

**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, 2022**
- 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**  
(State or other jurisdiction of  
incorporation or organization)

**5875 Trinity Parkway #300**  
**Centreville, Virginia**  
(Address of principal executive offices)

**95-3232481**  
(I.R.S. Employer  
Identification No.)

**20120**  
(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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 26, 2022, the registrant had 103,502,919 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)*  
(Unaudited)

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (including \$62,544 and \$78,514 Cash of consolidated joint ventures)	\$ 147,539	\$ 342,608
Restricted cash and investments	-	1,275
Accounts receivable, net (including \$187,482 and \$140,266 Accounts receivable of consolidated joint ventures, net)	710,721	598,311
Contract assets (including \$11,665 and \$8,779 Contract assets of consolidated joint ventures)	642,264	579,216
Prepaid expenses and other current assets (including \$6,870 and \$18,783 Prepaid expenses and other current assets of consolidated joint ventures)	110,274	110,941
<b>Total current assets</b>	<u>1,610,798</u>	<u>1,632,351</u>
Property and equipment, net (including \$1,987 and \$1,721 Property and equipment of consolidated joint ventures, net)	94,518	104,196
Right of use assets, operating leases	161,602	182,672
Goodwill	1,661,107	1,412,690
Investments in and advances to unconsolidated joint ventures	99,424	110,688
Intangible assets, net	273,442	207,821
Deferred tax assets	139,890	134,393
Other noncurrent assets	54,209	46,129
<b>Total assets</b>	<u>\$ 4,094,990</u>	<u>\$ 3,830,940</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable (including \$61,545 and \$78,558 Accounts payable of consolidated joint ventures)	\$ 200,847	\$ 196,286
Accrued expenses and other current liabilities (including \$83,831 and \$82,746 Accrued expenses and other current liabilities of consolidated joint ventures)	682,677	599,089
Contract liabilities (including \$18,376 and \$14,333 Contract liabilities of consolidated joint ventures)	197,749	171,671
Short-term lease liabilities, operating leases	59,056	55,902
Income taxes payable	9,150	7,836
<b>Total current liabilities</b>	<u>1,149,479</u>	<u>1,030,784</u>
Long-term employee incentives	15,637	15,997
Long-term debt	694,718	591,922
Long-term lease liabilities, operating leases	121,172	148,893
Deferred tax liabilities	10,409	11,400
Other long-term liabilities	98,483	94,832
<b>Total liabilities</b>	<u>2,089,898</u>	<u>1,893,828</u>
Contingencies (Note 12)		
Shareholders' equity:		
Common stock, \$1 par value; authorized 1,000,000,000 shares; 146,087,771 and 146,276,880 shares issued; 39,326,392 and 33,331,494 public shares outstanding; 64,144,230 and 70,328,237 ESOP shares outstanding	146,088	146,277
Treasury stock, 42,617,149 shares at cost	(867,391)	(867,391)
Additional paid-in capital	2,678,653	2,684,979
Retained earnings (accumulated deficit)	15,008	(53,529)
Accumulated other comprehensive loss	(19,292)	(9,568)
<b>Total Parsons Corporation shareholders' equity</b>	<u>1,953,066</u>	<u>1,900,768</u>
Noncontrolling interests	52,026	36,344
<b>Total shareholders' equity</b>	<u>2,005,092</u>	<u>1,937,112</u>
<b>Total liabilities and shareholders' equity</b>	<u>\$ 4,094,990</u>	<u>\$ 3,830,940</u>

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)

	<u>For the Three Months Ended</u>		<u>For the Nine Months Ended</u>	
	<u>September 30, 2022</u>	<u>September 30, 2021</u>	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Revenue	\$ 1,134,370	\$ 956,050	\$ 3,092,160	\$ 2,710,103
Direct cost of contracts	872,423	734,652	2,388,095	2,084,062
Equity in earnings of unconsolidated joint ventures	(974)	9,570	10,237	26,528
Selling, general and administrative expenses	196,960	191,231	581,969	566,991
Operating income	<u>64,013</u>	<u>39,737</u>	<u>132,333</u>	<u>85,578</u>
Interest income	382	65	618	315
Interest expense	(6,323)	(4,052)	(14,786)	(13,503)
Other income (expense), net	(685)	184	(304)	(1,202)
Total other income (expense)	<u>(6,626)</u>	<u>(3,803)</u>	<u>(14,472)</u>	<u>(14,390)</u>
Income before income tax expense	57,387	35,934	117,861	71,188
Income tax expense	<u>(13,792)</u>	<u>(9,165)</u>	<u>(27,643)</u>	<u>(18,378)</u>
Net income including noncontrolling interests	43,595	26,769	90,218	52,810
Net income attributable to noncontrolling interests	<u>(14,024)</u>	<u>(7,411)</u>	<u>(21,685)</u>	<u>(17,711)</u>
Net income attributable to Parsons Corporation	<u>\$ 29,571</u>	<u>\$ 19,358</u>	<u>\$ 68,533</u>	<u>\$ 35,099</u>
<b>Earnings per share:</b>				
Basic	\$ 0.29	\$ 0.19	\$ 0.66	\$ 0.34
Diluted	\$ 0.27	\$ 0.18	\$ 0.62	\$ 0.33

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

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

	<u>For the Three Months Ended</u>		<u>For the Nine Months Ended</u>	
	<u>September 30, 2022</u>	<u>September 30, 2021</u>	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Net income including noncontrolling interests	\$ 43,595	\$ 26,769	\$ 90,218	\$ 52,810
Other comprehensive income, net of tax				
Foreign currency translation adjustment, net of tax	(7,134)	(4,205)	(9,643)	3,721
Pension adjustments, net of tax	(68)	(26)	(93)	12
Comprehensive income including noncontrolling interests, net of tax	36,393	22,538	80,482	56,543
Comprehensive income attributable to noncontrolling interests, net of tax	(14,014)	(7,407)	(21,673)	(17,711)
Comprehensive income attributable to Parsons Corporation, net of tax	<u>\$ 22,379</u>	<u>\$ 15,131</u>	<u>\$ 58,809</u>	<u>\$ 38,832</u>

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, 2022	September 30, 2021
<b>Cash flows from operating activities:</b>		
Net income including noncontrolling interests	\$ 90,218	\$ 52,810
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	90,668	106,540
Amortization of debt issue costs	1,959	2,173
(Gain) loss on disposal of property and equipment	(261)	357
Provision for doubtful accounts	(3)	8
Deferred taxes	(6,334)	(4,369)
Foreign currency transaction gains and losses	3,502	3,107
Equity in earnings of unconsolidated joint ventures	(10,237)	(26,528)
Return on investments in unconsolidated joint ventures	25,626	20,547
Stock-based compensation	14,991	15,544
Contributions of treasury stock	41,980	41,312
Changes in assets and liabilities, net of acquisitions and newly consolidated joint ventures:		
Accounts receivable	(90,913)	70,355
Contract assets	(62,861)	13,262
Prepaid expenses and other assets	8,772	(19,596)
Accounts payable	(918)	(39,341)
Accrued expenses and other current liabilities	20,220	(86,402)
Contract liabilities	26,665	(16,294)
Income taxes	1,160	(498)
Other long-term liabilities	(5,866)	(17,273)
Net cash provided by operating activities	<u>148,368</u>	<u>115,714</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(19,784)	(12,803)
Proceeds from sale of property and equipment	573	1,049
Payments for acquisitions, net of cash acquired	(379,272)	(197,672)
Investments in unconsolidated joint ventures	(13,637)	(36,102)
Return of investments in unconsolidated joint ventures	9,443	729
Proceeds from sales of investments in unconsolidated joint ventures	-	14,335
Net cash used in investing activities	<u>(402,677)</u>	<u>(230,464)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from borrowings under credit agreement	680,900	-
Repayments of borrowings under credit agreement	(579,700)	(50,000)
Payments for debt costs and credit agreement	(870)	(1,937)
Payments for acquired warrants	(11,243)	-
Contributions by noncontrolling interests	8,299	1,688
Distributions to noncontrolling interests	(14,290)	(37,246)
Repurchases of common stock	(19,500)	(8,701)
Taxes paid on vested stock	(6,135)	(2,242)
Proceeds from issuance of common stock	2,724	2,773
Net cash provided by (used in) financing activities	<u>60,185</u>	<u>(95,665)</u>
Effect of exchange rate changes	(2,220)	(97)
Net decrease in cash, cash equivalents, and restricted cash	<u>(196,344)</u>	<u>(210,512)</u>
Cash, cash equivalents and restricted cash:		
Beginning of year	343,883	487,215
End of period	<u>\$ 147,539</u>	<u>\$ 276,703</u>

