UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2023

OR

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

For the transition period from to

Commission File Number: 001-07782

Parsons Corporation
(Exact Name of Registrant as Specified in its Charter)

Delaware	**95-3232481**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
14291 Park Meadow Drive, Suite 100 **Chantilly, Virginia**	**20151**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (703) 988-8500

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $1 par value	PSN	New York Stock Exchange

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

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

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

As of October 19, 2023, the registrant had 104,888,937 shares of common stock, $1.00 par value per share, outstanding.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

PARSONS CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
(in thousands, except share information)

	September 30, 2023 (Unaudited)	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents (including $100,478 and $53,193 Cash of consolidated joint ventures)	$ 205,406	$ 262,539
Accounts receivable, net (including $293,023 and $217,419 Accounts receivable of consolidated joint ventures, net)	906,741	717,345
Contract assets (including $12,622 and $11,313 Contract assets of consolidated joint ventures)	756,630	634,033
Prepaid expenses and other current assets (including $12,731 and $7,913 Prepaid expenses and other current assets of consolidated joint ventures)	146,764	105,866
Total current assets	2,015,541	1,719,783
Property and equipment, net (including $3,902 and $2,543 Property and equipment of consolidated joint ventures, net)	99,344	96,050
Right of use assets, operating leases (including $7,011 and $6,315 Right of use assets, operating leases of consolidated joint ventures)	158,400	155,090
Goodwill	1,797,330	1,661,850
Investments in and advances to unconsolidated joint ventures	164,858	107,425
Intangible assets, net	282,098	254,127
Deferred tax assets	148,512	137,709
Other noncurrent assets	66,905	66,108
Total assets	$ 4,732,988	$ 4,198,142
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable (including $54,668 and $49,078 Accounts payable of consolidated joint ventures)	$ 266,345	$ 201,428
Accrued expenses and other current liabilities (including $147,808 and $102,417 Accrued expenses and other current liabilities of consolidated joint ventures)	771,912	630,193
Contract liabilities (including $72,168 and $40,654 Contract liabilities of consolidated joint ventures)	277,249	213,064
Short-term lease liabilities, operating leases (including $3,507 and $2,552 Short-term lease liabilities, operating leases of consolidated joint ventures)	56,930	59,144
Income taxes payable	21,657	4,290
Total current liabilities	1,394,093	1,108,119
Long-term employee incentives	19,199	17,375
Long-term debt	820,366	743,605
Long-term lease liabilities, operating leases (including $3,504 and $3,763 Long-term lease liabilities, operating leases of consolidated joint ventures)	119,281	111,417
Deferred tax liabilities	20,448	12,471
Other long-term liabilities	111,501	109,220
Total liabilities	2,484,888	2,102,207
Contingencies (Note 12)		
Shareholders' equity:		
Common stock, $1 par value; authorized 1,000,000,000 shares; 146,317,493 and 146,132,016 shares issued; 45,136,147 and 40,960,845 public shares outstanding; 59,752,326 and 63,742,151 ESOP shares outstanding	146,318	146,132
Treasury stock, 41,429,020 shares at cost	(844,936)	(844,936)
Additional paid-in capital	2,729,206	2,717,134
Retained earnings	158,945	43,089
Accumulated other comprehensive loss	(16,797)	(17,849)
Total Parsons Corporation shareholders' equity	2,172,736	2,043,570
Noncontrolling interests	75,364	52,365
Total shareholders' equity	2,248,100	2,095,935
Total liabilities and shareholders' equity	$ 4,732,988	$ 4,198,142

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

PARSONS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Income
(In thousands, except per share information)
(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Revenue	$ 1,418,571	$ 1,134,370	$ 3,948,523	$ 3,092,160
Direct cost of contracts	1,124,305	872,423	3,109,713	2,388,095
Equity in (losses) earnings of unconsolidated joint ventures	10,262	(974)	4,497	10,237
Selling, general and administrative expenses	221,188	196,960	632,393	581,969
Operating income	83,340	64,013	210,914	132,333
Interest income	492	382	1,591	618
Interest expense	(8,612)	(6,323)	(22,369)	(14,786)
Other income (expense), net	(191)	(685)	1,666	(304)
Total other income (expense)	(8,311)	(6,626)	(19,112)	(14,472)
Income before income tax expense	75,029	57,387	191,802	117,861
Income tax expense	(15,218)	(13,792)	(41,944)	(27,643)
Net income including noncontrolling interests	59,811	43,595	149,858	90,218
Net income attributable to noncontrolling interests	(12,364)	(14,024)	(33,617)	(21,685)
Net income attributable to Parsons Corporation	$ 47,447	$ 29,571	$ 116,241	$ 68,533
Earnings per share:				
Basic	$ 0.45	$ 0.29	$ 1.11	$ 0.66
Diluted	$ 0.42	$ 0.27	$ 1.03	$ 0.62

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

PARSONS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
(In thousands)
(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Net income including noncontrolling interests	$ 59,811	$ 43,595	$ 149,858	$ 90,218
Other comprehensive income, net of tax				
Foreign currency translation adjustment, net of tax	(1,929)	(7,134)	1,046	(9,643)
Pension adjustments, net of tax	(11)	(68)	6	(93)
Comprehensive income including noncontrolling interests, net of tax	57,871	36,393	150,910	80,482
Comprehensive income attributable to noncontrolling interests, net of tax	(12,361)	(14,014)	(33,617)	(21,673)
Comprehensive income attributable to Parsons Corporation, net of tax	$ 45,510	$ 22,379	$ 117,293	$ 58,809

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

PARSONS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	For the Nine Months Ended	
	September 30, 2023	September 30, 2022
Cash flows from operating activities:		
Net income including noncontrolling interests	$ 149,858	$ 90,218
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	87,202	$ 90,668
Amortization of debt issue costs	2,124	$ 1,959
Loss (gain) on disposal of property and equipment	(27)	$ (261)
Provision for doubtful accounts	91	$ (3)
Deferred taxes	(8,205)	$ (6,334)
Foreign currency transaction gains and losses	1,479	$ 3,502
Equity in losses (earnings) of unconsolidated joint ventures	(4,497)	$ (10,237)
Return on investments in unconsolidated joint ventures	30,328	$ 25,626
Stock-based compensation	23,872	$ 14,991
Contributions of treasury stock	44,072	$ 41,980
Changes in assets and liabilities, net of acquisitions and newly consolidated joint ventures:		
Accounts receivable	(168,964)	$ (90,913)
Contract assets	(120,414)	$ (62,861)
Prepaid expenses and other assets	(40,470)	$ 8,772
Accounts payable	48,294	$ (918)
Accrued expenses and other current liabilities	93,263	$ 20,220
Contract liabilities	61,503	$ 26,665
Income taxes	17,395	$ 1,160
Other long-term liabilities	662	$ (5,866)
Net cash provided by operating activities	217,566	148,368
Cash flows from investing activities:		
Capital expenditures	(30,877)	$ (19,784)
Proceeds from sale of property and equipment	274	$ 573
Payments for acquisitions, net of cash acquired	(215,497)	$ (379,272)
Investments in unconsolidated joint ventures	(81,598)	$ (13,637)
Return of investments in unconsolidated joint ventures	72	$ 9,443
Proceeds from sales of investments in unconsolidated joint ventures	381	$ -
Net cash used in investing activities	(327,245)	(402,677)
Cash flows from financing activities:		
Proceeds from borrowings	511,500	$ 680,900
Repayments of borrowings	(436,500)	$ (579,700)
Payments for debt costs and credit agreement	-	$ (870)
Payments for acquired warrants	-	$ (11,243)
Contributions by noncontrolling interests	1,537	$ 8,299
Distributions to noncontrolling interests	(12,156)	$ (14,290)
Repurchases of common stock	(8,000)	$ (19,500)
Taxes paid on vested stock	(6,941)	$ (6,135)
Proceeds from issuance of common stock	2,940	$ 2,724
Net cash provided by financing activities	52,380	60,185
Effect of exchange rate changes	166	$ (2,220)
Net decrease in cash, cash equivalents, and restricted cash	(57,133)	(196,344)
Cash, cash equivalents and restricted cash:		
Beginning of year	262,539	$ 343,883
End of period	$ 205,406	$ 147,539

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

PARSONS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity
For the Three Months Ended September 30, 2023 and September 30, 2022
(In thousands)
(Unaudited)

	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Parsons Equity	Noncontrolling Interests	Total
Balance at June 30, 2023	$ 146,312	$ (844,936)	$ 2,721,402	$ 111,513	$ (14,860)	$ 2,119,431	$ 71,334	$ 2,190,765
Comprehensive income								
Net income	-	-	-	47,447	-	47,447	12,364	59,811
Foreign currency translation gain, net	-	-	-	-	(1,926)	(1,926)	(3)	(1,929)
Pension adjustments, net	-	-	-	-	(11)	(11)	-	(11)
Contributions	-	-	-	-	-	-	1,337	1,337
Distributions	-	-	-	-	-	-	(9,669)	(9,669)
Issuance of equity securities, net of retirements	6	-	(90)	(15)	-	(99)	-	(99)
Repurchases of common stock	-	-	-	-	-	-	-	-
Stock-based compensation	-	-	7,894	-	-	7,894	-	7,894
Balance at September 30, 2023	$ 146,318	$ (844,936)	$ 2,729,206	$ 158,945	$ (16,797)	$ 2,172,736	$ 75,364	$ 2,248,100
Balance at June 30, 2022	$ 146,174	$ (867,391)	$ 2,676,063	$ (14,565)	$ (12,100)	$ 1,928,181	$ 36,486	$ 1,964,667
Comprehensive income								
Net income	-	-	-	29,571	-	29,571	14,024	43,595
Foreign currency translation loss, net	-	-	-	-	(7,124)	(7,124)	(10)	(7,134)
Pension adjustments, net	-	-	-	-	(68)	(68)	-	(68)
Contributions	-	-	-	-	-	-	5,472	5,472
Distributions	-	-	-	-	-	-	(3,946)	(3,946)
Issuance of equity securities, net of retirements	9	-	(186)	2	-	(175)	-	(175)
Repurchases of common stock	(95)	-	(3,857)	-	-	(3,952)	-	(3,952)
Stock-based compensation	-	-	6,633	-	-	6,633	-	6,633
Balance at September 30, 2022	$ 146,088	$ (867,391)	$ 2,678,653	$ 15,008	$ (19,292)	$ 1,953,066	$ 52,026	$ 2,005,092

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

PARSONS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity
For the Nine Months Ended September 30, 2023 and September 30, 2022
(In thousands)
(Unaudited)

	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Parsons Equity	Noncontrolling Interests	Total
Balance at December 31, 2022	$ 146,132	$ (844,936)	$ 2,717,134	$ 43,089	$ (17,849)	$ 2,043,570	$ 52,365	$ 2,095,935
Comprehensive income								
Net income	-	-	-	116,241	-	116,241	33,617	149,858
Foreign currency translation gain, net	-	-	-	-	1,046	1,046	-	1,046
Pension adjustments, net	-	-	-	-	6	6	-	6
Contributions	-	-	-	-	-	-	1,537	1,537
Distributions	-	-	-	-	-	-	(12,156)	(12,156)
Issuance of equity securities, net of retirement	371	-	(3,985)	(385)	-	(3,999)	-	(3,999)
Repurchases of common stock	(185)	-	(7,815)	-	-	(8,000)		(8,000)
Stock-based compensation	-	-	23,872	-	-	23,872	-	23,872
Balance at September 30, 2023	$ 146,318	$ (844,936)	$ 2,729,206	$ 158,945	$ (16,797)	$ 2,172,736	$ 75,364	$ 2,248,100
Balance at December 31, 2021	$ 146,277	$ (867,391)	$ 2,684,979	$ (53,529)	$ (9,568)	$ 1,900,768	$ 36,344	$ 1,937,112
Comprehensive income								
Net income	-	-	-	68,533	-	68,533	21,685	90,218
Foreign currency translation loss, net	-	-	-	-	(9,631)	(9,631)	(12)	(9,643)
Pension adjustments, net	-	-	-	-	(93)	(93)	-	(93)
Contributions	-	-	-	-	-	-	8,299	8,299
Distributions	-	-	-	-	-	-	(14,290)	(14,290)
Issuance of equity securities, net of retirement	333	-	(2,339)	4	-	(2,002)	-	(2,002)
Repurchases of common stock	(522)	-	(18,978)	-	-	(19,500)	-	(19,500)
Stock-based compensation	-	-	14,991	-	-	14,991	-	14,991
Balance at September 30, 2022	$ 146,088	$ (867,391)	$ 2,678,653	$ 15,008	$ (19,292)	$ 1,953,066	$ 52,026	$ 2,005,092

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

1. Description of Operations

Organization

Parsons Corporation, a Delaware corporation, and its subsidiaries (collectively, the “Company”) provide sophisticated design, engineering and technical services, and smart and agile software to the United States federal government and Critical Infrastructure customers worldwide. The Company performs work in various foreign countries through local subsidiaries, joint ventures and foreign offices maintained to carry out specific projects.

2. Basis of Presentation and Principles of Consolidation

The accompanying unaudited consolidated financial statements and related notes of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and pursuant to the interim period reporting requirements of Form 10-Q. They do not include all of the information and footnotes required by GAAP for complete financial statements and, therefore, should be read in conjunction with our consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022.

In the opinion of management, the consolidated financial statements reflect all normal recurring adjustments necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods presented. The results of operations and cash flows for any interim period are not necessarily indicative of results for the full year or for future years.

This Quarterly Report on Form 10-Q includes the accounts of Parsons Corporation and its subsidiaries and affiliates which it controls. Interests in joint ventures that are controlled by the Company, or for which the Company is otherwise deemed to be the primary beneficiary, are consolidated. For joint ventures in which the Company does not have a controlling interest, but exerts a significant influence, the Company applies the equity method of accounting (see “Note 14 – Investments in and Advances to Joint Ventures" for further discussion). Intercompany accounts and transactions are eliminated in consolidation. Certain amounts may not foot due to rounding.

Use of Estimates

The preparation of the consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates. The Company’s most significant estimates and judgments involve revenue recognition with respect to the determination of the costs to complete contracts and transaction price; determination of self-insurance reserves; useful lives of property and equipment and intangible assets; valuation of goodwill, intangible assets and net assets acquired from business acquisitions; valuation of deferred income tax assets and uncertain tax positions, among others. Please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates” and “Note 2—Summary of Significant Accounting Policies” in the notes to our consolidated financial statements included in the Company’s Form 10-K for the year ended December 31, 2022, for a discussion of the significant estimates and assumptions affecting our consolidated financial statements. Estimates of costs to complete contracts are continually evaluated as work progresses and are revised when necessary. When a change in estimate is determined to have an impact on contract profit, the Company records a positive or negative adjustment to the consolidated statement of income.

3. New Accounting Pronouncements

In the first quarter of 2022, the Company early adopted ASU No. 2021-08, “Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers”. The new guidance requires that the approach of ASC 606, Revenue from Contracts with Customers, should be used to measure an acquired revenue contract in a business combination. This guidance is to be applied (1) retrospectively to all business combinations for which the acquisition date occurs on or after the beginning of the fiscal year that includes the interim period of early application and (2) prospectively to all business combinations that occur on or after the date of initial application. The early adoption of ASU 2021-08 did not have a material impact on the consolidated financial statements.

During July 2023, the Financial Accounting Standards Board Issued ASU No. 2023-03. ASU No. 2023-03 incorporates, into certain accounting standards, amendments to SEC paragraphs pursuant to SEC Staff Accounting Bulletin No. 120, SEC Staff Announcement at the March 24, 2022 EITF meeting, and Staff Accounting Bulletin Topic 6.B, Accounting Series Release 280—General Revisions of Regulation S-X: Income or Loss Applicable to Common Stock. These rules are effective immediately.

The significant amendment in this guidance impacting the Company involves share-based payment awards granted when the Company is in possession of material non-public information to which the market is likely to react positively when the information is announced. For each award granted, the Company needs to determine, at the date of the grant, whether positive material non-public information is currently available (or would be available) to the issuer that would be considered by a marketplace participant in estimating the expected volatility. If positive material non-public information is available, the Company should consider the future events in estimating expected volatility. ASU No. 2023-03 had no impact on the Company's consolidated financial statements as of and for the periods ending September 30, 2023.

4. Acquisitions

Sealing Technologies, Inc.

On August 23, 2023, the Company acquired a 100% ownership interest in Sealing Technologies, Inc ("SealingTech"), a privately-owned company, for $181.7 million in cash and up to an additional $25 million in the event an earn out revenue target is exceeded. The Company borrowed $175 million under the Credit Agreement, as described in "Note 10 – Debt and Credit Facilities", to fund the acquisition. Headquartered in Maryland, SealingTech expands Parsons' customer base across the Department of Defense and Intelligence Community, and further enhances the company's capabilities in defensive cyber operations; integrated mission-solutions powered by artificial intelligence (AI) and machine learning (ML); edge computing and edge access modernization; critical infrastructure protection; and secure data management. In connection with this acquisition, the Company recognized $3.1 million of acquisition-related expenses in "Selling, general and administrative expense" in the consolidated statements of income for the three and nine months ended September 30, 2023, including legal fees, consulting fees, and other miscellaneous direct expenses associated with the acquisition.

