization		—	(830)	(24)	(27)	(881)
Total amortization		—	(1,523)	(44)	(48)	(1,615)
Net balance at March 31, 2017	(c)	<u>\$ 25,989</u>	<u>\$ 15,103</u>	<u>\$ 436</u>	<u>\$ 469</u>	<u>\$ 41,997</u>

Ref (a): Intangible assets subject to amortization.

Ref (b): See Note 11 for discussion on measurement and amortization period adjustments

Ref (c): Estimated amortization expense for future years:	(in thousands)
Year 1	\$ 1,762
Year 2	1,762
Year 3	1,762
Year 4	1,762
Year 5	1,762
Thereafter	7,198
	<u>\$ 16,008</u>

Ref (a): Intangibles acquired during the acquisition of Danya included customer relationships, a covenant not to compete, and a trade name. The intangibles are amortized on a straight-line basis over the estimated useful lives (10 years). Net amount of amortization expense for the quarter ended March 31, 2017 was \$4 million. The amortization for the six months ended March 31, 2017 was \$6 million.

Accounts payable, accrued expenses and other current liabilities

	(in thousands)	
	March 31,	September 30,
Ref	2017	2016
Accounts payable	\$ 5,714	\$ 4,324
Accrued benefits	1,194	1,197
Accrued bonus and incentive compensation	173	508
Accrued workers compensation insurance	1,035	981
Other accrued expenses	595	126
Accounts payable, accrued expenses, and other current liabilities	<u>\$ 8,711</u>	<u>\$ 7,136</u>

Debt obligations

(in thousands)

	Ref	March 31, 2017	September 30, 2016
Gross bank debt obligations	(a)	21,563	23,438
Less unamortized debt issuance costs		(1,095)	(1,222)
Net bank debt obligation		20,468	22,216
Less current portion of bank debt obligations		(3,580)	(3,560)
Long term portion of bank debt obligation		\$ 16,888	\$ 18,656

Ref (a): Maturity of the bank debt is as follows:

Year 1	\$	3,750
Year 2		3,750
Year 3		3,750
Year 4		3,750
Year 5		6,563
Total net bank debt obligation	\$	21,563

Other Income (Expense)

	Ref	(in thousands) Three Months Ended March 31,		(in thousands) Six Months Ended March 31,	
		2017	2016	2017	2016
Interest (expense), net	(a)	\$ (215)	\$ —	\$ (440)	\$ —
Amortization of deferred financing costs	(b)	(67)	—	(127)	—
Change in fair value of derivative financial instruments		27	—	(52)	
Other income (expense), net			(127)	—	(702)
Other income (expense), net		\$ (255)	\$ (127)	\$ (619)	\$ (702)

Ref (a): Interest expense on borrowing related to acquisition of Danya

Ref (b): Amortizations of expenses related to securing financing to acquire Danya

5. Credit Facilities

A summary of our loan facilities and subordinated debt financing as of March 31, 2017 is as follows:

(\$ in Millions)				
As of March 31, 2017				
Lender	Arrangement	Loan Balance	Interest	Maturity Date
Fifth Third Bank	Secured term loan \$25 million ceiling (a)	\$ 21.6	LIBOR* + 3.0%	05/01/21
Fifth Third Bank	Secured revolving line of credit \$10 million ceiling (b)	\$ —	LIBOR* + 3.0%	05/01/18

* LIBOR rate as of March 31, 2017 was 1.15%

(a) Represents the principal amounts payable on our Term Loan with Fifth Third Bank that partially funded our acquisition of Danya on May 3, 2016. The \$25.0 million term loan from Fifth Third Bank was funded at closing and is secured by liens on substantially all of the assets of the Company. The principal of the Term Loan is payable in fifty-nine consecutive monthly installments of \$312,500 beginning on June 1, 2016 with the remaining balance due on May 1, 2021.

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

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

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

(ii) a Funded Indebtedness to Adjusted EBITDA ratio not exceeding the ratio of 2.99 to 1.0 at closing and thereafter a ratio ranging from 3.5 to 1.0 for the period through September 30, 2016 to 2.5 to 1.0 for the period ending September 30, 2018.

In addition to monthly payments of the outstanding indebtedness, the loan agreement also requires prepayments of a percentage of excess cash flow, as defined in the loan agreement. Accordingly, a portion of our cash flow from operations will be dedicated to the repayment of our indebtedness.

(b) The secured revolving line of credit from Fifth Third Bank has a ceiling of up to \$10.0 million, of which \$5.0 million was drawn at closing to cover partial financing of the Danya purchase. Borrowing on the line of credit is secured by liens on substantially all of the assets of the Company. At December 31, 2016, DLH had repaid all draws on our revolving line of credit with no remaining balance.

The Company's total borrowing availability, based on eligible accounts receivables at March 31, 2017, was \$6.3 million. This capacity was comprised of \$0.9 million in a stand-by letter of credit and unused borrowing capacity of \$5.4 million.

The revolving line of credit is subject to loan covenants as described above in the Term Loan, and DLH is fully compliant with those covenants.

Management believes that: (a) cash and cash equivalents of approximately \$3.1 million as of March 31, 2017; (b) the amount available under its line of credit that was in effect at March 31, 2017; and (c) planned operating cash flow should be sufficient to support the Company's operations for twelve months from the date of these financial statements.

6. Significant Accounting Policies

Use of Estimates

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

Revenue Recognition

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

Business Combinations

In accordance with Accounting Standards Codifications 805, "Business Combinations" ("ASC 805") the Company records acquisitions under the purchase method of accounting, under which the acquisition purchase price is allocated to the assets acquired and the liabilities assumed based upon the respective fair values. The Company utilizes some estimates and in some instances, may retain the services of an independent third-party valuation firm to assist in determining the fair values of assets acquired, liabilities, assumed, and contingent considerations granted. Such estimates and valuation require the Company to make significant assumptions. These assumptions may include projections of future events and operating performance.

