# 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 June 30, 2021**

**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

# Parsons Corporation

**(Exact Name of Registrant as Specified in its Charter)**

| | |
|---|---|
| **Delaware** | **95-3232481** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **5875 Trinity Parkway #300**<br>**Centreville, Virginia** | **20120** |
| **(Address of principal executive offices)** | **(Zip Code)** |

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

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

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

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

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

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

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

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

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

As of July 28, 2021, the registrant had 102,502,780 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)

| | June 30, 2021 | December 31, 2020 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents (including $57,563 and $75,220 Cash of consolidated joint ventures) | $ 483,443 | $ 483,609 |
| Restricted cash and investments | 1,145 | 3,606 |
| Accounts receivable, net (including $173,640 and $190,643 Accounts receivable of consolidated joint ventures, net) | 637,980 | 698,578 |
| Contract assets (including $25,192 and $23,498 Contract assets of consolidated joint ventures) | 568,239 | 576,568 |
| Prepaid expenses and other current assets (including $6,657 and $3,045 Prepaid expenses and other current assets of consolidated joint ventures) | 103,599 | 80,769 |
| Total current assets | 1,794,406 | 1,843,130 |
| | | |
| Property and equipment, net (including $2,283 and $2,629 Property and equipment of consolidated joint ventures, net) | 110,617 | 121,027 |
| Right of use assets, operating leases | 194,484 | 210,398 |
| Goodwill | 1,263,060 | 1,261,978 |
| Investments in and advances to unconsolidated joint ventures | 86,045 | 68,975 |
| Intangible assets, net | 197,985 | 245,958 |
| Deferred tax assets | 147,146 | 130,200 |
| Other noncurrent assets | 45,554 | 56,038 |
| Total assets | $ 3,839,297 | $ 3,937,704 |
| | | |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable (including $85,425 and $97,810 Accounts payable of consolidated joint ventures) | $ 191,688 | $ 225,679 |
| Accrued expenses and other current liabilities (including $70,015 and $68,801 Accrued expenses and other current liabilities of consolidated joint ventures) | 582,610 | 650,753 |
| Contract liabilities (including $35,260 and $33,922 Contract liabilities of consolidated joint ventures) | 196,547 | 201,864 |
| Short-term lease liabilities, operating leases | 53,997 | 54,133 |
| Income taxes payable | 2,582 | 4,980 |
| Short-term debt | 50,000 | 50,000 |
| Total current liabilities | 1,077,424 | 1,187,409 |
| Long-term employee incentives | 23,222 | 21,828 |
| Long-term debt | 590,876 | 539,998 |
| Long-term lease liabilities, operating leases | 164,754 | 182,467 |
| Deferred tax liabilities | 12,690 | 12,285 |
| Other long-term liabilities | 119,881 | 132,300 |
| Total liabilities | 1,988,847 | 2,076,287 |
| Contingencies (Note 12) | | |
| Shareholders' equity: | | |
| Common stock, $1 par value; authorized 1,000,000,000 shares; 146,751,406 and 146,609,288 shares issued; 30,213,867 and 25,719,350 public shares outstanding; 72,288,913 and 76,641,312 ESOP shares outstanding | 146,752 | 146,609 |
| Treasury stock, 44,248,626 shares at cost | (899,328) | (899,328) |
| Additional paid-in capital | 2,673,965 | 2,700,925 |
| Accumulated deficit | (102,019) | (120,569) |
| Accumulated other comprehensive loss | (5,905) | (13,865) |
| Total Parsons Corporation shareholders' equity | 1,813,465 | 1,813,772 |
| Noncontrolling interests | 36,985 | 47,645 |
| Total shareholders' equity | 1,850,450 | 1,861,417 |
| Total liabilities and shareholders' equity | $ 3,839,297 | $ 3,937,704 |

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

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

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| Revenue | $ 879,356 | $ 979,459 | $ 1,754,053 | $ 1,950,452 |
| Direct cost of contracts | 680,328 | 749,324 | 1,349,410 | 1,518,956 |
| Equity in earnings of unconsolidated joint ventures | 9,428 | 3,769 | 16,958 | 9,883 |
| Selling, general and administrative expenses | 188,238 | 187,640 | 375,760 | 371,414 |
| Operating income | 20,218 | 46,264 | 45,841 | 69,965 |
| Interest income | 152 | 196 | 250 | 424 |
| Interest expense | (4,910) | (4,159) | (9,451) | (8,181) |
| Other income (expense), net | 405 | 715 | (1,386) | 263 |
| Total other income (expense) | (4,353) | (3,248) | (10,587) | (7,494) |
| Income before income tax expense | 15,865 | 43,016 | 35,254 | 62,471 |
| Income tax expense | (3,838) | (11,891) | (9,213) | (16,975) |
| Net income including noncontrolling interests | 12,027 | 31,125 | 26,041 | 45,496 |
| Net income attributable to noncontrolling interests | (5,325) | (7,826) | (10,300) | (9,224) |
| Net income attributable to Parsons Corporation | $ 6,702 | $ 23,299 | $ 15,741 | $ 36,272 |
| Earnings per share: | | | | |
| Basic | $ 0.07 | $ 0.23 | $ 0.15 | $ 0.36 |
| Diluted | $ 0.06 | $ 0.23 | $ 0.15 | $ 0.36 |

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

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

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| Net income including noncontrolling interests | $ 12,027 | $ 31,125 | $ 26,041 | $ 45,496 |
| Other comprehensive income (loss), net of tax | | | | |
| Foreign currency translation adjustment, net of tax | 3,012 | 3,104 | 7,926 | (5,696) |
| Pension adjustments, net of tax | 19 | 23 | 38 | (38) |
| Comprehensive income including noncontrolling interests, net of tax | 15,058 | 34,252 | 34,005 | 39,762 |
| Comprehensive income attributable to noncontrolling interests, net of tax | (5,324) | (7,830) | (10,304) | (9,220) |
| Comprehensive income attributable to Parsons Corporation, net of tax | $ 9,734 | $ 26,422 | $ 23,701 | $ 30,542 |

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 Six Months Ended | |
|---|---|---|
| | June 30, 2021 | June 30, 2020 |
| **Cash flows from operating activities:** | | |
| Net income including noncontrolling interests | $ 26,041 | $ 45,496 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities | | |
| Depreciation and amortization | 69,308 | 64,490 |
| Amortization of debt issue costs | 1,530 | 369 |
| Loss (gain) on disposal of property and equipment | 297 | (43) |
| Provision for doubtful accounts | - | 38 |
| Deferred taxes | (4,217) | 325 |
| Foreign currency transaction gains and losses | 2,395 | 1,185 |
| Equity in earnings of unconsolidated joint ventures | (16,958) | (9,883) |
| Return on investments in unconsolidated joint ventures | 18,132 | 15,893 |
| Stock-based compensation | 11,361 | 6,432 |
| Contributions of treasury stock | 26,518 | 29,468 |
| Changes in assets and liabilities, net of acquisitions and newly consolidated joint ventures: | | |
| Accounts receivable | 58,146 | (49,618) |
| Contract assets | 8,360 | (70,739) |
| Prepaid expenses and other assets | (11,153) | (999) |
| Accounts payable | (34,372) | (6,228) |
| Accrued expenses and other current liabilities | (97,541) | (21,983) |
| Contract liabilities | (5,957) | (11,047) |
| Income taxes | (2,402) | 4,048 |
| Other long-term liabilities | (11,025) | (28,648) |
| Net cash provided by (used in) operating activities | 38,463 | (31,444) |
| **Cash flows from investing activities:** | | |
| Capital expenditures | (9,171) | (22,938) |
| Proceeds from sale of property and equipment | 384 | 943 |
| Payments for acquisitions, net of cash acquired | 256 | - |
| Investments in unconsolidated joint ventures | (26,373) | (3,844) |
| Return of investments in unconsolidated joint ventures | 727 | 17 |
| Proceeds from sales of investments in unconsolidated joint ventures | 14,335 | - |
| Net cash used in investing activities | (19,842) | (25,822) |
| **Cash flows from financing activities:** | | |
| Proceeds from borrowings under credit agreement | - | 180,600 |
| Repayments of borrowings under credit agreement | - | (180,600) |
| Payments for debt costs and credit agreement | (1,826) | - |
| Contributions by noncontrolling interests | 872 | 223 |
| Distributions to noncontrolling interests | (21,836) | (1,605) |
| Taxes paid on vested stock | (2,242) | (1,149) |
| Proceeds from issuance of common stock | 2,773 | 1,684 |
| Net cash used in financing activities | (22,259) | (847) |
| Effect of exchange rate changes | 1,011 | (641) |
| Net decrease in cash, cash equivalents, and restricted cash | (2,627) | (58,754) |
| Cash, cash equivalents and restricted cash: | | |
| Beginning of year | 487,215 | 195,374 |
| End of period | $ 484,588 | $ 136,620 |