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, 2022 and September 30, 2021**  
*(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
<b>Balance at June 30, 2022</b>	<u>\$ 146,174</u>	<u>\$ (867,391)</u>	<u>\$ 2,676,063</u>	<u>\$ (14,565)</u>	<u>\$ (12,100)</u>	<u>\$ 1,928,181</u>	<u>\$ 36,486</u>	<u>\$ 1,964,667</u>
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
<b>Balance at September 30, 2022</b>	<u>\$ 146,088</u>	<u>\$ (867,391)</u>	<u>\$ 2,678,653</u>	<u>\$ 15,008</u>	<u>\$ (19,292)</u>	<u>\$ 1,953,066</u>	<u>\$ 52,026</u>	<u>\$ 2,005,092</u>
<b>Balance at June 30, 2021</b>	<u>\$ 146,752</u>	<u>\$ (899,328)</u>	<u>\$ 2,673,965</u>	<u>\$ (102,019)</u>	<u>\$ (5,905)</u>	<u>\$ 1,813,465</u>	<u>\$ 36,985</u>	<u>\$ 1,850,450</u>
Comprehensive income								
Net income	-	-	-	19,358	-	19,358	7,411	26,769
Foreign currency translation gain, net	-	-	-	-	(4,201)	(4,201)	(4)	(4,205)
Pension adjustments, net	-	-	-	-	(26)	(26)	-	(26)
Contributions	-	-	-	-	-	-	816	816
Distributions	-	-	-	-	-	-	(15,410)	(15,410)
Issuance of equity securities, net of retirements	-	-	-	-	-	-	-	-
Repurchases of common stock	(245)	-	(8,456)	-	-	(8,701)	-	(8,701)
Stock-based compensation	-	-	4,183	-	-	4,183	-	4,183
<b>Balance at September 30, 2021</b>	<u>\$ 146,507</u>	<u>\$ (899,328)</u>	<u>\$ 2,669,692</u>	<u>\$ (82,661)</u>	<u>\$ (10,132)</u>	<u>\$ 1,824,078</u>	<u>\$ 29,798</u>	<u>\$ 1,853,876</u>

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, 2022 and September 30, 2021  
(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
<b>Balance at December 31, 2021</b>	<u>\$ 146,277</u>	<u>\$ (867,391)</u>	<u>\$ 2,684,979</u>	<u>\$ (53,529)</u>	<u>\$ (9,568)</u>	<u>\$ 1,900,768</u>	<u>\$ 36,344</u>	<u>\$ 1,937,112</u>
Comprehensive income								
Net income	-	-	-	68,533	-	68,533	21,685	90,218
Foreign currency translation gain, 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
<b>Balance at September 30, 2022</b>	<u>\$ 146,088</u>	<u>\$ (867,391)</u>	<u>\$ 2,678,653</u>	<u>\$ 15,008</u>	<u>\$ (19,292)</u>	<u>\$ 1,953,066</u>	<u>\$ 52,026</u>	<u>\$ 2,005,092</u>
<b>Balance at December 31, 2020</b>	<u>\$ 146,609</u>	<u>\$ (899,328)</u>	<u>\$ 2,700,925</u>	<u>\$ (120,569)</u>	<u>\$ (13,865)</u>	<u>\$ 1,813,772</u>	<u>\$ 47,645</u>	<u>\$ 1,861,417</u>
Comprehensive income								
Net income	-	-	-	35,099	-	35,099	17,711	52,810
Foreign currency translation (loss), net	-	-	-	-	3,721	3,721	-	3,721
Pension adjustments, net	-	-	-	-	12	12	-	12
Adoption of ASU 2020-06	-	-	(40,002)	2,782	-	(37,220)	-	(37,220)
Contributions	-	-	-	-	-	-	1,688	1,688
Distributions	-	-	-	-	-	-	(37,246)	(37,246)
Issuance of equity securities, net of retirement	143	-	1,681	27	-	1,851	-	1,851
Repurchases of common stock	(245)	-	(8,456)	-	-	(8,701)	-	(8,701)
Stock-based compensation	-	-	15,544	-	-	15,544	-	15,544
<b>Balance at September 30, 2021</b>	<u>\$ 146,507</u>	<u>\$ (899,328)</u>	<u>\$ 2,669,692</u>	<u>\$ (82,661)</u>	<u>\$ (10,132)</u>	<u>\$ 1,824,078</u>	<u>\$ 29,798</u>	<u>\$ 1,853,876</u>



**Parsons Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (unaudited)**

**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, 2021.

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.

**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 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, 2021, 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.

**Stock Repurchase Plan**

During the third quarter of 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. 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.

### **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.

In the first quarter of 2021, the Company early adopted Accounting Standards Update (“ASU”) ASU 2020-06, Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40) (“ASU 2020-06”). The update simplifies the accounting for convertible debt instruments and convertible preferred stock by reducing the number of accounting models and limiting the number of embedded conversion features separately recognized from the primary contract. The guidance also includes targeted improvements to the disclosures for convertible instruments and earnings per share. ASU 2020-06 is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020. The Company adopted ASU 2020-06 in the first quarter of 2021 using the modified retrospective method which resulted in a reduction in non-cash interest expense and reclassification of the equity portion of the Convertible Senior Notes to “Long-term debt” on the consolidated balance sheet.

In the first quarter of 2021, the Company adopted ASU No. 2019-12, “Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes (“ASU 2019-12”)”. ASU 2019-12 was issued as a means to reduce the complexity of accounting for income taxes. The guidance is to be applied using a prospective method, excluding amendments related to franchise taxes, which should be applied on either a retrospective basis for all periods presented or a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The adoption of ASU 2019-12 did not have a material impact on the consolidated financial statements.

### **4. Acquisitions**

#### **Xator Corporation**

On May 31, 2022, the Company acquired a 100% ownership interest in Xator Corporation (“Xator”), a privately-owned company, for \$388.3 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.

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):

	<u>Amount</u>
Cash and cash equivalents	\$ 8,935
Accounts receivable	28,199
Contract assets	4,591
Prepaid expenses and other current assets	3,615
Property and equipment	1,699
Right of use assets, operating leases	7,517
Goodwill	252,994
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	(31,119)
Contract liabilities	(2,080)
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	<u>\$ 384,406</u>

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

	<u>Gross Carrying Amount</u>	<u>Amortization Period</u>
		(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 \$4.9 million and \$6.6 million related to these intangible assets was recorded for 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 is \$70.4 million and \$91.2 million for the three and nine months ended September 30, 2022, 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 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, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Pro forma Revenue	\$ 1,134,370	\$ 1,027,430	\$ 3,199,336	\$ 2,920,933
Pro forma Net Income including noncontrolling interests	43,970	28,878	\$ 102,860	\$ 49,609

### BlackHorse Solutions, Inc.

On July 6, 2021, the Company acquired a 100% ownership interest in BlackHorse Solutions, Inc (“BlackHorse”), a privately-owned company, for \$205.0 million in cash. BlackHorse expands Parsons’ capabilities and products in next-generation military, intelligence, and space operations, specifically in cyber electronic warfare and information dominance. The acquisition was entirely funded by cash on-hand.

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	\$ 15,428
Accounts receivable	3,351
Contract assets	5,979
Prepaid expenses and other current assets	937
Property and equipment	2,239
Right of use assets, operating leases	6,157
Goodwill	143,086
Intangible assets	65,000
Accounts payable	(2,326)
Accrued expenses and other current liabilities	(17,190)
Contract liabilities	(320)
Short-term lease liabilities, operating leases	(1,011)
Long-term lease liabilities, operating leases	(5,146)
Deferred tax liabilities	(10,916)
Other long-term liabilities	(235)
Net assets acquired	<u>\$ 205,033</u>

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

	<u>Gross Carrying Amount</u>	<u>Amortization Period</u> (in years)
Customer relationships	\$ 39,000	16
Backlog	23,000	3
Trade name	1,000	2
Developed technologies	1,000	3
Non-compete agreements	1,000	3

Amortization expense of \$3.5 million and \$10.6 million related to these intangible assets was recorded for 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 of \$10.6 million is deductible for tax purposes.

