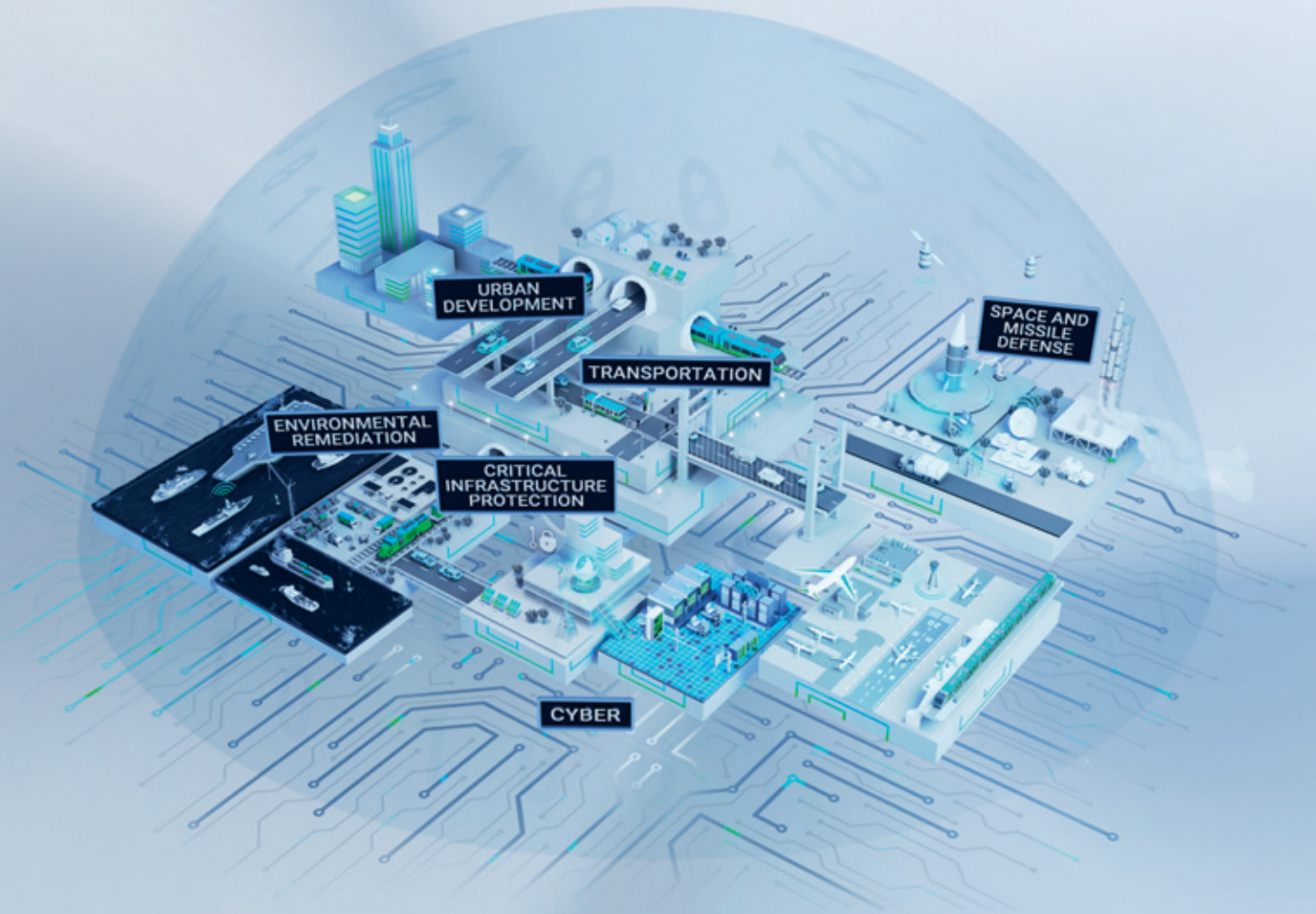
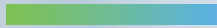


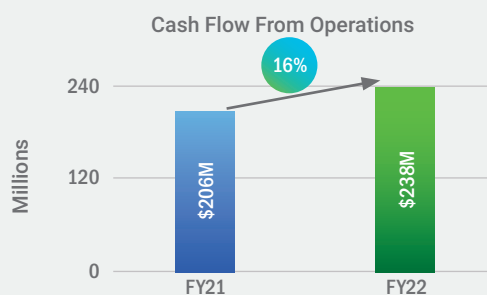
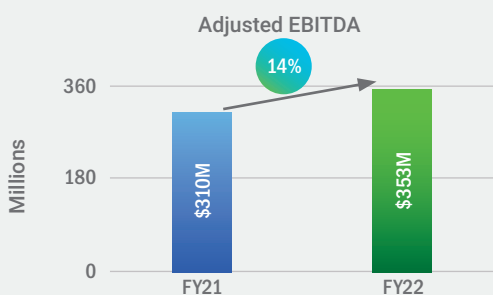
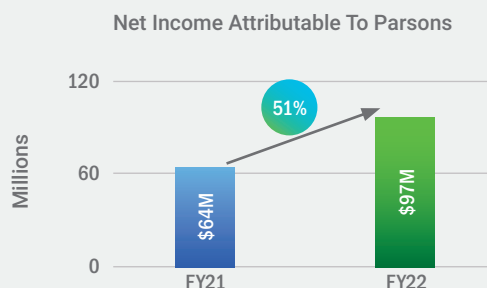
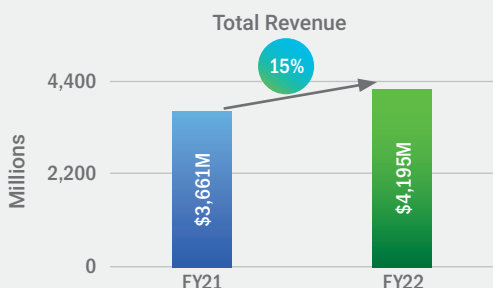
# TRANSFORMING TOMORROW

Annual Report 2022



# 2022 FINANCIAL HIGHLIGHTS

During 2022, Parsons reported double-digit revenue, adjusted EBITDA, and cash flow growth, while achieving organic revenue growth of 9 percent. These results were driven by strong hiring and retention, growing revenue on existing contracts, and our ability to win and ramp new contracts. The changes we made to our business over the last year and a half enabled us to achieve record revenue and profits in 2022 and become one of the organic revenue growth leaders in both of our business segments.



## MISSION-FOCUSED INNOVATION

As near-peer threats evolve and the line between defense and infrastructure blurs, Parsons is uniquely positioned at the nexus of both focus areas. We offer integrated solutions to our customers' problems in six strategic markets: cyber, critical infrastructure protection, transportation, environmental remediation, urban development, and space and missile defense.

### Cyber

Cyber is no longer only a military requirement. With accelerated global transformation, robust, full-spectrum cyber solutions are mission essential for all defense, intelligence, and critical infrastructure environments.

### Critical Infrastructure Protection

As the global threat environment evolves, the vulnerabilities of critical infrastructure present one of the greatest risks to national security. This advancement calls for proactive efforts to protect critical infrastructure systems like transportation, utilities, water, and facilities.

### Transportation

As our customers face increased congestion and aging infrastructure, our experts help them save time, maximize value, mitigate traffic impacts, and enhance safety with innovative digital solutions for global infrastructure.

### Environmental Remediation

We stand ready to meet environmental stewardship challenges for air, land, and water. We provide a

customized approach to every project, whether mine remediation, waste or wastewater management, or per and polyfluoroalkyl substance (PFAS) mitigation, and our full-service treatability lab can perform bench- and pilot-scale evaluations of multiple treatment methods.

### Urban Development

For 78 years, we've specialized in the management of large, complex, multisite, and mega-mixed-use and urban development programs throughout the world, shaping city projects at all levels through creative design solutions.

### Space & Missile Defense

Since the beginning of the drive to space, we have provided end-to-end, integrated, and holistic support to the critical aspects of space operations. We're combining our history in launch logistics; satellite operations; assured positioning, navigation, and timing (PNT); domain awareness; and geospatial intelligence with our industry-leading satellite integration capabilities to unlock the future of space.



## Carey Smith

Chair, President, and CEO

### To Our Shareholders

2022 was a successful year for Parsons. We delivered double-digit growth for revenue, adjusted EBITDA, and cash flow, exceeding \$4 billion in revenue and \$350 million in adjusted EBITDA for the first time in our company's history. We achieved organic revenue growth of 9 percent for the full year, driven by strong hiring and retention, on-contract growth, and our ability to win and ramp new contracts. As a result, we were one of the organic revenue growth leaders in both of our business segments in 2022.

I am very proud of our company, our people, and the important missions we deliver for our customers in protecting national security and improving global infrastructure. We've transformed Parsons into a solutions-enabled, technology-driven company solving our customers' most critical emerging challenges. As we look to the future, Parsons is in an extremely fortunate position in that all our end markets are simultaneously growing, profitable, and enduring.