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 June 30, 2021 and June 30, 2020**
*(In thousands)*
(Unaudited)

| | Common Stock | Treasury Stock | Additional Paid-in Capital | Retained Earnings (Accumulated Deficit) | Accumulated Other Comprehensive Income (Loss) | Total Parsons Equity | Noncontrolling Interests | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance at March 31, 2021** | $ 146,654 | $ (899,328) | $ 2,667,130 | $ (108,720) | $ (8,937) | $ 1,796,799 | $ 43,643 | $ 1,840,442 |
| Comprehensive income | | | | | | | | |
| Net income | - | - | - | 6,702 | - | 6,702 | 5,325 | 12,027 |
| Foreign currency translation gain, net | - | - | - | - | 3,013 | 3,013 | (1) | 3,012 |
| Pension adjustments, net | - | - | - | - | 19 | 19 | - | 19 |
| Contributions | - | - | - | - | - | - | 865 | 865 |
| Distributions | - | - | - | - | - | - | (12,847) | (12,847) |
| Issuance of equity securities, net of retirements | 98 | - | 2,680 | (1) | - | 2,777 | - | 2,777 |
| Stock-based compensation | - | - | 4,155 | - | - | 4,155 | - | 4,155 |
| **Balance at June 30, 2021** | $ 146,752 | $ (899,328) | $ 2,673,965 | $ (102,019) | $ (5,905) | $ 1,813,465 | $ 36,985 | $ 1,850,450 |
| | | | | | | | | |
| **Balance at March 31, 2020** | $ 146,441 | $ (934,240) | $ 2,652,227 | $ (206,052) | $ (23,114) | $ 1,635,262 | $ 32,117 | $ 1,667,379 |
| Comprehensive income | | | | | | | | |
| Net income | - | - | - | 23,299 | - | 23,299 | 7,826 | 31,125 |
| Foreign currency translation gain, net | - | - | - | - | 3,100 | 3,100 | 4 | 3,104 |
| Pension adjustments, net | - | - | - | - | 23 | 23 | - | 23 |
| Contributions | - | - | - | - | - | - | 2 | 2 |
| Distributions | - | - | - | - | - | - | (1,245) | (1,245) |
| Issuance of equity securities, net of retirements | 55 | - | 1,629 | - | - | 1,684 | - | 1,684 |
| Stock-based compensation | - | - | 4,180 | - | - | 4,180 | - | 4,180 |
| **Balance at June 30, 2020** | $ 146,496 | $ (934,240) | $ 2,658,036 | $ (182,753) | $ (19,991) | $ 1,667,548 | $ 38,704 | $ 1,706,252 |

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

**PARSONS CORPORATION AND SUBSIDIARIES**
**Consolidated Statements of Shareholders' Equity**
**For the Six Months Ended June 30, 2021 and June 30, 2020**
*(In thousands)*
(Unaudited)

| | Common Stock | Treasury Stock | Additional Paid-in Capital | Retained Earnings (Accumulated Deficit) | Accumulated Other Comprehensive Income (Loss) | Total Parsons Equity | Noncontrolling Interests | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2020** | $146,609 | $(899,328) | $2,700,925 | $(120,569) | $(13,865) | $1,813,772 | $47,645 | $1,861,417 |
| Comprehensive income | | | | | | | | |
| Net income | - | - | - | 15,741 | - | 15,741 | 10,300 | 26,041 |
| Foreign currency translation (loss), net | - | - | - | - | 7,922 | 7,922 | 4 | 7,926 |
| Pension adjustments, net | - | - | - | - | 38 | 38 | - | 38 |
| Adoption of ASU 2020-06 | - | - | (40,002) | 2,782 | - | (37,220) | - | (37,220) |
| Contributions | - | - | - | - | - | - | 872 | 872 |
| Distributions | - | - | - | - | - | - | (21,836) | (21,836) |
| Issuance of equity securities, net of retirement | 143 | - | 1,681 | 27 | - | 1,851 | - | 1,851 |
| Stock-based compensation | - | - | 11,361 | - | - | 11,361 | - | 11,361 |
| **Balance at June 30, 2021** | $146,752 | $(899,328) | $2,673,965 | $(102,019) | $(5,905) | $1,813,465 | $36,985 | $1,850,450 |
| | | | | | | | | |
| **Balance at December 31, 2019** | $146,441 | $(934,240) | $2,649,975 | $(218,025) | $(14,261) | $1,629,890 | $30,866 | $1,660,756 |
| Comprehensive income | | | | | | | | |
| Net income | - | - | - | 36,272 | - | 36,272 | 9,224 | 45,496 |
| Foreign currency translation gain, net | - | - | - | - | (5,692) | (5,692) | (4) | (5,696) |
| Pension adjustments, net | - | - | - | - | (38) | (38) | - | (38) |
| Adoption of ASU 2016-13 | - | - | - | (1,000) | - | (1,000) | - | (1,000) |
| Contributions | - | - | - | - | - | - | 223 | 223 |
| Distributions | - | - | - | - | - | - | (1,605) | (1,605) |
| Issuance of equity securities, net of retirement | 55 | - | 1,629 | - | - | 1,684 | - | 1,684 |
| Stock-based compensation | - | - | 6,432 | - | - | 6,432 | - | 6,432 |
| **Balance at June 30, 2020** | $146,496 | $(934,240) | $2,658,036 | $(182,753) | $(19,991) | $1,667,548 | $38,704 | $1,706,252 |

## 1. Description of Operations

### Organization

Parsons Corporation, a Delaware corporation, and its subsidiaries (collectively, the “Company”) is a leading provider of technology-driven solutions in the defense, intelligence and critical infrastructure markets. We provide software and hardware products, technical services and integrated solutions to support our customers’ missions. We have developed significant expertise and differentiated capabilities in key areas of cybersecurity, intelligence, missile defense, C5ISR, space, geospatial, and connected communities. By combining our talented team of professionals and advanced technology, we help solve complex technical challenges to enable a safer, smarter and more interconnected world.

## 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, 2020.

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; calculation of allowance for doubtful accounts; 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 Polices” in the notes to our consolidated financial statements included in the Company’s Form 10-K for the year ended December 31, 2020, 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.

### Employee Stock Purchase Plan

During the second quarter of fiscal 2020, initial purchases of the Company’s common Stock were made under the Parsons Employee Stock Purchase Program (“ESPP”). Under the ESPP, eligible employees who elect to participate are granted the right to purchase shares of the common stock of Parsons at a discount that is limited to 5% of the per-share market value on the day shares are sold to employees. Purchases of common stock under the ESPP are included in “proceeds from issuance 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 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.

In the first quarter of 2020, the Company adopted ASU 2016-13, “Measurement of Credit Losses on Financial Instruments.” The amendments in ASU 2016-13 replaced the incurred loss impairment methodology in current practice with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to estimate credit losses. The adoption of ASU 2016-13 did not have a material impact on the consolidated financial statements.

**4. Acquisitions**

**Braxton Science & Technology Group**

On November 19, 2020, the Company acquired a 100% ownership interest in Braxton Science & Technology Group (“Braxton”), a privately-owned company, for $309.5 million in cash. Braxton operates at the forefront of satellite operations, ground system automation, flight dynamics, and spacecraft and antenna simulation for the U.S. Department of Defense and Intelligence Community. The acquisition was entirely funded by cash on hand in August 2020, as described in “Note 12—Debt and Credit Facilities”. In connection with this acquisition, the Company recognized $0.6 million of acquisition related “Selling, general and administrative expense” in the consolidated statements of income for the six months ended June 30, 2021, including legal fees, consulting fees, and other miscellaneous direct expenses associated with the acquisition. Braxton allows Parsons to capitalize on the quickly evolving space missions of its national security space customers and address rapid market growth driven by proliferated low earth orbit constellations, small satellite expansion, and space cyber resiliency.

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 | $ 7,006 |
| Accounts receivable | 18,163 |
| Contract assets | 8,350 |
| Prepaid expenses and other current assets | 3,036 |
| Property and equipment | 5,114 |
| Right of use assets, operating leases | 10,788 |
| Goodwill | 212,185 |
| Intangible assets | 74,950 |
| Accounts payable | (7,464) |
| Accrued expenses and other current liabilities | (9,845) |
| Contract liabilities | (300) |
| Short-term lease liabilities, operating leases | (1,915) |
| Long-term lease liabilities, operating leases | (8,873) |
| Deferred tax liabilities | (1,694) |
| Net assets acquired | $ 309,501 |

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

| | Gross Carrying Amount | Amortization Period |
|---|---|---|
| | | (in years) |
| Customer relationships | $ 34,100 | 12 |
| Backlog | 38,200 | 3 |
| Developed technologies | 2,000 | 6 |
| Non-compete agreements | 650 | 3 |

Amortization expense of $4.0 million and $8.1 million related to these intangible assets was recorded for the three and six months ended June 30, 2021, 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 $196.3 million is deductible for tax purposes.

The amount of revenue generated by Braxton and included within consolidated revenues is $29.3 million and $60.3 million for the three and six months ended June 30, 2021, 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.