The amount of revenue generated by BlackHorse and included within consolidated revenues is \$22.6 million and \$66.3 million for the three and nine months ended September 30, 2022, respectively and \$16.7 million for the three and nine months ended September 30, 2021. 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 BlackHorse acquisition had been consummated as of the beginning of fiscal year 2020 (in thousands) is as follows:

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30, 2022</u>	<u>September 30, 2021</u>	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Pro forma Revenue	\$ 1,134,370	\$ 957,498	\$ 3,092,160	\$ 2,748,559
Pro forma Net Income including noncontrolling interests	44,766	30,608	95,299	\$ 56,232

#### Echo Ridge LLC

On July 30, 2021, the Company acquired a 100% ownership interest in Echo Ridge LLC ("Echo Ridge"), a privately-owned company, for \$9.0 million in cash. Echo Ridge adds position, navigation, and timing devices; modeling, simulation, test, and measurement tools; and deployable software defined radio products and signal processing services to Parsons' space portfolio. The acquisition was entirely funded by cash on-hand. The Company allocated the purchase price to the appropriate classes of tangible assets and liabilities and assigned the excess of \$7.2 million to goodwill. 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.

## 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, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Fixed-Price	\$ 334,853	\$ 246,894	\$ 854,835	\$ 710,067
Time-and-Materials	302,236	261,566	836,881	754,596
Cost-Plus	497,281	447,590	1,400,444	1,245,440
Total	\$ 1,134,370	\$ 956,050	\$ 3,092,160	\$ 2,710,103

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, 2022 and December 31, 2021 were as follows (in thousands):

	September 30, 2022	December 31, 2021	\$ change	% change
Contract assets	\$ 642,264	\$ 579,216	\$ 63,048	10.9%
Contract liabilities	197,749	171,671	26,078	15.2%
Net contract assets (liabilities) (1)	\$ 444,515	\$ 407,545	\$ 36,970	9.1%

- (1) Total contract retentions included in net contract assets (liabilities) were \$74.2 million as of September 30, 2022, of which \$40.5 million are not expected to be paid in the next 12 months. Total contract retentions included in net contract assets (liabilities) were \$91.7 million as of December 31, 2021. Contract assets at September 30, 2022 and December 31, 2021 include \$102.2 million and \$98.6 million, respectively, related to unapproved change orders, claims, and requests for equitable adjustment. For the three and nine months ended September 30, 2022 and September 30, 2021, 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, 2022 and September 30, 2021, the Company recognized revenue of \$10.1 million and \$3.0 million, respectively, and \$91.8 million and \$95.5 million during the nine months ended September 30, 2022 and September 30, 2021, respectively, that was included in the corresponding contract liability balances at December 31, 2021 and December 31, 2020, respectively. Certain changes in contract assets and contract liabilities consisted of the following:

	September 30, 2022	December 31, 2021
Acquired contract assets	\$ 4,591	\$ 5,979
Acquired contract liabilities	2,080	320

There was no significant impairment of contract assets recognized during the nine months ended September 30, 2022 and September 30, 2021.

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, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Revenue impact, net	\$ -	\$ (6,300)	\$ -	\$ (27,553)

### **Accounts Receivable, net**

Accounts receivable, net consisted of the following as of September 30, 2022 and December 31, 2021 (in thousands):

	2022	2021
Billed	\$ 487,221	\$ 434,776
Unbilled	227,453	167,490
Total accounts receivable, gross	714,674	602,266
Allowance for doubtful accounts	(3,953)	(3,955)
Total accounts receivable, net	\$ 710,721	\$ 598,311

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, 2022 represent a measure of the total dollar value of work to be performed on contracts awarded and in-progress. The Company had \$5.8 billion in RUPO as of September 30, 2022.

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, 2022 over the following periods (in thousands):

Period RUPO Will Be Satisfied	Within One Year	Within One to Two Years	Thereafter
Federal Solutions	\$ 1,598,275	\$ 638,502	\$ 252,481
Critical Infrastructure	1,532,842	895,714	894,720
Total	\$ 3,131,117	\$ 1,534,216	\$ 1,147,201

## 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 year to 8 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, 2022 and September 30, 2021 are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Operating lease cost	\$ 16,299	\$ 16,900	\$ 49,049	\$ 49,500
Short-term lease cost	3,858	3,661	10,948	7,859
Amortization of right-of-use assets	571	540	1,721	1,557
Interest on lease liabilities	24	24	67	81
Sublease income	(1,318)	(960)	(3,321)	(2,529)
Total lease cost	<u>\$ 19,434</u>	<u>\$ 20,165</u>	<u>\$ 58,464</u>	<u>\$ 56,468</u>

Supplemental cash flow information related to leases for the three months ended September 30, 2022 and September 30, 2021 is as follows (in thousands):

	Nine Months Ended	
	September 30, 2022	September 30, 2021
Operating cash flows for operating leases	\$ 51,988	\$ 50,029
Operating cash flows for finance leases	67	82
Financing cash flows from finance leases	1,580	1,539
Right-of-use assets obtained in exchange for new operating lease liabilities	15,709	7,456
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 1,156	\$ 619

Supplemental balance sheet and other information related to leases as of September 30, 2022 and December 31, 2021 are as follows (in thousands):

	September 30, 2022	December 31, 2021
<b>Operating Leases:</b>		
Right-of-use assets	\$ 161,602	\$ 182,672
<b>Lease liabilities:</b>		
Current	\$ 59,056	\$ 55,902
Long-term	121,172	148,893
Total operating lease liabilities	<u>\$ 180,228</u>	<u>\$ 204,795</u>
<b>Finance Leases:</b>		
Other noncurrent assets	\$ 3,829	\$ 4,389
Accrued expenses and other current liabilities	\$ 1,707	\$ 1,822
Other long-term liabilities	\$ 2,117	\$ 2,422
<b>Weighted Average Remaining Lease Term:</b>		
Operating leases	3.8 Years	4.3 years
Finance leases	2.6 Years	2.9 years
<b>Weighted Average Discount Rate:</b>		
Operating leases	3.4%	3.5%
Finance leases	2.4%	2.1%



As of September 30, 2022, 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, 2022 is as follows (in thousands):

	Operating Leases	Finance Leases
2022 (remaining)	\$ 18,562	\$ 495
2023	59,464	1,590
2024	44,371	1,067
2025	33,246	676
2026	19,366	103
Thereafter	17,204	-
Total lease payments	192,213	3,931
Less: imputed interest	(11,985)	(107)
Total present value of lease liabilities	\$ 180,228	\$ 3,824

## 7. Goodwill

The following table summarizes the changes in the carrying value of goodwill by reporting segment from December 31, 2021 to September 30, 2022 (in thousands):

	December 31, 2021	Acquisitions	Foreign Exchange	September 30, 2022
Federal Solutions	\$ 1,339,117	\$ 252,250	\$ -	\$ 1,591,367
Critical Infrastructure	73,573	-	(3,833)	69,740
<b>Total</b>	<b>\$ 1,412,690</b>	<b>\$ 252,250</b>	<b>\$ (3,833)</b>	<b>\$ 1,661,107</b>

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, 2022 and, therefore, 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, 2022			December 31, 2021			Weighted Average Amortization Period (in years)
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
Backlog	\$ 251,455	\$ (146,432)	\$ 105,023	\$ 169,455	\$ (126,637)	\$ 42,818	4
Customer relationships	338,829	(182,689)	156,140	301,829	(158,405)	143,424	9
Leases	670	(632)	38	670	(618)	52	5
Developed technology	114,939	(109,135)	5,804	113,939	(96,765)	17,174	4
Trade name	13,200	(10,158)	3,042	9,200	(8,444)	756	1
Non-compete agreements	5,750	(4,221)	1,529	5,250	(3,523)	1,727	3
In process research and development	1,800	-	1,800	1,800	-	1,800	n/a
Other intangibles	275	(209)	66	275	(205)	70	10
Total intangible assets	\$ 726,918	\$ (453,476)	\$ 273,442	\$ 602,418	\$ (394,597)	\$ 207,821	

The aggregate amortization expense of intangible assets for the three months ended September 30, 2022 and September 30, 2021 was \$19.1 million and \$27.0 million, respectively, and \$58.9 million and \$76.1 million for the nine months ended September 30, 2022 and September 30, 2021, respectively.

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

	<u>September 30, 2022</u>
2022	\$ 19,314
2023	68,256
2024	35,359
2025	29,818
2026	26,238
Thereafter	92,657
<b>Total</b>	<b>\$ 271,642</b>

## 9. Property and Equipment, Net

Property and equipment consisted of the following at September 30, 2022 and December 31, 2021 (in thousands):

	<u>September 30, 2022</u>	<u>December 31, 2021</u>	<u>Useful life (years)</u>
Buildings and leasehold improvements	\$ 102,527	\$ 99,543	1-15
Furniture and equipment	87,685	86,862	3-10
Computer systems and equipment	160,583	157,633	3-10
Construction equipment	6,190	6,806	5-7
Construction in progress	14,895	12,970	
	<u>371,880</u>	<u>363,814</u>	
Accumulated depreciation	<u>(277,362)</u>	<u>(259,618)</u>	
Property and equipment, net	<u>\$ 94,518</u>	<u>\$ 104,196</u>	

Depreciation expense for the three months ended September 30, 2022 and September 30, 2021 was \$9.7 million and \$9.6 million, respectively, and \$29.3 million and \$28.8 million for the nine months ended September 30, 2022 and September 30, 2021, respectively.