Goodwill and other intangible assets

We have used the acquisition method of accounting for the Danya transaction, whereby the assets acquired and liabilities assumed are recognized based upon their estimated fair values at the acquisition date. The fair values of assets acquired and liabilities assumed are based on the information that was available as of the acquisition date. The Company believes the information provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed. The Company finalized the fair values as of December 31, 2016. The finalized valuation allocation is shown in Note 11 Business Combinations. On the basis of the estimated assets acquired, the Company amortized \$0.4 million and \$0.6 million for the three and six months ended March 31, 2017, respectively. Year to date amortization was affected by the finalized purchase price adjustment further discussed in Note 11.

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

At September 30, 2016, we performed a goodwill impairment evaluation on the year-end carrying value of approximately \$35 million. We performed both a qualitative and quantitative assessment of factors to determine whether it was necessary to perform the goodwill impairment test. Based on the results of the work performed, the Company has concluded that no impairment loss was warranted at September 30, 2016. For the six months ended March 31, 2017, the Company determined that no change in business conditions occurred which would have a material adverse effect on the valuation of goodwill. Notwithstanding this evaluation, factors including non-renewal of a major contract or other substantial changes in business conditions could have a material adverse effect on the valuation of goodwill in future periods and the resulting charge could be material to future periods' results of operations.

Long Lived Assets

The Company acquired certain long lived intangibles assets as part of the acquisition of Danya. These assets are estimated at a fair value and amortized on a straight-line basis over their assessed useful lives. The assessed useful lives of the assets are 10 years.

Income Taxes

DLH accounts for income taxes in accordance with the liability method, whereby deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reflected on the consolidated balance sheet when it is determined that it is more likely than not that the asset will be realized. This guidance also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax asset will not be realized. We account for uncertain tax positions by recognizing the financial statement effects of a tax position only when, based upon the technical merits, it is "more-likely-than-not" that the position will be sustained upon examination. We had

no uncertain tax positions at either March 31, 2017 or September 30, 2016. We report interest and penalties as a component of income tax expense. In the fiscal quarters ended March 31, 2017 and March 31, 2016, we recognized no interest and no penalties related to income taxes.

Stock-based Equity Compensation

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

Cash and Cash Equivalents

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

Earnings (Loss) 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 (loss) available to common shareholders by the weighted average number of basic common shares outstanding, adjusted to reflect potentially dilutive securities. Diluted earnings per share is calculated using the treasury stock method.

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

Stock-based compensation expense

All grants of equity represented in these financial statements through the period ended March 31, 2016, were made under the 2006 Long Term Incentive Plan. The 2006 plan expired on February 25, 2016, upon shareholders' approval of the 2016 Omnibus Equity Incentive Plan (collectively, the "Plans"). As of March 31, 2017, there were 0.5 million shares available for grant.

Options issued under the 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.

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

Ref	(in thousands)		(in thousands)	
	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2017	2016	2017	2016
DLH employees	\$ 56	\$ 6	\$ 63	\$ 14
Non-employee directors (a)	8	4	486	328
Total stock option expense	\$ 64	\$ 10	\$ 549	\$ 342

Ref (a): Equity grants of restricted stock, in accordance with DLH compensation policy for non-employee directors. The shares granted in the first quarters of fiscal years 2016 and 2015 vested immediately, and stock expense of approximately \$456 thousand and \$304 thousand, respectively were recognized accordingly.

Unrecognized stock-based compensation expense

(in thousands)

Six Months Ended

March 31,

	Ref	2017	2016
Unrecognized expense for DLH employees	(a)	\$ 404	\$ 30
Unrecognized expense for non-employee directors	(b)	8	71
Total unrecognized expense		\$ 412	\$ 101

Ref (a): Compensation expense for the portion of equity awards for which the requisite service has not been rendered is recognized as the requisite service is rendered. The compensation expense for that portion of awards has been based on the grant-date fair value of those awards as calculated for recognition purposes under applicable guidance.

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

Stock option activity for the six months ended March 31, 2017

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

	Ref	(in thousands) Number of Shares	Weighted Average Exercise Price	(in years) Weighted Average Remaining Contractual Term	(in thousands) Aggregate Intrinsic Value
Options outstanding, September 30, 2016		2,226	\$1.43	5.8	\$ 7,581
Canceled		—			
Granted	(a)	400	\$5.94		
Exercised		(10)	\$3.00		
Options outstanding, March 31, 2017		2,616	\$3.48	6.6	\$ 9,121

Ref (a): Options granted to DLH employees were valued using a Black Scholes calculation, under the following criteria:

- average yield rate of 2.46% was used
- contractual lives and expected lives were 10 years for all grants
- probability of exercise was based on reaching the market price
- monthly price volatility factor of 12% was used
- no dividend yield was contemplated

The resulting fair values ranged from \$0.93 to \$1.47, depending on the market measure of the stock price

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

Number of Shares

(in thousands)

	Ref	March 31, 2017	September 30, 2016
Vested and exercisable		1,949	1,909
Unvested	(a)	667	317
Options outstanding		2,616	2,226

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

8. Fair Value of Financial Instruments

The Company measures certain financial assets and liabilities at fair value on a recurring basis. The Company determines fair value based upon the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, as determined by either the principal market or the most advantageous market. Inputs used in the valuation techniques to derive fair values are classified based on a three level hierarchy. These levels are:

Level 1 - Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 - Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3 - Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Observable inputs are based on market data obtained from independent sources.

In May 2016 we issued warrants to purchase 53,619 shares of common stock. Using a binomial pricing model, we valued the warrants at \$256 thousand and \$204 thousand as of March 31, 2017 and September 30, 2016, respectively.