**Supplemental Pro Forma Information (Unaudited)**

Supplemental information of unaudited pro forma operating results assuming the Braxton acquisition had been consummated as of the beginning of fiscal year 2019 (in thousands) is as follows:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| Pro forma Revenue | $ 879,356 | $ 1,003,369 | $ 1,754,053 | $ 2,004,706 |
| Pro forma Net Income including noncontrolling interests | 12,575 | 31,141 | $ 27,929 | $ 45,600 |

## 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 | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| Fixed-Price | $ 233,231 | $ 311,368 | $ 463,173 | $ 619,676 |
| Time-and-Materials | 253,365 | 259,381 | 493,030 | 511,820 |
| Cost-Plus | 392,760 | 408,710 | 797,850 | 818,956 |
| Total | $ 879,356 | $ 979,459 | $ 1,754,053 | $ 1,950,452 |

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 June 30, 2021 and December 31, 2020 were as follows (in thousands):

| | June 30, 2021 | December 31, 2020 | $ change | % change |
|---|---|---|---|---|
| Contract assets | $ 568,239 | $ 576,568 | $ (8,329) | -1.4% |
| Contract liabilities | 196,547 | 201,864 | (5,317) | -2.6% |
| Net contract assets (liabilities) (1) | $ 371,692 | $ 374,704 | $ (3,012) | -0.8% |

(1) Total contract retentions included in net contract assets (liabilities) were $94.7 million as of June 30, 2021, of which $50.8 million are not expected to be paid in the next 12 months. Total contract retentions included in net contract assets (liabilities) were $93.8 million as of December 31, 2020. Contract assets at June 30, 2021 and December 31, 2020 include $103.4 million and $116.6 million, respectively, related to unapproved change orders, claims, and requests for equitable adjustment. For the three and six months ended June 30, 2021 and June 30, 2020, 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 June 30, 2021 and June 30, 2020, the Company recognized revenue of $23.5 million and $28.4 million, respectively, and $92.6 million and $122.7 million during the six months ended June 30, 2021 and June 30, 2020, respectively, that was included in the corresponding contract liability balances at December 31, 2020 and December 31, 2019, respectively. Certain changes in contract assets and contract liabilities consisted of the following:

| | June 30, 2021 | December 31, 2020 |
|---|---|---|
| Acquired contract assets | $ - | $ 8,350 |
| Acquired contract liabilities | - | 300 |

There was no significant impairment of contract assets recognized during the three and six months ended June 30, 2021 and June 30, 2020.

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 | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| Revenue impact, net | $ (20,827) | $ 8,983 | $ (20,827) | $ 8,983 |

***Accounts Receivable, net***

Accounts receivable, net consisted of the following as of June 30, 2021 and December 31, 2020 (in thousands):

| | 2021 | 2020 |
|---|---|---|
| Billed | $ 458,686 | $ 512,357 |
| Unbilled | 183,293 | 190,222 |
| Total accounts receivable, gross | 641,979 | 702,579 |
| Allowance for doubtful accounts | (3,999) | (4,001) |
| Total accounts receivable, net | $ 637,980 | $ 698,578 |

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. We have not seen and do not expect there to be a risk of non-payment from either our government agency or commercial customers related to COVID-19 impacts; however, we have experienced payment delays due to administrative limitations from both types of customers.

*Transaction Price Allocated to the Remaining Unsatisfied Performance Obligations*

The Company's remaining unsatisfied performance obligations ("RUPO") as of June 30, 2021 represent a measure of the total dollar value of work to be performed on contracts awarded and in-progress. The Company had $5.1 billion in RUPO as of June 30, 2021.

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 June 30, 2021 over the following periods (in thousands):

| Period RUPO Will Be Satisfied | Within One Year | Within One to Two Years | Thereafter |
|---|---|---|---|
| Federal Solutions | $ 1,071,149 | $ 461,928 | $ 355,680 |
| Critical Infrastructure | 1,581,878 | 760,048 | 861,020 |
| Total | $ 2,653,027 | $ 1,221,976 | $ 1,216,700 |

## 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 9 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 six months ended June 30, 2021 and June 30, 2020 are as follows (in thousands):

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| Operating lease cost | $ 16,050 | $ 15,755 | $ 32,377 | $ 33,026 |
| Short-term lease cost | 2,264 | 4,301 | 4,330 | 7,952 |
| Amortization of right-of-use assets | 543 | 251 | 1,017 | 505 |
| Interest on lease liabilities | 28 | 22 | 57 | 46 |
| Sublease income | (793) | (932) | (1,569) | (1,812) |
| Total lease cost | $ 18,092 | $ 19,397 | $ 36,212 | $ 39,717 |

Supplemental cash flow information related to leases for the six months ended June 30, 2021 and June 30, 2020 is as follows (in thousands):

| | Six Months Ended | |
|---|---|---|
| | June 30, 2021 | June 30, 2020 |
| Operating cash flows for operating leases | $ 33,035 | $ 30,676 |
| Operating cash flows for finance leases | 58 | 46 |
| Financing cash flows from finance leases | 1,020 | 553 |
| Right-of-use assets obtained in exchange for new operating lease liabilities | 8,328 | 17,034 |
| Right-of-use assets obtained in exchange for new finance lease liabilities | $ 831 | $ - |

Supplemental balance sheet and other information related to leases as of June 30, 2021 and December 31, 2020 are as follows (in thousands):

| | June 30, 2021 | December 31, 2020 |
|---|---|---|
| Operating Leases: | | |
| Right-of-use assets | $ 194,484 | $ 210,398 |
| Lease liabilities: | | |
| Current | $ 53,997 | $ 54,133 |
| Long-term | 164,754 | 182,467 |
| Total operating lease liabilities | $ 218,751 | $ 236,600 |
| Finance Leases: | | |
| Other noncurrent assets | $ 3,414 | $ 3,363 |
| Accrued expenses and other current liabilities | $ 1,598 | $ 1,461 |
| Other long-term liabilities | $ 1,618 | $ 1,733 |
| | | |
| Weighted Average Remaining Lease Term: | | |
| Operating leases | 4.7 Years | 5 years |
| Finance leases | 2.5 years | 3 years |
| Weighted Average Discount Rate: | | |
| Operating leases | 3.6% | 3.7% |
| Finance leases | 3.0% | 3.8% |

As of June 30, 2021, 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 June 30, 2021 is as follows (in thousands):

| | Operating Leases | Finance Leases |
|---|---|---|
| 2021 (remaining) | $ 30,351 | $ 896 |
| 2022 | 58,082 | 1,358 |
| 2023 | 50,146 | 684 |
| 2024 | 39,529 | 274 |
| 2025 | 28,945 | 106 |
| Thereafter | 30,268 | 3 |
| Total lease payments | 237,321 | 3,321 |
| Less: imputed interest | (18,570) | (105) |
| Total present value of lease liabilities | $ 218,751 | $ 3,216 |

## 7. Goodwill

The following table summarizes the changes in the carrying value of goodwill by reporting segment from December 31, 2020 to June 30, 2021 (in thousands):

| | December 31, 2020 | Acquisitions | Foreign Exchange | June 30, 2021 |
|---|---|---|---|---|
| Federal Solutions | $ 1,188,882 | $ (1,292) | $ - | $ 1,187,590 |
| Critical Infrastructure | 73,096 | - | 2,374 | 75,470 |
| **Total** | $ 1,261,978 | $ (1,292) | $ 2,374 | $ 1,263,060 |

The ultimate impact from the COVID-19 pandemic is difficult to predict. While many uncertainties exist, we currently anticipate no material change in our financial condition or results of operations. Although the Company does not anticipate a material change to our financial condition or results of operations, 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 June 30, 2021 and concluded there has not been an impairment.

## 8. Intangible Assets

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

| | June 30, 2021 | | | December 31, 2020 | | | Weighted Average Amortization Period *(in years)* |
|---|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | |
| Backlog | $ 147,455 | $ (112,066) | $ 35,389 | $ 145,855 | $ (101,038) | $ 44,817 | 3 |
| Customer relationships | 262,830 | (133,908) | 128,922 | 264,129 | (110,450) | 153,679 | 8 |
| Leases | 670 | (609) | 61 | 670 | (599) | 71 | 5 |
| Developed technology | 112,939 | (82,793) | 30,146 | 112,039 | (68,968) | 43,071 | 4 |
| Trade name | 8,200 | (8,167) | 33 | 8,200 | (7,967) | 233 | 1 |
| Non-compete agreements | 4,250 | (2,688) | 1,562 | 4,250 | (2,043) | 2,207 | 3 |
| In process research and development | 1,800 | - | 1,800 | 1,800 | - | 1,800 | n/a |
| Other intangibles | 275 | (203) | 72 | 275 | (195) | 80 | 10 |
| Total intangible assets | $ 538,419 | $ (340,434) | $ 197,985 | $ 537,218 | $ (291,260) | $ 245,958 | |

The aggregate amortization expense of intangible assets for the three months ended June 30, 2021 and June 30, 2020 was $24.5 million and $22.1 million, respectively, and $49.0 million and $44.8 million for the six months ended June 30, 2021 and June 30, 2020, 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):

| | June 30, 2021 |
|---|---|
| 2021 | $ 48,806 |
| 2022 | 52,230 |
| 2023 | 38,595 |
| 2024 | 12,273 |
| 2025 | 9,713 |
| Thereafter | 34,568 |
| Total | $ 196,185 |

## 9. Property and Equipment, Net

Property and equipment consisted of the following at June 30, 2021 and December 31, 2020 (in thousands):

| | June 30, 2021 | December 31, 2020 | Useful life (years) |
|---|---|---|---|
| Buildings and leasehold improvements | $ 97,167 | $ 98,151 | 1-15 |
| Furniture and equipment | 88,403 | 91,036 | 3-10 |
| Computer systems and equipment | 164,302 | 160,305 | 3-10 |
| Construction equipment | 8,635 | 8,920 | 5-7 |
| Construction in progress | 9,032 | 9,202 | |
| | 367,539 | 367,614 | |
| Accumulated depreciation | (256,922) | (246,587) | |
| Property and equipment, net | $ 110,617 | $ 121,027 | |

Depreciation expense for the three months ended June 30, 2021 and June 30, 2020 was $9.5 million and $9.8 million, respectively, and $19.2 million and $19.4 million, respectively, for the six months ended June 30, 2021 and June 30, 2020.