The Company has agreed to pay the selling shareholders up to an additional $25 million in the event an earn out revenue target of $110 million is exceeded during the fiscal year ended December 31, 2024. The earn out payment due and payable by the Company to the selling shareholders shall be equal to (i) five-tenths (0.5), *multiplied by* (ii) the difference of (A) the actual earn out revenue *minus* (B) the earn out revenue target; provided, however, that in no event shall the earn out payment exceed $25 million. In the event that the earn out revenue is less than or equal to the earn out revenue target, the earn out payment shall be zero. The earn out payment, if any, shall be paid by the Company to the selling shareholders within 15 days following the date the earn out statement becomes final and binding on both parties.

The following table summarizes the acquisition date fair value of the purchase consideration transferred (in thousands):

	Amount
Cash paid at closing	$ 181,690
Fair value of contingent consideration to be achieved	3,443
Total purchase price	$ 185,133

Changes in the fair value of contingent consideration, when they occur, are recorded in the consolidated statements of income within "Selling, general and administrative expense".

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed based on the preliminary purchase price allocation as of the date of acquisition (in thousands):

		Amount
Cash and cash equivalents	$	8,133
Accounts receivable		17,889
Contract assets		2,960
Other current assets		1,379
Property and equipment		1,635
Right of use asset		1,288
Deferred tax assets		686
Goodwill		106,241
Intangible assets		59,900
Accounts payable		(15,987)
Accrued expenses and other current liabilities		(2,377)
Contract liabilities		(493)
Short-term lease liabilities		(540)
Deferred tax liabilities		(330)
Long-term lease liabilities		(551)
Net assets acquired	$	179,833

Of the total purchase price, the following values were preliminarily assigned to intangible assets (in thousands, except for years):

		Gross Carrying Amount	Amortization Period
			(in years)
Customer relationships	$	31,400	8
Backlog		18,500	8
Developed technologies		8,000	5
Other		2,000	1 to 3

Amortization expense of $1.5 million related to these intangible assets was recorded for the three and nine months ended September 30, 2023. The entire value of goodwill was assigned to the Federal Solutions reporting unit and represents synergies expected to be realized from this business combination. The entire value of goodwill is deductible for tax purposes.

The amount of revenue generated by SealingTech and included within consolidated revenues is $18.4 million for the three and nine months ended September 30, 2023. The Company has determined that the presentation of net income from the date of acquisition is impracticable due to the integration of general corporate functions upon acquisition.

The Company is still in the process of finalizing its valuation of the net assets acquired.

Supplemental Pro Forma Information (Unaudited)

Supplemental information of unaudited pro forma operating results assuming the SealingTech acquisition had been consummated as of the beginning of fiscal year 2022 (in thousands) is as follows:

	Three Months Ended				Nine Months Ended			
	September 30, 2023		September 30, 2022		September 30, 2023		September 30, 2022	
Pro forma Revenue	$	1,450,376	$	1,154,603	$	4,030,873	$	3,134,609
Pro forma Net Income including noncontrolling interests		66,010		42,820	$	161,544	$	77,218

IPKeys Power Partners

On April 13, 2023, the Company entered into a merger agreement to acquire a 100% ownership interest in IPKeys Power Partners ("IPKeys"), a privately-owned company, for $43.0 million in cash. The merger brings IPKeys' established customer base, expanding Parsons' presence in two rapidly growing end markets: grid modernization and cyber resiliency for critical infrastructure. Headquartered in Tinton Falls, New Jersey, IPKeys is a trusted provider of enterprise software platform solutions that is actively delivering cyber and operational security to hundreds of electric, water, and gas utilities across North America. The acquisition was entirely funded by cash on-hand. In connection with this acquisition, the Company recognized $0.1 million and $0.6 million of acquisition-related expenses in "Selling, general and administrative expense" in the consolidated statements of income for the three and nine months ended September 30, 2023, respectively, including legal fees, consulting fees, and other miscellaneous direct expenses associated with the acquisition.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed based on the preliminary purchase price allocation as of the date of acquisition (in thousands):

		Amount
Cash and cash equivalents	$	126
Accounts receivable		3,937
Contract assets		834
Other current assets		422
Property and equipment		86
Right of use asset		129
Other noncurrent assets		56
Goodwill		24,126
Intangible assets		23,000
Accounts payable		(541)
Accrued expenses and other current liabilities		(1,768)
Contract liabilities		(1,936)
Deferred tax liabilities		(5,432)
Net assets acquired	$	43,039

Of the total purchase price, the following values were preliminarily assigned to intangible assets (in thousands, except for years):

		Gross Carrying Amount	Amortization Period
			(in years)
Customer relationships (1)	$	15,900	16
Developed technologies		7,000	11
Other	$	100	1

(1) The acquired business is a SaaS commercial business. Backlog for this type of business is included as customer relationships.

Amortization expense of $0.5 million and $0.9 million related to these intangible assets was recorded for the three and nine months ended September 30, 2023, respectively. The entire value of goodwill was assigned to the Critical Infrastructure reporting unit and represents synergies expected to be realized from this business combination. $1.0 million of goodwill is deductible for tax purposes.

The amount of revenue generated by IPKeys and included within consolidated revenues is $3.5 million and $6.1 million for the three and nine months ended September 30, 2023, respectively. The Company has determined that the presentation of net income from the date of acquisition is impracticable due to the integration of general corporate functions upon acquisition.

The Company is still in the process of finalizing its valuation of the net assets acquired.

Supplemental Pro Forma Information (Unaudited)

Supplemental information of unaudited pro forma operating results assuming the IPKeys acquisition had been consummated as of the beginning of fiscal year 2022 (in thousands) is as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Pro forma Revenue	$ 1,418,571	$ 1,137,381	$ 3,951,378	$ 3,101,246
Pro forma Net Income including noncontrolling interests	60,187	42,907	$ 151,917	$ 87,427

Xator Corporation

On May 31, 2022, the Company acquired a 100% ownership interest in Xator Corporation ("Xator"), a privately-owned company, for $387.5 million in cash. The Company borrowed $300 million under the Credit Agreement, as described in "Note 10 – Debt and Credit Facilities", to partially fund the acquisition. Xator expands Parsons' customer base and brings differentiated technical capabilities in critical infrastructure protection, counter-unmanned aircraft systems (cUAS), intelligence and cyber solutions, biometrics, and global threat assessment and operations. In connection with this acquisition, the Company recognized $7.7 million of acquisition-related expenses in "Selling, general and administrative expense" in the consolidated statements of income for the year ended December 31, 2022, including legal fees, consulting fees, and other miscellaneous direct expenses associated with the acquisition.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed based on the purchase price allocation as of the date of acquisition (in thousands):

	Amount
Cash and cash equivalents	$ 8,935
Accounts receivable	7,393
Contract assets	24,332
Prepaid expenses and other current assets	3,615
Property and equipment	1,699
Right of use assets, operating leases	7,517
Goodwill	257,934
Investments in and advances to unconsolidated joint ventures	698
Intangible assets	123,500
Other noncurrent assets	9,156
Accounts payable	(6,626)
Accrued expenses and other current liabilities	(31,309)
Contract liabilities	(2,631)
Short-term lease liabilities, operating leases	(2,371)
Long-term lease liabilities, operating leases	(5,146)
Other long-term liabilities	(9,156)
Net assets acquired	$ 387,540

Of the total purchase price, the following values were assigned to intangible assets (in thousands, except for years):

	Gross Carrying Amount	Amortization Period
		(in years)
Customer relationships	$ 37,000	15
Backlog	81,000	6
Trade name	4,000	1
Developed technologies	1,000	3
Non-compete agreements	$ 500	3

Amortization expense of $4.1 million and $14.0 million related to these intangible assets was recorded for the three and nine months ended September 30, 2023, respectively and $4.9 million and $6.6 million for both the three and nine months ended September 30, 2022, respectively. The entire value of goodwill was assigned to the Federal Solutions reporting unit and represents synergies expected to be realized from this business combination. Goodwill in its entirety is deductible for tax purposes.

The amount of revenue generated by Xator and included within consolidated revenues was $70.4 million and $91.2 million for the three and nine months ended September 30, 2022. The Company has determined that the presentation of net income from the date of acquisition is impracticable due to the integration of general corporate functions upon acquisition.

Supplemental Pro Forma Information (Unaudited)

Supplemental information of unaudited pro forma operating results assuming the Xator acquisition had been consummated as of the beginning of fiscal year 2021 (in thousands) is as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Pro forma Revenue	$ 1,418,571	$ 1,134,370	$ 3,948,523	$ 3,199,336
Pro forma Net Income including noncontrolling interests	60,374	43,970	154,275	102,859

5. Contracts with Customers

Disaggregation of Revenue

The Company's contracts contain both fixed-price and cost reimbursable components. Contract types are based on the component that represents the majority of the contract. The following table presents revenue disaggregated by contract type (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Fixed-Price	$ 452,606	$ 334,853	$ 1,233,712	$ 854,835
Time-and-Materials	355,689	302,236	998,037	836,881
Cost-Plus	610,276	497,281	1,716,774	1,400,444
Total	$ 1,418,571	$ 1,134,370	$ 3,948,523	$ 3,092,160

See "Note 18 – Segments Information" for the Company's revenues by business lines.

Contract Assets and Contract Liabilities

Contract assets and contract liabilities balances at September 30, 2023 and December 31, 2022 were as follows (in thousands):

	September 30, 2023	December 31, 2022	$ change	% change
Contract assets	$ 756,630	$ 634,033	$ 122,597	19.3 %
Contract liabilities	277,249	213,064	64,185	30.1 %
Net contract assets (liabilities) (1)	$ 479,381	$ 420,969	$ 58,412	13.9 %

(1) Total contract retentions included in net contract assets (liabilities) were $73.7 million as of September 30, 2023, of which $34.7 million are not expected to be paid in the next 12 months. Total contract retentions included in net contract assets (liabilities) were $73.5 million as of December 31, 2022. Contract assets at September 30, 2023 and December 31, 2022 include $105.6 million and $95.7 million, respectively, related to net claim recovery estimates. For the three and nine months ended September 30, 2023 and September 30, 2022, there were no material losses recognized related to the collectability of claims, unapproved change orders, and requests for equitable adjustment.

During the three months ended September 30, 2023 and September 30, 2022, the Company recognized revenue of $8.9 million and $10.1 million, respectively, and $116.6 million and $91.8 million during the nine months ended September 30, 2023 and September 30, 2022, respectively, that was included in the corresponding contract liability balances at December 31, 2022 and December 31, 2021, respectively. Certain changes in contract assets and contract liabilities consisted of the following:

	September 30, 2023	December 31, 2022
Acquired contract assets	$ 2,729	$ 25,397
Acquired contract liabilities	2,980	2,080

There was no significant impairment of contract assets recognized during the nine months ended September 30, 2023 and September 30, 2022.

Revisions in estimates, such as changes in estimated claims or incentives, related to performance obligations partially satisfied in previous periods that individually had an impact of $5 million or more on revenue resulted in the following changes in revenue:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Revenue impact, net	$ -	$ -	$ 4,748	$ -

During the nine-month period ended September 30, 2023, there was a change in estimate to direct costs of contracts related to a write-down on a contract in the Critical Infrastructure segment. This change in estimate combined with changes to estimates to revenue resulted in a net decrease of $3.1 million to operating income, $2.3 million to net income and $0.02 to diluted earnings per share for the nine months ended September 30, 2023.

Accounts Receivable, net

Accounts receivable, net consisted of the following as of September 30, 2023 and December 31, 2022 (in thousands):

	2023	2022
Billed	$ 587,160	$ 502,411
Unbilled	323,592	218,945
Total accounts receivable, gross	910,752	721,356
Allowance for doubtful accounts	(4,011)	(4,011)
Total accounts receivable, net	$ 906,741	$ 717,345

Billed accounts receivable represents amounts billed to clients that have not been collected. Unbilled accounts receivable represents amounts where the Company has a present contractual right to bill but an invoice has not been issued to the customer at the period-end date.

The allowance for doubtful accounts was determined based on consideration of trends in actual and forecasted credit quality of clients, including delinquency and payment history, type of client, such as a government agency or commercial sector client, and general economic conditions and particular industry conditions that may affect a client’s ability to pay.

Transaction Price Allocated to the Remaining Unsatisfied Performance Obligations

The Company's remaining unsatisfied performance obligations ("RUPO") as of September 30, 2023 represent a measure of the total dollar value of work to be performed on contracts awarded and in-progress. The Company had $6.2 billion in RUPO as of September 30, 2023.

RUPO will increase with awards of new contracts and decrease as the Company performs work and recognizes revenue on existing contracts. Projects are included within RUPO at such time the project is awarded and agreement on contract terms has been reached. The difference between RUPO and backlog relates to unexercised option years that are included within backlog and the value of Indefinite Delivery/Indefinite Quantity ("IDIQ") contracts included in backlog for which delivery orders have not been issued.

RUPO is comprised of: (a) original transaction price, (b) change orders for which written confirmations from our customers have been received, (c) pending change orders for which the Company expects to receive confirmations in the ordinary course of business, and (d) claim amounts that the Company has made against customers for which it has determined that it has a legal basis under existing contractual arrangements and a significant reversal of revenue is not probable, less revenue recognized to-date.

The Company expects to satisfy its RUPO as of September 30, 2023 over the following periods (in thousands):

Period RUPO Will Be Satisfied	Within One Year	Within One to Two Years	Thereafter
Federal Solutions	$ 1,620,465	$ 335,848	$ 240,563
Critical Infrastructure	1,893,315	1,076,331	1,011,917
Total	$ 3,513,780	$ 1,412,179	$ 1,252,480

6. Leases

The Company has operating and finance leases for corporate and project office spaces, vehicles, heavy machinery and office equipment. Our leases have remaining lease terms of one to nine years, some of which may include options to extend the leases for up to five years, and some of which may include options to terminate the leases after the third year.

The components of lease costs for the three and nine months ended September 30, 2023 and September 30, 2022 are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Operating lease cost	$ 16,885	$ 16,299	$ 50,639	$ 49,049
Short-term lease cost	2,823	3,858	9,882	10,948
Amortization of right-of-use assets	718	571	1,904	1,721
Interest on lease liabilities	73	24	171	67
Sublease income	(1,186)	(1,318)	(3,549)	(3,321)
Total lease cost	$ 19,313	$ 19,434	$ 59,047	$ 58,464

Supplemental cash flow information related to leases for the nine months ended September 30, 2023 and September 30, 2022 is as follows (in thousands):

	Nine Months Ended	
	September 30, 2023	September 30, 2022
Operating cash flows for operating leases	$ 53,040	$ 51,988
Operating cash flows for finance leases	171	67
Financing cash flows from finance leases	1,865	1,580
Right-of-use assets obtained in exchange for new operating lease liabilities	48,430	15,709
Right-of-use assets obtained in exchange for new finance lease liabilities	$ 4,470	$ 1,156

Supplemental balance sheet and other information related to leases as of September 30, 2023 and December 31, 2022 are as follows (in thousands):

	September 30, 2023	December 31, 2022
Operating Leases:		
Right-of-use assets	$ 158,400	$ 155,090
Lease liabilities:		
Current	56,930	59,144
Long-term	119,281	111,417
Total operating lease liabilities	$ 176,211	$ 170,561
Finance Leases:		
Other noncurrent assets	$ 6,559	$ 3,965
Accrued expenses and other current liabilities	$ 2,358	$ 1,746
Other long-term liabilities	$ 4,198	$ 2,246
Weighted Average Remaining Lease Term:		
Operating leases	4.0 years	3.6 years
Finance leases	3.0 years	2.6 years
Weighted Average Discount Rate:		
Operating leases	4.0%	3.4%
Finance leases	4.2%	2.8%

As of September 30, 2023, the Company has no operating leases that have not yet commenced.

A maturity analysis of the future undiscounted cash flows associated with the Company's operating and finance lease liabilities as of September 30, 2023 is as follows (in thousands):

	Operating Leases	Finance Leases
2023 (remaining)	$ 17,404	$ 673
2024	58,599	2,518
2025	45,042	2,056
2026	28,876	1,418
2027	16,536	314
Thereafter	24,290	4
Total lease payments	190,747	6,983
Less: imputed interest	(14,536)	(427)
Total present value of lease liabilities	$ 176,211	$ 6,556

7. Goodwill

The following table summarizes the changes in the carrying value of goodwill by reporting segment from December 31, 2022 to September 30, 2023 (in thousands):

	December 31, 2022	Acquisitions	Foreign Exchange	September 30, 2023
Federal Solutions	$ 1,591,563	$ 110,984	$ -	$ 1,702,547
Critical Infrastructure	70,287	24,126	370	94,783
Total	$ 1,661,850	$ 135,110	$ 370	$ 1,797,330

The Company performed a qualitative triggering analysis and determined there was no triggering event indicating a potential impairment to the carrying value of its goodwill at September 30, 2023 and concluded there has not been an impairment.