#### Macroenvironment Facilitating Growth

From a macroenvironment perspective, global threats and infrastructure priorities are driving growth in our markets. Within the federal market, the national defense strategy has prioritized

near-peer nation states, with China being the primary focus. As such, research and development budgets have reached new heights in recognition that our country must invest in areas such as hypersonics, artificial intelligence, cybersecurity, network system-of-systems, space, and directed energy. The Parsons portfolio is very well-aligned to Department of Defense research priorities. Requirements for global security are shifting, and Parsons is able to respond with agility to these emerging demands.

infrastructure solutions to enhance people's access to much-needed resources, including broadband, in underserved areas. These enhancements improve the quality of life of our citizens, while protecting the environment and making the world a better place.

We also are unique due to our combined federal solutions and critical infrastructure businesses. There are few companies that have our collective credentials and synergistic capabilities. We bring federal capabilities, such as cyber,

“

2022 was a successful year for Parsons. We delivered double-digit growth for revenue, adjusted EBITDA, and cash flow, exceeding \$4 billion in revenue and \$350 million in adjusted EBITDA for the first time in our company's history.”

For critical infrastructure, we face unprecedented global demand, not just in the United States but also in the Middle East and Canada, where Parsons has a major, long-standing presence. Demographic shifts are driving new needs and causing us to rethink cities and future infrastructure. There is a need to replace aging infrastructure and improve social inequities by delivering smart

artificial intelligence, and cloud-enabled solutions, to our critical infrastructure customers. We also leverage our expansive critical infrastructure capabilities, such as design, construction and program management, and environmental planning and remediation efforts, to our federal customers.



### Continuing To Win Large Contracts

To drive growth, we remain focused on moving up the customer value chain to bid and win large prime contracts. This strategy has been successful and begins with delivering on our customers' missions. In 2022, we achieved

Community's global cyber and intelligence technologies for C5ISR, exercise, operations, and information services.

- Awarded a \$121 million option year on our Combatant Commands Cyber Mission Support contract, where we provide offensive and defensive



We continue to implement policies and practices that drive positive environmental impacts, ensure a commitment to ethics and compliance, enhance our communities, and promote the tenets of diversity that embody our people-first approach ....”

a book-to-bill ratio of 1.0x on an enterprise basis. In critical infrastructure, we achieved a book-to-bill ratio of 1.2x and ended the year with nine consecutive quarters in which we exceeded a book-to-bill ratio of 1.0x.

In total, we won 11 contracts worth \$100 million or more for the full year. Significant 2022 contract wins included the following:

- Awarded a more than \$2 billion Canadian follow-on contract with expanded scope over the next 12 years to manage remediation efforts on the Giant Mine, in the Northwest Territories of Canada, which is one of the largest environmental remediation projects in the world.
- Awarded a \$148 million contract value increase on a program management contract for the Riyadh Metro program, which is the largest metro system development project in the world.
- Awarded a \$122 million option-year contract by the General Services Administration (GSA) for professional services that advance the Intelligence

cyber operations and open-source intelligence in support of joint all-domain operations.

- Awarded \$120 million of new work under two contracts to support the development of two major industrial cities in the Middle East. On these giga-projects, we only booked the first phase of each contract.
- Xator's Overseas Installation Services (OSIS) II program received its second of five potential award years, valued at \$119 million. Through OSIS II, Xator provides the Department of State with technical security installation and support services, operations centers, and counter unmanned aerial systems services worldwide.
- Awarded \$117 million of new project work under the FAA's Technical Support Services contract to provide engineering, construction oversight, installation, and technical services. Over \$70 million of the growth on this contract was funded under the Infrastructure Investment and Jobs Act.

### Inclusive Culture Driving Destination Employees

In addition to winning new contracts and growing revenue on existing contracts, our strong employee hiring and retention have been key contributors to our growth. At Parsons, we believe in a people-first culture coupled with the imperative to deliver on our high-purpose missions. Leadership starts at the top, and I could not be more excited about the team that we put in place during the second half of 2021. We have diverse backgrounds, which fosters unique ideas and drives strong financial results.

Our Mission + Culture focus is also key to our success. People join and stay at Parsons because the work we do matters to the world, and we have a fun and collaborative culture where people like to go to work. Our corporate culture and desire to succeed not only makes us an employer of choice but also a preferred acquirer of choice. People want to join companies where their accomplishments are recognized, where they are respected, and where they are part of a winning team. Parsons has benefited from the talent pool of our acquired companies, and we have promoted several employees from these acquisitions into executive leadership roles, which has enabled us to retain the acquired companies' talented employees.

### Strong Balance Sheet Enabling Capital Allocation Strategy

We continue to leverage our strong balance sheet to execute our disciplined capital allocation strategy. During the year, we completed our largest acquisition since our IPO in 2019. Xator was a strategic and financially accretive acquisition that diversified our customer base, broadened and further differentiated our

capabilities, and increased our addressable market in both our Federal Solutions and Critical Infrastructure segments.

The Xator integration is going well. Their revenue and profitability have been in line with our expectations, and they are exceeding their sales targets. We've retained and integrated key leadership, aligned research and development programs and are leveraging synergies to pursue new work across both our segments.

We also continued to execute on our \$100 million share repurchase program. To date, we have repurchased approximately \$44 million of our shares. In addition, we continued to pay down debt, while investing in our people, research and development, and business development initiatives. We also consider dividends, but our current top priority remains M&A activity.

### **Continuing To Deliver A Better World**

We continue to implement policies and practices that drive positive environmental impacts, ensure a commitment to ethics and compliance, enhance our communities, and promote the tenets of diversity that embody our people-first approach and solidify Parsons as a global employer of choice.

In 2022, Parsons won distinguished awards for our hiring, diversity, and ethical business practices. In addition, we were recognized for the work we do every day to improve the environment and the quality of life for the communities we serve.

We are proud of the various awards and recognitions we received in 2022, which include the following:

- Named by Ethisphere as one of the World's Most Ethical Companies for the 13th consecutive year



Looking ahead to 2023, we enter the year with a strong macroenvironment backdrop supporting our business, with an increasing defense budget, unprecedented global infrastructure spending, and continued geopolitical tensions."

- Recognized as a top 50 company by both Minority Engineer magazine and Woman Engineer magazine
- Recognized by the Human Rights Campaign with a perfect score on their 2022 Corporate Equality Index for active support and inclusion of the lesbian, gay, bisexual, transgender, and queer (LGBTQ+) community
- Received several awards for our work on sustainable infrastructure that provides positive impacts on the environment and society
- Multiple awards for being a military-friendly employer

### **Looking Forward**

Looking ahead to 2023, we enter the year with a strong macroenvironment backdrop supporting our business, with an increasing defense budget, unprecedented global infrastructure spending, and continued geopolitical tensions, including cyber threats. Our 2023 top priorities are to capture new projects associated with increased global infrastructure funds, to improve our Federal Solutions book-to-bill ratio, to expand Critical Infrastructure margins, and to actively engage in strategic acquisitions.

I am very excited about our future. Over the last year and a half, we have made significant changes to our business by moving up the solutions integration value chain

and hiring key executives. These changes enabled us to achieve record revenue and profits in 2022 and become one of the organic revenue growth leaders in both of our business segments.

We are well-positioned in two complementary and growing segments, and we will continue to invest in our people, technology, business development initiatives, and strategic M&A to maintain our momentum and drive shareholder value.

In closing, I want to thank our employees for their tremendous and noble work. They are the foundation of our success, and they are making positive impacts to our society and the environment. Their dedication is inspiring and is creating value for all our stakeholders.

### **Carey Smith**

Chair, President, and CEO

# RECOGNITION AND ACHIEVEMENTS

At Parsons, we're dedicated to transforming tomorrow through technology-driven national security and global infrastructure solutions. We're also committed to accomplishing that transformation by creating with conscience—enabling a safer, healthier, more sustainable, more connected, and more secure world. Environmental, social, and governance (ESG) is a core component of our culture and is inherently embedded into our overall portfolio. Through our ESG strategy, Cultivating a Responsible Enterprise, or CARE, we're redefining the future for our customers, our workforce, and our shareholders. At the heart of our people-first approach are practices that enhance sustainability, partnering with the communities and local populations of where we live and work, ensuring a commitment to ethics and compliance, and promoting the tenets of diversity, equity, and inclusion to inspire a thriving workforce. ESG is woven into our fabric, along with our core values, to underpin who we are and how we operate.