## 10. Debt and Credit Facilities

Debt consisted of the following (in thousands):

| | June 30, 2021 | December 31, 2020 |
|---|---|---|
| Short-Term: | | |
| Senior notes | $ 50,000 | $ 50,000 |
| Total Short-Term | 50,000 | 50,000 |
| Long-Term: | | |
| Senior notes | 200,000 | 200,000 |
| Convertible senior notes | 400,000 | 400,000 |
| Debt discount | - | (51,138) |
| Debt issuance costs | (9,124) | (8,864) |
| Total long-term | 590,876 | 539,998 |
| Total Debt | $ 640,876 | $ 589,998 |

***Revolving Credit Facility***

In June 2021, the Company entered into a $650 million unsecured revolving credit facility (the “Credit Agreement”). The Company incurred $2.0 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 a eurocurrency 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 June 30, 2021 and December 31, 2020 were 1.34% and 1.87%, respectively. Borrowings under this Credit Agreement are guaranteed by certain Company operating subsidiaries. Letters of credit commitments outstanding under this agreement aggregated to $45.0 million and $44.9 million at June 30, 2021 and December 31, 2020, respectively, which reduced borrowing limits available to the Company. Interest expense related to the Credit Agreement was $0.3 million and $0.3 million for the three months ended June 30, 2021 and June 30, 2020, respectively, and was $0.5 million and $0.7 million for six months ended June 30, 2021 and June 30, 2020, respectively. There were no loan amounts outstanding under the Credit Agreement on June 30, 2021.

***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):

| Tranche | Debt Amount | Maturity Date | Interest Rates |
|---|---|---|---|
| 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 both the three and six months ended June 30, 2021 and June 30, 2020 was $3.1 million and $6.2 million, respectively. The amortization of debt issuance costs and interest expense is recorded in “Interest expense” on the consolidated statements of income. The Company made interest payments of $6.2 million for both the three and six months ended June 30, 2021 and June 30, 2020, respectively. Interest payable of $5.5 million is recorded in “Accrued expenses and other current liabilities” on the consolidated balance sheets on both June 30, 2021 and December 31, 2020, respectively, related to the Senior Notes. The Company paid the $50 million Series A tranche of the Senior Note as scheduled in July 2021.

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 June 30, 2021 and December 31, 2020.

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 $219.2 million and $193.1 million at June 30, 2021 and December 31, 2020, respectively.

Using a discounted cash flow technique that incorporates a market interest yield curve with adjustments for duration, optionality, and risk profile, the Company estimated the fair value (Level 2) of its Senior Notes at June 30, 2021 approximates $273.9 million. See “Note 16 – Fair Value of Financial Instruments” for the definition of Level 2 of the fair value hierarchy.

***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, 2020, if the last reported sale price of the Company's common stock for at least 20 trading days, whether or not consecutive, during a period of 30 consecutive trading days ending on, and including the last trading day of the immediately preceding calendar quarter, is greater than or equal to 130% of the conversion price on each applicable trading day;

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

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

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

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

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

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

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 is based on the fair value of a similar instrument that does not contain an equity conversion option. The carrying amount allocated to the equity component, which is recognized as a debt discount, represents 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 are 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, represents 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. During the three and six months ended June 30, 2021, the Company recognized interest expense of $0.7 million and $1.5 million, respectively. As of June 30, 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 ASU2020-06, 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 January 5, 2021, the Treasury Department and Internal Revenue Service issued final regulations which provide guidance on applying the limitations on the deductibility of business interest expense under IRC Section 163(j). On January 6, 2021, the government published final regulations under IRC Section 451. The final regulations include guidance related to (1) timing of income inclusion for taxpayers with an applicable financial statement using an accrual method of accounting under IRC Section 451(b), and (2) advance payments for goods, services, and certain other items under IRC Section 451(c). The Company is currently assessing the impact of the new regulations but does not expect any material impact to its consolidated financial statements.

The Company's effective tax rate was 24.2% and 27.6% for the three months ended June 30, 2021 and 2020, respectively. The change in the effective tax rate was due primarily to an increase in untaxed income attributable to noncontrolling interests and a change in jurisdictional earnings. The Company's effective tax rate for the six months ended June 30, 2021 and June 30, 2020 was 26.1% and 27.2%. The change in effective tax rate was due primarily to an increase in untaxed income attributed to noncontrolling interests and a change in jurisdictional earnings and partially offset by an increase of foreign tax losses which will not provide any tax benefit and a settlement of a state tax audit. The difference between the effective tax rate and the statutory U.S. Federal income tax rate of 21.0% for the three and six months ended June 30, 2021 primarily relates to state income taxes and a recorded valuation allowance on foreign tax credits, partially offset by benefits related to untaxed income attributable to noncontrolling interests and federal research tax credits.

As of June 30, 2021, the Company's deferred tax assets were subject to a valuation allowance of $31.3 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 June 30, 2021 and December 31, 2020, the liability for income taxes associated with uncertain tax positions was $18.0 million and $16.4 million, respectively. It is reasonably possible that the Company may realize a decrease in our uncertain tax positions of approximately $0.2 million during the next 12 months as a result of 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. 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.

On or about March 1, 2017, the Peninsula Corridor Joint Powers Board, or the JPB, filed a lawsuit against Parsons Transportation Group, Inc., or PTG, in the Superior Court of California, County of San Mateo, in connection with a positive train control project on which PTG was engaged prior to termination of its contract by the JPB. PTG had previously filed a lawsuit against the JPB for breach of contract and wrongful termination. The JPB seeks damages in excess of $100.0 million, which the Company is currently disputing. In addition to filing a complaint for breach of contract and wrongful termination, the Company has denied the allegations raised by the JPB and, accordingly, filed affirmative defenses. The Company is currently defending against the JPB's claims and the parties are still engaged in discovery. The Company also has a professional liability insurance policy to the extent the JPB proves any errors or omissions occurred. 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. The Company has also filed a third-party claim against a subcontractor for indemnification in connection with this matter.

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 June 30, 2021 and December 31, 2020, total shares of the Company's common stock outstanding were 102,502,780 and 102,360,662, respectively, of which 72,288,913 and 76,641,312, 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 $13.4 million and $14.6 million for the three months ended June 30, 2021 and June 30, 2020, respectively, and $26.5 million and $29.5 million for the six months ended June 30, 2021 and June 30, 2020, respectively. The expense is recorded in "Direct costs of contracts" and "Selling, general and administrative expense" in the consolidated statements of income. The fiscal 2021 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 $67.5 million and $59.3 million at June 30, 2021 and December 31, 2020, 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):

| | June 30, 2021 | December 31, 2020 |
|---|---|---|
| Current assets | $ 263,051 | $ 292,407 |
| Noncurrent assets | 2,641 | 2,990 |
| Total assets | 265,692 | 295,397 |
| Current liabilities | 191,223 | 201,270 |
| Total liabilities | 191,223 | 201,270 |
| Total joint venture equity | $ 74,469 | $ 94,127 |

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| Revenue | $ 98,245 | $ 117,889 | $ 194,869 | $ 218,167 |
| Costs | 87,097 | 101,935 | 173,403 | 199,085 |
| Net income | $ 11,148 | $ 15,954 | $ 21,466 | $ 19,082 |
| Net income attributable to noncontrolling interests | $ 5,325 | $ 7,826 | $ 10,300 | $ 9,224 |

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):

| | June 30, 2021 | December 31, 2020 |
|---|---|---|
| Current assets | $ 1,042,978 | $ 774,646 |
| Noncurrent assets | 614,916 | 585,802 |
| Total assets | 1,657,894 | 1,360,448 |
| Current liabilities | 805,616 | 703,287 |
| Noncurrent liabilities | 565,249 | 517,697 |
| Total liabilities | 1,370,865 | 1,220,984 |
| Total joint venture equity | $ 287,029 | $ 139,464 |
| Investments in and advances to unconsolidated joint ventures | $ 86,045 | $ 68,975 |

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| Revenue | $ 736,284 | $ 238,188 | $ 972,801 | $ 691,447 |
| Costs | 696,198 | 223,686 | 907,045 | 650,691 |
| Net income | $ 40,086 | $ 14,502 | $ 65,756 | $ 40,756 |
| Equity in earnings of unconsolidated joint ventures | $ 9,428 | $ 3,769 | $ 16,958 | $ 9,883 |

The Company received net distributions from and sale proceeds for its unconsolidated joint ventures for the three months ended June 30, 2021 and June 30, 2020 of $1.5 million and $5.6 million, respectively, and $6.8 million and $12.1 million for the six months ended June 30, 2021 and June 30, 2020, respectively.