## 10. Debt and Credit Facilities

Debt consisted of the following (in thousands):

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Long-Term:		
Revolving credit facility	\$ 101,200	\$ -
Senior notes	200,000	200,000
Convertible senior notes	400,000	400,000
Debt issuance costs	(6,482)	(8,078)
Total long-term	<u>694,718</u>	<u>591,922</u>
<b>Total Debt</b>	<b>\$ 694,718</b>	<b>\$ 591,922</b>

### **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 an adjusted Term SOFR benchmark 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, 2022 and December 31, 2021 were 4.46% and 1.36%, respectively. Borrowings under this Credit Agreement are guaranteed by certain Company operating subsidiaries. Letters of credit commitments outstanding under this agreement aggregated to \$44.5 million and \$44.3 million at September 30, 2022 and December 31, 2021, respectively, which reduced borrowing limits available to the Company. Interest expense related to the Credit Agreement was \$2.5 million and \$0.1 million for the three months ended September 30, 2022 and September 30, 2021, respectively and was \$3.4 million and \$0.6 million for nine months ended September 30, 2022 and September 30, 2021, respectively. The Company borrowed \$300.0 million to partially fund the acquisition of Xator on May 31, 2022. There was \$101.2 million outstanding under the Credit Agreement on September 30, 2022.

### **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"). The 2022 Delayed Draw Term Loan may be borrowed in a single draw during the period from and including the Closing Date to the earlier to occur of (a) the date of termination of the 2022 Delayed Draw Term Loan by the Company pursuant to the terms of the 2022 Delayed Draw Term Loan Agreement and (b) six (6) months following the Closing Date. 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. No amounts were funded under the 2022 Delayed Draw Term Loan Agreement on the Closing Date. The Company incurred \$0.9 million of debt issuance costs in connection with the delayed draw term loan as of September 30, 2022. There were no amounts outstanding under the 2022 Delayed Draw Term Loan as of September 30, 2022.

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.

### **Private Placement**

On July 1, 2014, the Company finalized a private placement whereby the Company raised an aggregate amount of \$250.0 million in debt as follows (in thousands):

<b>Tranche</b>	<b>Debt Amount</b>	<b>Maturity Date</b>	<b>Interest Rates</b>
Senior Note, Series A	\$ 50,000	July 15, 2021	4.44%
Senior Note, Series B	100,000	July 15, 2024	4.98%
Senior Note, Series C	60,000	July 15, 2026	5.13%
Senior Note, Series D	40,000	July 15, 2029	5.38%

The Company incurred \$1.1 million of debt issuance costs in connection with the private placement. On August 10, 2018, the Company finalized an amended and restated intercreditor agreement related to this private placement to more closely align certain covenants and definitions with the terms under the 2017 amended and restated Credit Agreement and incurred \$0.5 million of additional issuance costs. These costs are presented as a direct deduction from the debt on the face of the consolidated balance sheets. Interest expense related to the Senior Notes for the three months ended September 30, 2022 and September 30, 2021 was \$2.6 million and \$2.7 million, respectively, and was \$7.8 million and \$8.9 million for the nine months ended September 30, 2022 and September 30, 2021, respectively. The amortization of

debt issuance costs and interest expense is recorded in "Interest expense" on the consolidated statements of income. The Company paid the \$50 million Series A tranche of the Senior Note as scheduled in July 2021. The Company made interest payments of \$5.1 million for the three months ended September 30, 2022 and \$10.2 million for the nine months ended September 30, 2022, and \$6.2 million for the three months ended September 30, 2021 and \$12.4 million for the nine months ended September 30, 2021. Interest payable of \$2.2 million and \$4.7 million is recorded in "Accrued expenses and other current liabilities" on the consolidated balance sheets at September 30, 2022 and December 31, 2021, respectively, related to the Senior Notes.

Using a discounted cash flow technique that incorporates a market interest yield curve with adjustments for duration, optionality, and risk profile, the Company estimated that the fair value (Level 2) of its Senior Notes at September 30, 2022 approximates \$203.5 million. See "Note 16 – Fair Value of Financial Instruments" for the definition of Level 2 of the fair value hierarchy.

The Credit Agreement and private placement 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, 2022 and December 31, 2021.

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 \$239.8 million and \$223.0 million at September 30, 2022 and December 31, 2021, respectively.

### **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 51<sup>st</sup> 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.

Under existing GAAP at the time of issuance during 2020, convertible debt instruments that may be settled in cash on conversion were required to be separated into liability and equity components in a manner that reflects the issuer's non-convertible debt borrowing rate. The carrying amount of the liability component was based on the fair value of a similar instrument that did not contain an equity conversion option. The carrying amount allocated to the equity component, which is recognized as a debt discount, represented the difference between the proceeds from the issuance of the notes and the fair value of the liability component of the notes. Based on this debt to equity ratio, debt issuance costs were then allocated to the liability and equity components in a similar manner. Accordingly, at issuance the Company allocated \$336.1 million to the debt liability and \$53.6 million to additional paid-in capital. The difference between the principal amount of the Convertible Senior Notes and the liability component, inclusive of issuance costs, represented the debt discount, which the Company amortized to interest expense over the term of the Convertible Senior Notes using an effective interest rate of 3.25%. During the year ended December 31, 2020, the Company recognized interest expense of \$4.4 million. As of December 31, 2020, the net carrying value of the Notes was \$340.6 million.

In the first quarter of 2021, the Company early adopted ASU 2020-06, "Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Equity's Own Equity (Subtopic 815-40)". The Company used the modified retrospective method which resulted in a reduction in non-cash interest expense and reclassification of equity component of the convertible senior notes of \$55.0 million and equity component of the debt issuance costs of \$1.4 million to liabilities on the consolidated balance sheet. The Company also adjusted the carrying amount of the convertible senior notes to what it would have been if the Company had applied ASU 2020-06 from the inception of the Notes and recorded the offset of the carrying amount adjustment of \$3.7 million in retained earnings on January 1, 2021.

The Company recognized interest expense of \$0.7 million and \$0.7 million for the three months ended September 30, 2022 and September 30, 2021, respectively, and \$2.2 million and \$2.2 million for the nine months ended September 30, 2022 and September 30, 2021, respectively. As of September 30, 2022 and December 31, 2021, the carrying value of the Notes was \$400.0 million.

## **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**

On August 9, President Biden signed the Creating Helpful Incentives to Produce Semiconductors (CHIPS) Act into law, which includes an advanced manufacturing investment tax credit, among other provisions. On August 16, President Biden signed the Inflation Reduction Act (the IRA) into law, which includes implementation of a new alternative minimum tax, an excise tax on stock buybacks, and tax incentives for energy and climate initiatives, among other provisions. Based on the Company's review, these new laws do not result in a material change to the Company's income tax provision for 2022.

The Company's effective tax rate was 24.0% and 25.5% for the three months ended September 30, 2022 and 2021, respectively. The change in the effective tax rate was due primarily to a decrease in withholding tax, a change in jurisdictional mix of earnings and a nonrecurring write down of a foreign tax receivable included in 2021, partially offset by a release of a valuation allowance included in 2021. The Company's effective tax rate for the nine months ended September 30, 2022 and 2021 was 23.5% and 25.8%, respectively. The change in effective tax rate was due primarily to a decrease in withholding tax, a change in jurisdictional mix of earnings, a settlement of an uncertain tax position and a nonrecurring write down of a foreign tax receivable included in 2021, partially offset by a release of a valuation allowance included in 2021. The difference between the effective tax rate and the statutory U.S. Federal income tax rate of 21.0% for the three and nine months ended September 30, 2022 primarily relates to state income taxes, partially offset by benefits related to untaxed income attributable to noncontrolling interests, earnings in lower tax jurisdictions, and federal research tax credits.

As of September 30, 2022, the Company's deferred tax assets were subject to a valuation allowance of \$28.5 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, 2022 and December 31, 2021, the liability for income taxes associated with unrecognized tax benefits was \$22.7 million and \$21.2 million, respectively. It is reasonably possible that the Company may realize a decrease in our unrecognized tax benefits of approximately \$4.0 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.