## ESG HIGHLIGHTS



**17%**

Reduction in greenhouse gas emissions (scopes 1 and 2) (2019 to 2021)



**42%**

Executive leadership diversity & woman CEO (2022)



**36%**

Women directors (2022)



**13**

Years named to World's Most Ethical Companies (2010–2022)



**0.12**

Total recordable incident rate in 2022 (safety)



**40%**

Supplier diversity (2022)

## CLIMATE ACTION

At Parsons, we recognize climate change presents a pervasive threat to human health and the natural environment. In 2021, we set a target of reducing absolute Scope 1 and 2 emissions 20 percent by 2025 compared to a 2019 baseline. Our most recent calculations, in 2022, showed we achieved a 17 percent reduction in Scope 1 and 2 emissions. In 2022, Parsons elected for the first time to disclose our climate-related governance, risk management, and metrics using the Task Force on Climate-Related Financial Disclosures (TCFD) framework. Furthermore, we have committed to setting near-term, science-based emissions-reduction targets and to setting net-zero targets, including a long-term, science-based target.

## ACHIEVEMENTS AND AWARDS



**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2022

OR

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

Commission File Number 001-07782



Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

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

21120  
(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<br>Symbol(s) | Name of each exchange<br>on which registered |
|-----------------------------|----------------------|--|
| Common Stock, \$1 par value | PSN                  | New York Stock Exchange                      |

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of the shares of common stock on The New York Stock Exchange on June 30, 2022, was \$4.2 billion.

The number of shares of Registrant's Common Stock outstanding as of February 6, 2023 was 104,709,490

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of Parsons' 2023 Proxy Statement are incorporated by reference into Part III of this Annual Report on Form 10-K.





## Table of Contents

|   | <u>Page</u> |
|---|-------------|
| <b>PART I</b>   |             |
| Item 1. Business .....  | 1           |
| Item 1A. Risk Factors .....   | 21          |
| Item 1B. Unresolved Staff Comments .....  | 48          |
| Item 2. Properties .....  | 49          |
| Item 3. Legal Proceedings .....   | 49          |
| Item 4. Mine Safety Disclosures .....   | 49          |
| <b>PART II</b>  |             |
| Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of<br>Equity Securities ..... | 50          |
| Item 6. Reserved .....  | 52          |
| Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations ....                            | 52          |
| Item 7A. Quantitative and Qualitative Disclosures About Market Risk .....   | 77          |
| Item 8. Financial Statements and Supplementary Data .....   | 77          |
| Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure ...                              | 77          |
| Item 9A. Controls and Procedures .....  | 78          |
| Item 9B. Other Information .....  | 78          |
| Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections .....  | 78          |
| <b>PART III</b>   |             |
| Item 10. Directors, Executive Officers and Corporate Governance .....   | 79          |
| Item 11. Executive Compensation .....   | 79          |
| Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder<br>Matters .....              | 79          |
| Item 13. Certain Relationships and Related Transactions, and Director Independence .....                                      | 79          |
| Item 14. Principal Accounting Fees and Services .....   | 79          |
| <b>PART IV</b>  |             |
| Item 15. Exhibits, Financial Statement Schedules .....  | 80          |
| Item 16 Form 10-K Summary .....   | 80          |
| Exhibit Index .....   | 81          |
| Signatures .....  | 85          |
| Index to Consolidated Financial Statements and Report of Independent Registered Public<br>Accounting Firm .....               | F-1         |

## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This annual report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as “may”, “will”, “should”, “expects”, “plans”, “anticipates”, “could”, “intends”, “target”, “projects”, “contemplates”, “believes”, “estimates”, “predicts”, “potential” or “continue” or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We believe that these factors include, but are not limited to, the following:

- any issue that compromises our relationships with the U.S. federal government or its agencies or other state, local or foreign governments or agencies;
- any issues that damage our professional reputation;
- changes in governmental priorities that shift expenditures away from agencies or programs that we support;
- our dependence on long-term government contracts, which are subject to the government’s budgetary approval process;
- the size of our addressable markets and the amount of government spending on private contractors;
- failure by us or our employees to obtain and maintain necessary security clearances or certifications;
- failure to comply with numerous laws and regulations;
- changes in government procurement, contract or other practices or the adoption by governments of new laws, rules, regulations and programs in a manner adverse to us;
- the termination or nonrenewal of our government contracts, particularly our contracts with the U.S. federal government;
- our ability to compete effectively in the competitive bidding process and delays, contract terminations or cancellations caused by competitors’ protests of major contract awards received by us;
- our ability to generate revenue under certain of our contracts;
- any inability to attract, train or retain employees with the requisite skills, experience and security clearances;
- the loss of members of senior management or failure to develop new leaders;
- misconduct or other improper activities from our employees or subcontractors;
- our ability to realize the full value of our backlog and the timing of our receipt of revenue under contracts included in backlog;
- changes in the mix of our contracts and our ability to accurately estimate or otherwise recover expenses, time and resources for our contracts;
- changes in estimates used in recognizing revenue;
- internal system or service failures and security breaches;
- inherent uncertainties and potential adverse developments in legal proceedings, including litigation, audits, reviews and investigations, which may result in materially adverse judgments, settlements or other unfavorable outcomes; and
- other risks and factors listed under “Risk Factors” and elsewhere in this report.

We have based the forward-looking statements contained in this report primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations, prospects, business strategy and financial needs. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, assumptions and other factors described in the section captioned “Risk Factors” and elsewhere in this report. These risks are not exhaustive. Other sections of this report include additional factors that could adversely impact our business and financial performance. Furthermore, new risks and uncertainties emerge from time to time and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this report. We cannot assure you that the results, events and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this report, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements.

You should read this report and the documents that we reference in this report and have filed as exhibits to the registration statement of which this report forms a part with the understanding that our actual future results, levels of activity, performance and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

The forward-looking statements made in this report relate only to events as of the date on which such statements are made. We undertake no obligation to update any forward-looking statements after the date of this report or to conform such statements to actual results or revised expectations, except as required by law.

[THIS PAGE INTENTIONALLY LEFT BLANK]



## PART I

### Item 1. Business.

#### Overview

Parsons is a leading provider of the integrated solutions and services required in today's complex security environment and a world of digital transformation. Under our vision to "create the future" of national security and critical infrastructure, we deliver innovative technology-driven solutions to customers worldwide. We are uniquely positioned to leverage the depth of experience and expertise from across the company and the markets in which we operate to bring solutions to our customers' most challenging problems and critical needs – our One Parsons approach.

We have developed significant expertise and differentiated capabilities in key areas of cybersecurity, intelligence, space and missile defense, critical infrastructure protection, transportation, environmental remediation and urban development. By combining our talented team of professionals and advanced technology, we solve complex technical challenges to enable a safer, smarter more secure and more connected world.

Since our founding nearly 80 years ago, we have built our reputation and business on our ability to successfully transform while leveraging innovative technologies to meet our customers' needs and grow our business. Whether our customers need a first-of-a-kind advanced missile development and testing facility, an enterprise boundary defense system that uses artificial intelligence to identify and mitigate zero-day cyberattacks, or an innovative solution to perform end-to-end COVID testing and tracking, we deliver for our customers. We seek to grow by offering our clients differentiated solutions derived from strategic hiring combined with research and development investments, as well as targeted acquisitions of advanced technology companies. We have developed longstanding relationships with customers such as the U.S. military and intelligence agencies and state and local governments and agencies.

Our One Parsons approach brings together capabilities and innovations from across markets to provide integrated solutions for our customers. Organizationally, we operate in two reportable segments, Federal Solutions and Critical Infrastructure, with revenue contribution of 53% and 47%, respectively, and adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) contribution of 57% and 43%, respectively, for the year ended December 31, 2022 ("fiscal 2022"). See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Segment Results" for further discussion on our segments.

*Federal Solutions:* Our Federal Solutions segment is an advanced technology provider to the U.S. government, delivering timely, cost-effective solutions for mission-critical projects. We provide critical technologies, including cybersecurity; missile defense technical solutions; C5ISR; space launch and ground systems; space and weapon system resiliency; geospatial intelligence; signals intelligence; nuclear and chemical waste remediation; border security, critical infrastructure protection; counter unmanned air systems; and biometrics and biosurveillance. The U.S. government and its agencies represent substantially all of the revenue of our Federal Solutions segment. These U.S. government agencies include the United States intelligence community, the U.S. Department of Defense, including military services, and Missile Defense Agency, the Department of Energy, the Department of State, the Department of Homeland Security and the Federal Aviation Administration.

*Critical Infrastructure:* Our Critical Infrastructure segment provides integrated design and engineering services for complex physical and digital infrastructure around the globe. We are a technology innovator focused on next generation aviation; rail and transit; bridges, roads and highways; leveraging sensors and data to drive smart sustainable infrastructure. Our capabilities in environmental remediation, water and wastewater treatment systems, and urban development allow us to deliver value to our customers by employing advanced technologies, improving timelines and reducing costs while reducing environmental impacts and improving the quality of life. We serve a diverse global customer base including federal, state,

municipal and industry customers, and private sector infrastructure owners, such as the transportation authorities for the cities of Los Angeles, New York, and Paris, the state of New Jersey, AMTRAK, CSX, Metrolinx (Ontario, Canada), Riyadh Metro, Dubai Roads and Transportation Authority (Dubai RTA), and the Abu Dhabi Municipality.