For the three and six months ended June 30, 2021, the Company recorded write-downs of $1.6 million and $5.1 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 $1.6 million and $1.2 million, respectively for the three months ended June 2021. Operating and net income were decreased by $5.1 million and $3.8 million, respectively, for the six months ended June 30, 2021. The write-downs decreased diluted earnings per share by $0.01 and $0.03 for the three and six months ended June 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 June 30, 2021 and June 30, 2020 were $40.5 million and $42.4 million, respectively, and for the six months ended June 30, 2021 and June 30, 2020 were $82.4 million and $82.8 million, respectively. For the three months ended June 30, 2021 and June 30, 2020, the Company incurred $30.6 million and $34.6 million, respectively, and for the six months ended June 30, 2021 and June 30, 2020, $61.9 million and $66.1 million, respectively, of reimbursable costs. Amounts included in the consolidated balance sheets related to services the Company provided to unconsolidated joint ventures are as follows (in thousands):

| | June 30, 2021 | December 31, 2020 |
|---|---|---|
| Accounts receivable | $ 30,897 | $ 37,544 |
| Contract assets | 9,161 | 8,889 |
| Contract liabilities | 7,887 | 5,720 |

## 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 June 30, 2021 and December 31, 2020, the Company’s financial instruments include cash, cash equivalents, accounts receivable, accounts payable, 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 1Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities;

Level 2Pricing 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 3Prices 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, 2020 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 six months ended June 30, 2021 and June 30, 2020.  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 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 June 30, 2021 and June 30, 2020 were 9,271 and 4,939, respectively, and for the six months ended June 30, 2021 and June 30, 2020 were 1,644 and 4,066, respectively.

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| Basic weighted average number of shares outstanding | 102,509,245 | 100,694,938 | 102,456,219 | 100,682,315 |
| Stock-based awards | 744,322 | 290,649 | 636,162 | 266,369 |
| Convertible senior notes | 8,916,530 | - | 8,916,530 | - |
| Diluted weighted average number of shares outstanding | 112,170,097 | 100,985,587 | 112,008,911 | 100,948,684 |

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| Net income attributable to Parsons Corporation | 6,702 | 23,299 | 15,741 | 36,272 |
| Convertible senior notes if-converted method interest adjustment | 531 | - | 1,059 | - |
| Diluted net income attributable to Parsons Corporation | 7,233 | 23,299 | 16,800 | 36,272 |

## 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 Chairman 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 | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| Federal Solutions revenue | $ 442,675 | $ 482,210 | $ 894,744 | $ 959,781 |
| Critical Infrastructure revenue | 436,681 | 497,249 | 859,309 | 990,671 |
| Total revenue | $ 879,356 | $ 979,459 | $ 1,754,053 | $ 1,950,452 |

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 | | Six Months Ended | |
|---|---|---|---|---|
| Adjusted EBITDA attributable to Parsons Corporation | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| Federal Solutions | $ 32,500 | $ 47,700 | $ 64,482 | $ 79,317 |
| Critical Infrastructure | 27,817 | 35,519 | 59,474 | 62,876 |
| Adjusted EBITDA attributable to Parsons Corporation | 60,317 | 83,219 | 123,956 | 142,193 |
| Adjusted EBITDA attributable to noncontrolling interests | 5,410 | 7,942 | 10,470 | 9,464 |
| Depreciation and amortization | (34,635) | (32,081) | (69,308) | (64,490) |
| Interest expense, net | (4,758) | (3,963) | (9,201) | (7,757) |
| Income tax expense | (3,838) | (11,891) | (9,213) | (16,975) |
| Equity-based compensation expense | (4,921) | (12,854) | (11,901) | (5,133) |
| Transaction-related costs (a) | (4,086) | 2,485 | (6,732) | (9,526) |
| Restructuring expense (b) | (73) | (1,143) | (150) | (1,110) |
| Other (c) | (1,389) | (589) | (1,880) | (1,170) |
| Net income including noncontrolling interests | 12,027 | 31,125 | 26,041 | 45,496 |
| Net income attributable to noncontrolling interests | 5,325 | 7,826 | 10,300 | 9,224 |
| Net income attributable to Parsons Corporation | $ 6,702 | $ 23,299 | $ 15,741 | $ 36,272 |

(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 | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| Revenue | | | | |
| North America | $ 725,047 | $ 800,044 | $ 1,441,393 | $ 1,597,990 |
| Middle East | 147,675 | 174,689 | 301,318 | 343,548 |
| Rest of World | 6,634 | 4,726 | 11,342 | 8,914 |
| Total Revenue | $ 879,356 | $ 979,459 | $ 1,754,053 | $ 1,950,452 |

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

| | June 30, 2021 | December 31, 2020 |
|---|---|---|
| Property and Equipment, Net | | |
| North America | $ 106,737 | $ 116,460 |
| Middle East | 3,880 | 4,567 |
| Total Property and Equipment, Net | $ 110,617 | $ 121,027 |

North America includes revenue in the United States for the three months ended June 30, 2021 and June 30, 2020 of $656.2 million and $737.4 million, respectively and for the six months ended June 30, 2021 and June 30, 2020 of $1.3 billion and $1.5 billion, respectively. North America property and equipment, net includes $100.5 million and $109.6 million of property and equipment, net in the United States at June 30, 2021 and December 31, 2020, respectively.

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| Revenue | | | | |
| Cyber & Intelligence | $ 85,282 | $ 102,993 | $ 168,610 | $ 201,875 |
| Space & Geospatial Solutions | 77,614 | 57,967 | 160,673 | 109,255 |
| Missile Defense & C5ISR | 145,493 | 154,767 | 290,208 | 309,336 |
| Engineered Systems | 134,286 | 166,483 | 275,253 | 339,315 |
| Federal Solutions revenues | 442,675 | 482,210 | 894,744 | 959,781 |
| Connected Communities | 81,321 | 98,359 | 171,204 | 200,260 |
| Mobility Solutions | 355,360 | 398,890 | 688,105 | 790,411 |
| Critical Infrastructure revenues | 436,681 | 497,249 | 859,309 | 990,671 |
| Total Revenue | $ 879,356 | $ 979,459 | $ 1,754,053 | $ 1,950,452 |

## 19. Subsequent Events

On July 6, 2021, the Company completed its acquisition of BlackHorse Solutions, Inc. BlackHorse Solutions, Inc. expands Parsons' capabilities and products in next-generation military, intelligence, and space operations, specifically in cyber electronic warfare, and information dominance. The purchase price of $203.0 million was paid in cash. We are in the process of finalizing the accounting for this transaction and expect to complete our preliminary allocation of the purchase price to the assets acquired and liabilities assumed by the end of the third quarter of 2021.

On July 30, 2021, the Company completed its acquisition of Echo Ridge LLC. 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 purchase price of approximately $9.0 million was paid in cash. We are in the process of finalizing the accounting for this transaction and expect to complete our preliminary allocation of the purchase price to the assets acquired and liabilities assumed by the end of the third quarter of 2021.

**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, 2020.*

*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, 2020. We undertake no obligation to revise publicly any forward-looking statements. Actual results may differ materially from those contained in any forward-looking statements.*

***COVID-19 Pandemic***

In response to the COVID-19 pandemic, the Company has taken certain actions to continue to execute under our contracts with customers and allow our people to work safely. A substantial majority of our workforce transitioned to work-from-home status during the latter part of the quarter ended March 31, 2020, and these practices remain largely in effect as of the date of this filing. To date, we have experienced no material disruption in our work as a consequence of these changes in our work practices.

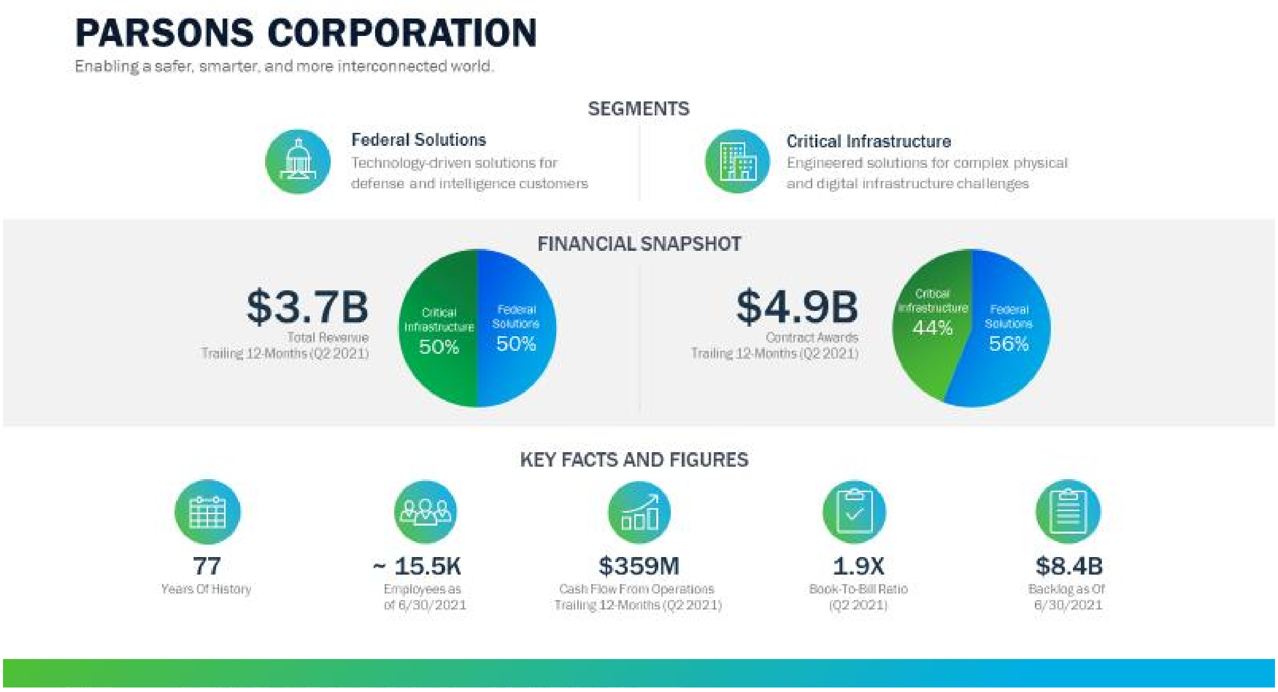
The Company has experienced an impact in the volume of work in both the Federal Solutions and Critical Infrastructure segments where customers have restricted access to certain project sites. We have not seen any substantive cancellations of previously awarded contracts. In the Federal Solutions segment, we have had some existing contracts extended. We continue to see several potential contract awards pushed out to a future date.