Assumptions used in valuing the warrants as of March 31, 2017 included:

Risk free interest rate	1.68%
Contractual term	5 years
Dividend yield	—%
Expected lives	4.1 years
Expected volatility	144%
Fair value per warrant	\$5.29

The Company recorded a benefit on the revaluation of the warrant liability of \$27 thousand for the quarter ended March 31, 2017. For the six months ended March 31, 2017 the company recorded a charge of \$52 thousand related to the revaluation of the warranty liability. The benefit is recorded and classified in other income (expense) in the accompanying consolidated statements of operations.

The Company has issued warrants to purchase stock as described above. The fair value of the warrants was estimated by management in the absence of a readily ascertainable market value as follows:

	December 31, 2016		
	Level 1	Level 2	Level 3
Warrant issued to acquire common stock	\$ —	\$ —	\$ 283

	March 31, 2017		
	Level 1	Level 2	Level 3
Warrant issued to acquire common stock	\$ 0	\$ 0	\$ 256

Change in Level 3 liabilities for the year ended March 31, 2017:

	Beginning Balance September 30, 2016	Realized/Unrealized (Gains) Losses	Purchases and Settlements	Ending Balance March 31, 2017	Change in Realized (gains) losses for liabilities held at March 31, 2017
Warrant issued to acquire common stock	\$ 204	\$ 52	\$ —	\$ 256	\$ 52

The Company has other financial instruments, including accounts receivable, accounts payable, loan payable, notes payable, and accrued expense. Due to the short term nature of these instruments, DLH estimates that the fair value of all financial instruments at March 31, 2017 and September 30, 2016 does not differ materially from the aggregate carrying values of these financial instruments recorded in the accompanying consolidated balance sheets.

9. Earnings (Loss) Per Share

Basic earnings 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.

(in thousands)

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2017	2016	2017	2016
Numerator:				
Net income	\$ 979	\$ 337	\$ 1,303	\$ 221
Denominator:				
Denominator for basic net income (loss) per share - weighted-average outstanding shares	11,249	9,717	11,225	9,642
Effect of dilutive securities:				
Stock options and restricted stock	1,496	949	1,488	898
Denominator for diluted net income per share - weighted-average outstanding shares	12,745	10,666	12,713	10,540
Net income per share - basic	\$ 0.09	\$ 0.04	\$ 0.12	\$ 0.02
Net income per share - diluted	\$ 0.08	\$ 0.03	\$ 0.10	\$ 0.02

10. Commitments and Contingencies

Obligations (Amounts in thousands)	Ref	Total	Payments Due By Period			
			Next 12	2-3	4-5	More than 5
			Months	Years	Years	Years
Debt Obligations	(a)	\$ 21,563	\$ 3,750	\$ 7,500	\$ 10,313	
Facility leases	(b)	\$ 4,122	\$ 900	\$ 1,819	\$ 694	\$ 709
Equipment capital leases	(c)	24	24	—	—	—
Equipment operating leases	(d)	459	102	204	153	—
Total Obligations		\$ 26,168	\$ 4,776	\$ 9,523	\$ 11,160	\$ 709

Ref (a): Amounts due under term loan agreement described in Note 5.

Ref (b): Represents amounts committed on facility lease agreements as of March 31, 2017.

Ref (c): Represents remaining amounts committed as of March 31, 2017 on a capital lease arrangement.

Ref (d): Represents remaining amounts committed as of March 31, 2017 on operating lease arrangements..

Workers Compensation

We accrue workers compensation expense based on claims submitted, applying actuarial loss development factors to estimate the costs incurred but not yet recorded. Our accrued liability for claims development as of March 31, 2017 and September 30, 2016 was \$1.04 million and 0.98 million, respectively.

Legal Proceedings

The Company is not aware of any pending or threatened litigation that it believes is reasonably likely to have a material adverse effect on its results of operations, financial position or cash flows.

11. Business Combinations:

Acquisition of Danya International, LLC

On May 3, 2016, the Company acquired 100% of the equity interests of Dayna International, LLC for a purchase price of \$38.75 million. The acquisition was financed through a combination of:

- borrowings of \$30.0 million under the Company's senior credit facility,
- cash on hand of approximately \$3.75 million,
- 670,242 restricted shares of DLH common stock, valued at \$2.5 million based on the 20 day volume-weighted average price (VWAP) of DLH stock, or \$3.73 per share, and
- \$2.5 million pursuant to a subordinated loan arrangement with the Company's largest stockholder.

As of March 31, 2017 the Seller beneficially owns approximately 6.0% of the Company's outstanding shares.

The acquisition of Danya International is consistent with the Company's growth strategy, which calls for the development of new customers and service offerings both organically and through mergers and acquisitions.

We used the acquisition method of accounting for this transaction, whereby the assets acquired and liabilities assumed are recognized based upon their estimated fair values at the acquisition date.

The total base purchase price for Danya was \$38.75 million, with adjustments as necessary based on a finalized working capital calculation compared to the target prescribed in the acquisition agreement as amended. A \$0.47 million working capital adjustment to the purchase price was finalized in December 2016, and the final \$0.25 million payment made to the seller.

As of December 31, 2016 the Company completed its valuation of the transaction and finalized the adjustments to the estimated values recognized at September 30, 2016. Therefore the Company recognized an increase to the fair value of intangibles in the amount of \$9.0 million with a corresponding decrease to goodwill. Additionally, the change to the estimated amounts resulted in a decrease in amortization of \$.3 million in the quarter ended December 31, 2016. The change was based on the final valuation which calculated the value for each type of intangible asset. See Note 4 for further presentation.