## **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 United States government did not intervene in this matter as it is allowed to do so under the statute. The Company filed a motion to dismiss the lawsuit on the grounds that the Relator did not meet the applicable statute of limitations. The District Court granted the motion to dismiss. The Relator's attorney appealed the decision to the United States Court of Appeals of the Eleventh Circuit, which ultimately ruled in favor of the Relator, and the Company petitioned the United States Supreme Court to review the decision. The Supreme Court reviewed the decision and accepted the position of the Relator. The case was thus remanded to the United States District Court for the Northern District of Alabama. The defendants, including Parsons, will file appropriate pleadings opposing the allegations. At this time, the Company is unable to determine the probability of the outcome of the litigation or determine a potential range of loss, if any.

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, 2022 and December 31, 2021, total shares of the Company's common stock outstanding were 103,470,622 and 103,659,731, respectively, of which 64,144,230 and 70,328,237, 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 \$15.4 million and \$14.8 million for the three months ended September 30, 2022 and September 30, 2021, respectively, and \$42.0 million and \$41.3 million for the nine months ended September 30, 2022 and September 30, 2021, respectively. The expense is recorded in "Direct costs of contracts" and "Selling, general and administrative expense" in the consolidated statements of income. The fiscal 2022 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 \$99.2 million and \$73.2 million at September 30, 2022 and December 31, 2021, respectively.

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, 2022	December 31, 2021
Current assets	\$ 268,561	\$ 246,342
Noncurrent assets	7,885	2,180
Total assets	<u>276,446</u>	<u>248,522</u>
Current liabilities	169,233	175,637
Total liabilities	<u>169,233</u>	<u>175,637</u>
Total joint venture equity	<u>\$ 107,213</u>	<u>\$ 72,885</u>

	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Revenue	\$ 130,344	\$ 101,816	\$ 333,967	\$ 296,685
Costs	101,882	86,726	289,485	260,129
Net income	<u>\$ 28,462</u>	<u>\$ 15,090</u>	<u>\$ 44,482</u>	<u>\$ 36,556</u>
Net income attributable to noncontrolling interests	\$ 14,024	\$ 7,411	\$ 21,685	\$ 17,711

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 earnings (loss) 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, 2022	December 31, 2021
Current assets	\$ 1,770,762	\$ 1,620,735
Noncurrent assets	487,823	531,261
Total assets	<u>2,258,585</u>	<u>2,151,996</u>
Current liabilities	1,357,131	1,088,985
Noncurrent liabilities	467,030	669,911
Total liabilities	<u>1,824,161</u>	<u>1,758,896</u>
Total joint venture equity	<u>\$ 434,424</u>	<u>\$ 393,100</u>
Investments in and advances to unconsolidated joint ventures	\$ 99,424	\$ 110,688

	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Revenue	\$ 782,880	\$ 728,461	\$ 1,762,420	\$ 1,701,262
Costs	774,030	697,493	1,711,555	1,604,538
Net income	<u>\$ 8,850</u>	<u>\$ 30,968</u>	<u>\$ 50,865</u>	<u>\$ 96,724</u>
Equity in earnings of unconsolidated joint ventures	\$ (974)	\$ 9,570	\$ 10,237	\$ 26,528

The Company received net distributions from its unconsolidated joint ventures for the three months ended September 30, 2022 and September 30, 2021 of \$13.2 million and \$7.3 million, respectively. The Company received net distributions from its unconsolidated joint ventures for the nine months ended September 30, 2022 of \$21.4 million and had net contributions to its unconsolidated joint ventures for the nine months ended September 30, 2021 of \$0.5 million.

For the three and nine months ended September 30, 2022, the Company recorded write-downs of \$6.4 million and \$9.4 million, respectively, on an unconsolidated joint venture in the Critical Infrastructure segment as a result of changes in estimates made by the managing partner. The write-downs decreased operating and net income by \$6.4 million and \$4.8 million, respectively for the three months ended September 2022. Operating and net income were decreased by \$9.4 million and \$7.0 million, respectively, for the nine months ended September 30, 2022. The write-downs decreased diluted earnings per share by \$0.04 and \$0.06 for the three and nine months ended September 30, 2022.

For the three and nine months ended September 30, 2021, the Company recorded write-downs of \$5.5 million and \$10.6 million, respectively, on an unconsolidated joint venture in the Critical Infrastructure segment as a result of changes in estimates made by the managing partner. The write-downs decreased operating and net income by \$5.5 million and \$4.1 million, respectively for the three months ended September 2021. Operating and net income were decreased by \$10.6 million and \$7.9 million, respectively, for the nine months ended September 30, 2021. The write-downs decreased diluted earnings per share by \$0.04 and \$0.07 for the three and nine months ended September 30, 2021.

## 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, 2022 and September 30, 2021 were \$59.9 million and \$48.3 million, respectively, and \$159.0 million and \$152.9 million for the nine months ended September 30, 2022 and September 30, 2021, respectively. For the three months ended September 30, 2022 and September 30, 2021, the Company incurred \$41.7 million and \$37.3 million, respectively, and for the nine months ended September 30, 2022 and September 30, 2021 incurred \$112.7 million and \$116.9 million, respectively, of reimbursable costs. The revenue and reimbursable cost prior period amounts have been updated to reflect all joint ventures for the comparable period. Amounts included in the consolidated balance sheets related to services the Company provided to unconsolidated joint ventures are as follows (in thousands):

	September 30, 2022	December 31, 2021
Accounts receivable	\$ 37,657	\$ 30,246
Contract assets	27,037	16,069
Contract liabilities	12,642	10,605

## 16. Fair Value of Financial Instruments

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, 2022 and December 31, 2021, 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 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, 2021 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, 2022 and September 30, 2021. 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 which was required upon adoption of ASU 2020-06. As a result, the Company elected to adopt the if-converted method when the Convertible Senior Notes were issued during the third quarter of 2020. 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, 2022 and September 30, 2021 were 2,449 and 4,656, respectively, and for the nine months ended September 30, 2022 and September 30, 2021 were 11,564 and 6,838, respectively.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Basic weighted average number of shares outstanding	103,608,135	102,478,095	103,684,048	102,463,511
Stock-based awards	918,090	751,807	746,702	637,686
Convertible senior notes	8,916,530	8,916,530	8,916,530	8,916,530
Diluted weighted average number of shares outstanding	<u>113,442,755</u>	<u>112,146,432</u>	<u>113,347,280</u>	<u>112,017,727</u>

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

	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Net income attributable to Parsons Corporation	29,571	19,358	68,533	35,099
Convertible senior notes if-converted method interest adjustment	545	534	1,627	1,593
Diluted net income attributable to Parsons Corporation	<u>30,116</u>	<u>19,892</u>	<u>70,160</u>	<u>36,692</u>

### 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 table below presents information on this repurchase program:

	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Total shares repurchased	95,413	245,000	522,501	245,000
Total shares retired	95,413	245,000	522,501	245,000
Average price paid per share	\$ 41.42	\$ 35.51	\$ 37.32	\$ 35.51

As of September 30, 2022, the Company has \$58.8 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 Chairwoman 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, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Federal Solutions revenue	\$ 620,416	\$ 499,291	\$ 1,649,601	\$ 1,394,035
Critical Infrastructure revenue	513,954	456,759	1,442,559	1,316,068
Total revenue	<u>\$ 1,134,370</u>	<u>\$ 956,050</u>	<u>\$ 3,092,160</u>	<u>\$ 2,710,103</u>

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	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Adjusted EBITDA attributable to Parsons Corporation				
Federal Solutions	\$ 61,004	\$ 46,481	\$ 151,287	\$ 110,963
Critical Infrastructure	27,545	30,371	81,020	89,845
Adjusted EBITDA attributable to Parsons Corporation	88,549	76,852	232,307	200,808
Adjusted EBITDA attributable to noncontrolling interests	14,138	7,540	22,042	18,010
Depreciation and amortization	(29,578)	(37,232)	(90,668)	(106,540)
Interest expense, net	(5,941)	(3,987)	(14,168)	(13,188)
Income tax expense	(13,792)	(9,165)	(27,643)	(18,378)
Equity-based compensation expense	(7,125)	(3,224)	(15,814)	(15,125)
Transaction-related costs (a)	(2,563)	(2,537)	(14,486)	(9,269)
Restructuring expense (b)	-	(357)	(213)	(507)
Other (c)	(93)	(1,121)	(1,139)	(3,001)
Net income including noncontrolling interests	43,595	26,769	90,218	52,810
Net income attributable to noncontrolling interests	14,024	7,411	21,685	17,711
Net income attributable to Parsons Corporation	<u>\$ 29,571</u>	<u>\$ 19,358</u>	<u>\$ 68,533</u>	<u>\$ 35,099</u>

(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, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Revenue				
North America	\$ 944,942	\$ 804,122	\$ 2,571,741	\$ 2,245,515
Middle East	184,680	147,207	504,078	448,525
Rest of World	4,748	4,721	16,341	16,063
Total Revenue	<u>\$ 1,134,370</u>	<u>\$ 956,050</u>	<u>\$ 3,092,160</u>	<u>\$ 2,710,103</u>

The geographic location of revenue is determined by the location of the customer.