The Company received limited benefits associated with the CARES Act related to its work on certain US national security projects; however, the curtailment of work under these projects and the CARES Act benefits did not have a material impact on our financial condition or results of operations. The reimbursement period for Section 3610 of the CARES Act expired March 31, 2021.

The Company has provided additional disclosure around liquidity and capital resources which can be found in the "Liquidity and Capital Resources" section in Management's Discussion and Analysis of Financial Condition and Results of Operations in this Form 10-Q.

The Company anticipates substantially all of the Company's subcontractors and material suppliers will be able to fulfill their contractual obligations and we do not expect a material impact from non-performance.

The ultimate impact from the COVID-19 pandemic is difficult to predict. While many uncertainties exist, we currently anticipate no material change in our financial condition or results of operations.




## Overview

We are a leading innovative technology provider in the global defense, intelligence and critical infrastructure markets. We provide software and hardware products, technical services and integrated solutions to support our customers' missions. We have developed significant expertise and differentiated capabilities in key areas of cybersecurity, intelligence, missile defense, C5ISR, space, geospatial, and connected communities. By combining our talented team of professionals and advanced technology, we help solve complex technical challenges to enable a safer, smarter and more interconnected 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):

| | June 30, 2021 | June 30, 2020 |
|---|---|---|
| Awards (year to date) | $ 2,692,557 | $ 1,971,186 |
| Backlog (1) | $ 8,412,208 | $ 7,718,690 |
| Book-to-Bill (year to date) | 1.5 | 1.0 |

(1) Difference between our backlog of $8.4 billion and our remaining unsatisfied performance obligations, or RUPO, of $5.1 billion, each as of June 30, 2021, is due to (i) unissued task orders and unexercised option years, to the extent their issuance or exercise is probable, as well as (ii) contract awards, to the extent we believe contract execution and funding is probable.

***Awards***

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

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| Federal Solutions | $ 1,218,413 | $ 433,140 | $ 1,643,034 | $ 1,048,830 |
| Critical Infrastructure | 463,170 | 571,951 | 1,049,523 | 922,356 |
| Total Awards | $ 1,681,583 | $ 1,005,091 | $ 2,692,557 | $ 1,971,186 |

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 and six months ended June 30, 2021 when compared to the corresponding periods last year were primarily impacted by one significant contract awarded in the second quarter of 2021. The awards in Critical Infrastructure for the six months ended June 30, 2021 were impacted 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 the revenue value of orders for services under existing contracts for which funding is appropriated or otherwise authorized less revenue previously recognized on these contracts.
- Unfunded—Unfunded backlog represents the revenue value of orders for services under existing contracts for which funding has not been appropriated or otherwise authorized less revenue previously recognized on these contracts.

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):

| | June 30, 2021 | June 30, 2020 |
|---|---|---|
| Federal Solutions: | | |
| Funded | $ 1,126,408 | $ 1,308,663 |
| Unfunded | 4,362,700 | 3,654,203 |
| Total Federal Solutions | 5,489,108 | 4,962,866 |
| Critical Infrastructure: | | |
| Funded | 2,850,211 | 2,719,037 |
| Unfunded | 72,889 | 36,787 |
| Total Critical Infrastructure | 2,923,100 | 2,755,824 |
| Total Backlog (1) | $ 8,412,208 | $ 7,718,690 |

(1) Difference between our backlog of $8.4 billion and our RUPO of $5.1 billion, each as of June 30, 2021, 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 $2.7 billion of our funded backlog at June 30, 2021 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, 2020.

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

***Book-to-Bill***

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

| | Three months ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| Federal Solutions | 2.8 | 0.9 | 1.8 | 1.1 |
| Critical Infrastructure | 1.1 | 1.2 | 1.2 | 0.9 |
| Overall | 1.9 | 1.0 | 1.5 | 1.0 |

**Factors and Trends Affecting Our Results of Operations**

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

***Government Spending***

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

***Federal Budget Uncertainty***

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

***Regulations***

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

***Competitive Markets***

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

***Acquired Operations***

*Braxton Science & Technology Group, LLC*

On November 19, 2020, we acquired Braxton for $309.5 million.  Braxton operates at the forefront of satellite operations, ground system automation, flight dynamics, and spacecraft and antenna simulation for the U.S. Department of Defense and Intelligence Community. The acquisition was funded by cash on-hand.  The financial results of Braxton have been included in our consolidated results of operations from November 19, 2020 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 recognize revenue for work performed under cost-plus, time-and-materials and fixed-price contracts as follows:

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.

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 Polices” in the notes to our consolidated financial statements included in the Company’s Form 10-K for the year ended December 31, 2020 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 | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| Fixed-price | 26.5% | 31.8% | 26.4% | 31.8% |
| Time-and-materials | 28.8% | 26.5% | 28.1% | 26.2% |
| Cost-plus | 44.7% | 41.7% | 45.5% | 42.0% |

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 revenue 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 June 30, 2021 and June 30, 2020 of $40.5 million and $42.4 million, respectively, and for the six months ended June 30, 2021 and June 30, 2020 of $82.4 million and $82.8 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 June 30, 2021 and June 30, 2020 was $13.4 million and $14.6 million, respectively, and for the six months ended June 30, 2021 and June 30, 2020 was $26.5 million and $29.5 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 six months ended June 30, 2021 and June 30, 2020.

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| **(U.S. dollars in thousands)** | **June 30, 2021** | **June 30, 2020** | **June 30, 2021** | **June 30, 2020** |
| Adjusted EBITDA (1) | $ 65,727 | $ 91,161 | $ 134,426 | $ 151,657 |
| Net Income Margin (2) | 1.4% | 3.2% | 1.5% | 2.3% |
| Adjusted EBITDA Margin (3) | 7.5% | 9.3% | 7.7% | 7.8% |

(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 | | Six Months Ended | |
|---|---|---|---|---|
| | **June 30, 2021** | **June 30, 2020** | **June 30, 2021** | **June 30, 2020** |
| Net income attributable to Parsons Corporation | $ 6,702 | $ 23,299 | $ 15,741 | $ 36,272 |
| Interest expense, net | 4,758 | 3,963 | 9,201 | 7,757 |
| Income tax expense | 3,838 | 11,891 | 9,213 | 16,975 |
| Depreciation and amortization | 34,635 | 32,081 | 69,308 | 64,490 |
| Net income attributable to noncontrolling interests | 5,325 | 7,826 | 10,300 | 9,224 |
| Equity-based compensation | 4,921 | 12,854 | 11,901 | 5,133 |
| Transaction-related costs (a) | 4,086 | (2,485) | 6,732 | 9,526 |
| Restructuring (b) | 73 | 1,143 | 150 | 1,110 |
| Other (c) | 1,389 | 589 | 1,880 | 1,170 |
| Adjusted EBITDA | $ 65,727 | $ 91,161 | $ 134,426 | $ 151,657 |

(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 | | Six Months Ended | | Variance | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2021 | June 30, 2020 | Dollar | Percent | June 30, 2021 | June 30, 2020 | Dollar | Percent |
| Federal Solutions Adjusted EBITDA attributable to Parsons Corporation | $ 32,500 | $ 47,700 | $ (15,200) | -31.9% | $ 64,482 | $ 79,317 | $ (14,835) | -18.7% |
| Critical Infrastructure Adjusted EBITDA attributable to Parsons Corporation | 27,817 | 35,519 | (7,702) | -21.7% | 59,474 | 62,876 | (3,402) | -5.4% |
| Adjusted EBITDA attributable to noncontrolling interests | 5,410 | 7,942 | (2,532) | -31.9% | 10,470 | 9,464 | 1,006 | 10.6% |
| Total Adjusted EBITDA | $ 65,727 | $ 91,161 | $ (25,434) | -27.9% | $ 134,426 | $ 151,657 | $ (17,231) | -11.4% |

The following table sets forth our results of operations for the three and six months ended June 30, 2021 and June 30, 2020 as a percentage of revenue.