8. Intangible Assets

The gross amount and accumulated amortization of intangible assets with finite useful lives included in "Intangible assets, net" on the consolidated balance sheets are as follows (in thousands except for years):

	September 30, 2023			December 31, 2022			Weighted Average Amortization Period *(in years)*
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
Backlog	$ 160,700	$ (71,713)	$ 88,987	$ 142,200	$ (45,903)	$ 96,297	4.3
Customer relationships	345,620	(174,196)	171,424	293,730	(146,032)	147,698	9.0
Leases	120	(101)	19	120	(87)	33	1.0
Developed technology	31,600	(14,145)	17,455	16,600	(11,560)	5,040	5.5
Trade name	1,200	(267)	933	5,000	(3,083)	1,917	1.1
Non-compete agreements	2,150	(1,587)	563	3,350	(2,074)	1,276	3.3
In process research and development	1,800	-	1,800	1,800	-	1,800	n/a
Other intangibles	1,175	(258)	917	275	(209)	66	3.5
Total intangible assets	$ 544,365	$ (262,267)	$ 282,098	$ 463,075	$ (208,948)	$ 254,127	

The aggregate amortization expense of intangible assets for the three months ended September 30, 2023 and September 30, 2022 was $18.8 million and $19.1 million, respectively, and $54.9 million and $58.9 million for the nine months ended September 30, 2023 and September 30, 2022, respectively.

Estimated amortization expense for the remainder of the current fiscal year, each of the next four years and beyond is as follows (in thousands):

	September 30, 2023
2023	$ 18,505
2024	45,773
2025	39,599
2026	35,880
2027	34,766
Thereafter	105,775
Total	$ 280,298

9. Property and Equipment, Net

Property and equipment consisted of the following at September 30, 2023 and December 31, 2022 (in thousands):

	September 30, 2023	December 31, 2022	Useful life (years)
Buildings and leasehold improvements	$ 105,192	$ 103,071	1-15
Furniture and equipment	88,856	85,088	3-10
Computer systems and equipment	174,215	152,511	3-10
Construction equipment	6,389	5,271	5-7
Construction in progress	15,331	21,952	
	389,983	367,893	
Accumulated depreciation	(290,639)	(271,843)	
Property and equipment, net	$ 99,344	$ 96,050	

Depreciation expense for the three months ended September 30, 2023 and September 30, 2022 was $10.2 million and $9.7 million, respectively, and $29.1 million and $29.3 million for the nine months ended September 30, 2023 and September 30, 2022, respectively.

10. Debt and Credit Facilities

Debt consisted of the following (in thousands):

	September 30, 2023	December 31, 2022
Long-Term Debt:		
Delayed draw term loan	$ 350,000	$ 350,000
Convertible senior notes	400,000	400,000
Revolving credit facility	75,000	-
Debt issuance costs	(4,634)	(6,395)
Total	$ 820,366	$ 743,605

Delayed Draw Term Loan

In September 2022, the Company entered into a $350 million unsecured Delayed Draw Term Loan with an increase option of up to $150 million (the “2022 Delayed Draw Term Loan”). Proceeds of the 2022 Delayed Draw Term Loan Agreement may be used (a) to pay off in full, or partially payoff, the Company’s existing Senior Notes, (b) to prepay revolving loans outstanding under the Revolving Credit Agreement (as defined below), or (c) for working capital, capital expenditures and other lawful corporate purposes. The Company drew $350.0 million from the 2022 Delayed Draw Term Loan in November 2022. The Company incurred $0.9 million of debt issuance costs in connection with the delayed draw term loan as of December 31, 2022. These costs are presented as a direct deduction from long-term debt on the face of the balance sheet. Interest expense related to the 2022 Delayed Draw Term Loan was $5.9 million and $16.6 million for the three and nine months ended September 30, 2023, respectively There were no amounts outstanding under the 2022 Delayed Draw Term Loan as of September 30, 2022. The amortization of debt issuance costs and interest expense is recorded in “Interest expense” on the consolidated statements of income. As of September 30, 2023 and December 31, 2022, there was $350.0 million outstanding under the 2022 Delayed Draw Term Loan. The interest rates on September 30, 2023 and December 31, 2022 were 6.6% and 5.6%, respectively.

The 2022 Delayed Draw Term Loan has a three-year maturity and permits the Company to borrow in U.S. dollars. The 2022 Delayed Draw Term Loan does not require any amortization payments by the Company. Depending on the Company’s consolidated leverage ratio (or debt rating after such time as the Company has such rating), borrowings under the 2022 Delayed Draw Term Loan Agreement will bear interest at either an adjusted Term SOFR benchmark rate plus a margin between 0.875% and 1.500% or a base rate plus a margin of between 0% and 0.500% and will initially bear interest at the middle of this range. The Company will pay a ticking fee on unused term loan commitments at a rate of 0.175% commencing with the date that is ninety (90) days after the Closing Date. Amounts outstanding under the 2022 Delayed Draw Term Loan Agreement may be prepaid at the option of the Company without premium or penalty, subject to customary breakage fees in connection with the prepayment of benchmark rate loans.

Convertible Senior Notes

In August 2020, the Company issued an aggregate $400.0 million of 0.25% Convertible Senior Notes due 2025, including the exercise of a $50.0 million initial purchasers’ option. The Company received proceeds from the issuance and sale of the Convertible Senior Notes of $389.7 million, net of $10.3 million of transaction fees and other third-party offering expenses. The Convertible Senior Notes accrue interest at a rate of 0.25% per annum, payable semi-annually on February 15 and August 15 of each year beginning on February 15, 2021, and will mature on August 15, 2025, unless earlier repurchased, redeemed or converted.

The Convertible Senior Notes are the Company’s senior unsecured obligations and will rank senior in right of payment to any of the Company’s indebtedness that is expressly subordinated in right of payment to the Notes; equal in right of payment to any of the Company’s unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of the Company’s secured indebtedness, to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables) of the Company’s subsidiaries

Each $1,000 of principal of the Notes will initially be convertible into 22.2913 shares of our common stock, which is equivalent to an initial conversion price of $44.86 per share, subject to adjustment upon the occurrence of specified events. On or after March 15, 2025 until the close of business on the second scheduled trading day immediately preceding the maturity date of the Convertible Senior Notes, holders may convert all or a portion of their Convertible Senior Notes, regardless of the conditions below.

Prior to the close of business on the business day immediately preceding March 15, 2025, the Notes will be convertible at the option of the holders thereof only under the following circumstances:

- during any calendar quarter commencing after the calendar quarter ending on December 31, 2021, if the last reported sale price of the Company's common stock for at least 20 trading days, whether or not consecutive, during a period of 30 consecutive trading days ending on, and including the last trading day of the immediately preceding calendar quarter, is greater than or equal to 130% of the conversion price on each applicable trading day;

- during the five business day period after any five consecutive trading day period in which, for each trading day of that period, the trading price per $1,000 principal amount of Convertible Senior Notes for such trading day was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day;

- if the Company calls such Convertible Senior Notes for redemption; or

- upon the occurrence of specified corporate events described in the Indenture.

The Company may redeem all or any portion of the Convertible Senior Notes for cash, at its option, on or after August 21, 2023 and before the 51st scheduled trading day immediately before the maturity date at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, but only if the last reported sale price per share of the Company's common stock exceeds 130% of the conversion price for a specified period of time. In addition, calling any Convertible Senior Note for redemption will constitute a Make-Whole Fundamental Change with respect to that Convertible Senior Note, in which case the conversion rate applicable to the conversion of that Convertible Senior Note will be increased in certain circumstances if it is converted after it is called for redemption.

Upon the occurrence of a fundamental change prior to the maturity date of the Convertible Senior Notes, holders of the Convertible Senior Notes may require the Company to repurchase all or a portion of the Convertible Senior Notes for cash at a price equal to 100% of the principal amount of the Convertible Senior Notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

Upon conversion, the Company may settle the Convertible Senior Notes for cash, shares of the Company's common stock, or a combination thereof, at the Company's option. If the Company satisfies its conversion obligation solely in cash or through payment and delivery of a combination of cash and shares of the Company's common stock, the amount of cash and shares of common stock due upon conversion will be based on a daily conversion value calculated on a proportionate basis for each trading day in a 50-trading day observation period.

The Company recognized interest expense of approximately $0.7 million for both the three months ended September 30, 2023 and September 30, 2022 and $2.3 million and $2.2 million for the nine months ended September 30, 2023 and September 30, 2022, respectively. As of September 30, 2023 and December 31, 2022, the carrying value of the Notes was $400.0 million.

Revolving Credit Facility

In June 2021, the Company entered into a $650 million unsecured revolving credit facility (the "Credit Agreement"). The Company incurred $1.9 million of costs in connection with this Credit Agreement. The 2021 Credit Agreement replaced an existing Fifth Amended and Restated Credit Agreement dated as of November 15, 2017. Under the new agreement, the Company's revolving credit facility was increased from $550 million to $650 million. The credit facility has a five-year maturity, which may be extended up to two times for periods determined by the Company and the applicable extending lenders, and permits the Company to borrow in U.S. dollars, certain specified foreign currencies, and each other currency that may be approved in accordance with the 2021 Facility. The borrowings under the Credit Agreement bear interest at either the Term SOFR rate plus a margin between 1.0% and 1.625% or a base rate (as defined in the Credit Agreement) plus a margin of between 0% and 0.625%. The rates on September 30, 2023 and December 31, 2022 were 6.7% and 5.7%, respectively. Borrowings under this Credit Agreement are guaranteed by certain Company operating subsidiaries. Letters of credit commitments outstanding under this agreement aggregated to $43.9 million and $44.5 million at March 31, 2023 and December 31, 2022, respectively, which reduced borrowing limits available to the Company. Interest expense related to the Credit Agreement was $1.5 million and $2.5 million for the three months ended September 30, 2023 and September 30, 2022, respectively and $2.0 million and $3.4 million for the nine months ended

September 30, 2023 and September 30, 2022, respectively. There was $75 million outstanding under the Credit Agreement at September 30, 2023.

The Credit Agreement includes various covenants, including restrictions on indebtedness, liens, acquisitions, investments or dispositions, payment of dividends and maintenance of certain financial ratios and conditions. The Company was in compliance with these covenants at September 30, 2023 and December 31, 2022.

Letters of Credit

The Company also has in place several secondary bank credit lines for issuing letters of credit, principally for foreign contracts, to support performance and completion guarantees. Letters of credit commitments outstanding under these bank lines aggregated approximately $311.8 million and $222.5 million at September 30, 2023 and December 31, 2022, respectively.

Convertible Note Hedge and Warrant Transactions

In connection with the sale of the Convertible Senior Notes, the Company purchased a bond hedge designed to mitigate the potential dilution from the conversion of the Convertible Senior Notes. Under the five-year term of the bond hedge, upon a conversion of the bonds, the Company will receive the number of shares of common stock equal to the remaining common stock deliverable upon conversion of the Convertible Senior Notes if the conversion value exceeds the principal amount of the Notes. The aggregate number of shares that the Company could be obligated to issue upon conversion of the Convertible Senior Notes is approximately 8.9 million shares. The cost of the convertible note hedge transactions was $55.0 million.

The cost of the convertible note hedge was partially offset by the Company's sale of warrants to acquire approximately 8.9 million shares of the Company's common stock. The warrants were initially exercisable at a price of at least $66.46 per share and are subject to customary adjustments upon the occurrence of certain events, such as the payment of dividends. The Company received $13.8 million in cash proceeds from the sales of these warrants.

The bond hedge and warrant transactions effectively increased the conversion price associated with the Convertible Senior Notes during the term of these transactions from 35%, or $44.86, to 100%, or $66.46, at their issuance, thereby reducing the dilutive economic effect to shareholders upon actual conversion.

The bond hedges and warrants are indexed to, and potentially settled in, shares of the Company's common stock. The net cost of $41.2 million for the purchase of the bond hedges and sale of the warrants was recorded as a reduction to additional paid-in capital in the consolidated balance sheets.

At issuance, the Company recorded a deferred tax liability of $16.2 million related to the Convertible Senior Notes debt discount and the capitalized debt issuance costs. The Company also recorded a deferred tax asset of $16.5 million related to the convertible note hedge transactions and the tax basis of the capitalized debt issuance costs through additional paid-in capital. The deferred tax liability and deferred tax asset were included net in "Deferred tax assets" on the consolidated balance sheets. Upon adoption of ASU 2020-06, the Company reversed the deferred tax liability of $13.9 million that the Company had recorded at issuance related to the Convertible Senior Note debt discount and recorded an additional deferred tax liability of $0.4 million related to the capitalized debt issuance costs. In addition, the Company recorded a $0.9 million adjustment to the deferred tax asset through retained earnings related to the tax effect of book accretion recorded in 2020 and reversed upon adoption.

11. Income Taxes

The Company's effective tax rate was 20.3% and 24.0% and income tax expense was $15.2 million and $13.8 million for the three months ended September 30, 2023 and September 30, 2022, respectively. The change in the effective tax rate was due primarily to tax benefits related to increases in the foreign-derived intangible income (FDII) deduction and a change in jurisdictional mix of earnings, partially offset by an increase in foreign withholding taxes. The Company's effective tax rate was 21.9% and 23.5% and income tax expense was $41.9 million and $27.6 million for the nine months ended September 30, 2023 and September 30, 2022, respectively. The most significant items contributing to the change in the effective tax rate are the tax benefits related to increases in the FDII deduction and change in jurisdictional mix of earnings, partially offset by an increase in foreign withholding taxes. The difference between the effective tax rate and the statutory U.S. Federal income tax rate of 21% for the three and nine months ended September

30, 2023 primarily relates to state income taxes and foreign withholding taxes, partially offset by benefits related to untaxed income attributable to noncontrolling interests, earnings in lower tax jurisdictions, the FDII deduction, and the federal research tax credit.

As of September 30, 2023, the Company's deferred tax assets were subject to a valuation allowance of $25.7 million primarily related to foreign net operating loss carryforwards, foreign tax credit carryforwards, and capital losses that the Company has determined are not more-likely-than-not to be realized. The factors used to assess the likelihood of realization include: the past performance of the entities, forecasts of future taxable income, future reversals of existing taxable temporary differences, and available tax planning strategies that could be implemented to realize the deferred tax assets. The ability or failure to achieve the forecasted taxable income in these entities could affect the ultimate realization of deferred tax assets.

As of September 30, 2023 and December 31, 2022, the liability for income taxes associated with uncertain tax positions was $25.1 million and $22.8 million, respectively. It is reasonably possible that the Company may realize a decrease in our unrecognized tax benefits of approximately $1.4 million during the next 12 months as a result of concluding various tax audits and closing tax years.

Although the Company believes its reserves for its tax positions are reasonable, the final outcome of tax audits could be materially different, both favorably and unfavorably. It is reasonably possible that certain audits may conclude in the next 12 months and that the unrecognized tax benefits the Company has recorded in relation to these tax years may change compared to the liabilities recorded for these periods. However, it is not currently possible to estimate the amount, if any, of such change.

On July 21, 2023, the IRS issued Notice 2023-55 which provides guidance to taxpayers in determining whether a foreign tax is eligible for a U.S. foreign tax credit for tax years 2022 and 2023, specifically delaying until 2024 the application of unfavorable foreign tax credit regulations that were originally issued late last year. The Company does not expect this Notice to have a material impact to its income tax positions.

12. Contingencies

The Company is subject to certain lawsuits, claims and assessments that arise in the ordinary course of business. Additionally, the Company has been named as a defendant in lawsuits alleging personal injuries as a result of contact with asbestos products at various project sites. Management believes that any significant costs relating to these claims will be reimbursed by applicable insurance and, although there can be no assurance that these matters will be resolved favorably, management believes that the ultimate resolution of any of these claims will not have a material adverse effect on our consolidated financial position, results of operations, or cash flows. A liability is recorded when it is both probable that a loss has been incurred and the amount of loss or range of loss can be reasonably estimated. When using a range of loss estimate, the Company records the liability using the low end of the range unless some amount within the range of loss appears at that time to be a better estimate than any other amount in the range. The Company records a corresponding receivable for costs covered under its insurance policies. Management judgment is required to determine the outcome and the estimated amount of a loss related to such matters. Management believes that there are no claims or assessments outstanding which would materially affect the consolidated results of operations or the Company's financial position.

In September 2015, a former Parsons employee filed an action in the United States District Court for the Northern District of Alabama against us as a qui tam relator on behalf of the United States (the "Relator") alleging violation of the False Claims Act. The plaintiff alleges that, as a result of these actions, the United States paid in excess of $1 million per month between February and September 2006 that it should have paid to another contractor, plus $2.9 million to acquire vehicles for the contractor defendant to perform its security services. The lawsuit sought (i) that we cease and desist from violating the False Claims Act, (ii) monetary damages equal to three times the amount of damages that the United States has sustained because of our alleged violations, plus a civil penalty of not less than $5,500 and not more than $11,000 for each alleged violation of the False Claims Act, (iii) monetary damages equal to the maximum amount allowed pursuant to §3730(d) of the False Claims Act, and (iv) Relator's costs for this action, including recovery of attorneys' fees and costs incurred in the lawsuit. The United States government did not intervene in this matter as it is allowed to do so under the statute. Dispositive and/or pre-trail motions have been filed. A hearing date was held during the third quarter of 2023 on such motions; however, the court has not issued a ruling. Depending upon the court's rulings upon such motions, a trial may be scheduled in 2023 or 2024.