	September 30, 2022	December 31, 2021
Property and Equipment, Net		
North America	\$ 90,820	\$ 100,674
Middle East	3,698	3,522
Total Property and Equipment, Net	<u>\$ 94,518</u>	<u>\$ 104,196</u>

North America includes revenue in the United States for the three months ended September 30, 2022 and September 30, 2021 of \$851.5 million and \$730.7 million, respectively, and for the nine months ended September 30, 2022 and September 30, 2021 of \$2.3 billion and \$2.0 billion, respectively. North America property and equipment, net includes \$84.0 million and \$95.0 million of property and equipment, net in the United States at September 30, 2022 and December 31, 2021, respectively.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Revenue				
Defense and Intelligence	\$ 351,419	\$ 332,080	\$ 1,037,244	\$ 929,044
Engineered Systems	268,997	167,211	612,357	464,991
Federal Solutions revenues	620,416	499,291	1,649,601	1,394,035
Mobility Solutions	329,666	293,799	924,834	871,220
Connected Communities	184,288	162,960	517,725	444,848
Critical Infrastructure revenues	513,954	456,759	1,442,559	1,316,068
Total Revenue	<u>\$ 1,134,370</u>	<u>\$ 956,050</u>	<u>\$ 3,092,160</u>	<u>\$ 2,710,103</u>

Effective July 1, 2021, the Company made changes to its Federal Solutions business units by consolidating Space & Geospatial Solutions, Cyber & Intelligence, and Missile Defense & C5ISR into a new Defense and Intelligence business unit. Effective January 1, 2022, the Company made changes to its Critical Infrastructure business units by transferring a portion of legacy Mobility Solutions to the Connected Communities business unit. Effective June 1, 2022, the Company made changes to its Federal Solutions business units by transferring a portion of legacy Defense and Intelligence business unit to the Engineered Systems business unit. The prior year information in the table above has been reclassified to conform to the business line changes.

**19. Subsequent Events**

On October 26, 2022, the Company prepaid its outstanding private placement debt of \$200.0 million described in Note 10 – Debt and Credit Facilities with borrowings under the revolving credit facility. In connection with the prepayment, the Company incurred \$2.1 million of additional interest expense associated with a make-whole amount and unamortized debt issuance costs. On October 28, 2022, the Company borrowed \$350.0 million on the 2022 Delayed Draw Term Loan described in Note 10 – Debt and Credit Facilities and used the proceeds to pay down the borrowings under the revolving credit facility.

## 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, 2021.

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, 2021. We undertake no obligation to revise publicly any forward-looking statements. Actual results may differ materially from those contained in any forward-looking statements.

# PARSONS CORPORATION

Delivering innovative solutions that make the world safer, healthier, and more connected.

## SEGMENTS



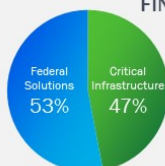
**Critical Infrastructure**  
Lead smart, sustainable infrastructure deployment



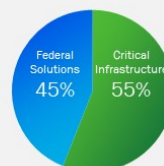
**Federal Solutions**  
Deliver information dominance across all domains

## FINANCIAL SNAPSHOT

**\$4.0B**  
Total Revenue  
Trailing 12-Months (Q3 2022)



**\$4.0B**  
Contract Awards  
Trailing 12-Months (Q3 2022)



## KEY FACTS AND FIGURES



**77**  
Years Of History



**~ 16K**  
Employees



**\$238M**  
Cash Flow From Operations  
Trailing 12-Months (Q3 2022)



**1.0X**  
Book-To-Bill Ratio  
Trailing 12-Months (Q3 2022)



**\$8.2B**  
Backlog As Of  
9/30/2022

## 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):

	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Awards (year to date)	\$ 3,167,023	\$ 3,736,126
Backlog (1)	\$ 8,228,989	\$ 8,584,539
Book-to-Bill (year to date)	1.0	1.4

- (1) Difference between our backlog of \$8.2 billion and our remaining unsatisfied performance obligations, or RUPO, of \$5.8 billion, each as of September 30, 2022, 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):

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30, 2022</u>	<u>September 30, 2021</u>	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Federal Solutions	\$ 685,599	\$ 560,733	\$ 1,535,041	\$ 2,203,767
Critical Infrastructure	572,657	482,836	1,631,982	1,532,359
Total Awards	<u>\$ 1,258,256</u>	<u>\$ 1,043,569</u>	<u>\$ 3,167,023</u>	<u>\$ 3,736,126</u>

The change in new awards from year to year is primarily 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 change in new awards in our Federal Solutions segment for the three months ended September 30, 2022 when compared to the corresponding period last year was primarily due to three large awards during 2022. The change in new awards in our Federal Solutions segment for the nine months ended September 30, 2022 when compared to the corresponding period last year was primarily due to a significant contract awarded in the second quarter of 2021. The awards in Critical Infrastructure for the three and nine months ended September 30, 2022 were higher primarily due to several new awards during the third quarter of 2022, a large contract value increase in the second quarter of 2022, partially offset on a year to date basis by several large contracts awarded in the first quarter of 2021.

### 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):

	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Federal Solutions:		
Funded	\$ 1,448,615	\$ 1,471,631
Unfunded	3,656,421	4,149,903
<b>Total Federal Solutions</b>	<b>5,105,036</b>	<b>5,621,534</b>
Critical Infrastructure:		
Funded	3,066,325	2,893,008
Unfunded	57,628	69,997
<b>Total Critical Infrastructure</b>	<b>3,123,953</b>	<b>2,963,005</b>
<b>Total Backlog (1)</b>	<b>\$ 8,228,989</b>	<b>\$ 8,584,539</b>

- (1) Difference between our backlog of \$8.2 billion and our RUPO of \$5.8 billion, each as of September 30, 2022, 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 \$3.1 billion of our funded backlog at September 30, 2022 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, 2021.

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:

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30, 2022</u>	<u>September 30, 2021</u>	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Federal Solutions	1.1	1.1	0.9	1.6
Critical Infrastructure	1.1	1.1	1.1	1.2
<b>Overall</b>	<b>1.1</b>	<b>1.1</b>	<b>1.0</b>	<b>1.4</b>

## **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**

### *Xator Corporation*

On May 31, 2022, we acquired Xator for \$388.3 million in cash. We 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. The acquisition was funded by cash on-hand and borrowings under our revolving line of credit. The financial results of Xator have been included in our consolidated results of operations from May 31, 2022 onward.

### *BlackHorse Solutions, Inc.*

On July 6, 2021, we acquired BlackHorse for \$205.0 million. BlackHorse expands Parsons’ capabilities and products in next-generation military, intelligence, and space operations, specifically in cyber electronic warfare, and information dominance. The acquisition was funded by cash on-hand. The financial results of BlackHorse have been included in our consolidated results of operations from July 6, 2021 onward.

### *Echo Ridge LLC*

On July 30, 2021, we acquired Echo Ridge LLC for \$9.0 million. Echo Ridge adds position, navigation, and timing devices; modeling, simulation, test, and measurement tools; and deployable software defined radio products and signal processing services to Parsons’ space portfolio. The acquisition was funded by cash on-hand. The financial results of Echo Ridge have been included in our consolidated results of operations from July 30, 2021 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, 2021 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, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Fixed-price	29.5%	25.8%	27.6%	26.2%
Time-and-materials	26.6%	27.4%	27.1%	27.8%
Cost-plus	43.8%	46.8%	45.3%	46.0%

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 earnings (loss) 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, 2022 and September 30, 2021 of \$59.9 million and \$48.3 million, respectively, and for the nine months ended September 30, 2022 and September 30, 2021 of \$159.0 million and \$152.9 million, 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, 2022 and September 30, 2021 was \$15.4 million and \$14.8 million, respectively, and for the nine months ended September 30, 2022 and September 30, 2021 was \$42.0 million and \$41.3 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, 2022 and September 30, 2021.