Advances in technology and global awareness and focus on sustainability are dramatically shifting the operating landscape across our markets. Governments and companies are grappling with pressing challenges ranging from confronting increasingly sophisticated cybersecurity threats to upgrading aging infrastructure to reducing environmental footprint and impact. To address these challenges, our customers are seeking smart technology-enabled solutions to enhance and transform their systems performance. Our wide-ranging capabilities enable us to provide our services, products and solutions across the national security and critical infrastructure markets, and we believe we are well positioned to benefit from the trends in these markets. We have capabilities in the following four areas that span our two segments and four business units:

**Systems Integration:** We provide engineering services and technology for large digital and physical systems with high technical complexity. We lead projects from concept development through design, implementation, testing and verification, ensuring interoperability of these complex, disparate systems.

**Program Management:** We provide expertise and technology to advance our customers' execution of large, complex projects within their defined sustainability, technical, quality, time and cost parameters.

**Design Engineering:** We provide advanced systems and infrastructure engineering design associated with missile systems infrastructure, nuclear waste processing facilities, environmental remediation, long-span bridges, rail and transit systems and other associated infrastructure.

**Product Development:** We develop software and hardware across many domains and mission-specific applications. Our experienced engineers and developers design, develop, integrate, operate and sustain mission-critical software and hardware products for intelligence, defense and infrastructure customers.

Our customer relationships, which are based on a long history of successfully delivering complex technical services, are key to our success. We are often involved in the early stages of our customers' planning and permitting processes, which allows us to efficiently optimize our service delivery model. These relationships, along with our technical expertise and intellectual property, allow us to successfully deliver solutions that meet our customers' demanding technical and execution requirements and fulfill our corporate purpose of developing a better world.

Technology and our people are our most important assets, allowing us to consistently deliver for our customers and help them solve their most pressing challenges. Investment in key technological capabilities is core to our business and helps us to stay at the forefront of the evolving trends across our end markets. To meet the challenges of tomorrow, we are focusing our technology investment on artificial intelligence and machine learning, data processing and analytics, digital transformation, enterprise space ground systems and space operations, and command and control. The work of our diverse and collaborative, highly skilled and dedicated employees has enabled our long track record of continued innovation and execution on behalf of our customers. Our team of engineers, scientists, programmers and other specialists include PhDs and certified hackers, and a large number of our skilled workforce hold government security clearances, which provides a competitive advantage for the highly technical and demanding work we perform.

Parsons is focused upon the risks and opportunities associated with climate change. In 2022, Parsons elected to disclose information related to our climate-related governance, risk management and metrics utilizing the Task Force on Climate-Related Financial Disclosures (TCFD) framework. We conducted climate risk and opportunity workshops with senior leaders representing a cross-section of our geographies, markets and corporate functions. The Corporate Governance and Responsibility Committee of our Board of Directors provides oversight of environmental, social and governance (ESG), including climate-related topics, and the Audit and Risk Committee provides oversight of our enterprise risk management program, including climate-related risks. Our

Chief Executive Officer holds overall executive-level responsibility for ESG. Primary responsibility for ESG risk and opportunity identification and management is assigned to our vice president for ESG.

In fiscal 2022, we generated revenues of \$4.2 billion, net income attributable to Parsons Corporation of \$96.7 million and Adjusted EBITDA of \$352.8 million. For a definition of Adjusted EBITDA and reconciliation to net income attributable to Parsons Corporation, see *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

We achieved an overall win rate of 48.6% in fiscal 2022, 56.0% in the year ended December 31, 2021 ("fiscal 2021") and 46.4% in the year ended December 31, 2020 ("fiscal 2020"), which includes strong re-compete win rates that exceeded 90% in fiscal 2022 giving us long-term certainty on key contracts. As of December 31, 2022, our total backlog was \$8.2 billion, a decrease of 2.0% from December 31, 2021, due in part to the acquisition of Xator Corporation.

## **Our Services, Products and Solutions**

Within each of our segments, we focus our solutions, products and services on the needs of customers in each of our business units. Parsons is differentiated by our people, processes and technology that work together to develop, rapidly prototype and deploy specialized hardware, software and infrastructure solutions to meet continually evolving customer missions and needs. With a culture driven by agility, innovation and collaboration, we deliver operationally proven capabilities in emerging technical areas, including advanced analytics, artificial intelligence/machine learning, cyber tools/platforms/operations, advanced sensing and command and control. We perform systems integration, product development, program management and engineering across our segments and business lines.

### ***Federal Solutions***

Our Federal Solutions business provides engineering services, software and hardware products and integrated solutions. Federal Solutions consists of two business units: Defense & Intelligence (D&I) and Engineered Systems (ES). Our strategy is to deliver information dominance across all domains.

- **D&I**—Our D&I business unit is organized into three related areas: mission solutions, engineering and technical services, and high consequence missions. Our customers include the U.S. Department of Defense, the U.S. intelligence community, U.S. Cyber Command, and the Department of Justice. D&I is a mission partner for differentiated technical solutions, products, and services, delivering innovations in cyber, space, missile defense, multi-domain command and control, intelligence, surveillance and reconnaissance, electromagnetic spectrum dominance, and directed energy. Our solutions are used to meet national security challenges from space to the tactical edge around the globe.
- **Mission Solutions** – We provide software, hardware and technical expertise to clients across a variety of mission areas, including, but not limited to, space, missile systems, and warfighter applications. Our customers include the Defense Intelligence Agency (DIA), multiple units within the U.S. Department of Defense (DOD), including the Special Operations Command (SOCOM), the United States Space Force, the Space Development Agency (SDA), the National Aeronautics and Space Administration (NASA), research laboratories and military services.
  - We focus on providing small satellite launch and integration, satellite ground systems, flight dynamics, data fusion and analytics, platform system integration, directed energy, joint all-domain operations, and command and control systems.
  - As an example, we are the prime contractor responsible for the DOD's small satellite integration efforts through our Launch Manifest Systems Integration program with the U.S. Air Force. As part of this effort, we are providing the full range of hardware and system integration services, including the design, assembly, testing, and processing required to

integrate small-satellite payloads onto a launch system. Our engineering and integration team performs the full scope of designing, assembling, testing and integrating systems to meet responsive launch missile needs. Our ground support equipment is enabling efficient and effective access to space for small satellites on commercial, national security and small class launch systems.

- Representative products include our Command and Control Core (C2Core®) mission planning and tasking suite that links requests, effects and operational guidance in a unified database, and ZEUS® Recovery of Airbase Denied by Ordnance (RADBO) laser neutralization system offering critical force protection in any operational theater.
- Engineering and Technical Services – We provide science, engineering, and technical services to a variety of government customers, including missile defense, space and all military service branches. Our customers include the DOD, including military services, the Missile Defense Agency (MDA), the National Geospatial-Intelligence Agency (NGA), and the National Reconnaissance Office (NRO). Our solutions include integrated air and missile defense, geospatial intelligence, threat analytics, and space situational awareness.
  - An example is our role as the prime Technical, Engineering, Advisory and Management Support (TEAMS) Next contractor for the MDA, where we provide engineering, analysis, and management support for the development of integrated and layered missile defense systems that defend U.S. and allied forces against ballistic, hypersonic, and cruise missile threats, and advance the agency's integrated air and missile defense, command and control, and battle management and communications missions across all-domain battlespace.
  - Another example is our work with NGA in providing automated capabilities to analyze, collect and expose geospatial intelligence content from the open-source environment.
  - Parsons Digital Engineering Framework (PDEF) provides the capability for accelerated analytics and agile prototyping, supporting rapid development and deployment capabilities through a leading-edge digital-based system engineering development and execution framework, leveraging model-based system engineering (MBSE) tooling and modeling & simulation (M&S) performance tools, which are capable of modeling a full-scale joint domain command and control (JADC2) environment from detailed sensor models to adversary weapons platforms, all recreated in a high-fidelity simulation.
- High-Consequence Missions – We provide capabilities across the digital landscape, including full-spectrum cyber, information operations, electronic warfare, multi-domain operations, mission support and national to tactical operations. Our customers include the U.S. intelligence community, U.S. Cyber Command, DOD research laboratories, and military cyber services. The acquisition and integration of BlackHorse Solutions allows us to capitalize on quickly evolving Information Operations and converged cyber and electronic warfare missions for national security and DOD customers.
  - Cyber solutions and products augment and automate full spectrum cyber operations, including our Automated Management Solutions (AMS), a software framework that integrates disparate cyber capabilities, tools and infrastructures into a common system architecture that assists military cyber operators with conducting worldwide military cyber operations. We develop and maintain enterprise platforms used by the DOD to perform network analysis and vulnerability assessments for defensive missions.
  - Our tools and products are used across a wide variety of electronic warfare operations, including commercial cellular survey, automated signal identification and characterization using Artificial Intelligence/Machine Learning (AI/ML), signal modeling and simulation used for radio frequency (RF) ranges and test and evaluation centers using our TReX platform, and integrated RF and cyber solutions to deliver effects from long standoff distances.