Federal government contracts are subject to audits, which are performed for the most part by the Defense Contract Audit Agency ("DCAA"). Audits by the DCAA and other agencies consist of reviews of our overhead rates, operating systems and cost proposals to ensure that we account for such costs in accordance with the Cost Accounting Standards ("CAS"). If the DCAA determines we have not accounted for such costs in accordance with the CAS, the DCAA may disallow these costs. The disallowance of such costs may result in a reduction of revenue and additional liability for the Company. Historically, the Company has not experienced any material disallowed costs as a result of government audits. However, the Company can provide no assurance that the DCAA or other government audits will not result in material disallowances for incurred costs in the future. All audits of costs incurred on work performed through 2013 have been closed, and years thereafter remain open.

Although there can be no assurance that these matters will be resolved favorably, management believes that their ultimate resolution will not have a material adverse impact on the Company's consolidated financial position, results of operations, or cash flows.

13. Retirement Benefit Plan

The Company's principal retirement benefit plan is the Parsons Employee Stock Ownership Plan ("ESOP"), a stock bonus plan, established in 1975 to cover eligible employees of the Company and certain affiliated companies. Contributions of treasury stock to the ESOP are made annually in amounts determined by the Company's board of directors and are held in trust for the sole benefit of the participants. Shares allocated to a participant's account are fully vested after three years of credited service, or in the event(s) of reaching age 65, death or disability while an active employee of the Company. As of September 30, 2023 and December 31, 2022, total shares of the Company's common stock outstanding were 104,888,473 and 104,702,996, respectively, of which 59,752,326 and 63,742,151, respectively, were held by the ESOP.

A participant's interest in their ESOP account is redeemable upon certain events, including retirement, death, termination due to permanent disability, a severe financial hardship following termination of employment, certain conflicts of interest following termination of employment, or the exercise of diversification rights. Distributions from the ESOP of participants' interests are made in the Company's common stock based on quoted prices of a share of the Company's common stock on the NYSE. A participant will be able to sell such shares of common stock in the market, subject to any requirements of the federal securities laws.

Total ESOP contribution expense was $14.9 million and $15.4 million for the three months ended September 30, 2023 and September 30, 2022, respectively and $44.1 million and $42.0 million for the nine months ended September 30, 2023 and September 30, 2022, respectively. The expense is recorded in "Direct costs of contracts" and "Selling, general and administrative expense" in the consolidated statements of income. The fiscal 2023 ESOP contribution has not yet been made. The amount is currently included in accrued liabilities.

14. Investments in and Advances to Joint Ventures

The Company participates in joint ventures to bid, negotiate and complete specific projects. The Company is required to consolidate these joint ventures if it holds the majority voting interest or if the Company meets the criteria under the consolidation model, as described below.

The Company performs an analysis to determine whether its variable interests give the Company a controlling financial interest in a Variable Interest Entity ("VIE") for which the Company is the primary beneficiary and should, therefore, be consolidated. Such analysis requires the Company to assess whether it has the power to direct the activities of the VIE and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE.

The Company analyzed all of its joint ventures and classified them into two groups: (1) joint ventures that must be consolidated because they are either not VIEs and the Company holds the majority voting interest, or because they are VIEs and the Company is the primary beneficiary; and (2) joint ventures that do not need to be consolidated because they are either not VIEs and the Company holds a minority voting interest, or because they are VIEs and the Company is not the primary beneficiary.

Many of the Company's joint venture agreements provide for capital calls to fund operations, as necessary; however, such funding is infrequent and is not anticipated to be material.

Letters of credit outstanding described in “Note 10 – Debt and Credit Facilities” that relate to project ventures are $149.9 million and $106.8 million at September 30, 2023 and December 31, 2022.

In the table below, aggregated financial information relating to the Company’s joint ventures is provided because their nature, risk and reward characteristics are similar. None of the Company’s current joint ventures that meet the characteristics of a VIE are individually significant to the consolidated financial statements.

Consolidated Joint Ventures

The following represents financial information for consolidated joint ventures included in the consolidated financial statements (in thousands):

	September 30, 2023	December 31, 2022
Current assets	$ 418,854	$ 289,837
Noncurrent assets	11,637	9,961
Total assets	430,491	299,798
Current liabilities	278,168	194,701
Noncurrent liabilities	3,504	3,763
Total liabilities	281,672	198,464
Total joint venture equity	$ 148,819	$ 101,334

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Revenue	$ 185,602	$ 130,344	$ 514,339	$ 333,967
Costs	160,423	101,882	445,829	289,485
Net income	$ 25,179	$ 28,462	$ 68,510	$ 44,482
Net income attributable to noncontrolling interests	$ 12,364	$ 14,024	$ 33,617	$ 21,685

The assets of the consolidated joint ventures are restricted for use only by the particular joint venture and are not available for the Company’s general operations.

Unconsolidated Joint Ventures

The Company accounts for its unconsolidated joint ventures using the equity method of accounting. Under this method, the Company recognizes its proportionate share of the net earnings of these joint ventures as “Equity in (losses) earnings of unconsolidated joint ventures” in the consolidated statements of income. The Company’s maximum exposure to loss as a result of its investments in unconsolidated joint ventures is typically limited to the aggregate of the carrying value of the investment and future funding commitments.

The following represents the financial information of the Company’s unconsolidated joint ventures as presented in their unaudited financial statements (in thousands):

	September 30, 2023	December 31, 2022
Current assets	$ 1,513,825	$ 1,610,246
Noncurrent assets	481,708	491,658
Total assets	1,995,533	2,101,904
Current liabilities	960,276	1,255,297
Noncurrent liabilities	503,705	468,056
Total liabilities	1,463,981	1,723,353
Total joint venture equity	$ 531,552	$ 378,551
Investments in and advances to unconsolidated joint ventures	$ 164,858	$ 107,425

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Revenue	$ 634,937	$ 782,880	$ 1,514,561	$ 1,762,420
Costs	581,041	774,030	1,474,991	1,711,555
Net income	$ 53,896	$ 8,850	$ 39,570	$ 50,865
Equity in (losses) earnings of unconsolidated joint ventures	$ 10,262	$ (974)	$ 4,497	$ 10,237

The Company had net contributions to its unconsolidated joint ventures for the three and nine months ended September 30, 2023 of $36.1 million and $50.8 million, respectively and received net distributions from its unconsolidated joint ventures for the three and nine months ended September 30, 2022 of $13.2 million and $21.4 million, respectively.

For the three ended September 30, 2023, the Company recorded adjustments to equity in earnings of unconsolidated joint ventures of $5.1 million and for the nine months ended September 30, 2023 the Company recorded adjustments to equity in losses of unconsolidated joint ventures of $12.4 million on two unconsolidated joint ventures in the Critical Infrastructure segment, one from lower margin change orders in the first quarter offset in the current quarter by higher margin change orders and the other from write-offs in each of the three quarters ended September 30, 2023. For the three months ended September 30, 2023, these adjustments increased operating income by $5.1 million, net income by $3.8 million and diluted earnings per share of $0.03 and for the nine months ended September 30, 2023 decreased operating income by $12.4 million, net income by $9.2 million and diluted earnings per share by $0.08.

15. Related Party Transactions

The Company often provides services to unconsolidated joint ventures and revenues include amounts related to recovering costs for these services. Revenues related to services the Company provided to unconsolidated joint ventures for the three months ended September 30, 2023 and September 30, 2022 were $57.3 million and $60.3 million, respectively and $164.8 million and $160.5 million for the nine months ended September 30, 2023 and September 30, 2022, respectively.

For the three months ended September 30, 2023 and September 30, 2022, the Company incurred $38.8 million and $42.1 million, respectively, and for the nine months ended September 30, 2023 and September 30, 2022 incurred $118.5 million and $113.8 million, respectively, of reimbursable costs.

Amounts included in the consolidated balance sheets related to services the Company provided to unconsolidated joint ventures are as follows (in thousands):

	September 30, 2023	December 31, 2022
Accounts receivable	$ 41,043	$ 40,795
Contract assets	40,032	30,578
Contract liabilities	14,161	14,318

Amounts presented above for prior and comparable periods have been updated to reflect all unconsolidated joint ventures.

16. Fair Value Measurements

The authoritative guidance on fair value measurement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (referred to as an “exit price”). At September 30, 2023 and December 31, 2022, the Company’s financial instruments include cash, cash equivalents, accounts receivable, accounts payable, debt, and other liabilities. The fair values of these financial instruments approximate their carrying values due to their short-term maturities.

Investments measured at fair value are based on one or more of the following three valuation techniques:

- *Market approach*—Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

- *Cost approach*—Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and
- *Income approach*—Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models and lattice models).

In addition, the guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities;

Level 2 - Pricing inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the instrument; and

Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurements and unobservable.

The Company's contingent consideration is categorized as Level 3 within the fair value hierarchy. Contingent consideration is recorded within other long-term liabilities in the Company's consolidated balance sheet as of September 30, 2023. Contingent consideration has been recorded at its fair values using the option pricing method prescribed in the earnout valuation guide published by The Appraisal Foundation. We considered three major risks associated with earnout, i.e. risk in the underlying metric, risk in the earnout structure, and counterparty credit risk. Our valuation model was based on the Black Scholes option pricing formula and major assumptions including SealingTech's fiscal year 2024 projected revenue, the revenue discount rate, the revenue volatility, and the Company's credit adjusted discount rate.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Refer to Notes to Consolidated Financial Statements included in the Company’s Form 10-K for the year ended December 31, 2022 for a more complete discussion of the various items within the consolidated financial statements measured at fair value and the methods used to determine fair value.

17. Earnings Per Share

The following tables reconcile the denominator and numerator used to compute basic earnings per share (“EPS”) to the denominator and numerator used to compute diluted EPS for the three and nine months ended September 30, 2023 and September 30, 2022. Basic EPS is computed using the weighted average number of shares outstanding during the period and income available to shareholders. Diluted EPS is computed similar to basic EPS, except the income available to shareholders is adjusted to add back interest expense, after tax, related to the Convertible Senior Note, and the weighted average number of shares outstanding is adjusted to reflect the dilutive effects of stock-based awards and shares underlying the Convertible Senior Note.

Convertible Senior Note dilution impact is calculated using the if-converted method. In connection with the offerings of the Notes, the Company entered into a convertible note hedge and warrants (see Note 10 Debt and Credit Facilities); however, the convertible note hedge is not considered when calculating dilutive shares given its impact is anti-dilutive. The impact of the bond hedge would offset the dilutive impact of the shares underlying the Convertible Senior Note. The warrants have a strike price above our average share price during the period and are out of the money and not included in the tables below.

Dilutive potential common shares include, when circumstances require, shares the Company could be obligated to issue from its Convertible Senior Notes and warrants (see Note 10 for further discussion) and stock-based awards. Shares to be provided to the Company from its bond hedge purchased concurrently with the issuance of Convertible Senior Notes are anti-dilutive and are not included in its diluted shares. Anti-dilutive stock-based awards excluded from the calculation of earnings per share for the three months ended September 30, 2023 and September 30, 2022 were 2,911 and 2,449, respectively and for the nine months ended September 30, 2023 and September 30, 2022 were 3,284 and 11,564, respectively.

The weighted average number of shares used to compute basic and diluted EPS were:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Basic weighted average number of shares outstanding	104,970,645	103,608,135	104,894,448	103,684,048
Stock-based awards	1,177,894	918,090	1,020,082	746,702
Convertible senior notes	8,916,530	8,916,530	8,916,530	8,916,530
Diluted weighted average number of shares outstanding	115,065,069	113,442,755	114,831,060	113,347,280

The net income available to shareholders to compute basic and diluted EPS were (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Net income attributable to Parsons Corporation	$ 47,447	$ 29,571	116,241	68,533
Convertible senior notes if-converted method interest adjustment	559	545	1,665	1,627
Diluted net income attributable to Parsons Corporation	$ 48,006	$ 30,116	117,906	70,160

Share Repurchases

In August 2021, the Company’s Board of Directors authorized a stock repurchase program to repurchase up to $100.0 million of shares of Common stock. Repurchases under this stock repurchase program commenced on August 12, 2021. Any and all shares of Common Stock purchased by the Company pursuant to the program shall be retired upon their acquisition and shall not become treasury shares but instead shall resume the status of authorized but unissued shares of Common Stock. The timing, amount and manner of share repurchases may depend upon market conditions and economic circumstances, availability of investment opportunities, the availability and costs of financing, the market price of the Company's common stock, other uses of capital and other factors.

There were no share repurchases during the three months ended September 30, 2023

The table below presents information on this repurchase program:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Total shares repurchased	-	95,413	185,475	522,501
Total shares retired	-	95,413	185,475	522,501
Average price paid per share	$ -	$ 41.42	$ 43.13	$ 37.32

As of September 30, 2023, the Company has $48.3 million remaining under the stock repurchase program.

18. Segment Information

The Company operates in two reportable segments: Federal Solutions and Critical Infrastructure.

The Federal Solutions segment provides advanced technical solutions to the U.S. government, delivering timely, cost-effective hardware, software and services for mission-critical projects. The segment provides advanced technologies, supporting national security missions in cybersecurity, missile defense, and military facility modernization, logistics support, hazardous material remediation and engineering services.

The Critical Infrastructure segment provides integrated engineering and management services for complex physical and digital infrastructure around the globe. The Critical Infrastructure segment is a technology innovator focused on next generation digital systems and complex structures. Industry leading capabilities in engineering and project management allow the Company to deliver significant value to customers by employing cutting-edge technologies, improving timelines and reducing costs.

The Company defines its reportable segments based on the way the chief operating decision maker (“CODM”), its Chair and Chief Executive Officer, evaluates the performance of each segment and manages the operations of the Company for purposes of allocating resources among the segments. The CODM evaluates segment operating performance using segment Revenue and segment Adjusted EBITDA attributable to Parsons Corporation.

The following table summarizes business segment revenue for the periods presented (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Federal Solutions revenue	$ 780,114	$ 620,416	$ 2,177,457	$ 1,649,601
Critical Infrastructure revenue	638,457	513,954	1,771,066	1,442,559
Total revenue	$ 1,418,571	$ 1,134,370	$ 3,948,523	$ 3,092,160

The Company defines Adjusted EBITDA attributable to Parsons Corporation as Adjusted EBITDA excluding Adjusted EBITDA attributable to noncontrolling interests. The Company defines Adjusted EBITDA as net income (loss) attributable to Parsons Corporation, adjusted to include net income (loss) attributable to noncontrolling interests and to exclude interest expense (net of interest income), provision for income taxes, depreciation and amortization and certain other items that are not considered in the evaluation of ongoing operating performance. These other items include net income (loss) attributable to noncontrolling interests, asset impairment charges, equity-based compensation, income and expense recognized on litigation matters, expenses incurred in connection with acquisitions and other non-recurring transaction costs and expenses related to our prior restructuring. The following table reconciles business segment Adjusted EBITDA attributable to Parsons Corporation to Net Income attributable to Parsons Corporation for the periods presented (in thousands):

	Three Months Ended		Nine Months Ended	
Adjusted EBITDA attributable to Parsons Corporation	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Federal Solutions	$ 65,039	$ 61,004	$ 206,827	$ 151,287
Critical Infrastructure	50,188	27,545	95,481	81,020
Adjusted EBITDA attributable to Parsons Corporation	115,227	88,549	302,308	232,307
Adjusted EBITDA attributable to noncontrolling interests	12,606	14,138	34,222	22,042
Depreciation and amortization	(30,154)	(29,578)	(87,202)	(90,668)
Interest expense, net	(8,120)	(5,941)	(20,778)	(14,168)
Income tax expense	(15,218)	(13,792)	(41,944)	(27,643)
Equity-based compensation expense	(9,075)	(7,125)	(25,092)	(15,814)
Transaction-related costs (a)	(5,493)	(2,563)	(9,028)	(14,486)
Restructuring expense (b)	-	-	(546)	(213)
Other (c)	38	(93)	(2,082)	(1,139)
Net income including noncontrolling interests	59,811	43,595	149,858	90,218
Net income attributable to noncontrolling interests	12,364	14,024	33,617	21,685
Net income attributable to Parsons Corporation	$ 47,447	$ 29,571	$ 116,241	$ 68,533

(a) Reflects costs incurred in connection with acquisitions and other non-recurring transaction costs, primarily fees paid for professional services and employee retention.
(b) Reflects costs associated with corporate restructuring initiatives.
(c) Includes a combination of gain/loss related to sale of fixed assets, software implementation costs, and other individually insignificant items that are non-recurring in nature.

Asset information by segment is not a key measure of performance used by the CODM.

The following tables present revenues and property and equipment, net by geographic area (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Revenue				
North America	$ 1,166,547	$ 944,942	$ 3,251,552	$ 2,571,741
Middle East	247,689	184,680	684,340	504,078
Rest of World	4,335	4,748	12,631	16,341
Total Revenue	$ 1,418,571	$ 1,134,370	$ 3,948,523	$ 3,092,160

The geographic location of revenue is determined by the location of the customer (in thousands):

	September 30, 2023	December 31, 2022
Property and Equipment, Net		
North America	$ 92,279	$ 91,217
Middle East	7,065	4,833
Total Property and Equipment, Net	$ 99,344	$ 96,050

North America includes revenue in the United States for the three months ended September 30, 2023 and September 30, 2022 of $1.1 billion and $0.9 billion, respectively and for the nine months ended September 30, 2023 and September 30, 2022 of $3.0 billion and $2.3 billion, respectively. North America property and equipment, net includes $85.2 million and $84.4 million of property and equipment, net in the United States at September 30, 2023 and December 31, 2022, respectively.