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| Revenues | 100% | 100% | 100% | 100% |
| Direct costs of contracts | 77.4% | 76.5% | 76.9% | 77.9% |
| Equity in earnings of unconsolidated joint ventures | 1.1% | 0.4% | 1.0% | 0.5% |
| Selling, general and administrative expenses | 21.4% | 19.2% | 21.4% | 19.0% |
| Operating income | 2.3% | 4.7% | 2.6% | 3.6% |
| Interest income | 0.0% | 0.0% | 0.0% | 0.0% |
| Interest expense | -0.6% | -0.4% | -0.5% | -0.4% |
| Other income, net | 0.0% | 0.1% | -0.1% | 0.0% |
| Total other income (expense) | -0.5% | -0.3% | -0.6% | -0.4% |
| Income before income tax expense | 1.8% | 4.4% | 2.0% | 3.2% |
| Income tax benefit (provision) | -0.4% | -1.2% | -0.5% | -0.9% |
| Net income including noncontrolling interests | 1.4% | 3.2% | 1.5% | 2.3% |
| Net income attributable to noncontrolling interests | -0.6% | -0.8% | -0.6% | -0.5% |
| Net income attributable to Parsons Corporation | 0.8% | 2.4% | 0.9% | 1.9% |

*Revenue*

| | Three Months Ended | | Variance | | Six Months Ended | | Variance | |
|---|---|---|---|---|---|---|---|---|
| (U.S. dollars in thousands) | June 30, 2021 | June 30, 2020 | Dollar | Percent | June 30, 2021 | June 30, 2020 | Dollar | Percent |
| Revenue | $ 879,356 | $ 979,459 | $ (100,103) | -10.2% | $ 1,754,053 | $ 1,950,452 | $ (196,399) | -10.1% |

Revenue decreased $100.1 million for the three months ended June 30, 2021 when compared to the corresponding period last year, primarily due to a decrease in revenue in our Critical Infrastructure segment of $60.6 million and a decrease in our Federal Solutions segment of $39.5 million. Revenue decreased $196.4 million for the six months ended June 30, 2021 when compared to the corresponding period last year, primarily due to a decrease in our Critical Infrastructure segment of $131.4 million and a decrease in our Federal Solutions segment of $65.0 million. See “Segment Results” below for a further discussion.

*Direct costs of contracts*

| | Three Months Ended | | Variance | | Six Months Ended | | Variance | |
|---|---|---|---|---|---|---|---|---|
| (U.S. dollars in thousands) | June 30, 2021 | June 30, 2020 | Dollar | Percent | June 30, 2021 | June 30, 2020 | Dollar | Percent |
| Direct costs of contracts | $ 680,328 | $ 749,324 | $ (68,996) | -9.2% | $ 1,349,410 | $ 1,518,956 | $ (169,546) | -11.2% |

Direct cost of contracts decreased $69.0 million for the three months ended June 30, 2021 when compared to the corresponding period last year, primarily due to decreases of $39.6 million in our Critical Infrastructure segment and $29.4 million in our Federal Solutions segment. The decrease in our Critical Infrastructure segment was primarily due to a decrease in business volume, particularly the winding down of several programs with high levels of pass-through costs. The decrease in our Federal Solutions segment was primarily due to a decrease in business volume.

Direct cost of contracts decreased $169.5 million for the six months ended June 30, 2021 when compared to the corresponding period last year, primarily due to decreases of $111.2 million in our Critical Infrastructure segment and $58.3 million in our Federal Solutions segment. The decrease in our Critical Infrastructure segment was primarily due to a decrease in business volume, particularly the winding down of several programs with high levels of pass-through costs. The decrease in our Federal Solutions segment was primarily due to a decrease in business volume.

*Equity in earnings of unconsolidated joint ventures*

| | Three Months Ended | | Variance | | Six Months Ended | | Variance | |
|---|---|---|---|---|---|---|---|---|
| **(U.S. dollars in thousands)** | **June 30, 2021** | **June 30, 2020** | **Dollar** | **Percent** | **June 30, 2021** | **June 30, 2020** | **Dollar** | **Percent** |
| Equity in earnings of unconsolidated joint ventures | $ 9,428 | $ 3,769 | $ 5,659 | 150.1% | $ 16,958 | $ 9,883 | $ 7,075 | 71.6% |

Equity in earnings of unconsolidated joint ventures increased $5.7 million and $7.1 million for the three and six months ended June 30, 2021 compared to the corresponding periods last year, primarily related to new joint ventures, and increased activity and margins in certain existing joint ventures, partially offset by write-downs of $1.6 million and $5.1 million for the three and six months ended June 30, 2021, respectively, on an unconsolidated joint venture in the Critical Infrastructure segment and reductions in activity on others.

*Selling, general and administrative expenses*

| | Three Months Ended | | Variance | | Six Months Ended | | Variance | |
|---|---|---|---|---|---|---|---|---|
| **(U.S. dollars in thousands)** | **June 30, 2021** | **June 30, 2020** | **Dollar** | **Percent** | **June 30, 2021** | **June 30, 2020** | **Dollar** | **Percent** |
| Selling, general and administrative expenses | $ 188,238 | $ 187,640 | $ 598 | 0.3% | $ 375,760 | $ 371,414 | $ 4,346 | 1.2% |

Selling, general and administrative expenses ("SG&A") for the three months ended June 30, 2021 and June 30, 2020 include $4.9 million and $12.9 million, respectively, and for the six months ended June 30, 2021 and June 30, 2020 include $11.9 million and $5.1 million, respectively, of compensation cost related to equity-based awards.

Equity awards issued prior to the Company's IPO were settled in cash and were remeasured to an updated fair value at each reporting period until the award was settled. Compensation cost was trued-up at each reporting period for changes in fair value pro-rated for the portion of the requisite service period rendered. Prior to the IPO on May 8, 2019, the fair value of a share of the Company's common stock was established by the ESOP trustee. See "Note 19 – Fair Value of Financial Instruments" in the Company's Form 10-K for the year ended December 31, 2020 for a further discussion of how a share of the Company's common stock was valued prior to the IPO. Subsequent to the IPO, the share price of the Company's common stock is based on quoted prices on the New York Stock Exchange.

Excluding the compensation costs discussed above, SG&A for the three months ended June 30, 2021 and June 30, 2020 was $183.3 million and $174.8 million, respectively and for the six months ended June 30, 2021 and June 30, 2020 was $363.9 million and $366.3 million, respectively.

The increase in SG&A of $8.5 million, exclusive of equity compensation cost, for the three months ended June 30, 2021 when compared to the corresponding period last year was primarily due to a $6.3 million increase in transaction-related costs, a $5.4 million increase from acquisitions, and a $2.4 million increase in intangible asset amortization. These increases were partially offset by a $1.0 million decrease in restructuring costs and $4.6 million decrease in other costs.

The decrease in SG&A of $2.4 million, exclusive of equity compensation cost, for the six months ended June 30, 2021 when compared to the corresponding period last year was primarily due to a $3.3 million decrease in transaction-related costs, a $1.0 million decrease in restructuring costs and $13.0 million decrease in other costs. These were partially offset by a $10.7 million increase from acquisitions and a $4.2 million increase in intangible asset amortization.

*Total other income (expense)*

| | Three Months Ended | | Variance | | Six Months Ended | | Variance | |
|---|---|---|---|---|---|---|---|---|
| **(U.S. dollars in thousands)** | **June 30, 2021** | **June 30, 2020** | **Dollar** | **Percent** | **June 30, 2021** | **June 30, 2020** | **Dollar** | **Percent** |
| Interest income | $ 152 | $ 196 | $ (44) | -22.4% | $ 250 | $ 424 | $ (174) | -41.0% |
| Interest expense | (4,910) | (4,159) | (751) | 18.1% | (9,451) | (8,181) | (1,270) | 15.5% |
| Other income (expense), net | 405 | 715 | (310) | -43.4% | (1,386) | 263 | (1,649) | -627.0% |
| Total other income (expense) | $ (4,353) | $ (3,248) | $ (1,105) | 34.0% | $ (10,587) | $ (7,494) | $ (3,093) | 41.3% |

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 Note. 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*

| | Three Months Ended | | Variance | | Six Months Ended | | Variance | |
|---|---|---|---|---|---|---|---|---|
| **(U.S. dollars in thousands)** | **June 30, 2021** | **June 30, 2020** | **Dollar** | **Percent** | **June 30, 2021** | **June 30, 2020** | **Dollar** | **Percent** |
| Income tax expense | $ 3,838 | $ 11,891 | $ (8,053) | -67.7% | $ 9,213 | $ 16,975 | $ (7,762) | -45.7% |

The Company’s effective tax rate was 24.2% and 27.6% for the three months ended June 30, 2021 and 2020, respectively. The change in the effective tax rate was due primarily to an increase in untaxed income attributable to noncontrolling interests and a change in jurisdictional earnings. The Company’s effective tax rate for the six months ended June 30, 2021 and June 30, 2020 was 26.1% and 27.2%, respectively. The change in effective tax rate was due primarily to an increase in untaxed income attributed to noncontrolling interests and a change in jurisdictional earnings, partially offset by an increase in foreign tax losses which will not provide any tax benefit and a settlement of a state tax audit. The difference between the effective tax rate and the statutory U.S. Federal income tax rate of 21.0% for the three and six months ended June 30, 2021 primarily relates to state income taxes and a recorded valuation allowance on foreign tax credits, partially offset by benefits related to income attributable to noncontrolling interests 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:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| **(U.S. dollars in thousands)** | **June 30, 2021** | **June 30, 2020** | **June 30, 2021** | **June 30, 2020** |
| Federal Solutions Adjusted EBITDA attributable to Parsons Corporation | $ 32,500 | $ 47,700 | $ 64,482 | $ 79,317 |
| Critical Infrastructure Adjusted EBITDA attributable to Parsons Corporation | 27,817 | 35,519 | 59,474 | 62,876 |
| Adjusted EBITDA attributable to noncontrolling interests | 5,410 | 7,942 | 10,470 | 9,464 |
| Total Adjusted EBITDA | $ 65,727 | $ 91,161 | $ 134,426 | $ 151,657 |