We allocated total acquisition consideration and the finalized allocation of fair value to the related assets and liabilities as follows:

(Amounts in thousands)

Cash	\$ 36,720
Common stock, fair value	2,500
Total Consideration	\$ 39,220

(Amounts in thousands)

Net assets acquired	
Cash and cash equivalents	\$ 4,009
Accounts receivable	5,712
Other current assets	444
Total current assets	10,165
Accounts payable and accrued expenses	(5,013)
Payroll liabilities	(1,432)
Net working capital surplus	3,720
Property and equipment, net	403
Intangible assets:	
Customer relationships	16,626
Covenant not to compete	480
Trade name	517
Other long term assets	81
Net identifiable assets acquired	18,107
Goodwill	17,393
Net assets acquired	\$ 39,220

During the six months ended March 31, 2017, Danya contributed approximately \$20.5 million of revenue and \$1.2 million income from operations.

The following table presents certain results for the three and six months ended March 31, 2017 and 2016 as though the acquisition of Danya had occurred on October 1, 2015. The unaudited pro forma information is presented for informational purposes only and is not necessarily indicative of our results if the acquisition had taken place on that date. The pro forma results presented below include amortization charges for acquired intangible assets and adjustments to interest expense incurred and exclude related acquisition expenses.

Pro forma results	(in thousands)		(in thousands)	
	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2017	2016	2017	2016
Revenue	\$ 29,905	\$ 28,987	\$ 56,016	\$ 57,495
Net income	\$ 979	\$ 821	\$ 1,303	\$ 426
Number of shares outstanding - basic	11,249	11,098	11,225	11,023
Number of shares outstanding - diluted	12,745	12,047	12,713	11,921
Basic earnings per share	\$ 0.09	\$0.07	\$0.12	\$0.04
Diluted earnings per share	\$ 0.08	\$0.07	\$0.10	\$0.04

12. Related Party Transactions.

The Company has determined that for the quarter ended March 31, 2017 there were no related party transactions that have occurred which require disclosure through the date that these financial statements were issued.

13. Subsequent Events.

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

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

Forward Looking and Cautionary Statements

You should read the following discussion in conjunction with the 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, 2016. 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 are considered forward-looking statements. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry and business. Actual results could differ materially from the results contemplated or implied by these forward-looking statements due to a number of factors, including those discussed in other sections of this Quarterly Report on Form 10-Q and in our 2016 Annual Report on Form 10-K.

Business Overview

DLH is a provider of technology-enabled business process outsourcing and program management solutions, primarily to improve and better deploy large-scale federal health and human service initiatives. DLH is a pure-play federal contractor, providing services to several agencies including the Department of Veteran Affairs ("VA"), Department of Health and Human Services ("HHS"), and the Department of Defense ("DoD"). On May 3, 2016, DLH acquired Danya International, LLC ("Danya"), strengthening the Company's breadth of services and significantly increasing its size. Danya provides technology-enabled program management, consulting, and digital communications services to federal government agencies.

Publicly traded with more than 1,400 employees working in over 30 locations throughout the United States, DLH was recently recognized by GovWin IQ as a top service provider in the Health Services Spending category. Currently, DLH offers services and solutions within three key areas of the health services space: Defense and Veterans Health Solutions; Human Services and Solutions; and Public Health and Life Sciences. DLH's mission is to become the most trusted provider of technology-enabled healthcare and public health services, medical logistics, and readiness enhancement services to those securing the freedom of our nation, veterans, and underserved communities. We intend to pursue growth while maintaining our values of integrity and trust, performance excellence, agility, and inclusion and diversity.

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

- Department of Defense and veteran health services, comprising approximately 55% of our current business base;
- Human services and solutions, approximately 40% of our current business base; and
- Public health and life sciences, approximately 5% of our current business base.

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

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

DLH is on the forefront of ensuring that veterans receive their out-patient prescriptions on time, each day, through the VA CMOP pharmacy program. The Department's Secretary has recognized the VA's CMOP program for service excellence, citing the JD Powers ranking and noting that cost advantage and cost avoidance has been significant. In 2016 we obtained ISO 9001-2015 Certification, further validating our quality management systems, processes and procedures. We believe that our operational efficiency and expertise is well-aligned with the VA strategic goals to manage and improve operations and to deliver seamless and integrated support; our unique capabilities and solutions help the VA optimize efficiency and help ensure program accountability as well as better service.

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

Public health and life sciences: DLH provides a wide range of services to Department of Health and Human Services' Center for Disease Control and Prevention (CDC), the Department of the Interior, and the Department of Agriculture. DLH continues to serve as a trusted and proficient partner to CDC by developing communication and public health strategies to reach important populations, communities, and stakeholders to provide crucial health information for implementing positive public health outcomes. We champion communication strategies inspired by science and powered by the latest technologies to maximize social and behavioral impact. Our services include advancing disease prevention methods and health promotion through social marketing and digital strategies to impact behavior change and improve health outcomes among at-risk populations. Our commitment and ability to develop and drive strategic communication campaigns, identify and implement emerging trends and best-practices, conduct data analyses, and manage specialized public health trainings using interactive, web-based platforms is visible among our stakeholders as we enhance public health efforts. Our organization leverages evidence-based methods and web technology to drive health equity to our most vulnerable populations through public engagement. In support of CDC's High-Impact HIV Prevention initiative, the Company manages numerous training programs for the HIV prevention workforce. Through our re-design and maintenance of CDC's Every Dose Every Day mobile application for Medication Adherence, DLH supports people living with HIV to improve their health outcomes and increase the prevention benefits of treatment. For at-risk wildlife, DLH conducts biological research and surveys covering waterways in key parts of the country to protect and conserve aquatic populations as well as manage wetlands and habitats through environmental assessments. Projects often involve highly specialized expertise and research methodologies. This work is often seasonal with regard to resources and funding.

Growth Strategy.

Organic:

DLH plans continued focus on core outsourcing opportunities in health and human services agencies, both within current customer base and in adjacencies. Our healthcare delivery within the military and defense market has trended upward over the past several years. We plan to pursue additional healthcare opportunities for our service members, in line with the high priority the new administration has placed on upgrading and growing the U.S. military.