The following table presents revenues by business units (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Revenue				
Defense and Intelligence	$ 398,632	$ 351,419	$ 1,144,320	$ 1,037,244
Engineered Systems	381,482	268,997	1,033,137	612,357
Federal Solutions revenues	780,114	620,416	2,177,457	1,649,601
Mobility Solutions	430,011	329,666	1,209,554	924,834
Connected Communities	208,446	184,288	561,512	517,725
Critical Infrastructure revenues	638,457	513,954	1,771,066	1,442,559
Total Revenue	$ 1,418,571	$ 1,134,370	$ 3,948,523	$ 3,092,160

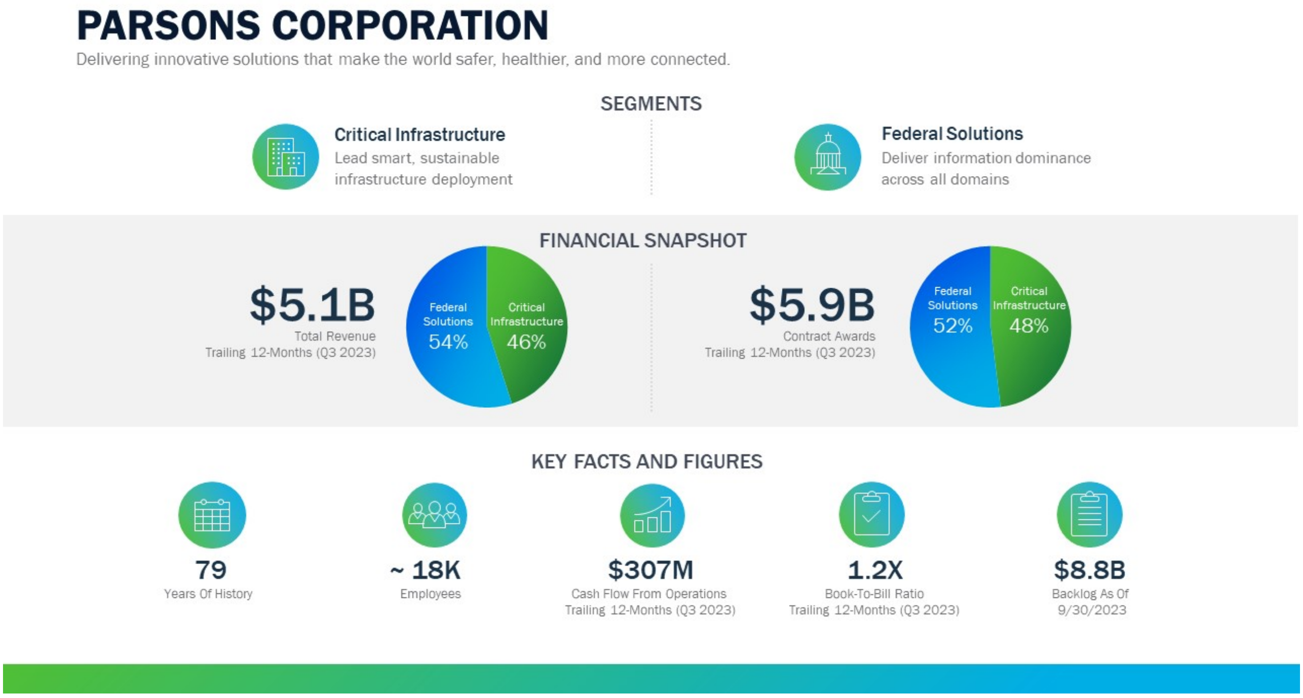
19. Subsequent Events

On October 31, 2023, the Company entered into a Membership Interest Purchase Agreement to acquire a 100% ownership interest in I.S. Engineers, LLC, a privately-owned company, for $11.5 million, subject to certain adjustments. Headquartered in Texas, I.S. Engineers, LLC provides full service consulting specializing in transportation engineering, including roads and highways, and program management. At the timing of the filing of this Form 10-Q, the Company has just started the process of obtaining the relevant data to make the required acquisition related disclosures. This acquisition is not material to the Company's consolidated financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis is intended to help investors understand our business, financial condition, results of operations, liquidity and capital resources. You should read this discussion together with our consolidated financial statements and related notes thereto included elsewhere in this Form 10-Q and in conjunction with the Company's Form 10-K for the year ended December 31, 2022. Certain amounts may not foot due to rounding.

The statements in this discussion regarding industry outlook, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements in this discussion are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in "Risk Factors" and "Special Note Regarding Forward-Looking Statements" in the Company's Form 10-K for the year ended December 31, 2022. We undertake no obligation to revise publicly any forward-looking statements. Actual results may differ materially from those contained in any forward-looking statements.



Overview

We are a leading provider of the integrated solutions and services required in today's complex security environment and a world of digital transformation. We deliver innovative technology-driven solutions to customers worldwide. We have developed significant expertise and differentiated capabilities in key areas of cybersecurity, intelligence, missile defense, C5ISR, space, transportation, water/wastewater and environmental remediation. By combining our talented team of professionals and advanced technology, we solve complex technical challenges to enable a safer, smarter, more secure and more connected world.

We operate in two reporting segments, Federal Solutions and Critical Infrastructure. Our Federal Solutions business provides advanced technical solutions to the U.S. government. Our Critical Infrastructure business provides integrated engineering and management services for complex physical and digital infrastructure to state and local governments and large companies.

Our employees provide services pursuant to contracts that we are awarded by the customer and specific task orders relating to such contracts. These contracts are often multi-year, which provides us backlog and visibility on our revenues for future periods. Many of our contracts and task orders are subject to renewal and rebidding at the end of their term, and some are subject to the exercise of contract options and issuance of task orders by the applicable government entity. In addition to focusing on increasing our revenues through increased contract awards and backlog, we focus our financial performance on margin expansion and cash flow.

Key Metrics

We manage and assess the performance of our business by evaluating a variety of metrics. The following table sets forth selected key metrics (in thousands, except Book-to-Bill):

	September 30, 2023	September 30, 2022
Awards (year to date)	$ 4,748,320	$ 3,167,023
Backlog (1)	$ 8,815,561	$ 8,228,989
Book-to-Bill (year to date)	1.2	1.0

(1) Difference between our backlog of $8.8 billion and our remaining unsatisfied performance obligations, or RUPO, of $6.2 billion, each as of September 30, 2023, is due to (i) unissued task orders and unexercised option years, to the extent their issuance or exercise is probable, as well as (ii) contract awards, to the extent we believe contract execution and funding is probable.

Awards

Awards generally represent the amount of revenue expected to be earned in the future from funded and unfunded contract awards received during the period. Contract awards include both new and re-compete contracts and task orders. Given that new contract awards generate growth, we closely track our new awards each year.

The following table summarizes the year to-date value of new awards for the periods presented below (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Federal Solutions	$ 764,531	$ 685,599	$ 2,642,302	$ 1,535,041
Critical Infrastructure	670,398	572,657	2,106,018	1,631,982
Total Awards	$ 1,434,929	$ 1,258,256	$ 4,748,320	$ 3,167,023

The change in new awards from year to year is generally due to ordinary course fluctuations in our business. The volume of contract awards can fluctuate in any given period due to win rate and the timing and size of the awards issued by our customers. The increase in awards for the three months ended September 30, 2023 when compared to the corresponding period last year was primarily driven by significant awards in both our Federal Solutions and Critical Infrastructure segments.

Backlog

We define backlog to include the following two components:

- Funded—Funded backlog represents future revenue anticipated from orders for services under existing contracts for which funding is appropriated or otherwise authorized.
- Unfunded—Unfunded backlog represents future revenue anticipated from orders for services under existing contracts for which funding has not been appropriated or otherwise authorized.

Backlog includes (i) unissued task orders and unexercised option years, to the extent their issuance or exercise is probable, as well as (ii) contract awards, to the extent we believe contract execution and funding is probable.

The following table summarizes the value of our backlog at the respective dates presented below (in thousands):

	September 30, 2023	September 30, 2022
Federal Solutions:		
Funded	$ 1,625,475	$ 1,448,615
Unfunded	3,565,223	3,656,421
Total Federal Solutions	5,190,698	5,105,036
Critical Infrastructure:		
Funded	3,554,754	3,066,325
Unfunded	70,109	57,628
Total Critical Infrastructure	3,624,863	3,123,953
Total Backlog (1)	$ 8,815,561	$ 8,228,989

(1) Difference between our backlog of $8.8 billion and our RUPO of $6.2 billion, each as of September 30, 2023, is due to (i) unissued task orders and unexercised option years, to the extent their issuance or exercise is probable, as well as (ii) contract awards, to the extent we believe contract execution and funding is probable.

Our backlog includes orders under contracts that in some cases extend for several years. For example, the U.S. Congress generally appropriates funds for our U.S. federal government customers on a yearly basis, even though their contracts with us may call for performance that is expected to take a number of years to complete. As a result, our federal contracts typically are only partially funded at any point during their term. All or some of the work to be performed under the contracts may remain unfunded unless and until the U.S. Congress makes subsequent appropriations and the procuring agency allocates funding to the contract.

We expect to recognize $3.5 billion of our funded backlog at September 30, 2023 as revenues in the following twelve months. However, our U.S. federal government customers may cancel their contracts with us at any time through a termination for convenience or may elect to not exercise option periods under such contracts. In the case of a termination for convenience, we would not receive anticipated future revenues, but would generally be permitted to recover all or a portion of our incurred costs and fees for work performed. See “Risk Factors—Risk Relating to Our Business—We may not realize the full value of our backlog, which may result in lower than expected revenue” in the Company’s Form 10-K for the year ended December 31, 2022.

The changes in backlog in both the Federal Solutions and Critical Infrastructure segments were primarily from ordinary course fluctuations in our business and the impacts related to the Company’s awards discussed above.

Book-to-Bill

Book-to-bill is the ratio of total awards to total revenue recorded in the same period. Our management believes our book-to-bill ratio is a useful indicator of our potential future revenue growth in that it measures the rate at which we are generating new awards compared to the Company’s current revenue. To drive future revenue growth, our goal is for the level of awards in a given period to exceed the revenue booked. A book-to-bill ratio greater than 1.0 indicates that awards generated in a given period exceeded the revenue recognized in the same period, while a book-to-bill ratio of less than 1.0 indicates that awards generated in such period were less than the revenue recognized in such period. The following table sets forth the book-to-bill ratio for the periods presented below:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Federal Solutions	1.0	1.1	1.2	0.9
Critical Infrastructure	1.1	1.1	1.2	1.1
Overall	1.0	1.1	1.2	1.0

Factors and Trends Affecting Our Results of Operations

We believe that the financial performance of our business and our future success are dependent upon many factors, including those highlighted in this section. Our operating performance will depend upon many variables, including the success of our growth strategies and the timing and size of investments and expenditures that we choose to undertake, as well as market growth and other factors that are not within our control.

Government Spending

Changes in the relative mix of government spending and areas of spending growth, with shifts in priorities on homeland security, intelligence, defense-related programs, infrastructure and urbanization, and continued increased spending on technology and innovation, including cybersecurity, artificial intelligence, connected communities and physical infrastructure, could impact our business and results of operations. Cost-cutting and efficiency initiatives, current and future budget restrictions, spending cuts and other efforts to reduce government spending could cause our government customers to reduce or delay funding or invest appropriated funds on a less consistent basis or not at all, and demand for our solutions or services could diminish. Furthermore, any disruption in the functioning of government agencies, including as a result of government closures and shutdowns, could have a negative impact on our operations and cause us to lose revenue or incur additional costs due to, among other things, our inability to deploy our staff to customer locations or facilities as a result of such disruptions.

Federal Budget Uncertainty

There is uncertainty around the timing, extent, nature and effect of Congressional and other U.S. government actions to address budgetary constraints, caps on the discretionary budget for defense and non-defense departments and agencies, and the ability of Congress to determine how to allocate the available budget authority and pass appropriations bills to fund both U.S. government departments and agencies that are, and those that are not, subject to the caps. Additionally, budget deficits and the growing U.S. national debt increase pressure on the U.S. government to reduce federal spending across all federal agencies, with uncertainty about the size and timing of those reductions. Furthermore, delays in the completion of future U.S. government budgets could in the future delay procurement of the federal government services we provide. A reduction in the amount of, or delays, or cancellations of funding for, services that we are contracted to provide to the U.S. government as a result of any of these impacts or related initiatives, legislation or otherwise could have a material adverse effect on our business and results of operations.

Regulations

Increased audit, review, investigation and general scrutiny by government agencies of performance under government contracts and compliance with the terms of those contracts and applicable laws could affect our operating results. Negative publicity and increased scrutiny of government contractors in general, including us, relating to government expenditures for contractor services and incidents involving the mishandling of sensitive or classified information, as well as the increasingly complex requirements of the U.S. Department of Defense and the U.S. Intelligence Community, including those related to cybersecurity, could impact our ability to perform in the markets we serve.

Competitive Markets

The industries we operate in consist of a large number of enterprises ranging from small, niche-oriented companies to multi-billion-dollar corporations that serve many government and commercial customers. We compete on the basis of our technical expertise, technological innovation, our ability to deliver cost-effective multi-faceted services in a timely manner, our reputation and relationships with our customers, qualified and/or security-clearance personnel, and pricing. We believe that we are uniquely positioned to take advantage of the markets in which we operate because of our proven track record, long-term customer relationships, technology innovation, scalable and agile business offerings and world class talent. Our ability to effectively deliver on project engagements and successfully assist our customers affects our ability to win new contracts and drives our financial performance.

Acquired Operations

Sealing Technologies, Inc.

On August 23, 2023, the Company acquired a 100% ownership interest in Sealing Technologies, Inc ("SealingTech"), a privately-owned company, for $181.7 million and up to an additional $25 million in the event an earn out revenue target is exceeded. Headquartered in Maryland, SealingTech expands Parsons' customer base across the Department of Defense and Intelligence Community, and further enhances the company's capabilities in defensive cyber operations; integrated mission-solutions powered by artificial intelligence (AI) and machine learning (ML); edge computing and edge access modernization; critical infrastructure protection; and secure data management. The financial results of SealingTech have been included in our consolidated results of operations from August 23, 2023 onward.

IPKeys Power Partners

On April 13, 2023, the Company entered into a merger agreement to acquire a 100% ownership interest in IPKeys Power Partners ("IPKeys"), a privately-owned company, for $43.0 million. The merger brings IPKeys' established customer base, expanding Parsons' presence in two rapidly growing end markets: grid modernization and cyber resiliency for critical infrastructure. Headquartered in Tinton Falls, New Jersey, IPKeys is a trusted provider of enterprise software platform solutions that is actively delivering cyber and operational security to hundreds of electric, water, and gas utilities across North America. The financial results of IPKeys have been included in our consolidated results of operations from April 13, 2023 onward.

Xator Corporation

On May 31, 2022, the Company acquired Xator Corporation for $387.5 million. This strategic acquisition expands Parsons' presence within the U.S. Special Operations Command, the Intelligence Community, Federal Civilian customers, and global critical infrastructure markets, while providing new customer access at the Department of State. Xator also expands Parsons' customer base and brings differentiated technical capabilities in critical infrastructure protection, counter-unmanned aircraft systems (cUAS), intelligence and cyber solutions, biometrics, and global threat assessment and operations, increasing our addressable market in both the Federal Solutions and Critical Infrastructure segments. The financial results of Xator have been included in our consolidated results of operations from May 31, 2022 onward.

Seasonality

Our results may be affected by variances as a result of weather conditions and contract award seasonality impacts that we experience across our businesses. The latter issue is typically driven by the U.S. federal government fiscal year-end, September 30. While not certain, it is not uncommon for U.S. government agencies to award task orders or complete other contract actions in the weeks before the end of the U.S. federal government fiscal year in order to avoid the loss of unexpended U.S. federal government fiscal year funds. In addition, we have also historically experienced higher bid and proposal costs in the months leading up to the U.S. federal government fiscal year-end as we pursue new contract opportunities expected to be awarded early in the following U.S. federal government fiscal year as a result of funding appropriated for that U.S. federal government fiscal year. Furthermore, many U.S. state governments with fiscal years ending on June 30 tend to accelerate spending during their first quarter, when new funding becomes available. We may continue to experience this seasonality in future periods, and our results of operations may be affected by it.

Results of Operations

Revenue

Our revenue consists of both services provided by our employees and pass-through fees from subcontractors and other direct costs. Our Federal Solutions segment derives revenue primarily from the U.S. federal government and our Critical Infrastructure segment derives revenue primarily from government and commercial customers.