(U.S. dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Adjusted EBITDA (1)	\$ 102,687	\$ 84,392	\$ 254,349	\$ 218,818
Net Income Margin (2)	3.8%	2.8%	2.9%	1.9%
Adjusted EBITDA Margin (3)	9.1%	8.8%	8.2%	8.1%

- (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, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Net income attributable to Parsons Corporation	\$ 29,571	\$ 19,358	\$ 68,533	\$ 35,099
Interest expense, net	5,941	3,987	14,168	13,188
Income tax expense	13,792	9,165	27,643	18,378
Depreciation and amortization	29,578	37,232	90,668	106,540
Net income attributable to noncontrolling interests	14,024	7,411	21,685	17,711
Equity-based compensation	7,125	3,224	15,814	15,125
Transaction-related costs (a)	2,563	2,537	14,486	9,269
Restructuring (b)	-	357	213	507
Other (c)	93	1,121	1,139	3,001
Adjusted EBITDA	\$ 102,687	\$ 84,392	\$ 254,349	\$ 218,818

- (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 (in thousands):

	Three Months Ended		Variance		Nine Months Ended		Variance	
	September 30, 2022	September 30, 2021	Dollar	Percent	September 30, 2022	September 30, 2021	Dollar	Percent
Federal Solutions Adjusted EBITDA attributable to Parsons Corporation	\$ 61,004	\$ 46,481	\$ 14,523	31.2%	\$ 151,287	\$ 110,963	\$ 40,324	36.3%
Critical Infrastructure Adjusted EBITDA attributable to Parsons Corporation	27,545	30,371	(2,826)	-9.3%	81,020	89,845	(8,825)	-9.8%
Adjusted EBITDA attributable to noncontrolling interests	14,138	7,540	6,598	87.5%	22,042	18,010	4,032	22.4%
<b>Total Adjusted EBITDA</b>	<b>\$ 102,687</b>	<b>\$ 84,392</b>	<b>\$ 18,295</b>	<b>21.7%</b>	<b>\$ 254,349</b>	<b>\$ 218,818</b>	<b>\$ 35,531</b>	<b>16.2%</b>

See “Segment Results” below for a further discussion on Adjusted EBITDA by segment.

The following table sets forth our results of operations for the three and nine months ended September 30, 2022 and September 30, 2021 as a percentage of revenue.

	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Revenues	100%	100%	100%	100%
Direct costs of contracts	76.9%	76.8%	77.2%	76.9%
Equity in earnings of unconsolidated joint ventures	-0.1%	1.0%	0.3%	1.0%
Selling, general and administrative expenses	17.4%	20.0%	18.8%	20.9%
Operating income	5.6%	4.2%	4.3%	3.2%
Interest income	0.0%	0.0%	0.0%	0.0%
Interest expense	-0.6%	-0.4%	-0.5%	-0.5%
Other income, net	-0.1%	0.0%	0.0%	0.0%
Total other income (expense)	-0.6%	-0.4%	-0.5%	-0.5%
Income before income tax expense	5.1%	3.8%	3.8%	2.6%
Income tax benefit (provision)	-1.2%	-1.0%	-0.9%	-0.7%
Net income including noncontrolling interests	3.8%	2.8%	2.9%	1.9%
Net income attributable to noncontrolling interests	-1.2%	-0.8%	-0.7%	-0.7%
Net income attributable to Parsons Corporation	2.6%	2.0%	2.2%	1.3%

#### Revenue

(U.S. dollars in thousands)	Three Months Ended		Variance		Nine Months Ended		Variance	
	September 30, 2022	September 30, 2021	Dollar	Percent	September 30, 2022	September 30, 2021	Dollar	Percent
Revenue	\$ 1,134,370	\$ 956,050	\$ 178,320	18.7%	\$ 3,092,160	\$ 2,710,103	\$ 382,057	14.1%

Revenue increased \$178.3 million for the three months ended September 30, 2022 when compared to the corresponding period last year, due to increases in revenue in both our Federal Solutions and Critical Infrastructure segments of \$121.1 million and \$57.2 million, respectively. Revenue increased \$382.1 million for the nine months ended September 30, 2022 when compared to the corresponding period last year, due to increases in revenue in both our Federal Solutions and Critical Infrastructure segments of \$255.6 million and \$126.5 million, respectively. See “Segment Results” below for a further discussion.

#### Direct costs of contracts

(U.S. dollars in thousands)	Three Months Ended		Variance		Nine Months Ended		Variance	
	September 30, 2022	September 30, 2021	Dollar	Percent	September 30, 2022	September 30, 2021	Dollar	Percent
Direct costs of contracts	\$ 872,423	\$ 734,652	\$ 137,771	18.8%	\$ 2,388,095	\$ 2,084,062	\$ 304,033	14.6%



Direct cost of contracts increased \$137.8 million for the three months ended September 30, 2022 when compared to the corresponding period last year, due to increases of \$98.9 million in our Federal Solutions segment and \$38.9 million in our Critical Infrastructure segment. Direct cost of contracts increased \$304.0 million for the nine months ended September 30, 2022 when compared to the corresponding period last year, due to increases of \$203.3 million in our Federal Solutions segment and \$100.7 million in our Critical Infrastructure segment. The increases were primarily due to an increase in business volume from recent contract awards and acquisitions.

#### Equity in earnings of unconsolidated joint ventures

(U.S. dollars in thousands)	Three Months Ended		Variance		Nine Months Ended		Variance	
	September 30,	September 30,	Dollar	Percent	September 30,	September 30,	Dollar	Percent
	2022	2021			2022	2021		
Equity in earnings of unconsolidated joint ventures	\$ (974)	\$ 9,570	\$ (10,544)	-110.2%	\$ 10,237	\$ 26,528	\$ (16,291)	-61.4%

Equity in earnings of unconsolidated joint ventures decreased \$10.5 million and \$16.3 million for the three and nine months ended September 30, 2022, respectively, compared to the corresponding periods last year. The decreases were primarily related to a \$6.4 million write-down on a joint venture in Q3 2022 and change orders which delayed profits of a joint venture to future periods.

#### Selling, general and administrative expenses

(U.S. dollars in thousands)	Three Months Ended		Variance		Nine Months Ended		Variance	
	September 30,	September 30,	Dollar	Percent	September 30,	September 30,	Dollar	Percent
	2022	2021			2022	2021		
Selling, general and administrative expenses	\$ 196,960	\$ 191,231	\$ 5,729	3.0%	\$ 581,969	\$ 566,991	\$ 14,978	2.6%

The increase in SG&A of \$5.7 million for the three months ended September 30, 2022 when compared to the corresponding period last year was primarily due to a \$7.0 million increase from acquisitions, a \$3.9 million increase in compensation cost related to equity-based awards, and a \$3.4 million increase in incentive costs. These increases were partially offset by a \$8.0 million decrease in intangible asset amortization and a \$0.6 million decrease from other costs.

The increase in SG&A of \$15.0 million for the nine months ended September 30, 2022 when compared to the corresponding period last year was primarily due to a \$17.6 million increase from acquisitions, \$6.8 million increase in transaction related costs, \$5.4 million increase in incentive costs, and \$2.4 million increase from other costs. These increases were partially offset by a \$17.2 million decrease in intangible asset amortization.

#### Total other income (expense)

(U.S. dollars in thousands)	Three Months Ended		Variance		Nine Months Ended		Variance	
	September 30,	September 30,	Dollar	Percent	September 30,	September 30,	Dollar	Percent
	2022	2021			2022	2021		
Interest income	\$ 382	\$ 65	\$ 317	487.7%	\$ 618	\$ 315	\$ 303	96.2%
Interest expense	(6,323)	(4,052)	(2,271)	56.0%	(14,786)	(13,503)	(1,283)	9.5%
Other income (expense), net	(685)	184	(869)	-472.3%	(304)	(1,202)	898	-74.7%
Total other income (expense)	\$ (6,626)	\$ (3,803)	\$ (2,823)	74.2%	\$ (14,472)	\$ (14,390)	\$ (82)	0.6%

Interest income is related to interest earned on cash balances held. Interest expense is primarily due to debt related to our business acquisitions and Convertible Senior Notes. The amounts in other income (expense), net are primarily related to transaction gains and losses on foreign currency transactions and sublease income.