Acquisitive:

DLH plans to consider potential select acquisitions which would expand and strengthen its position and broaden its footprint across known market areas, particularly within the health IT market. Plans include targeting companies that serve key federal agencies where DLH has existing relationships, including the VA, DoD, HHS, and CDC.

Forward Looking Business Trends

DLH's vision is to become the most trusted provider of technology-enabled healthcare and public health services, medical logistics, and readiness enhancement services to those service members securing the freedom of our nation, veterans, and our at-risk and underserved communities. DLH plans to continue to shape and enhance the "sustainability and readiness posture" of our military service members, veterans, and our children and families, delivering value to our customers, stakeholders, and shareholders. Below is our view of market trends as they relate to our current and future growth in the Federal health services market.

Executive office priorities:

The President's broad agenda calls for increased military and domestic spending, with reduced spending on foreign programs. Most relevant to DLH's targeted markets, the President advocates the lifting of sequestration caps in the defense sector; increasing infrastructure spending in the United States; and tightening controls on immigration.

President Trump's plan to end the defense sequester and rebuild our military, without increasing the national debt, faces similar hurdles as those experienced during the Obama administration. Democratic leaders have thus far refused to increase money for military programs unless the increases are included for other non-defense programs. Barring a spending caps fix in the next few months, Congress will need to start planning fiscal 2018 with the assumption that those funding limits will stay in place.

Federal budget outlook 2017 and 2018:

On May 5, 2017, a final fiscal year 2017 budget was passed into law. The budget includes additional funding for defense and for border security, but does not implement a number of non-defense budget cuts outlined by the President in March. Ongoing debate about budget priorities and implications to national debt are expected for the fiscal year 2018 budget.

Department of Veterans Affairs (VA) health spending trends:

DLH continues to see critical need for expanded health care solutions within our sector of the Federal health market, largely focused on the needs of veterans and their families. Serving nearly nine million veterans each year, the VA operates the nation's largest integrated health care system, with more than 1,700 hospitals, clinics, community living centers, readjustment counseling centers, and other facilities.

The VA 2017 Advance Appropriations provisions enacted by former President Obama, with bipartisan support from Congress, provides America's veterans, their families, and survivors the care and benefits they have earned through their service. The fiscal 2017 funding includes Medical Care appropriations of approximately \$63.3 billion, which is \$3.3 billion (5.5%) above the 2016 budgeted level. Fiscal 2017 also includes approximately \$104.0 billion in mandatory funding as appropriations for Compensation and Pensions, Readjustment Benefits, and Insurance and Indemnities. The Trump administration has expressed strong support for veterans and members of the armed forces, and we look to continuing our long-term customer relationship and growth opportunities within the VA in the years ahead.

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

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

HHS spending priorities are being evaluated by the Trump administration with particular focus on the Affordable Care Act programs which are outside of our market space.

Over the course of the previous Administration, HHS more than doubled access to Early Head Start services for infants and toddlers. The FY2017 budget proposed an increase of \$434 million for the Head Start program and an investment in child care

services to cover over 2.6 million children. For now, funding levels remain at 2016 levels. While the new Administration's budget priorities for HHS are evolving, Head Start has historically received strong bipartisan support.

Large defense companies divesting from Federal services market:

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

Continued focus on small business participation in Federal contracting:

The Federal government has an overall goal of 23% of prime contracts flowing to small business contractors, with a goal of this primarily through the use of set-asides in Federal agency RFPs (requests for proposal). As a part of our growth plan, DLH may elect to team in support of such small businesses for specific pursuits that align with our corporate growth strategy.

Results of Operations for the Three months ended March 31, 2017 and 2016

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

Consolidated Statement of Income:	Three Months Ended				Change in		
	March 31, 2017		March 31, 2016		\$	% of Rev	% of \$
Revenue	\$ 29,905	100.0 %	\$ 16,934	100.0 %	\$ 12,971	— %	76.6%
Direct expenses	23,504	78.6 %	13,710	81.0 %	9,794	(2.4)%	71.4%
Gross margin	6,401	21.4 %	3,224	19.0 %	3,177	2.4 %	98.5%
General and administrative expenses	4,008	13.4 %	2,513	14.8 %	1,495	(1.4)%	59.5%
Depreciation and amortization	554	1.9 %	22	0.1 %	532	1.8 %	2,418.2%
Income from operations	1,839	6.1 %	689	4.1 %	1,150	2.0 %	166.9%
Other income (expense), net	(255)	(0.9)%	(127)	(0.7)%	(128)	(0.2)%	100.8%
Income (loss) before income taxes	1,584	5.3 %	562	3.3 %	1,022	2.0 %	181.9%
Income tax expense (benefit), net	605	2.0 %	225	1.3 %	380	0.7 %	168.9%
Net income	\$ 979	3.3 %	\$ 337	2.0 %	642	1.3 %	190.5%
Net income per share - basic	\$ 0.09		\$ 0.04		\$ 0.05		
Net income per share - diluted	\$ 0.08		\$ 0.03		\$ 0.05		

Revenue

Revenue for the three months ended March 31, 2017 was \$29.9 million, an increase of \$13.0 million or 76.6% over prior year period. The increase in revenue is due primarily to the acquisition of Danya on May 3, 2016, which contributed \$11.8 million. The increase is also due to the continued expansion on existing contract vehicles resulting from program management and customer satisfaction with our services.

Direct Expenses

Direct expenses generally comprise direct labor (including benefits), taxes and insurance, workers compensation expense, subcontract cost, and other direct costs. Direct expenses for the three months ended March 31, 2017 were \$23.5 million, an increase of \$9.8 million, or 71.4% over prior year due principally to the acquisition of Danya and increased professional service costs attributed to increased revenue on legacy DLH contracts. As a percentage of revenue, direct expenses were 78.6%, a favorable reduction of (2.4)%.