We enter into the following types of contracts with our customers:

- Under cost-plus contracts, we are reimbursed for allowable or otherwise defined costs incurred, plus a fee. The contracts may also include incentives for various performance criteria, including quality, timeliness, safety and cost-effectiveness. In addition, costs are generally subject to review by clients and regulatory audit agencies, and such reviews could result in costs being disputed as non-reimbursable under the terms of the contract.

- Under time-and-materials contracts, hourly billing rates are negotiated and charged to clients based on the actual time spent on a project. In addition, clients reimburse actual out-of-pocket costs for other direct costs and expenses that are incurred in connection with the performance under the contract.
- Under fixed-price contracts, clients pay an agreed fixed-amount negotiated in advance for a specified scope of work.

Refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates” and “Note 2—Summary of Significant Accounting Policies” in the notes to our consolidated financial statements included in the Company’s Form 10-K for the year ended December 31, 2022 for a description of our policies on revenue recognition.

The table below presents the percentage of total revenue for each type of contract.

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Fixed-price	31.9%	29.5%	31.2%	27.6%
Time-and-materials	25.1%	26.6%	25.3%	27.1%
Cost-plus	43.0%	43.8%	43.5%	45.3%

The amount of risk and potential reward varies under each type of contract. Under cost-plus contracts, there is limited financial risk, because we are reimbursed for all allowable costs up to a ceiling. However, profit margins on this type of contract tend to be lower than on time-and-materials and fixed-price contracts. Under time-and-materials contracts, we are reimbursed for the hours worked using the predetermined hourly rates for each labor category. In addition, we are typically reimbursed for other direct contract costs and expenses at cost. We assume financial risk on time-and-materials contracts because our labor costs may exceed the negotiated billing rates. Profit margins on well-managed time-and-materials contracts tend to be higher than profit margins on cost-plus contracts as long as we are able to staff those contracts with people who have an appropriate skill set. Under fixed-price contracts, we are required to deliver the objectives under the contract for a pre-determined price. Compared to time-and-materials and cost-plus contracts, fixed-price contracts generally offer higher profit margin opportunities because we receive the full benefit of any cost savings, but they also generally involve greater financial risk because we bear the risk of any cost overruns. In the aggregate, the contract type mix in our revenue for any given period will affect that period’s profitability. Over time, we have experienced a relatively stable contract mix.

Our recognition of profit on long-term contracts requires the use of assumptions related to transaction price and total cost of completion. Estimates are continually evaluated as work progresses and are revised when necessary. When a change in estimated cost or transaction price is determined to have an impact on contract profit, we record a positive or negative adjustment to revenue.

Joint Ventures

We conduct a portion of our business through joint ventures or similar partnership arrangements. For the joint ventures we control, we consolidate all the revenues and expenses in our consolidated statements of income (including revenues and expenses attributable to noncontrolling interests). For the joint ventures we do not control, we recognize equity in (losses) earnings of unconsolidated joint ventures. Our revenues included amounts related to services we provided to our unconsolidated joint ventures for the three months ended September 30, 2023 and September 30, 2022 of $57.3 million and $60.3 million, respectively, and $164.8 million and $160.5 million for the nine months ended September 30, 2023 and September 30, 2022, respectively.

Operating costs and expenses

Operating costs and expenses primarily include direct costs of contracts and selling, general and administrative expenses. Costs associated with compensation-related expenses for our people and facilities, which includes ESOP contribution expenses, are the most significant component of our operating expenses. Total ESOP contribution expense for the three months ended September 30, 2023 and September 30, 2022 was $14.9 million and $15.4 million, respectively, and for the nine months ended September 30, 2023 and September 30, 2022 was $44.1 million and $42.0 million, respectively and is recorded in “Direct cost of contracts” and “Selling, general and administrative expenses.”

Direct costs of contracts consist of direct labor and associated fringe benefits, indirect overhead, subcontractor and materials (“pass-through costs”), travel expenses and other expenses incurred to perform on contracts.

Selling, general and administrative expenses ("SG&A") include salaries and wages and fringe benefits of our employees not performing work directly for customers, facility costs and other costs related to these indirect functions.

Other income and expenses

Other income and expenses primarily consist of interest income, interest expense and other income, net.

Interest income primarily consists of interest earned on U.S. government money market funds.

Interest expense consists of interest expense incurred under our Senior Notes, Convertible Senior Notes, and Credit Agreement.

Other income, net primarily consists of gain or loss on sale of assets, sublease income and transaction gain or loss related to movements in foreign currency exchange rates.

Adjusted EBITDA

The following table sets forth Adjusted EBITDA, Net Income Margin, and Adjusted EBITDA Margin for the three and nine months ended September 30, 2023 and September 30, 2022.

	Three Months Ended		Nine Months Ended	
(U.S. dollars in thousands)	**September 30, 2023**	**September 30, 2022**	**September 30, 2023**	**September 30, 2022**
Adjusted EBITDA (1)	$ 127,833	$ 102,687	$ 336,530	$ 254,349
Net Income Margin (2)	4.2%	3.8%	3.8%	2.9%
Adjusted EBITDA Margin (3)	9.0%	9.1%	8.5%	8.2%

(1) A reconciliation of net income attributable to Parsons Corporation to Adjusted EBITDA is set forth below (in thousands).

(2) Net Income Margin is calculated as net income including noncontrolling interest divided by revenue in the applicable period

(3) Adjusted EBITDA Margin is calculated as Adjusted EBITDA divided by revenue in the applicable period.

	Three Months Ended		Nine Months Ended	
	September 30, 2023	**September 30, 2022**	**September 30, 2023**	**September 30, 2022**
Net income attributable to Parsons Corporation	$ 47,447	$ 29,571	$ 116,241	$ 68,533
Interest expense, net	8,120	5,941	20,778	14,168
Income tax expense	15,218	13,792	41,944	27,643
Depreciation and amortization	30,154	29,578	87,202	90,668
Net income attributable to noncontrolling interests	12,364	14,024	33,617	21,685
Equity-based compensation	9,075	7,125	25,092	15,814
Transaction-related costs (a)	5,493	2,563	9,028	14,486
Restructuring (b)	-	-	546	213
Other (c)	(38)	93	2,082	1,139
Adjusted EBITDA	$ 127,833	$ 102,687	$ 336,530	$ 254,349

(a) Reflects costs incurred in connection with acquisitions and other non-recurring transaction costs, primarily fees paid for professional services and employee retention.

(b) Reflects costs associated with our corporate restructuring initiatives.
(c) Includes a combination of gain/loss related to sale of fixed assets, software implementation costs, and other individually insignificant items that are non-recurring in nature.

Adjusted EBITDA is a supplemental measure of our operating performance used by management and our board of directors to assess our financial performance both on a segment and on a consolidated basis. We discuss Adjusted EBITDA because our management uses this measure for business planning purposes, including to manage the business against internal projected results of operations and measure the performance of the business generally. Adjusted EBITDA is frequently used by analysts, investors and other interested parties to evaluate companies in our industry.

Adjusted EBITDA is not a GAAP measure of our financial performance or liquidity and should not be considered as an alternative to net income as a measure of financial performance or cash flows from operations as measures of liquidity, or any other performance measure derived in accordance with GAAP. We define Adjusted EBITDA as net income (loss) attributable to Parsons Corporation, adjusted to include net income (loss) attributable to noncontrolling interests and to exclude interest expense (net of interest income), provision for income taxes, depreciation and amortization and certain other items that we do not consider in our evaluation of ongoing operating performance. These other items include, among other things, impairment of goodwill, intangible and other assets, interest and other expenses recognized on litigation matters, expenses incurred in connection with acquisitions and other non-recurring transaction costs and expenses related to our corporate restructuring initiatives. Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Additionally, Adjusted EBITDA is not intended to be a measure of free cash flow for management's discretionary use, as it does not reflect tax payments, debt service requirements, capital expenditures and certain other cash costs that may recur in the future, including, among other things, cash requirements for working capital needs and cash costs to replace assets being depreciated and amortized. Management compensates for these limitations by relying on our GAAP results in addition to using Adjusted EBITDA supplementally. Our measure of Adjusted EBITDA is not necessarily comparable to similarly titled captions of other companies due to different methods of calculation.

The following table shows Adjusted EBITDA attributable to Parsons Corporation for each of our reportable segments and Adjusted EBITDA attributable to noncontrolling interests. Please see Segment Results below for a discussion of the factors impacting Adjusted EBITDA (in thousands):

	Three Months Ended		Variance	
	September 30, 2023	September 30, 2022	Dollar	Percent
Federal Solutions Adjusted EBITDA attributable to Parsons Corporation	$ 65,039	$ 61,004	$ 4,035	6.6 %
Critical Infrastructure Adjusted EBITDA attributable to Parsons Corporation	50,188	27,545	22,643	82.2 %
Adjusted EBITDA attributable to noncontrolling interests	12,606	14,138	(1,532)	-10.8 %
Total Adjusted EBITDA	$ 127,833	$ 102,687	$ 25,146	24.5 %

	Nine Months Ended		Variance	
	September 30, 2023	September 30, 2022	Dollar	Percent
Federal Solutions Adjusted EBITDA attributable to Parsons Corporation	$ 206,827	$ 151,287	$ 55,540	36.7 %
Critical Infrastructure Adjusted EBITDA attributable to Parsons Corporation	95,481	81,020	14,461	17.8 %
Adjusted EBITDA attributable to noncontrolling interests	34,222	22,042	12,180	55.3 %
Total Adjusted EBITDA	$ 336,530	$ 254,349	$ 82,181	32.3 %

The following table sets forth our results of operations for the three and nine months ended September 30, 2023 and September 30, 2022 as a percentage of revenue.

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Revenues	100%	100%	100%	100%
Direct costs of contracts	79.3%	76.9%	78.8%	77.2%
Equity in (losses) earnings of unconsolidated joint ventures	0.7%	-0.1%	0.1%	0.3%
Selling, general and administrative expenses	15.6%	17.4%	16.0%	18.8%
Operating income	5.9%	5.6%	5.3%	4.3%
Interest income	0.0%	0.0%	0.0%	0.0%
Interest expense	-0.6%	-0.6%	-0.6%	-0.5%
Other income, net	0.0%	-0.1%	0.0%	0.0%
Total other income (expense)	-0.6%	-0.6%	-0.5%	-0.5%
Income before income tax expense	5.3%	5.1%	4.9%	3.8%
Income tax benefit (provision)	-1.1%	-1.2%	-1.1%	-0.9%
Net income including noncontrolling interests	4.2%	3.8%	3.8%	2.9%
Net income attributable to noncontrolling interests	-0.9%	-1.2%	-0.9%	-0.7%
Net income attributable to Parsons Corporation	3.3%	2.6%	2.9%	2.2%

Revenue

	Three Months Ended		Variance	
(U.S. dollars in thousands)	September 30, 2023	September 30, 2022	Dollar	Percent
Revenue	$ 1,418,571	$ 1,134,370	$ 284,201	25.1%

The increase in revenue for the three months ended September 30, 2023 when compared to the corresponding period last year, was due to increases in revenue in both our Federal Solutions and Critical Infrastructure segments of $159.7 million and $124.5 million, respectively.

	Nine Months Ended		Variance	
(U.S. dollars in thousands)	September 30, 2023	September 30, 2022	Dollar	Percent
Revenue	$ 3,948,523	$ 3,092,160	$ 856,363	27.7%

The increase in revenue for the nine months ended September 30, 2023 when compared to the corresponding period last year, was due to increases in revenue in both our Federal Solutions and Critical Infrastructure segments of $527.9 million and $328.5 million, respectively.

See “Segment Results” below for a further discussion of the changes in the Company's revenue.

Direct costs of contracts

	Three Months Ended		Variance	
(U.S. dollars in thousands)	September 30, 2023	September 30, 2022	Dollar	Percent
Direct costs of contracts	$ 1,124,305	$ 872,423	$ 251,882	28.9%

The increase in direct cost of contracts for the three months ended September 30, 2023 when compared to the corresponding period last year, was primarily due to an increase of $146.7 million in our Federal Solutions segment and $105.2 million in our Critical Infrastructure segment. The increases were primarily due to an an increase in organic business volume in both segments and an increase from business acquisitions in the Federal Solutions segment of $16.2 million.

	Nine Months Ended		Variance	
(U.S. dollars in thousands)	September 30, 2023	September 30, 2022	Dollar	Percent
Direct costs of contracts	$ 3,109,713	$ 2,388,095	$ 721,618	30.2%

The increase in direct cost of contracts for the nine months ended September 30, 2023 when compared to the corresponding period last year, was primarily due to an increase of $446.4 million in our Federal Solutions segment and $275.2 million in our Critical Infrastructure segment. The increases were primarily due to an increase in organic business volume in both segments and an increase from business acquisitions of $208.7 million in the Federal Solutions segment.

Equity in (losses) earnings of unconsolidated joint ventures

	Three Months Ended		Variance	
(U.S. dollars in thousands)	**September 30, 2023**	**September 30, 2022**	**Dollar**	**Percent**
Equity in earnings (losses) of unconsolidated joint ventures	$ 10,262	$ (974)	$ 11,236	-1153.6 %

The increase in equity in earnings of unconsolidated joint ventures for the three months ended September 30, 2023 compared to the corresponding period last year, was primarily due to earnings on higher margin change orders.

	Nine Months Ended		Variance	
(U.S. dollars in thousands)	**September 30, 2023**	**September 30, 2022**	**Dollar**	**Percent**
Equity in earnings of unconsolidated joint ventures	$ 4,497	$ 10,237	$ (5,740)	-56.1 %

The decrease in equity in earnings of unconsolidated joint ventures for the nine months ended September 30, 2023 compared to the corresponding period last year, was primarily due to $15.8 million in write-downs on a joint venture during the nine months ended September 30, 2023 offset in part by the higher margin change orders discussed above.

Selling, general and administrative expenses

	Three Months Ended		Variance	
(U.S. dollars in thousands)	**September 30, 2023**	**September 30, 2022**	**Dollar**	**Percent**
Selling, general and administrative expenses	$ 221,188	$ 196,960	$ 24,228	12.3 %

The increase in SG&A of $24.2 million for the three months ended September 30, 2023 when compared to the corresponding period last year was primarily due to an increase of $9.2 million related to employee incentive programs, a $4.6 million increase from business acquisitions, a $2.9 million increase in transaction related costs, and a $2.1 million increase related to business development and sales activities.

	Nine Months Ended		Variance	
(U.S. dollars in thousands)	**September 30, 2023**	**September 30, 2022**	**Dollar**	**Percent**
Selling, general and administrative expenses	$ 632,393	$ 581,969	$ 50,424	8.7 %

The increase in SG&A of $50.4 million for the nine months ended September 30, 2023 when compared to the corresponding period last year was primarily due to an increase of $19.9 million related to employee incentive programs, a

$17.4 million increase from business acquisitions, and $13.2 million primarily related to business development and sales activities.

Total other income (expense)

Interest income is related to interest earned on cash balances held. Interest expense is primarily due to debt related to our Delayed Draw Term Loan and Convertible Senior Notes. Other income (expense), net is primarily related to transaction gains and losses on foreign currency transactions and sublease income.

	Three Months Ended		Variance	
(U.S. dollars in thousands)	September 30, 2023	September 30, 2022	Dollar	Percent
Interest income	$ 492	$ 382	$ 110	28.8 %
Interest expense	(8,612)	(6,323)	(2,289)	36.2 %
Other income (expense), net	(191)	(685)	494	-72.1 %
Total other income (expense)	$ (8,311)	$ (6,626)	$ (1,685)	25.4 %

The increase in interest expense is primarily related to higher interest rates on borrowings under the Company's various credit facilities during the three months ended September 30, 2023 compared to interest rates on borrowings under the revolving Credit Agreement during the three months ended September 30, 2022. Also impacting interest expense during the three months ended September 30, 2023 were borrowings made under the revolving Credit Agreement during the three months ended September 30, 2023.

	Nine Months Ended		Variance	
(U.S. dollars in thousands)	September 30, 2023	September 30, 2022	Dollar	Percent
Interest income	$ 1,591	$ 618	$ 973	157.4 %
Interest expense	(22,369)	(14,786)	(7,583)	51.3 %
Other income (expense), net	1,666	(304)	1,970	-648.0 %
Total other income (expense)	$ (19,112)	$ (14,472)	$ (4,640)	32.1 %

The increase in interest expense for the nine months ended September 30, 2023 is primarily related to the same factors impacting interest expense described above for the three months ended September 30, 2023.

Income tax expense

	Three Months Ended		Variance	
(U.S. dollars in thousands)	September 30, 2023	September 30, 2022	Dollar	Percent
Income tax expense	$ 15,218	$ 13,792	$ 1,426	10.3 %

The Company’s effective tax rate was 20.3% and 24.0% and income tax expense was $15.2 million and $13.8 million for the three months ended September 30, 2023 and September 30, 2022, respectively. The most significant items contributing to the change in the effective tax rate are tax benefits related to increases in the foreign-derived intangible income (FDII) deduction and a change in jurisdictional mix of earnings, partially offset by an increase in foreign withholding taxes. The difference between the statutory U.S. federal income tax rate of 21.0% and the effective tax rate for the quarter ended September 30, 2023 is primarily due to benefits related to untaxed income attributable to noncontrolling interests, earnings in lower tax jurisdictions, the FDII deduction, and the federal research tax credit, partially offset by state income taxes and foreign withholding taxes.