- We conduct vulnerability research and resiliency solutions for existing weapon systems, critical infrastructure and space systems, while supporting the development and integration of next generation electronic warfare capabilities. We also develop analysis and anomaly detection tools for radio frequency and airborne communications.
- We develop tools and tradecraft to conduct Information Operations across the physical and cyber domains, giving customers complete situational awareness for force protection and decision making with the Information Environment.
- ES—Our ES business unit focuses on advanced technology services for complex energy and chemical systems, aviation, life sciences and bio-surveillance systems, environmental remediation, security and protection systems, and associated complex infrastructure. Representative customers include the Department of State (DOS), the Department of Energy (DOE), the Defense Threat Reduction Agency (DTRA), the Department of Homeland Security (DHS), the U.S. Army Corps of Engineers (USACE), the Federal Aviation Administration (FAA), the National Aeronautics and Space Administration (NASA), the United States Postal Service (USPS), the Department of Labor (DOL) and the Jet Propulsion Laboratory (JPL). Representative offerings include nuclear waste processing and treatment, weapons of mass destruction elimination, munitions destruction, remediation of unexploded ordnances and hazardous, toxic, reactive wastes, architectural and engineering design, program and project management, infectious disease control, advanced electronic security systems, counter-unmanned aircraft systems, and biometrics solutions.
  - Our expertise includes designing and implementing first of a kind processing and production facilities, technology deployment in response to pandemic outbreaks, and delivery of solutions addressing resiliency, security and sustainability, as well as delivery of highly complex infrastructure in challenging environments and geographies.
  - Representative programs include the National Science Foundation’s Antarctica Infrastructure Modernization for Science, the FAA Technical Services Contract, the DOE Salt Waste Processing Facility, the DTRA Cooperative Threat Reduction Integrating Contract, and the Radford Army Munition Plant Energetic Waste Incinerator.

On June 1, 2022, we completed the acquisition of Xator Corporation in a transaction valued at \$388.3 million. This strategic acquisition expands Parsons’ presence within the U.S. Special Operations Command, the Intelligence Community, Federal Civilian customers, and global critical infrastructure markets, while providing new customer access at the Department of State. Xator also expands Parsons’ customer base and brings differentiated technical capabilities in critical infrastructure protection, counter-unmanned aircraft systems (cUAS), intelligence and cyber solutions, biometrics, and global threat assessment and operations, increasing our addressable markets in both the Federal Solutions and Critical Infrastructure segments.

### ***Critical Infrastructure***

Our Critical Infrastructure business provides planning, engineering, program management, and digital solutions. It is focused on two business lines: Mobility Solutions (MS) and Connected Communities (CC). Our growth strategy includes leveraging our portfolio of sophisticated engineering solutions and technologies for complex physical infrastructure projects. We are expanding our portfolio in key emerging growth areas, including integrated transportation systems, smart mobility, environmental remediation, and water/wastewater treatment.

- CC—Our CC business unit includes intelligent transportation systems, utilities, environmental remediation, emerging contaminants, aviation, rail and transit, a software house and ParsonsX, our enterprise digital transformation organization. Our customers include state and local governments, Fortune 100 companies, smart city developers, and private sector infrastructure owners, such as the transportation authorities for the cities of Los Angeles, New York and Paris, the states or provinces of

Georgia, Ontario and Texas and rail and transit entities, including AMTRAK, CSX, Metrolinx (Ontario Canada), and the WMATA. Technology capabilities include AI/ML, cloud, digital twins, cyber, systems integration, intelligent transportation network software, vehicle inspection data analytics software, automated people mover, electric vehicle infrastructure, and autonomous vehicle integration.

- Parsons provides integrated traffic solutions for arterials, smart intersections, airport landside, ports and tolling integrators. An example is our role as provider of Advanced Traffic Management Systems, or ATMS, through our iNET™ platform. Since the first deployment in 2007, iNET® has been delivered to twenty-four state Departments of Transportation, twenty-two cities, eight county agencies, seven toll agencies, and seven different countries.
- For aviation, we play a critical role as program manager for global airports. We are the program manager of the environmentally sensitive Diamond Head Extension Program at Honolulu International Airport, the Houston Airport System, and the Landside Access Modernization Program for Los Angeles International Airport and the lead designer on the Newark Airport Terminal A replacement project known as Terminal 1.
- Our rail and transit capabilities include systems optimization, communications-based train control, rail system design and system assurance. We have more than six decades of experience in this market and have supported over 400 rail and transit customers. Key programs included Edmonton light rail transit (as part of the Marigold Infrastructure Partners consortium), New York MTA Systems and Facility Engineering Services, Program Management for Marseille Metro, and the Bay Area Rapid Transit Communications-Based Train Control. For our bus transit customers, we provide strategic fleet transition planning, zero-emission bus infrastructure design, and benefit-cost analysis to achieve net zero goals.
- Our Energy and Environment group delivers engineering, program management and environmental solutions to private sector industrial clients and public utilities. Customers are diverse and include chemical, energy, utility, communications, manufacturing and provincial agency customers. We support our customers in achieving net zero targets and ESG goals through grid modernization, renewables, methane reduction, and orphaned-well abandonment. We have a unique offering in this space, as Parsons understands our customers' domains and can deliver advanced technology solutions, including cyber-physical security, emerging contaminants and PFAS, environmental remediation, geospatial intelligence and 3D image processing, and application of virtual augmented reality.
- ParsonsX provides digital transformation, advisory services, AI/ML, digital twin and cyber capabilities across many end markets in our Federal Solutions and Critical Infrastructure business segments.
- MS— Our MS business unit provides planning, engineering and management services for complex infrastructure, including bridges and tunnels, roads and highways, water and wastewater, dams and reservoirs. Within our diverse customer base, our customer relationships include states (e.g., Texas, Florida, California, Colorado, Washington, Georgia, Illinois, New York, and New Jersey), cities and Canadian provinces and territories (e.g., Ontario, British Columbia, Quebec and Alberta), water and wastewater authorities, and Middle East customers (e.g., the Kingdom of Saudi Arabia Royal Commission, Riyadh Metro, Dubai RTA, and the Abu Dhabi Municipality). Our capabilities include technologies in long-span bridges, tunnels, building Information modeling, and water/wastewater.
  - Examples of our design capabilities are our role as the lead designer of the Tacoma Narrows Bridge, the largest twin tower suspension bridge in the world when it opened, lead designer for the Goethals bridge connecting Staten Island, NY and Elizabeth, NJ, and lead designer for the Federal Way link extension for Sound Transit in Seattle.
  - For program management, we are part of the Riyadh Metro Transit Consultants responsible for program management of the Riyadh metro system, the largest metro system under development in

the world. In addition, we are the program manager for the California Delta Water Conveyance Modernization Project, a multi-billion environmentally compliant water transfer project to improve water supply sustainability and reliability for human and environmental uses.

### **Our Market Opportunities**

Technology revolution and environmental impact is driving a swift pace of change, resulting in ongoing societal transformation, complicated geopolitical dynamics, a shifting threat landscape and the globalization of commerce. To address this evolving landscape, our customers are actively seeking technology-enabled solutions at the speed of relevancy to upgrade and transform assets and operations. The below trends are key growth drivers in both our Federal Solutions and Critical Infrastructure segments.

***Defense Spending Remains a Priority*** of the national agenda due to the reemergence of long-term strategic peer competition, which has been cited in the National Defense Strategy as the primary concern for U.S. national prosperity and security. This reemergence has resulted in increased global disorder and a security environment, defined by rapid technological change, which may be more complex than ever before. We believe the U.S. Department of Defense and intelligence community will continue to invest in cyber, space, C5ISR, and missile defense.

***Cybersecurity is Mission Critical to U.S. National Security*** and cybersecurity threats are increasing in volume and sophistication as global connectivity and the rise of social media have led to an explosion in the amount of available and exploitable data. Additionally, there has been an increase in aggressive nation state cyber activity in the past year partly driven by the Russia-Ukraine war and attacks on Ukraine's critical infrastructure. Attacks by cyber-criminals seeking financial gain are also growing in volume and sophistication. We believe that the cybersecurity market will continue to grow in response to the nation state threat landscape and the vulnerabilities inherent in critical infrastructure.