Gross Margin

Gross margin for the three months ended March 31, 2017 was approximately \$6.4 million, an increase of \$3.2 million, or 98.5%, over prior year period. As a percentage of revenue, our gross margin rate of 21.4% increased by 240 basis points, or 2.4%, over the prior year three-month period. Favorable gross margin results are due principally to contribution from Danya, more complex contracts, and effective assignment of staff to deliver strong contract performance. We continue to focus on internal productivity measures to control costs and improve our gross margin.

General and Administrative Expenses

General and administrative (“G&A”) expenses primarily relate to functions such as operations overhead, corporate management, legal, finance, accounting, contracts administration, human resources, management information systems, and business development. G&A expenses for the three months ended March 31, 2017 were approximately \$4.0 million, an increase of \$1.5 million or 59.5% over the prior year period. As a percent of revenue, G&A expenses were 13.4%, a decrease of approximately (1.3)% over prior year period. The increase in expenses was due primarily to the acquisition of the Danya entity, and additional program and operational resources to manage and grow our business volume. Approximately \$0.1 million of the increase in the period was due to severance expense for staff reductions based on the integration of the Danya acquisition.

Depreciation and Amortization

This category comprises non-cash expenditures related to depreciation on fixed assets and the amortization of acquired definite-lived intangible assets from the acquisition of Danya. As a professional services organization, DLH has not required significant expenditures on capital equipment and other fixed assets. For the three months ended March 31, 2017, depreciation and amortization were approximately \$0.6 million, due principally to the amortization of acquired definite-lived intangible assets.

Income from Operations

Income from operations for the three months ended March 31, 2017 was approximately \$1.8 million, an increase of approximately \$1.2 million over the prior year period. The improvement is due principally to contribution from the acquisition of Danya, and expansion on legacy programs.

Other Income (Expense), net

Other expense, net, includes interest expense and amortization of deferred financing costs on debt obligations, and other miscellaneous non-operational items. Prior year other expense includes non-operational acquisition expenses related to the Danya transaction. For the three months ended March 31, 2017, other expense, net, was approximately \$0.3 million, an increase of approximately \$0.1 million over the prior year period.

Income before Income Taxes

For the three months ended March 31, 2017, income before taxes was approximately \$1.6 million, an improvement of approximately \$1.0 million over the prior year period. The increase is attributable to contributions from Danya and improved performance on legacy programs.

Income Tax Expense

For the three months ended March 31, 2017, DLH recorded a \$0.6 million provision for tax expense, an increase of approximately \$0.4 million over the prior year period due to higher income.

Net Income

Net income for the three months ended March 31, 2017 was approximately \$1.0 million, or \$0.09 and \$0.08 per basic and diluted share, respectively, an increase of approximately \$0.05 per basic and diluted share over the prior year period. The increase was due principally to the operating contributions from the Danya transaction, net of interest and amortization of deferred financing expenses.

Results of Operations for the six months ended March 31, 2017 and 2016

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

Consolidated Statement of Income:	Six Months Ended				Change in		
	March 31, 2017		March 31, 2016		\$	% of Rev	% of \$
Revenue	\$ 56,016	100.0 %	\$ 33,493	100.0 %	\$ 22,523	— %	67.2 %
Direct expenses	43,804	78.2 %	27,352	81.7 %	16,452	(3.5)%	60.1 %
Gross margin	12,212	21.8 %	6,141	18.3 %	6,071	3.5 %	98.9 %
General and administrative expenses	8,729	15.6 %	5,028	15.0 %	3,701	0.6 %	73.6 %
Depreciation and amortization	755	1.3 %	42	0.1 %	713	1.2 %	1,697.6 %
Income from operations	2,728	4.9 %	1,071	3.2 %	1,657	1.7 %	154.7 %
Other income (expense), net	(619)	(1.1)%	(702)	(2.1)%	83	1.0 %	(11.8)%
Income (loss) before income taxes	2,109	3.8 %	369	1.1 %	1,740	2.7 %	471.5 %
Income tax expense (benefit), net	806	1.4 %	148	0.4 %	658	1.0 %	444.6 %
Net income	\$ 1,303	2.3 %	\$ 221	0.7 %	1,082	1.6 %	489.6 %
Net income per share - basic	\$ 0.12		\$ 0.02		\$ 0.10		
Net income per share - diluted	\$ 0.10		\$ 0.02		\$ 0.08		

Revenue

Revenue for the six months ended March 31, 2017 was \$56.0 million, an increase of \$22.5 million or 67.2% over prior year period. The increase in revenue is due primarily to the acquisition of Danya on May 3, 2016, which contributed \$20.5 million. The increase is also due to the continued expansion on existing contract vehicles resulting from program management and customer satisfaction with our services.

Direct Expenses

Direct expenses generally comprise direct labor direct labor (including benefits), taxes and insurance, workers compensation expense, subcontract cost, and other direct costs. Direct expenses for the six months ended March 31, 2017 were \$43.8 million, an increase of \$16.5 million, or 60.1% over prior year due principally to the acquisition of Danya and increased professional service costs attributed to increased revenue on legacy DLH contracts. As a percentage of revenue, direct expenses were 78.2%, a favorable reduction of (3.5)%.

Gross Margin

Gross margin for the six months ended March 31, 2017 was approximately \$12.2 million, an increase of \$6.1 million, or 98.9%, over prior year period. As a percentage of revenue, our gross margin rate of 21.8% increased by 350 basis points, or 3.5%, over the prior year six-month period. Favorable gross margin results are due principally to contribution from Danya, more complex contracts, and effective assignment of staff to deliver strong contract performance. We continue to focus on internal productivity measures to control costs and improve our gross margin.