	Nine Months Ended		Variance	
(U.S. dollars in thousands)	September 30, 2023	September 30, 2022	Dollar	Percent
Income tax expense	$ 41,944	$ 27,643	$ 14,301	51.7 %

The Company’s effective tax rate was 21.9% and 23.5% and income tax expense was $41.9 million and $27.6 million for the nine months ended September 30, 2023 and September 30, 2022, respectively. The most significant items contributing to the change in the effective tax rate are tax benefits related to increases in the FDII deduction and a change in jurisdictional mix of earnings, partially offset by an increase in foreign withholding taxes. The difference between the statutory U.S. federal income tax rate of 21.0% and the effective tax rate for the nine months ended September 30, 2023 primarily relates to state income taxes and foreign withholding taxes, partially offset by benefits related to untaxed income attributable to noncontrolling interests, earnings in lower tax jurisdictions, the FDII deduction, and the federal research tax credit.

Segment Results

We evaluate segment operating performance using segment revenue and segment Adjusted EBITDA attributable to Parsons Corporation. Adjusted EBITDA attributable to Parsons Corporation is Adjusted EBITDA excluding Adjusted EBITDA attributable to noncontrolling interests. Presented above, in this Management's Discussion and Analysis of Financial Condition and Results of Operations, is a discussion of our definition of Adjusted EBITDA, how we use this metric, why we present this metric and the material limitations on the usefulness of this metric. See "Note 18—Segments Information" in the notes to the consolidated financial statements in this Form 10-Q for further discussion regarding our segment Adjusted EBITDA attributable to Parsons Corporation.

The following table shows Adjusted EBITDA attributable to Parsons Corporation for each of our reportable segments and Adjusted EBITDA attributable to noncontrolling interests (in thousands):

	Three Months Ended		Nine Months Ended	
(U.S. dollars in thousands)	**September 30, 2023**	**September 30, 2022**	**September 30, 2023**	**September 30, 2022**
Federal Solutions Adjusted EBITDA attributable to Parsons Corporation	$ 65,039	$ 61,004	$ 206,827	$ 151,287
Critical Infrastructure Adjusted EBITDA attributable to Parsons Corporation	50,188	27,545	95,481	81,020
Adjusted EBITDA attributable to noncontrolling interests	12,606	14,138	34,222	22,042
Total Adjusted EBITDA	$ 127,833	$ 102,687	$ 336,530	$ 254,349

Federal Solutions

	Three Months Ended		Variance	
(U.S. dollars in thousands)	**September 30, 2023**	**September 30, 2022**	**Dollar**	**Percent**
Revenue	$ 780,114	$ 620,416	$ 159,698	25.7%
Adjusted EBITDA attributable to Parsons Corporation	$ 65,039	$ 61,004	$ 4,035	6.6%
Adjusted EBITDA Margin attributable to Parsons Corporation	8.3%	9.8%	-1.5%	-15.2%

The increase in Federal Solutions revenue for the three months ended September 30, 2023 compared to the corresponding period last year was primarily due to organic growth of 23% driven by growth on new and existing contracts offset by the winding down of a large contract.

The increase in Federal Solutions Adjusted EBITDA attributable to Parsons Corporation for the three months ended September 30, 2023 compared to the corresponding period last year was primarily due to the factors impacting revenue discussed above offset in part by the timing of program milestones and completions, as well as higher projected incentive compensation costs as a result of the company's strong operating performance and growing employee base.

	Nine Months Ended		Variance	
(U.S. dollars in thousands)	**September 30, 2023**	**September 30, 2022**	**Dollar**	**Percent**
Revenue	$ 2,177,457	$ 1,649,601	$ 527,856	32.0%
Adjusted EBITDA attributable to Parsons Corporation	$ 206,827	$ 151,287	$ 55,540	36.7%
Adjusted EBITDA Margin attributable to Parsons Corporation	9.5%	9.2%	0.3%	3.6%

The increase in Federal Solutions revenue for the nine months ended September 30, 2023 compared to the corresponding period last year was primarily due to organic growth of 17%, and increases from business acquisitions of $248.5 million.

The increase in Federal Solutions Adjusted EBITDA attributable to Parsons Corporation for the nine months ended September 30, 2023 compared to the corresponding period last year was primarily due to the factors impacting Adjusted EBITDA discussed above for the three months ended September 30, 2023 and the $20 million of incentive fees on two contracts recognized in the second quarter of 2023.

Critical Infrastructure

	Three Months Ended		Variance	
(U.S. dollars in thousands)	**September 30, 2023**	**September 30, 2022**	**Dollar**	**Percent**
Revenue	$ 638,457	$ 513,954	$ 124,503	24.2 %
Adjusted EBITDA attributable to Parsons Corporation	$ 50,188	$ 27,545	$ 22,643	82.2 %
Adjusted EBITDA Margin attributable to Parsons Corporation	7.9 %	5.4 %	2.5 %	46.7 %

The increase in Critical Infrastructure revenue for the three months ended September 30, 2023 compared to the corresponding period last year was primarily due to organic revenue growth of 24% driven by volume in both the Middle East and North America.

The increase in Critical Infrastructure Adjusted EBITDA attributable to Parsons Corporation for the three months ended September 30, 2023 compared to the corresponding period last year was primarily due to the increase from organic revenue growth and high margin change orders on an unconsolidated joint venture offset in part by higher projected incentive compensation costs as a result of the company's strong operating performance and growing employee base.

	Nine Months Ended		Variance	
(U.S. dollars in thousands)	**September 30, 2023**	**September 30, 2022**	**Dollar**	**Percent**
Revenue	$ 1,771,066	$ 1,442,559	$ 328,507	22.8 %
Adjusted EBITDA attributable to Parsons Corporation	$ 95,481	$ 81,020	$ 14,461	17.8 %
Adjusted EBITDA Margin attributable to Parsons Corporation	5.4 %	5.6 %	-0.2 %	-4.0 %

The increase in Critical Infrastructure revenue for the nine months ended September 30, 2023 compared to the corresponding period last year was primarily due to organic revenue growth of 22% driven by volume in both the Middle East and North America.

The increase in Critical Infrastructure Adjusted EBITDA attributable to Parsons Corporation for the nine months ended September 30, 2023 compared to the corresponding period last year was primarily due to the increase from organic revenue growth offset in part by a project write-down of $20.7 million, $15.8 million in write-downs on an unconsolidated joint venture, and an increase in selling, general and administrative expenses.

Liquidity and Capital Resources

We finance our operations and capital expenditures through a combination of internally generated cash from operations, our Senior Notes, Convertible Senior Notes, and periodic borrowings under our Revolving Credit Facility.

Generally, cash provided by operating activities has been adequate to fund our operations. Due to fluctuations in our cash flows and growth in our operations, it may be necessary from time to time in the future to borrow under our Credit Agreement to meet cash demands. Our management regularly monitors certain liquidity measures to monitor performance. We calculate our available liquidity as a sum of cash and cash equivalents from our consolidated balance sheet plus the amount available and unutilized on our Credit Agreement.

As of September 30, 2023, we believe we have adequate liquidity and capital resources to fund our operations, support our debt service and support our ongoing acquisition strategy for at least the next twelve months based on the liquidity from cash provided by our operating activities, cash and cash equivalents on-hand and our borrowing capacity under our Revolving Credit Facility.

Cash Flows

Cash received from customers, either from the payment of invoices for work performed or for advances in excess of revenue recognized, is our primary source of cash. We generally do not begin work on contracts until funding is appropriated by the customers. Billing timetables and payment terms on our contracts vary based on a number of factors, including whether the contract type is cost-plus, time-and-materials, or fixed-price. We generally bill and collect cash more frequently under cost-plus and time-and-materials contracts, as we are authorized to bill as the costs are incurred or work is performed. In contrast, we may be limited to bill certain fixed-price contracts only when specified milestones, including deliveries, are achieved. A number of our contracts may provide for performance-based payments, which allow us to bill and collect cash prior to completing the work.

Accounts receivable is the principal component of our working capital and is generally driven by revenue growth. Accounts receivable reflects amounts billed to our clients as of each balance sheet date and receivable amounts that are currently due but unbilled. The total amount of our accounts receivable can vary significantly over time but is generally sensitive to revenue levels. Net days sales outstanding, which we refer to as Net DSO, is calculated by dividing (i) (accounts receivable plus contract assets) less (contract liabilities plus accounts payable) by (ii) average revenue per day (calculated by dividing trailing twelve months revenue by the number of days in that period). We focus on collecting outstanding receivables to reduce Net DSO and working capital. Net DSO was 65 days at September 30, 2023 and 68 days at September 30, 2022. The decrease in Net DSO was primarily related to improved collections in both the Federal Solutions and Critical Infrastructure segments during the third quarter of fiscal 2023. Our working capital (current assets less current liabilities) was $621.4 million at September 30, 2023 and $611.7 million at December 31, 2022.

Our cash, cash equivalents and restricted cash decreased by $57.1 million to $205.4 million at September 30, 2023 from $262.5 million at December 31, 2022.

The following table summarizes our sources and uses of cash over the periods presented (in thousands):

	Nine Months Ended	
	September 30, 2023	September 30, 2022
Net cash provided by operating activities	$ 217,566	$ 148,368
Net cash used in investing activities	(327,245)	(402,677)
Net cash provided by financing activities	52,380	60,185
Effect of exchange rate changes	166	(2,220)
Net decrease in cash and cash equivalents	$ (57,133)	$ (196,344)

Operating Activities

Net cash provided by operating activities consists primarily of net income adjusted for noncash items, such as: equity in losses (earnings) of unconsolidated joint ventures, contributions of treasury stock, depreciation and amortization of property and equipment and intangible assets, and provisions for doubtful accounts. The timing between the conversion of our billed and unbilled receivables into cash from our customers and disbursements to our employees and vendors is the primary driver of changes in our working capital. Our operating cash flows are primarily affected by our ability to invoice and collect from our clients in a timely manner, our ability to manage our vendor payments and the overall profitability of our contracts.

Net cash provided by operating activities increased $69.2 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. The primary driver of the increase in cash flows provided by operating activities was a $74.2 million change in net income including noncontrolling interests after adjusting for non-cash items offset in part by a $11.5 million decrease in cash outflows from our working capital accounts. As discussed above, Net DSO decreased 3 days compared to last year. The net decrease in cash outflows from our working capital accounts were primarily the result of timing differences and the increase in business volume.

Pursuant to Internal Revenue Service IR 2023-33, the Company qualifies for disaster area taxpayer relief. As such, the Company has deferred $33.0 million of its federal April, June and September 2023 quarterly income tax payments which were otherwise due prior to or during the quarter ended September 30, 2023. Deferred income tax payments were due and paid by October 16, 2023.

Investing Activities

Net cash used in investing activities consists primarily of cash flows associated with capital expenditures, joint ventures and business acquisitions.

Net cash used in investing activities decreased $75.4 million for the nine months ended September 30, 2023, when compared to the nine months ended September 30, 2022. This change was primarily driven by a $163.8 million reduction in payments for acquisitions offset in part by a $68.0 million increase from investments in unconsolidated joint ventures, a $11.1 million increase in capital expenditures (primarily from computer systems and equipment) and a change from return of investments in unconsolidated joint ventures of $9.4 million.

Subsequent to the quarter ended September 30, 2023, the Company entered into a Membership Interest Purchase Agreement to acquire a 100% ownership interest in I.S. Engineers, LLC, a privately-owned company, for $11.5 million, subject to certain adjustments. See "Note 19—Subsequent Events" in the notes to our consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for a further discussion of this acquisition.

The Company continually evaluates potential business acquisition opportunities. In the event the Company makes a business acquisition, a significant amount of cash may be used to fund the purchase price.

Financing Activities

Net cash provided by financing activities is primarily associated with proceeds from debt, the repayment thereof, and distributions to noncontrolling interests.

Net cash provided by financing activities decreased $7.8 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. The change in cash flows from financing activities is primarily due to a decrease of $26.2 million from net, borrowing related activities and a $6.8 million change in contributions by noncontrolling interests offset in part by a decrease in cash used to repurchase common stock of $11.5 million and from $11.2 million from payments in warrants for the nine months ended September 30, 2022 that did not reoccur in 2023.

Letters of Credit

We have in place several secondary bank credit lines for issuing letters of credit, principally for foreign contracts, to support performance and completion guarantees. Letters of credit commitments outstanding under these bank lines aggregated to $311.8 million as of September 30, 2023. Letters of credit outstanding under the Credit Agreement total $43.9 million as of September 30, 2023.

Recent Accounting Pronouncements

See the information set forth in “Note 3—New Accounting Pronouncements” in the notes to our consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Off-Balance Sheet Arrangements

As of September 30, 2023, we have no off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

We are exposed to interest rate risks related to the Company’s Revolving Credit Facility and Delayed Draw Term Loan.

As of September 30, 2023, there was $75 million outstanding under the Revolving Credit Facility. Borrowings under the new Credit Facility effective June 2021 bear interest at either the Term SOFR rate plus a margin between 1.0% and 1.625%, or a base rate (as defined in the Credit Agreement) plus a margin of between 0% and 0.625%, both based on the leverage ratio of the Company at the end of each quarter. The rates on September 30, 2023 and December 31, 2022 were 6.7% and 5.7%, respectively.

As of September 30, 2023, there was $350.0 million outstanding under the 2022 Delayed Draw Term Loan. Borrowings under the 2022 Delayed Draw Term Loan Agreement will bear interest at either an adjusted Term SOFR benchmark rate plus a margin between 0.875% and 1.500% or a base rate plus a margin of between 0% and 0.500% and will initially bear interest at the middle of this range. The Company will pay a ticking fee on unused term loan commitments at a rate of 0.175% commencing with the date that is ninety (90) days after the Closing Date. The interest rate at September 30, 2023 and December 31, 2022 were 6.6% and 5.6%, respectively.

Foreign Currency Exchange Risk

We are exposed to foreign currency exchange rate risk resulting from our operations outside of the U.S. We limit exposure to foreign currency fluctuations in most of our contracts through provisions that require client payments in currencies corresponding to the currency in which costs are incurred. As a result of this natural hedge, we generally do not need to hedge foreign currency cash flows for contract work performed.

Item 4. Controls and Procedures.

Evaluation of Disclosure Control and Procedures

Our management carried out, as of September 30, 2023, with the participation of our Chief Executive Officer and our Chief Financial Officer, an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2023, our disclosure controls and procedures were effective to provide reasonable assurance that material information required to be disclosed by us in reports we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the third quarter of 2023, there were no changes to our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Consistent with the guidance issued by the Securities and Exchange Commission Staff, management plans to exclude IPKeys, which we acquired on April 13, 2023, and SealingTech. which we acquired on August 23, 2023, from its assessment of internal controls over financial reporting as of December 31, 2023. The total assets and revenue related to SealingTech, a wholly owned subsidiary, are both less than 1% of the related consolidated financial statement amounts as of and for the nine months ended September 30, 2023. The total assets and revenue related to IPKeys, a wholly owned subsidiary, are approximately 1% and 0.2%, respectively of the related consolidated financial statement amounts as of and for the nine months ended September 30, 2023.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

The information required by this Item 1 is included in “Note 12 – Contingencies” included in the Notes to Consolidated Financial Statements appearing under Part I, Item 1 of this Form 10-Q which is incorporated herein by reference.

Item 1A. Risk Factors.

There has been one change to our Risk Factors disclosed in the Company’s Form 10-K for the year ended December 31, 2022 with the changes underlined and in italics below:

Risks Related to International Operations

***Our operations outside the United States expose us to legal, political and economic risks in different* countries as well as currency exchange rate fluctuations that could harm our business and financial results.**

Revenue attributable to our services provided outside of the United States as a percentage of our total revenue for *the three months ended September 30, 2023 was 24.6%*. There are risks inherent in doing business internationally, including:

- imposition of governmental controls and changes in laws, regulations or policies;
- political and economic instability and turmoil internationally, including countries in the Middle East;
- civil unrest, acts of terrorism, force majeure, war, or other armed conflict, *including the ongoing war and unrest in Israel, which has the potential to impact other countries in the Middle East;*

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Issuer Purchases of Equity Securities

On August 9, 2021, the Company’s Board of Directors authorized the Company to acquire a number of shares of Common Stock having an aggregate market value of not greater than $100,000,000 from time to time, commencing on August 12, 2021. Repurchased shares of common stock are retired and included in “Repurchases of common stock” in cash flows from financing activities in the Consolidated Statements of Cash Flows. As of September 30, 2023, the Company has spent $51.7 million (which includes commissions paid of $27.6 thousand) repurchasing 1,378,941 shares of Common Stock at an average price of $37.49 per share.

There were no share repurchases during the three months ended September 30, 2023.

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

Not Applicable

Item 5. Other Information.

Insider Trading Relationships and Policies

In conformance with updated SEC regulations, the Company has adopted amended insider trading policies and procedures governing the purchase, sale and/or other dispositions of the Company's securities by directors, officers and employees, or the Company itself, that are reasonably designed to promote compliance with insider trading laws, rules and regulations, and New York Stock Exchange standards.