***Consistent Need for Actionable Intelligence to Support U.S. Priorities*** is driving a shifting threat landscape that necessitates a greater need for collaboration and cooperation between intelligence agencies. There is a new demand for joint all-domain command and control systems that are optimized to function cohesively across a spectrum of domains. This in turn drives a need for sophisticated data analytics to aggregate data into useful formats in real-time. To respond, we believe the United States intelligence community and Department of Defense will need continued focus on information sharing and collaboration for improved intelligence accuracy and timeliness encompassing multiple forms of intelligence collection.

***Global Infrastructure Needs Significant Replacements and Technology-Driven Upgrades.*** Aging physical infrastructure is strained by the swift pace of technological change combined with heightened new expectations for sustainability and environmental impact. Furthermore, modernized infrastructure is important to recover from unexpected disasters caused by climate change. The \$1.2 trillion United States Infrastructure Investment and Jobs Act (IIJA) has increased funding for roads and highways, bridges, rail and transit, and aviation. Additionally, global infrastructure is aging and there is demand in other regions, including Canada and the Middle East. In particular, the Saudi Vision 2030 focus is driving major industrial city and urban development projects. Critical infrastructure, specifically transportation infrastructure that is essential to national economic and security concerns including airports, bridges, and rail and transit systems, is particularly vulnerable. We believe that a focus on safety, sustainability and environmental impacts will continue to drive replacement of aging infrastructure with newer, smarter and more sustainable infrastructure with an increased focus on connectivity.

***Urbanization Creates Demand for Smart Cities with Connected Populations.*** Cities around the globe increasingly demand new more sustainable capabilities, such as sensor networks and communication strategies to connect streetlights, security cameras and emergency systems, to provide important real-time information and better serve their citizens and reduce carbon emissions. Integrated corridor management solutions, intelligent transportation systems, advanced rail systems and updated telecommunication networks will keep cities around the world functioning as smart and sustainable cities and serve as engines for economic growth.

### ***Transformation of Legacy Service Delivery Models through Technology and Digital Transformation.***

Historical capital project management is changing with the introduction of cloud-connected computer-aided design, automation, big data, machine learning and other technologies. The introduction of these new technologies allows industry participants to reimagine existing value chains, address integrated lifecycle objectives, assure human rights are observed in their supply chains, provide environmentally sensitive and sustainable solutions, boost productivity and streamline project management. Industry participants that have the capability to embrace these new technologies to enhance their capability and service offering to higher value solutions will be well positioned to assist governments and communities in their transformation.

Change equals opportunity, and Parsons is well-positioned to serve a large array of diverse global customers. Across a broad set of industries, we provide smart and agile solutions that create the future for our national security and critical infrastructure customers as they adapt to the rapid changes of a more interconnected and technology-driven world.

## **Our Competitive Strengths**

### ***Proven Track Record***

Our proven track record is a result of our strong performance, the dedication of our employees and our longstanding customer relationships. We focus on being a company that delivers on its promises, holds integrity at the highest level and successfully assists our clients as they execute their most complex missions. Driven by our integrated people, processes and technology approach, we have a reputation for innovation and delivering mission outcomes for our customers' most important endeavors.

Our differentiated business model has driven high win rates with strong book-to-bill, expanded bottom line performance, record backlog levels and low capital requirements. We achieved average award and incentive fees of 91% in fiscal 2022, 93% in fiscal 2021 and 89% in fiscal 2020. Incentive fees are fees earned for achievement of certain performance criteria included in our contracts, such as achievement of target completion dates or target costs, and our incentive fees average is calculated as the actual incentive fees achieved as a percentage of incentive fees expected to be earned in the applicable period. In addition, we achieved a win rate of 48.6% in fiscal 2022, 56% in fiscal 2021 and 46% in fiscal 2020, for new awards that we bid on (including a win rate on re-compete contracts and task orders in the Federal Solutions segment of 89% in fiscal 2022, 97% in fiscal 2021 and 85% in fiscal 2020). In fiscal 2022, our Federal Solutions revenues increased 17.2% and our Critical Infrastructure revenues increased 11.8% year-over-year. As of December 31, 2022, our backlog was \$8.2 billion, down 2.0% from year end fiscal 2021.

### ***Long-Term Customer Relationships***

We maintain long-term relationships with key government and commercial customers, many of which span over 40 years. For example, in the Federal Solutions segment, we have been providing support to the MDA for nearly 40 years with over 1,000 personnel imbedded with the customer. We have provided services to the Department of Energy for over 50 years on a variety of projects, including work on DOE's Loan Guarantee Program that funds renewable and clean energy projects, and have over 20 years of support with the United States Space Force customers. In the Critical Infrastructure segment, we have supported the WMATA for over 50 years and have served as Program Manager for Yanbu Industrial City for nearly 50 years.

These longstanding relationships give us the insight and customer intimacy to align our research and development investments based on customer needs and enable high win rates for prime contract positions on the most technically demanding assignments. We believe that our position as a recognized leader in integrity, innovation, operational efficiency, safety and security, environmental and health, and our ability to deliver exceptional quality has resulted in a high level of re-compete wins and has driven substantial customer loyalty. Market segments including cybersecurity, missile defense, C5ISR, space systems and connected cities require leading-edge technologies and extensive technical know-how, and necessitate consistently exceptional performance, thus further entrenching us with our key customers and driving our long-term relationships.



### ***Technology Innovation***

To solve the world's toughest technical challenges, we are committed to delivering the world's smartest solutions. As innovators, we combine unique technology solutions with deep domain expertise to stay ahead of our competition and our customers' national security and critical infrastructure needs. Leveraging our vast capability portfolio, we have deployed our technology-enabled solutions in over 30 countries with more than 1,800 customers utilizing our solutions across the federal and critical infrastructure markets.

With a rich history and deep domain expertise in market areas such as rail, transit, aviation, environmental remediation, space mission engineering, cyber and C5ISR, we apply advanced solutions that leverage emerging and enabling technologies, such as edge computing, cloud and native platforms, advanced data analytics, cybersecurity, and AI/ML.

Leveraging our agile innovation framework and a cadre of seasoned domain experts, solutions architects, and technologists, we seek out customer challenges and lead with innovative solutions to drive growth. Additionally, through our acquisitions, we continue to enhance our overall capability offerings in innovative ways, providing more robust solutions that meet our customers' most challenging needs.

### ***Environmental Sustainability and Resiliency Excellence***

Delivering a safer, healthier and more connected world means a focus on environmental sustainability, resilience, conservation and lifecycle impacts. For Parsons, sustainability is a core value. We provide services to plan, design and support complex sustainable projects for our customers across the markets we serve, including transportation (aviation, rail and transit, intelligent transportation systems), ports, buildings, environmental remediation, and water/wastewater treatment.

With over 233 sustainability accreditations, we deliver resilient infrastructure, green building and renewable energy programs and projects that utilize best industry practices, as well as utilize leading edge technology and tools to provide environmental remediation. We work with customers to achieve and obtain the highest possible ratings within the LEED, Envision, Estidama, and other ratings worldwide.

We are proud to work with customers, such as the Indiana Finance Authority, on the first bridge and tunnel project to achieve Envision recognition, and we have obtained LEED certifications of transit and aviation facilities with customers in the United States, United Arab Emirates and the Kingdom of Saudi Arabia.

### ***Scalable and Agile Business Offerings***

Our scalable and agile offerings enable us to satisfy robust and evolving customer needs. The demanding environments where we operate are characterized by a need for high-confidence solutions, widespread application needs and mission critical outcomes. We pride ourselves on providing agile technologies through inventive and refined processes that provide quality outcomes to our customers on time sensitive projects. Our domain knowledge of our customers' current and emerging requirements enables us to deliver responsive, high-quality solutions on time. By having the ability to respond to customers' requirements with global deployment capability, we are well positioned to be a single-source contractor for many of our customers' needs.

Our technologies and platforms are designed to be applicable across end user markets and sub-markets. This approach allows for scalable solutions that can be quickly and seamlessly integrated into multiple customer applications, regardless of geography or industry, allowing us to deploy a given service or platform across multiple markets.

### ***World Class Talent***

We believe that our resilience – and that of the communities in which we work – relies on advancing equality in the workplace through a diverse community of innovators and an empowered workforce. We also aim

to be the employer of choice for top talent in every market that we serve by fostering a positive culture for employee engagement; focusing on diversity, equity, and inclusion; emphasizing health and wellbeing for all employees; and encouraging career development at all levels of the organization. Our success is measured by our business performance, by the enthusiasm of our employees, and by our commitment to our employees' growth.