General and Administrative Expenses

General and administrative (“G&A”) expenses primarily relate to functions such as operations overhead, corporate management, legal, finance, accounting, contracts administration, human resources, management information systems, and business development. G&A expenses for the six months ended March 31, 2017 were approximately \$8.7 million, an increase of \$3.7 million or 73.6% over the prior year period. As a percent of revenue, G&A expenses were 15.6%, an increase of approximately 0.6% over prior year period. The increase in expenses was due primarily to the acquisition of the Danya entity, and additional program and operational resources to manage and grow our business volume.

Depreciation and Amortization

This category comprises non-cash expenditures related to depreciation on fixed assets and the amortization of acquired definite-lived intangible assets from the acquisition of Danya. As a professional services organization, DLH has not required significant expenditures on capital equipment and other fixed assets. For the six months ended March 31, 2017, depreciation and amortization were approximately \$0.8 million, due principally to the amortization of acquired definite-lived intangible assets.

Income from Operations

Income from operations for the six months ended March 31, 2017 was approximately \$2.7 million, an increase of approximately \$1.7 million over the prior year period. The improvement is due principally to contribution from the acquisition of Danya, and expansion on legacy programs.

Other Income (Expense), net

Other expense, net, includes interest expense and amortization of deferred financing costs on debt obligations, and other miscellaneous non-operational items. Prior year other expense includes non-operational acquisition expenses related to the Danya transaction. For the six months ended March 31, 2017, other expense, net, was approximately \$0.6 million, a decrease of approximately \$0.1 million over the prior year period.

Income before Income Taxes

For the six months ended March 31, 2017, income before taxes was approximately \$2.1 million, an improvement of approximately \$1.7 million over the prior year period. The increase is attributable to contributions from Danya and improved performance on legacy programs.

Income Tax Expense

For the six months ended March 31, 2017, DLH recorded a \$0.8 million provision for tax expense, an increase of approximately \$0.7 million over the prior year period due to higher income.

Net Income

Net income for the six months ended March 31, 2017 was approximately \$1.3 million, or \$0.12 and \$0.10 per basic and diluted share, respectively, an increase of approximately \$1.1 million or \$0.10 and \$0.08 per basic and diluted share over the prior year period. The increase was due principally to the operating contributions from the Danya transaction, net of interest and amortization of deferred financing expenses.

Non-GAAP Financial Measures

On a non-GAAP basis, Earnings Before Interest Tax Depreciation and Amortization (“EBITDA”) adjusted for other items (“Adjusted EBITDA”) for the three months ended March 31, 2017 was approximately \$2.5 million, an improvement of approximately \$1.7 million, or 240.8% over the prior year three-month period. Growth is attributable to increased revenue and gross margin as previously described.

Adjusted EBITDA for the six months ended March 31, 2017 was approximately \$4 million, and improvement of approximately \$2.6 million over the prior period. Growth is attributable to increased revenue and gross margin as previously described.

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

We exclude the following items in deriving Adjusted EBITDA:

- Acquisition expenses are excluded in the prior year period. These expenditures related to the acquisition of Danya. We believe that segregating these expenses allows for improved comparability of results from period to period.

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

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

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

	Three Months Ended			Six Months Ended		
	March 31,			March 31,		
	2017	2016	Change	2017	2016	Change
Net income	\$ 979	\$ 337	\$ 642	\$ 1,303	\$ 221	\$ 1,082
(i) Interest and other (income) expense (net):						
(i)(a) Interest and other expense	255	—	255	619	—	619
(i)(b) Acquisition expenses	—	127	(127)	—	702	(702)
(ii) Provision (benefit) for taxes	605	225	380	806	148	658
(iii) Depreciation and amortization	554	22	532	755	42	713
(iv) G&A expenses - equity grants	64	10	54	549	342	207
Adjusted EBITDA	\$ 2,457	\$ 721	\$ 1,736	\$ 4,032	\$ 1,455	\$ 2,577

Liquidity and Capital Resources at March 31, 2017

For the six months ended March 31, 2017, the Company generated operating income of \$2.7 million and net income of \$1.3 million.

Selected sources and uses of cash are shown in the table below as of the six months ended March 31, 2017.

(Amounts in Millions)

	Ref	Six Months Ended
		03/31/17
Cash and cash equivalents	(a)	\$3.1
Borrowing on line of credit	(b)	\$0.0
Unused borrowing capacity on revolving line of credit	(c)	\$5.4
Adjusted EBITDA	(d)	\$4.0
Cash flows from operating activities	(e)	\$2.5
Cash flows used in investing and financing activities, net	(f)	\$(2.8)
Working capital deficit (current assets minus current liabilities)	(g)	\$(3.3)

Ref (a): At March 31, 2017, the Company had cash deposits on hand of approximately \$3.1 million.

Ref (b): At March 31, 2017, DLH had repaid all amounts on the revolving line of credit, including a \$5.0 million draw on May 3, 2016 to partially fund the acquisition of Danya, as well as interim borrowing to maintain operational cash flow during May and June.

Ref (c): At March 31, 2017, the Company's total borrowing availability, based on eligible accounts receivables at March 31, 2017, was \$6.3 million. This capacity was comprised of \$0.9 million in a stand-by letter of credit, and unused borrowing capacity of \$5.4 million.

Ref (d): Adjusted EBITDA of approximately \$4.0 million represents income from operations before reductions for non-cash operating expenses, depreciation, and amortization.

Ref (e): Cash flows from operating activities increased approximately \$2.5 million for the six months ended March 31, 2017 due principally to profitable operations partially offset by acquisition related expenses.

Ref (f): Cash flows used in investing and financing activities, net, were approximately \$(2.8) million for the six months ended March 31, 2017. This was due principally to our repayments of debt and final payment related to the acquisition of Danya.