Resignation of Employee Stock Ownership Plan Auditor

Baker Tilly US, LLP ("Baker Tilly"), has decided that it will no longer perform audits or reviews of SEC Form 11-K fillings. As a result of their discontinuance of this service line, they have elected to not stand for reappointment as auditor of Parsons Employee Stock Ownership Plan Form 11-K. The Company is in the process of selecting an accounting firm to replace Baker Tilly.

Item 6. Exhibits.

Exhibit Number	Description
19.1*	Parsons Corporation Executive Compensation Clawback Policy
19.2*	Parsons Corporation Dodd-Frank Compliant Compensation Clawback Policy
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial statements from the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, formatted in Inline XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Earnings, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Stockholders’ Equity, (v) Consolidated Statements of Cash Flows and (vi) Notes to Consolidated Financial Statements, tagged as blocks of text and including detailed tags.
104	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101).

* Filed herewith.

SIGNATURES

Pursuant to the requirements 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.

Parsons Corporation

Date: November 1, 2023

By: /s/ Matthew M. Ofilos

Matthew M. Ofilos
Chief Financial Officer
(Principal Financial Officer)

PARSONS CORPORATION
EXECUTIVE COMPENSATION CLAWBACK POLICY

This Executive Compensation Clawback Policy (this "Policy") is intended to discourage conduct detrimental to the growth of Parsons Corporation (the "Company") by enabling the Company to recover or "clawback" incentive compensation paid or payable to the Chief Executive Officer, Chief Financial Officer and any other employee of the Company that is designated by the Administrator (as defined below) through a resolution as being subject to this Policy (each a "Covered Employee" and collectively the "Covered Employees") in the following circumstances:

A. If the Company suffers, or could reasonably be expected to suffer material financial damage as a result of any conduct by the Covered Employee constituting fraud, material theft of Company assets, bribery, corruption, or other illegal acts, gross negligence, or willful misconduct involving the Company or its subsidiaries ("Detrimental Conduct").

B. A material restatement of the Company's financial or operational results, as a result of the Covered Executive's Detrimental Conduct, but not including restatements caused by changes in accounting rules, reclassifications or similar retrospective changes that are not the result of Detrimental Conduct (a "Restatement").

1. Compensation Subject to Clawback

Compensation subject to clawback under this Policy includes compensation paid, payable or awarded under the Company's short- and long-term incentive compensation programs, including any discretionary bonuses, equity based incentive awards (whether or not vested), shares or phantom units acquired upon vesting or lapse of restriction of any awards; shares or phantom units acquired upon exercise of options or appreciation rights, dividend equivalents paid on equity incentive awards, and cash incentives.

The Administrator may recover under this Policy the incentive compensation paid, awarded or acquired by the Covered Employee within the three years preceding the date on which the Administrator determines circumstances triggering the right to clawback such compensation has occurred. Additionally, in the event of a Restatement, the amount that may be recovered under this Policy will be limited to the excess of the amount of any incentive compensation actually paid, vested or awarded, and the amount of any such incentive compensation that would have been paid, vested or awarded had the financial or operational results been properly reported.

2. Remedies

Any clawback under this Policy may, in the discretion of the Administrator, be accomplished through (i) the reduction, forfeiture or cancellation of awards whether or not vested or deferred, (ii) requiring the repayment to the Company of any gain realized or payment received upon the exercise or payment of the award valued as of the date of exercise or payment, (iii) adjusting future incentive compensation opportunities, or (iv) such other manner as the Administrator, in its discretion, determines to be appropriate.

Any clawback under this Policy shall not limit or prohibit any disciplinary actions the Company may take against the Covered Employee, up to and including termination of employment.

3. Administration

The Company's Board of Directors (the "Board") or a committee thereof (the "Administrator") has the discretion to administer and enforce all aspects of this Policy in its sole discretion, including, without limitation, whether this Policy applies and if so, the amount of compensation that may be subject to clawback and the manner of recovery. Determinations of the Administrator relating to this Policy shall be final, binding and conclusive on all affected individuals. The Administrator, in its discretion, may apply this Policy differently to each Covered Employee.

4. Amendment or Termination

The Board may amend, modify or terminate this Policy in whole or in part at any time and from time to time in its sole discretion. Any amendments will, unless otherwise specified, be applicable to any incentive compensation paid, granted, or awarded on or after the date of such amendment.

This Policy is effective as of January 14, 2019. This Policy automatically applies to awards made under the Company's equity incentive plans on or after such date and is an express condition of the vesting, payment, or receipt of any such incentives. Acceptance of any incentive compensation award will constitute consent to all the terms and conditions of this Policy.

5. Miscellaneous

If any provision of this Policy is declared illegal, invalid or otherwise unenforceable by a court of competent jurisdiction, then such provision will be revised and applied, if possible, in a manner so as to make it legal, valid and enforceable, or it will otherwise be deleted, and the remaining terms of this Policy will not be affected.

The Company's right of clawback under this Policy is in addition to any other remedy available to it, including, but not limited to, termination of employment, the initiation of civil or criminal proceedings, and any right to repayment under the Sarbanes-Oxley Act of 2002, any clawback under the Dodd-Frank Compliant Compensation Clawback Policy (the "DF Policy") and any other applicable law. For the avoidance of doubt, any enforcement action made under this Policy shall be net of enforcement actions, if any, made under any other such clawback rights, including enforcement actions pursuant to the DF Policy. As a result, if an enforcement action under this policy results in clawback of an amount greater than the amount determined under the DF Policy for a Covered Employee, then the Company may in its discretion recover the difference between the amount of compensation determined to be subject to recovery under this Policy and the amount recouped under the DF Policy.

PARSONS CORPORATION
DODD-FRANK COMPLIANT COMPENSATION CLAWBACK POLICY

The Board of Directors (the “Board”) of Parsons Corporation (the “Company”) believes that it is in the best interests of the Company and its shareholders to adopt this Dodd-Frank Clawback Policy (the “Policy”), which provides for the recovery of certain incentive compensation in the event of an Accounting Restatement (as defined below). This Policy is designed to comply with, and shall be interpreted to be consistent with, Section 10D of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), Rule 10D-1 promulgated under the Exchange Act (“Rule 10D-1”) and Section 303A.14 of the New York Stock Exchange Listed Company Manual (the “Listing Standards”):

1. Administration

Except as specifically set forth herein, this Policy shall be administered by the Compensation and Management Development Committee of the Board (the “Administrator”). The Administrator is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate or advisable for the administration of this Policy. Any determinations made by the Administrator shall be final and binding on all affected individuals and need not be uniform with respect to each individual covered by the Policy. In the administration of this Policy, the Administrator is authorized and directed to consult with the full Board or such other committees of the Board, such as the Audit and Risk Committee, as may be necessary or appropriate as to matters within the scope of such other committee’s responsibility and authority. Subject to any limitation at applicable law, the Administrator may authorize and empower any officer or employee of the Company to take any and all actions necessary or appropriate to carry out the purpose and intent of this Policy (other than with respect to any recovery under this Policy involving such officer or employee).

2. Definitions

As used in this Policy, the following definitions shall apply:

- **“Accounting Restatement”** means an accounting restatement of the Company’s financial statements due to the Company’s material noncompliance with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period.
- **“Administrator”** has the meaning set forth in Section 1 hereof.
- **“Applicable Period”** means the three completed fiscal years immediately preceding the date on which the Company is required to prepare an Accounting Restatement, as well as any transition period (that results from a change in the Company’s fiscal year) within or immediately following those three completed fiscal years (except that a transition period that comprises a period of at least nine months shall count as a completed fiscal year). The “date on which the Company is required to prepare an Accounting Restatement” is the earlier to occur of (a) the date the Board concludes, or reasonably should have concluded,

that the Company is required to prepare an Accounting Restatement or (b) the date a court, regulator or other legally authorized body directs the Company to prepare an Accounting Restatement, in each case regardless of if or when the restated financial statements are filed.

- **“Covered Executives”** means the Company’s current and former executive officers, as determined by the Administrator in accordance with the definition of executive officer set forth in Rule 10D-1 and the Listing Standards.
- **“Erroneously Awarded Compensation”** has the meaning set forth in Section 5 of this Policy.
- A **“Financial Reporting Measure”** is any measure that is determined and presented in accordance with the accounting principles used in preparing the Company’s financial statements, and any measure that is derived wholly or in part from such measure. Financial Reporting Measures include but are not limited to the following (and any measures derived from the following): Company stock price; total shareholder return (“TSR”); revenues; net income; operating income; profitability of one or more reportable segments; financial ratios (e.g., accounts receivable turnover and inventory turnover rates); earnings before interest, taxes, depreciation and amortization (“EBITDA”); funds from operations and adjusted funds from operations; liquidity measures (e.g., working capital, operating cash flow); return measures (e.g., return on invested capital, return on assets); earnings measures (e.g., earnings per share); sales per square foot or same store sales, where sales is subject to an Accounting Restatement; revenue per user, or average revenue per user, where revenue is subject to an Accounting Restatement; cost per employee, where cost is subject to an Accounting Restatement; any of such financial reporting measures relative to a peer group, where the Company’s financial reporting measure is subject to an Accounting Restatement; and tax basis income. A Financial Reporting Measure need not be presented within the Company’s financial statements or included in a filing with the Securities Exchange Commission.
- **“Incentive-Based Compensation”** means any compensation that is granted, earned or vested based wholly or in part upon the attainment of a Financial Reporting Measure. Incentive-Based Compensation is “received” for purposes of this Policy in the Company’s fiscal period during which the Financial Reporting Measure specified in the Incentive-Based Compensation award is attained, even if the payment or grant of such Incentive-Based Compensation occurs after the end of that period.

3. Covered Executives; Incentive-Based Compensation

This Policy applies to Incentive-Based Compensation received by a Covered Executive (a) after beginning services as a Covered Executive; (b) if that person served as a Covered Executive at any time during the performance period for such Incentive-Based Compensation; and (c) while the Company had a listed class of securities on a national securities exchange.

4. Required Recoupment of Erroneously Awarded Compensation in the Event of an Accounting Restatement

In the event the Company is required to prepare an Accounting Restatement, the Company shall promptly recoup the amount of any Erroneously Awarded Compensation received by any Covered Executive, as calculated pursuant to Section 5 hereof, during the Applicable Period.

5. Erroneously Awarded Compensation: Amount Subject to Recovery

The amount of “Erroneously Awarded Compensation” subject to recovery under the Policy, as determined by the Administrator, is the amount of Incentive-Based Compensation received by the Covered Executive that exceeds the amount of Incentive-Based Compensation that would have been received by the Covered Executive had it been determined based on the restated amounts.

Erroneously Awarded Compensation shall be computed by the Administrator without regard to any taxes paid by the Covered Executive in respect of the Erroneously Awarded Compensation.

By way of example, with respect to any compensation plans or programs that take into account Incentive-Based Compensation, the amount of Erroneously Awarded Compensation subject to recovery hereunder includes, but is not limited to, the amount contributed to any notional account based on Erroneously Awarded Compensation and any earnings accrued to date on that notional amount.

If the Financial Reporting Measure applicable to the relevant Covered Compensation is stock price or total shareholder return (or any measure derived wholly or in part from either of such measures) and (ii) the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in the Financial Restatement, then the amount of Erroneously Awarded Compensation shall be determined (on a pre-tax basis) based on the Company’s reasonable estimate of the effect of the Financial Restatement on the Company’s stock price or total shareholder return (or the derivative measure thereof) upon which such Covered Compensation was received. The Company shall maintain documentation of the determination of that reasonable estimate and provide such documentation to the New York Stock Exchange (“NYSE”).

6. Method of Recoupment

The Administrator shall determine, in its sole discretion, the timing and method for promptly recouping Erroneously Awarded Compensation hereunder, which may include without limitation (a) seeking reimbursement of all or part of any cash or equity-based award, (b) cancelling prior cash or equity-based awards, whether vested or unvested or paid or unpaid, (c) cancelling or offsetting against any planned future cash or equity-based awards, (d) forfeiture of deferred compensation, subject to compliance with Section 409A of the Internal Revenue Code and the regulations promulgated thereunder and (e) any other method authorized by applicable law or contract.

Subject to compliance with any applicable law, the Administrator may affect recovery under this Policy from any amount otherwise payable to the Covered Executive, including amounts payable to such individual under any otherwise applicable Company plan or program, including base salary, bonuses or commissions and compensation previously deferred by the Covered Executive.

The Company is authorized and directed pursuant to this Policy to recoup Erroneously Awarded Compensation in compliance with this Policy unless the Compensation Committee of the Board has determined that recovery would be impracticable solely for the following limited reasons, and subject to the following procedural and disclosure requirements:

- The direct expense paid to a third party to assist in enforcing the Policy would exceed the amount to be recovered. Before concluding that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on expense of enforcement, the Administrator must make a reasonable attempt to recover such erroneously awarded compensation, document such reasonable attempt(s) to recover and provide that documentation to NYSE;
- Recovery would violate home country law of the issuer where that law was adopted prior to November 28, 2022. Before concluding that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on violation of home country law of the issuer, the Administrator must satisfy the applicable opinion and disclosure requirements of Rule 10D-1 and the Listing Standards; or
- Recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and regulations thereunder.

7. <u>No Indemnification of Covered Executives</u>

Notwithstanding the terms of any indemnification or insurance policy or any contractual arrangement with any Covered Executive that may be interpreted to the contrary, the Company shall not indemnify any Covered Executives against the loss of any Erroneously Awarded Compensation, including any payment or reimbursement for the cost of third-party insurance purchased by any Covered Executives to fund potential clawback obligations under this Policy.

8. <u>Administrator Indemnification</u>

Any members of the Administrator, and any other members of the Board who assist in the administration of this Policy, shall not be personally liable for any action, determination or interpretation made with respect to this Policy and shall be fully indemnified by the Company to the fullest extent under applicable law and Company policy with respect to any such action, determination or interpretation. The foregoing sentence shall not limit any other rights to indemnification of the members of the Board under applicable law or Company policy.

9. <u>Effective Date</u>

This Policy shall be effective as of the effective date of the Listing Standards (the “Effective Date”). The terms of this Policy shall apply to any Incentive-Based Compensation that is received by Covered Executives on or after the Effective Date, even if such

Incentive-Based Compensation was approved, awarded, granted or paid to Covered Executives prior to the Effective Date.

10. Amendment; Termination

The Board may amend, modify, supplement, rescind or replace all or any portion of this Policy at any time and from time to time in its discretion, and shall amend this Policy as it deems necessary to comply with applicable law or any rules or standards adopted by a national securities exchange on which the Company's securities are listed.

11. Other Recoupment Rights; Company Claims

The Board intends that this Policy shall be applied to the fullest extent of the law. Any right of recoupment under this Policy is in addition to, and not in lieu of, any other remedies or rights of recoupment that may be available to the Company under applicable law or pursuant to the terms of any similar policy in any employment agreement, equity award agreement, or similar agreement and any other legal remedies available to the Company, including any rights under the Company's Executive Compensation Clawback Policy.

Nothing contained in this Policy, and no recoupment or recovery as contemplated by this Policy, shall limit any claims, damages or other legal remedies the Company or any of its affiliates may have against a Covered Executive arising out of or resulting from any actions or omissions by the Covered Executive.

12. Successors

This Policy shall be binding and enforceable against all Covered Executives and their beneficiaries, heirs, executors, administrators or other legal representatives.

13. Exhibit Filing Requirement

A copy of this Policy and any amendments thereto shall be posted on the Company's website and filed as an exhibit to the Company's annual report on Form 10-K.

Clawback Policy Acknowledgement

I, the undersigned, agree and acknowledge that I am fully bound by, and subject to, all of the terms and conditions of Parsons' Dodd-Frank Compliant Compensation Clawback Policy (as may be amended, restated, supplemented or otherwise modified from time to time, the "Policy"). In the event of any inconsistency between the Policy and the terms of any employment agreement to which I am a party, or the terms of any compensation plan, program or agreement under which any compensation has been granted, awarded, earned or paid, the terms of the Policy shall govern. In the event it is determined by the Administrator that any amounts granted, awarded, earned or paid to me must be forfeited or reimbursed to the Company, I will promptly take any action necessary to effectuate such forfeiture and/or reimbursement. Any capitalized terms used in this Acknowledgment without definition shall have the meaning set forth in the Policy.

By:__________________________________ Date:_____________________

[Name]

[Title]

Exhibit 31.1

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Carey A. Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Parsons Corporation;

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 officer(s) 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: November 1, 2023

By: /s/ Carey A. Smith
Carey A. Smith
Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Matthew M. Ofilos, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Parsons Corporation;

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 officer(s) 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: November 1, 2023

By: /s/ Matthew M. Ofilos
Matthew M. Ofilos
Chief Financial Officer

Exhibit 32.1

CERTIFICATION 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 Parsons Corporation (the “Company”) on Form 10-Q for the period ending September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Carey A. Smith, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 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.

Date: November 1, 2023

By: /s/ Carey A. Smith
Carey A. Smith
Chief Executive 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.

Exhibit 32.2

CERTIFICATION 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 Parsons Corporation (the “Company”) on Form 10-Q for the period ending September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Matthew M. Ofilos, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 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.

Date: November 1, 2023

By: /s/ Matthew M. Ofilos
Matthew M. Ofilos
Chief Financial 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.