### ***Demonstrated Ability to Identify and Execute Acquisitions to Transform our Business***

Strategic acquisitions that augment our technology offerings and capabilities are a key tenet of our growth strategy. We have completed eight strategic acquisitions since 2017, all within our Federal Solutions business segment, which collectively provided us with a wide variety of complementary technology capabilities, with an aggregate purchase price in excess of \$1.9 billion. This highlights our ability to successfully identify and execute on attractive opportunities to augment our leading technical offerings. These acquisitions include:

- Xator Corporation: Acquired on June 1, 2022 at a purchase price of \$388.3 million. Xator expands Parsons' presence within the U.S. Special Operations Command, the Intelligence Community, Federal Civilian customers, and global critical infrastructure markets, while providing new customer access at the Department of State. Xator also expands Parsons' customer base and brings differentiated technical capabilities in critical infrastructure protection, counter-unmanned aircraft systems (cUAS), intelligence and cyber solutions, biometrics, and global threat assessment and operations, increasing our addressable market in both the Federal Solutions and Critical Infrastructure segments.
- BlackHorse Solutions, Inc.: Acquired July 6, 2021 at a purchase price of \$205.0 million. Black Horse expands Parsons' capabilities and products in next-generation military, intelligence, and space operations, specifically in cyber, electronic warfare, and information dominance. Black Horse's technology is shaping the future of information dominance and converged military operations by unifying cyber, electromagnetic warfare, and information operations for the Department of Defense and Intelligence Community customers. The company also provides autonomous and distributed detection, identification, exploitation and the defeat of today's most complex communications.
- Echo Ridge LLC: Acquired on July 30, 2021 at a purchase price of \$9 million. Echo Ridge adds position, navigation, and timing devices; modeling simulation, test and measurement tools; and deployable software defined radio products and signal processing services to Parsons' space portfolio.
- Braxton Science and Technology Group, LLC: Acquired in November 2020 at a purchase price of \$310.9 million (\$267 million less the tax asset), Braxton operates at the forefront of satellite operations, ground automation, flight dynamics, and spacecraft antenna simulation for the U.S. Department of Defense and Intelligence Community. These capabilities position 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.
- QRC® Technologies: Acquired in 2019 at a purchase price of \$214.1 million, QRC® Technologies is a disruptive product company that provides design and development of open-architecture radio-frequency products.
- OGSystems: Acquired in 2019 at a purchase price of \$292.4 million, OGSystems is a disruptive geointelligence solutions and immersive engineering provider that creates technology solutions for the United States intelligence community and the U.S. Department of Defense. OGSystems' VIPER Labs and Immersive Engineering techniques serve as the catalysts for deployment of geospatial systems and software, embedded system threat analytics and cloud engineering solutions. OGSystems' advanced hardware solutions include the PeARL family of sensors, combining industry-leading camera and optic lens technologies with our software solutions, yielding very high resolution 2D and 3D aerial imagery.
- Polaris Alpha: Acquired in 2018 at a purchase price of \$489.1 million, Polaris Alpha is an advanced, technology-focused provider of innovative mission solutions for national security, intelligence, defense

and other U.S. federal customers. With leading technologies in artificial intelligence/machine learning, cloud computing, command and control and data analytics, Polaris Alpha has long-term customer relationships and is known as a technology disruptor.

- Williams Electric. Acquired in 2017 for a purchase price of \$26.4 million. Williams Electric provides industrial control system security, including utility monitoring systems and electronic support systems for customers, including the Army Corps of Engineers and the Smithsonian Institute.

We maintain a robust acquisition pipeline and are continually evaluating potential opportunities for disciplined growth by acquisition to further transform our business.

## **Our Strategy for Growth**

Our growth strategy is to create the future of national security and critical infrastructure, while moving up the value chain as a solutions integrator and software provider. The future is full of possibility, and the defense, intelligence, and critical infrastructure markets are where we can collectively shape what tomorrow will look like. Our goal is to help create a safer, healthier, more sustainable, more connected and more secure world.

In a complex security environment with adversaries challenging on every domain and an economy driven by digital transformation, Parsons leverages innovative technologies to deliver integrated solutions at the speed of relevance. Our global integrated solutions span all domains (sea, land, air, space and cyberspace), ensuring information dominance and smart, sustainable infrastructure.

To create the future, we focus on people-first, “get-to-yes” and having top positions in high-growth, sustainable markets. These include hiring, retaining, and developing our employees, continually enhancing and optimizing our core business processes, resourcing and capitalizing on our high-growth markets and acquiring and integrating companies that possess transformative and disruptive technologies.

## **People First**

Driven by our people-first and high-purpose culture, we recognize that our people are key to our success in developing and delivering the technology and solutions to support our customers’ critical missions. Our most important asset is our diverse team of talented employees, over 17,000 as of December 31, 2022, who are committed and passionate experts critical to delivering leading capabilities and whose expertise is sought by our clients for their most sophisticated applications and challenges. Our employees choose Parsons and stay with us for the opportunity to collaborate with our customers, deploy our expansive technical resources, rapidly bring bold ideas to market and work on leading solutions to enable a better world. Our management team has extensive experience executing strategies for delivering profitable growth and is recognized for operational excellence and leadership integrity. They possess diverse leadership capabilities in the markets we serve and the solutions and technology we deliver. Most importantly, we strive to give our employees and managers the best possible employee experience throughout their careers with Parsons.

We are committed to attracting, retaining, and developing a diverse and inclusive workforce by having a:

- Culture of employee engagement at all organizational levels
- Work environment that promotes training, mentoring, and career development planning
- Differentiated benefits, including flexible work hours, remote work options, and an employee stock ownership plan
- Dual technical career path that leads to positions as Chief Technology Officer and/or Technical Fellow
- Diversity, Equity and Inclusion (DEI) program

- “Parsons Gives Back” program to support our communities and promote volunteering
- Hiring strategy outside of high-employment zones
- Robust university relations and intern program to help shape the next generation of leaders and promote diversity
- Internal mobility program that supports employee growth, career development and retention

### **“Get to Yes”**

By “getting to yes”, we enable the delivery of agile, innovative, and transformative solutions to our customers. We seek to enhance and optimize our core business and improve our financial performance, including revenue growth, margin expansion and positive cash flow, using the following strategies:

- Developing a company-wide agile framework to enable responsive solutions delivery
- Promoting collaboration and cross-company sharing to drive informed, timely decision making
- Aligning goals through shared one-company objectives
- Leveraging digital transformation to improve our internal processes and deliver an improved customer experience
- Cross-selling new solutions to our existing customers and existing solutions to new customers.
- Promoting a culture that enables employees to drive technology and business model innovation
- Streamlining operations and processes to optimize performance delivery and reduce overhead expenditures
- Rigorously managing our working capital to maximize cash flow
- Committing to Environment, Social and Governance (ESG) improvement for both Parsons and our customers

### **Top Positions in High-Growth, Sustainable Markets**

We have a balanced portfolio between national security and critical infrastructure and diverse range of end markets. We recognize the importance of driving business focus and will resource/invest in areas where we believe Parsons can have a top position in markets that are high-growth, profitable, and enduring. These include cybersecurity, C5ISR, space, missile defense, transportation, environmental remediation, and water/wastewater treatment. We utilize the following strategies, among others, towards achieving this goal:

- We continuously evaluate and shape our portfolio to divest, exit and de-emphasize lower-performing businesses and markets.
- We invest in critical, differentiated technology areas, including remote sensing, joint all domain operations, space operations, cybersecurity, data analytics, command and control, environmental remediation and smart mobility.
- We seek continuous expansion in our focused high-growth markets:
  - Cybersecurity – Continue our growth momentum by offering end-to-end solutions, tools, operations and platforms for our U.S. Department of Defense and Intelligence Community customers.
  - Space and Mission Defense- Extend our space situational awareness, small satellite integration and payload, command and control and enterprise ground systems to our current space customers



and to new space and geospatial customers in the government and commercial space markets. Support our customer's integrated air and missile defense strategy and deployment. Provide thought leadership in evolving areas, including hypersonic defense.

- Critical Infrastructure Protection – Provide critical infrastructure protection in sectors where we have installed base, including facilities, health care, transportation and energy. Deliver holistic solutions including electronic security systems, cybersecurity, counter unmanned air systems and biometrics.
- Transportation – Capitalize on the increased funding in the IIJA and increased global transportation and infrastructure spending to further our roads and highways, bridges, rail and transit, and aviation business. Capitalize on broadband and environmental spend in areas where Parsons is differentiated. Leverage technology to drive smart, sustainable infrastructure.
- Environmental remediation – Leverage our specialized skill and experience with respect to remediating mines and oil wells and eliminating emerging contaminants. Apply our design capabilities and innovative technologies to modernize, upgrade and create new water/wastewater treatment systems.
- Urban development – Leverage our program management, urban planning and urban design competencies to develop new industrial cities and mixed-use developments.

## **Mergers and Acquisitions**

We continue to pursue the acquisition and integration of high growth, technology driven companies which meet the following criteria:

- Financial performance goals: >10% top line growth, >10% Adjusted EBITDA margin, and strong cash flow
- Align to our focused markets
- Technology differentiation: fill technology gaps, drive end-to-end solutions, move up the value chain, scale within and across our businesses and add valuable intellectual property rights

Our objective is to continue to transform our business into an integrated, full life-cycle systems integrator that delivers scalable solutions and drives revenue growth, expanded margins, and strong cash flows.