Ref (g): We had a working capital deficit of approximately \$(3.3) million as of March 31, 2017. This was due principally to debt to fund our acquisition of Danya, partially offset by profitable operations.

Sources of cash and cash equivalents

As of March 31, 2017, the Company's immediate sources of liquidity include cash and cash equivalents, accounts receivable, and access to its secured revolving line of credit facility with Fifth Third Bank. This credit facility provides us with access of up to \$10.0 million, subject to certain conditions including eligible accounts receivable. The Company's present operating liabilities are largely predictable and consist of vendor and payroll related obligations. Our current investment and financing obligations are adequately covered by cash generated from profitable operations.

Management's assessment of liquidity at March 31, 2017

Management believes that: (a) cash and cash equivalents of approximately \$3.1 million as of March 31, 2017; (b) the amount available under its line of credit that was in effect at March 31, 2017 (which is limited to the amount of eligible assets); and (c) planned operating cash flow should be sufficient to support the Company's operations for twelve months from the date of these financial statements.

Loan Facility

On May 2, 2016, the Company entered into a Loan Agreement with Fifth Third Bank to establish a credit facility in the form of up to \$35.0 million of secured debt. The Loan Agreement consists of:

- (i) a secured revolving credit facility in an aggregate principal amount of up to \$10.0 million (the "Revolving Credit Facility") and
- (ii) a secured term loan with an aggregate principal amount of \$25.0 million (the "Term Loan").

The Term Loan matures on May 1, 2021 and the Revolving Credit Facility matures on May 1, 2018.

The Term Loan and Revolving Credit Facility bear interest at the rate of LIBOR plus a margin of 3.0% and the loans are secured by liens on substantially all of the assets of DLH, Danya and DLH's other subsidiaries. The provisions of the Term Loan and Revolving Credit Facility are fully described in Note 5 of the consolidated financial statements. The outstanding balance of the Term Loan was \$21.6 million as of March 31, 2017.

Contractual Obligations

Our outstanding contractual obligations are described in Note 10 to the Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q.

Off-Balance Sheet Arrangements

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

Effects of Inflation

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

Significant Accounting Policies and Use of Estimates

Our consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. Preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and the related disclosure of contingent liabilities. These assumptions, estimates and judgments are based on historical experience and assumptions that are believed to be reasonable at the time. Actual results could differ from such estimates. Critical policies and practices are important to the portrayal of a company's financial condition and results of operations, and may require management's subjective judgments about the effects of matters that are uncertain. See the information under Note 6 "Significant Accounting Policies" to the consolidated financial statements in DLH's Annual Report on Form 10-K for the year ended September 30, 2016, as well as the discussion under the caption "Critical Accounting Policies and Estimates" beginning on page 26 therein for a discussion of our critical accounting policies and estimates. DLH senior management has reviewed these critical accounting policies and related disclosures and determined that there were no significant changes in our critical accounting policies, or the estimates associated with those policies in the six months ended March 31, 2017.

New Accounting Pronouncements

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

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

DLH does not undertake trading practices in securities or other financial instruments and therefore does not have any material exposure to interest rate risk, foreign currency exchange rate risk, commodity price risk or other similar risks, which might otherwise result from such practices. DLH is not materially subject to fluctuations in foreign exchange rates, commodity prices or other market rates or prices from market sensitive instruments. DLH believes it does not have a material interest rate risk with respect to our prior workers' compensation programs, for which funds were deposited into trust for possible future payments of claims. DLH believes that its exposure to interest rate fluctuations on its debt instruments can be managed with an interest rate swap contract that it is securing

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Controls

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation of our internal control that occurred during our fiscal quarter ended March 31, 2017.

Part II — OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

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

ITEM 1A: RISK FACTORS

Our operating results and financial condition have varied in the past and may in the future vary significantly depending on a number of factors. In addition to the other information set forth in this report, you should carefully consider the factors discussed in the "Risk Factors" section in our Annual Report on Form 10-K for the year ended September 30, 2016 and in our other reports filed with the SEC for a discussion of the risks associated with our business, financial condition and results of operations. These factors, among others, could have a material adverse effect upon our business, results of operations, financial condition or liquidity and cause our actual results to differ materially from those contained in statements made in this report and presented elsewhere by management from time to time. The risks identified by DLH in its reports are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial also may materially adversely affect our business, results of operations, financial condition or liquidity. We believe there have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2016.

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

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

Registrant Repurchases of Securities

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

The following table provides certain information with respect to the status of our publicly announced stock repurchase program during second quarter ended March 31, 2017:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Programs	(\$ in thousands)	
					Dollar Value of Shares that May Yet Be Purchased Under the Plan or Program
January 2017	—	\$ —	—	\$	77
February 2017	—	—	—		77
March 2017	—	—	—		77
Second Quarter Total	—	\$ —	—	\$	77

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5: OTHER INFORMATION

None.

ITEM 6: EXHIBITS

Exhibits to this report which have previously been filed with the Commission are incorporated by reference to the document referenced in the following table.

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed
		Form	Dated	Exhibit	Herewith
31.1	Certification of Chief Executive Officer pursuant to Section 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a)				X
31.2	Certification of Chief Financial Officer pursuant to Section 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a)				X
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 17 CFR 240.13a-14(b) or 17 CFR 240.15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code				X
101	The following financial information from the DLH Holdings Corp. Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2017, formatted in XBRL (eXtensible Business Reporting Language) and filed electronically herewith: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Cash Flows; and, (iv) the Notes to the Consolidated Financial Statements.				X

Signatures

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

DLH HOLDINGS CORP.

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

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

Date: May 11, 2017

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 11, 2017

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

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 11, 2017

/s/ Kathryn M. JohnBull

Kathryn M. JohnBull

Chief Financial Officer

(Principal Accounting Officer)

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, 2017 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 11, 2017

/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.