## Income tax expense

(U.S. dollars in thousands)	Three Months Ended		Variance		Nine Months Ended		Variance	
	September 30, 2022	September 30, 2021	Dollar	Percent	September 30, 2022	September 30, 2021	Dollar	Percent
	Income tax expense	\$ 13,792	\$ 9,165	\$ 4,627	50.5%	\$ 27,643	\$ 18,378	\$ 9,265

The Company's effective tax rate was 24.0% and 25.5% for the three months ended September 30, 2022 and September 30, 2021, respectively. The most significant items contributing to the change in the effective tax rate relate to a decrease in withholding tax, a change in jurisdictional mix of earnings and a nonrecurring write down of a foreign tax receivable included in 2021, partially offset by a release of a valuation allowance included in 2021. The Company's effective tax rate for the nine months ended September 30, 2022 and September 30, 2021 was 23.5% and 25.8%, respectively. The change in effective tax rate was due primarily to a decrease in withholding tax, a change in jurisdictional mix of earnings, a settlement of an uncertain tax position and a nonrecurring write down of a foreign tax receivable included in 2021, partially offset by a release of a valuation allowance included in 2021. The difference between the statutory U.S. federal income tax rate of 21.0% and the effective tax rate for the three and nine months ended September 30, 2022 primarily relates to state income taxes, partially offset by benefits related to untaxed income attributable to noncontrolling interests, earnings in lower tax jurisdictions and federal research tax credits.

## 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:

(U.S. dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
	Federal Solutions Adjusted EBITDA attributable to Parsons Corporation	\$ 61,004	\$ 46,481	\$ 151,287
Critical Infrastructure Adjusted EBITDA attributable to Parsons Corporation	27,545	30,371	81,020	89,845
Adjusted EBITDA attributable to noncontrolling interests	14,138	7,540	22,042	18,010
Total Adjusted EBITDA	<u>\$ 102,687</u>	<u>\$ 84,392</u>	<u>\$ 254,349</u>	<u>\$ 218,818</u>

## Federal Solutions

(U.S. dollars in thousands)	Three Months Ended		Variance		Nine Months Ended		Variance	
	September 30, 2022	September 30, 2021	Dollar	Percent	September 30, 2022	September 30, 2021	Dollar	Percent
	Revenue	\$ 620,416	\$ 499,291	\$ 121,125	24.3%	\$ 1,649,601	\$ 1,394,035	\$ 255,566
Adjusted EBITDA attributable to Parsons Corporation	\$ 61,004	\$ 46,481	\$ 14,523	31.2%	\$ 151,287	\$ 110,963	\$ 40,324	36.3%

Federal Solutions revenue for the three months ended September 30, 2022 compared to the corresponding period last year increased primarily due to increases from business acquisitions of \$70.6 million, and increases in business volume from recent contract awards and increased activity on existing contracts.

Federal Solutions revenue for the nine months ended September 30, 2022 compared to the corresponding period last year increased primarily due to increases from business acquisitions of \$138.3 million, and increases in business volume from recent contract awards and increased activity on existing contracts.

Federal Solutions Adjusted EBITDA attributable to Parsons Corporation for the three and nine months ended September 30, 2022 compared to the corresponding period last year increased primarily due to increases in business volume, increases related to acquisitions, cost control, and a write down on a project in the comparable period of the second quarter of 2021.

#### *Critical Infrastructure*

(U.S. dollars in thousands)	Three Months Ended		Variance		Nine Months Ended		Variance	
	September 30, 2022	September 30, 2021	Dollar	Percent	September 30, 2022	September 30, 2021	Dollar	Percent
Revenue	\$ 513,954	\$ 456,759	\$57,195	12.5%	\$ 1,442,559	\$ 1,316,068	\$ 126,491	9.6%
Adjusted EBITDA attributable to Parsons Corporation	\$ 27,545	\$ 30,371	\$ (2,826)	-9.3%	\$ 81,020	\$ 89,845	\$ (8,825)	-9.8%

The increase in Critical Infrastructure revenue for the three and nine months ended September 30, 2022 compared to the corresponding periods last year was primarily due to an increase in business volume from recent contract awards, increased activity on existing contracts, increased hiring activity, and write downs on projects in the comparable periods of the second and third quarters of 2021.

Critical Infrastructure Adjusted EBITDA attributable to Parsons Corporation decreased for the three and nine months ended September 30, 2022 primarily due to decreases in equity in earnings, increases in selling, general and administrative expenses driven by investments in future growth, cost adjustments on legacy programs, and program completions.

#### **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, Delayed Draw Term Loan, 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, 2022, 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 and Delayed Draw Term Loan.

During October 2022, we prepaid the private placement debt of \$200.0 million with borrowings under the revolving credit facility and subsequently borrowed \$350.0 million on the 2022 Delayed Draw Term Loan. Proceeds were used to pay down the borrowings under the revolving credit facility. See "Note 10 – Debt and Credit Facilities" and "Note 19 – Subsequent Events" in the notes to the consolidated financial statements in this Form 10-Q for further information.

#### **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 68 days at both September 30, 2022 and September 30, 2021. Our working capital (current assets less current liabilities) was \$461.3 million at September 30, 2022 and \$601.6 million at December 31, 2021.

Our cash, cash equivalents and restricted cash decreased by \$196.3 million to \$147.5 million at September 30, 2022 from \$343.9 million at December 31, 2021.

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

	<u>Nine Months Ended</u>	
	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Net cash provided by operating activities	\$ 148,368	\$ 115,714
Net cash used in investing activities	(402,677)	(230,464)
Net cash provided by (used in) financing activities	60,185	(95,665)
Effect of exchange rate changes	(2,220)	(97)
Net decrease in cash, cash equivalents and restricted cash	<u>\$ (196,344)</u>	<u>\$ (210,512)</u>

#### *Operating Activities*

Net cash provided by operating activities consists primarily of net income adjusted for noncash items, such as: equity in earnings (loss) 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 \$32.7 million for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021. The increase net cash from operating activities is primarily attributable to a \$40.6 million increase in net income after adjusting for non-cash items, partially offset by a \$19.4 million increase in cash outflows from our working capital accounts (primarily from accounts receivable and contract assets offset by accrued expenses, accounts payable and contract liabilities). A large component of the change was due to legacy cash-settled long-term incentive plans which paid out their last cycle during the first quarter of 2021. The Company paid \$26.4 million related to these plans in the first quarter of 2021 compared to no payments during the first quarter of 2022.

#### *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 increased 172.2 million for the nine months ended September 30, 2022, when compared to the nine months ended September 30, 2021, primarily due to the acquisition of Xator for \$379.3 million net of

cash acquired during the second quarter of 2022 compared to \$197.7 million, net of cash acquired, for the acquisitions of BlackHorse Solutions and Echo Ridge during the third quarter of 2021.

### ***Financing Activities***

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

Net cash provided by financing activities increased \$155.9 million for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021. The change in cash flows from financing activities is primarily due to \$101.2 million net borrowings under the Credit Agreement in connection with the acquisition of Xator partially offset by payments made to settle warrants in connection with the acquisition, compared to \$50.0 million repayment under the Credit Agreement in 2021. Other drivers were reduced distributions to noncontrolling interest of \$23.0 million, partially offset by increased outflows of \$10.8 million of repurchases of common stock under the stock repurchase program which began in August 2021.

### ***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 \$239.8 million as of September 30, 2022. Letters of credit outstanding under the Credit Agreement total \$44.5 million.

### ***Recent Accounting Pronouncements***

See the information set forth in “Note 3—Summary of Significant Accounting Policies—Recently Adopted Accounting Pronouncements” in the notes to our consolidated financial statements.

### ***Off-Balance Sheet Arrangements***

As of September 30, 2022, 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, 2022, there was \$101.2 million outstanding under the Revolving Credit Facility and no debt drawn on the Delayed Draw Term Loan. Borrowings under the new Credit Facility effective June 2021 bear interest at either an adjusted 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. Prior to June 2021, interest on borrowings under the Credit Facility were at either the base rate (as defined in the Credit Agreement), plus an applicable margin, or LIBOR plus an applicable margin. The applicable margin for base rate loans was a range of 0.125% to 1.00% and the applicable margin for LIBOR loans was a range of 1.125% to 2.00%, both based on the leverage ratio of the Company at the end of each quarter. The rates on September 30, 2022 and December 31, 2021 were 4.46% and 1.36%, respectively. 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.

### ***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, 2022, 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, 2022, 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 2022, 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.

## 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 have been no material changes from our Risk Factors disclosed in the Company’s Form 10-K for the year ended December 31, 2021.

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

None

### Item 3. Defaults Upon Senior Securities.

None

### Item 4. Mine Safety Disclosures.

Not Applicable

### Item 5. Other Information.

None

### Item 6. Exhibits.

Exhibit Number	Description
31.1*	<a href="#">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.</a>
31.2*	<a href="#">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.</a>
32.1*	<a href="#">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.</a>
32.2*	<a href="#">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.</a>
101	The following financial statements from the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2022, 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 2, 2022

By: \_\_\_\_\_ /s/ Matthew M. Ofilos  
Matthew M. Ofilos  
Chief Financial Officer  
(Principal Financial Officer)







**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, 2022 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 2, 2022

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.

**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, 2022 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 2, 2022

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.