*Federal Solutions*

| | Three Months Ended | | Variance | | Six Months Ended | | Variance | |
|---|---|---|---|---|---|---|---|---|
| **(U.S. dollars in thousands)** | **June 30, 2021** | **June 30, 2020** | **Dollar** | **Percent** | **June 30, 2021** | **June 30, 2020** | **Dollar** | **Percent** |
| Revenue | $ 442,675 | $ 482,210 | $ (39,535) | -8.2% | $ 894,744 | $ 959,781 | $ (65,037) | -6.8% |
| Adjusted EBITDA attributable to Parsons Corporation | $ 32,500 | $ 47,700 | $ (15,200) | -31.9% | $ 64,482 | $ 79,317 | $ (14,835) | -18.7% |

The decrease in Federal Solutions revenue for the three and six months ended June 30, 2021 compared to the corresponding periods last year was primarily due to a decrease in business volume from program completions and wind-downs, a reserve taken on a program, and the competitive hiring environment for cleared personnel. The decreases were partially offset by increases from business acquisition of $29.3 million and $60.3 million for the three and six months ended June 30, 2021, respectively.

The decrease in Federal Solutions Adjusted EBITDA attributable to Parsons Corporation for the three and six months ended June 30, 2021 compared to the corresponding periods last year was primarily related to a $6.9 million net impact from a reserve taken on a program during the second quarter of 2021, compared to a $9.0 million incentive fee recognized during the second quarter of 2020 in addition to decline in business volume.

*Critical Infrastructure*

| | Three Months Ended | | Variance | | Six Months Ended | | Variance | |
|---|---|---|---|---|---|---|---|---|
| **(U.S. dollars in thousands)** | **June 30, 2021** | **June 30, 2020** | **Dollar** | **Percent** | **June 30, 2021** | **June 30, 2020** | **Dollar** | **Percent** |
| Revenue | $ 436,681 | $ 497,249 | $ (60,568) | -12.2% | $ 859,309 | $ 990,671 | $ (131,362) | -13.3% |
| Adjusted EBITDA attributable to Parsons Corporation | $ 27,817 | $ 35,519 | $ (7,702) | -21.7% | $ 59,474 | $ 62,876 | $ (3,402) | -5.4% |

The decrease in Critical Infrastructure revenue for the three and six months ended June 30, 2021 compared to the corresponding periods last year was primarily due to a decrease in business volume from program completions and a write down on a project during the second quarter of 2021.

The decrease in Adjusted EBITDA attributable to Parsons Corporation in Critical Infrastructure for the three and six months ended June 30, 2021 was primarily related to a $15.4 million write down on a project, partially offset by an increase in equity in earnings of unconsolidated joint ventures.

## Liquidity and Capital Resources

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

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

As of June 30, 2021, 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. We do not anticipate that the COVID-19 pandemic-related economic impacts will impair our ability to continue to maintain compliance with our debt covenants or access available borrowing capacity from our banks.

During July 2021, we paid the $50 million Series A tranche of our Senior Note which had a scheduled maturity of July 15, 2021. See “Note 10—Debt and Credit Facilities” 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 June 30, 2021 and 69 days at June 30, 2020. The decrease in DSO was primarily due to strong cash collections during the second quarter of 2021. Our working capital (current assets less current liabilities) was $717.0 million at June 30, 2021 and $655.7 million at December 31, 2020.

Our cash, cash equivalents and restricted cash decreased by $2.6 million to $484.6 million at June 30, 2021 from $487.2 million at December 31, 2020.

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

| | Six Months Ended | |
|---|---|---|
| | June 30, 2021 | June 30, 2020 |
| Net cash provided by (used in) operating activities | $ 38,463 | $ (31,444) |
| Net cash used in investing activities | (19,842) | (25,822) |
| Net cash used in financing activities | (22,259) | (847) |
| Effect of exchange rate changes | 1,011 | (641) |
| Net decrease in cash, cash equivalents and restricted cash | $ (2,627) | $ (58,754) |

*Operating Activities*

Net cash provided by (used in) 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 $69.9 million for the six months ended June 30, 2021 compared to the six months ended June 30, 2020. The change in net cash from operating activities is attributable to a $71.6 million increase in cash inflows from our working capital accounts (primarily from accounts receivable and contract liabilities offset by accrued expenses, accounts payable and contract assets) and a $17.6 million change in other long-term liabilities, partially offset by a $19.4 million decrease in net income after adjusting for non-cash items.

*Investing Activities*

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

Net cash used in investing activities decreased $6.0 million for the six months ended June 30, 2021, when compared to the six months ended June 30, 2020, primarily due to proceeds from sale of investments in unconsolidated joint ventures of $14.3 million and a decrease in cash used for capital expenditures of $13.8 million, partially offset by increased investments in unconsolidated joint ventures of $22.5 million. The Company had no business acquisitions during the six months ended June 30, 2021 and June 30, 2020.

*Financing Activities*

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

Net cash used in financing activities increased $21.4 million for the six months ended June 30, 2021 compared to the six months ended June 30, 2020. The change in cash flows from financing activities is primarily due to larger distributions to noncontrolling interests.

***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 $219.2 million as of June 30, 2021. Letters of credit outstanding under the Credit Agreement total $45.0 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 June 30, 2021, 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. As of June 30, 2021, there were no amounts outstanding under the Revolving Credit Facility. Borrowings under the new Credit Facility effective June 2021 bear interest at either a eurocurrency 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 June 30, 2021 and December 31, 2020 were 1.34% and 1.87%, respectively.

### *Foreign Currency Exchange Risk*

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

## Item 4. Controls and Procedures.

### Evaluation of Disclosure Control and Procedures

Our management carried out, as of June 30, 2021, 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 June 30, 2021, 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 second quarter of 2021, 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, 2020 other than as set forth below. See also our updates for the COVID-19 pandemic included in Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-Q.

***Changes in tax laws may materially increase our provision for income taxes.***

In 2021, President Joseph R. Biden, released the Made in America Tax Plan that proposed several significant modifications to key provisions, as well as introduced new provisions, to the U.S. internal revenue code. Although it is uncertain if some or all of the identified provisions will be enacted, a change in U.S. tax law may materially and adversely impact our income tax liability, provision for income taxes, and effective tax rate.

***Our business, results of operations, financial condition, cash flows and stock price can be adversely affected by pandemics, epidemics or other public health emergencies, such as the recent outbreak of COVID-19.***

Our business, results of operations, financial condition, cash flows and stock price can be adversely affected by pandemics, epidemics or other public health emergencies, such as the recent outbreak of COVID-19 which has spread from China to many other countries including the United States. In March 2020, the World Health Organization characterized COVID-19 as a pandemic, and the President of the United States declared the COVID-19 outbreak a national emergency. The outbreak has resulted in governments around the world implementing increasingly stringent measures to help control the spread of the virus, including quarantines, "shelter in place" and "stay at home" orders, travel restrictions, business curtailments, school closures, and other measures. In addition, governments and central banks in several parts of the world have enacted fiscal and monetary stimulus measures to counteract the impacts of COVID-19.

Although we have continued our operations consistent with federal guidelines and state and local orders, the outbreak of COVID-19 and any preventive or protective actions taken by governmental authorities may have a material adverse effect on our operations, employees and customers, including business shutdowns or disruptions. The extent to which COVID-19 may adversely impact our business depends on future developments, which are highly uncertain and unpredictable, depending upon the severity and duration of the outbreak and the effectiveness of actions taken globally to contain or mitigate its effects. Any resulting financial impact cannot be estimated reasonably at this time but may materially adversely affect our ability to collect accounts receivables and our business, results of operations, financial condition and cash flows. Even after the COVID-19 pandemic has subsided, we may experience materially adverse impacts to our business due to any resulting economic recession or depression. Additionally, concerns over the economic impact of COVID-19 have caused extreme volatility in financial and other capital markets which has and may continue to adversely impact our stock price and our ability to access capital markets. To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in our Form 10-K for the year ended December 31, 2020, such as those relating to government spending and priorities.

### 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* | Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1* | Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2* | Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2021, 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: August 4, 2021

By: /s/ George L. Ball

George L. Ball
Chief Financial Officer
(Principal Financial Officer)

**Exhibit 31.1**

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

I, Carey A. Smith, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 4, 2021

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

**Exhibit 31.2**

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

I, George L. Ball, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 4, 2021

By: /s/ George L. Ball
George L. Ball
Chief Financial Officer

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Parsons Corporation (the “Company”) on Form 10-Q for the period ending June 30, 2021 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: August 4, 2021

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

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Parsons Corporation (the “Company”) on Form 10-Q for the period ending June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, George L. Ball, 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: August 4, 2021

By: /s/ George L. Ball
George L. Ball
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.