## **Backlog**

We view growth in total backlog as a key measure of our business growth. 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.

Our backlog includes orders under contracts that can extend for several years, and in some cases, contracts that extend for more than 10 to 15 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.

As of December 31, 2022, our total backlog was approximately \$8.2 billion, consisting of \$4.5 billion of funded backlog and \$3.6 billion of unfunded backlog. We expect to recognize \$3.1 billion of our funded backlog as of December 31, 2022 as revenues in the following twelve months. However, our 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.

## **Competition**

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 governmental 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. Our main competitors in Federal Solutions are U.S. federal systems integrators and service providers such as Booz Allen Hamilton, CACI International Inc, Leidos Holdings, Inc., ManTech International Corporation, and Science Applications International Corporation. Our main competitors in Critical Infrastructure include AECOM, Jacobs Solutions Inc., Stantec, Tetra Tech, Inc., and WSP.

## **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. 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.

## **Human Capital Management**

We are committed to enhancing our position as a leading employer in our industry and aim to do this through providing a positive employee experience. Our culture and reputation as a leading provider of technology-driven solutions in the defense, intelligence and critical infrastructure markets enables us to recruit and retain some of the best available talent across the globe.

Our professionals are highly educated, with a wide range of technical acumen and in-depth domain knowledge and expertise. Our employees hold more than 18,000 degrees and professional credentials, including those with registrations and certifications in technical areas like Agile Methodology, Project Management, Engineering, Environmental, Architecture, Technology and Security as of December 31, 2022. Our diverse teams understand our clients and are comprised of technology subject matter experts and professionals with deep knowledge and experience. Approximately 25% of our employees, including 64% of the employees in our Federal Solutions business segment, hold security clearances as of that date. Of those holding such clearances in Federal Solutions, approximately 55% are Sensitive Compartmented Information Level clearances, which often require the completion of a polygraph.

### *Diversity, Equity and Inclusion*

Embracing diversity, equity and inclusion (DEI) in all aspects of our business is fundamental to our corporate culture and vital to our continued growth and success. Our DEI Council is composed of a diverse cross section of employees in the organization, representing different markets, regions, disciplines, and levels. As an employer of choice, we are invested in attracting and developing top talent. To that end, we believe that to make continued progress we must implement effective initiatives built into the employee life cycle. Our DEI initiatives embody the unique qualities of our employees and encourage a workforce comprised of people with diverse backgrounds, beliefs, and experiences. We are proud of our evolving culture to promote diversity, equity and inclusion to foster a sense of belonging.

We believe in doing right by the communities we serve, and we have policies prohibiting discrimination (age, race or ethnicity, gender/gender identity, religion, sexual orientation, or disability), child labor and human trafficking. We believe that Parsons is the place for our diverse employees to make a difference. In 2022, we added a diversity goal to our short-term incentive plan design to drive desired outcomes and higher overall representation for global female representation and US ethnicity representation. In both areas, we have seen an overall increase (1% for female global representation and 3% in US ethnicity representation) since 2021. This improvement was largely attributed to strong hiring in 2022 globally and lower overall attrition.

### *Engagement*

We pulse our workforce annually through an employee engagement survey and the data these surveys provide help us identify areas where our culture is evolving and key strategic areas where we need to continue to focus our energies to improve employee engagement and the employee experience. This data is critical in guiding our cultural journey to become a more dynamic, entrepreneurial, and creative place to work.

This year, we saw some of our highest participation rates among our business groups and functions in years, with an overall response of 48 percent, which is higher than last year's overall rate of 40 percent. We are also pleased that our employee satisfaction statement trended slightly more positive than last year with 74 percent of our employees responding positively (and only 7 percent negatively, with the remainder being neutral). At the highest level, our results describe an organization with a strong performance-driven and team-based culture.

### *Employee Recognition*

As a people first organization, we are dedicated to recognizing employee performance and promoting a culture of recognition. We are immensely proud to maintain a formal employee recognition program that is 100% developed and maintained in-house. We approach company culture this way: recognition is a mindset.

The Distinguished Recognition and Incentive Program, affectionately known as the DRIVE Program, recognizes, rewards, and encourages high-caliber work. The DRIVE program is comprised of nine distinct award levels, each with its own criteria, workflow, and rewards – some monetary and some non-monetary. The program is open to all part- and full-time employees around the globe, and awards can be distributed from supervisor to team or team member, individual contributor to supervisor, and from peer to peer. That flexibility is what we are most proud of—no employee is unable to recognize someone else or be recognized themselves. In 2022, we are pleased that over 2,500 DRIVE awards were conveyed to our employees with monetary awards totaling over \$3.8 million.

### *Mentoring*

The Parsons mentoring program allows employees to cultivate skills, seek guidance and share professional experiences. The program is open to all employees at all levels worldwide and is voluntary. The program launched in 2020 is designed to:

- Increase a sense of connection, engagement and retention of key diverse talent

- Sustain promotion and retention rates of diverse leadership talent
- Expand networks and enhance career development opportunities

In 2022, Parsons recognized a 24% increase over 2021 mentor/mentee pairings. The average number of vice presidents (VPs) and above in the available mentor pool averages 150, which is an increase of 5% over 2021. 67% of available VP mentors currently mentor one or more employees.

### *Career Development*

- **Strategic Leadership Program** – This program is aimed at bringing new and different perspectives to corporate operations and strategic planning efforts, to communicate how the corporation works across the organization and to provide leadership experience and development opportunities for high potential leaders.
- **Lead & Engage Program** – This program is designed to help managers develop the skills and knowledge required to provide the support, guidance, and coaching Parsons' employees need to succeed in a work environment that is increasingly more disruptive, distributed, and diverse. Participants complete a structured curriculum, consisting of a series of learning events, both facilitated and self-study, designed to help managers further their development around a set of critical behaviors necessary to excel in the role as a people manager.
- **Fellows Program**—recognizes our top technical experts and promotes innovation in solving our customers' most difficult technical challenges. It is a collaborative network of over forty selected motivated and passionate subject matter experts working to solve technical challenges through either strategic research and development or through the development of long-term technical policies and best practices. The program defines its success through engagement, mentorship, and retention. Every benefit that collaboration among the Fellows offers is expressed by the idea that the individual is brilliant, but a group of brilliant individuals acting as one can be more powerful and enable Parsons to accomplish even more in our quest to deliver a better world.
- **Technical Career Path**—demonstrates two distinct career progressions for technical employees across our organization: one that follows a management path, the other that can be followed as an individual contributor. The Technical Career Path coupled with an integrated competency model and Workday tools such as the Opportunity Graph are resources designed to improve the quality of manager-employee career discussions and, ultimately, career movement.

### **Employee Stock Ownership Plan**

At December 31, 2022, approximately 6,184 of our employees participated in our Employee Stock Ownership Plan (ESOP). Thus, our employees own approximately 40% of the total outstanding shares in the ESOP. In December 2020, the board of directors approved an amendment to the ESOP to provide greater diversification rights to participants. The amendment provides that, with respect to all diversifications elected or processed after January 1, 2021, the definition of a qualified participant shall mean a participant who has attained the age of 50 and who has completed at least three years of participation in the ESOP and other criteria. Each qualified participant shall generally be permitted to direct the ESOP as to the diversification of 50% of the value of the eligible vested portion of the participant's ESOP account. Further, in January 2021, the board of directors approved an amendment to the ESOP whereby distributions to participants in the Plan were modified as follows: (1) the threshold amount of an ESOP participant's balance to be eligible for a single lump sum distribution was increased from \$20,000 or less to \$500,000 or less; (2) the threshold balance for a participant to be eligible to receive payment in two annual installments was increased from \$40,000 or less to \$750,000 or less; and (3) the threshold balance for a participant to be eligible to receive payment in three annual installments was increased to greater than \$750,000. This change was made to facilitate greater flexibility for certain eligible participants to receive their balances in fewer installments and to accelerate the increase in publicly traded float for the

Company's common stock. In April 2022, the board of directors approved an amendment providing for lump sum distributions to participants and removing the annual installments. Annual diversification elections and five-year vested termination distributions are not impacted by this amendment and will still occur annually and over installments as outlined in the Plan.

### **Employee Stock Purchase Plan**

At the 2020 Annual Meeting of Parsons' Shareholders, the shareholders approved the implementation of the Employee Stock Purchase Plan (ESPP). The ESPP provides an opportunity for eligible employees (as defined in the ESPP) to purchase Parsons' stock. By participating in the ESPP, an eligible employee may purchase Parsons' shares at a 5% discount from the New York Stock Exchange closing price at the end date for each offering period (June 30<sup>th</sup> and December 31<sup>st</sup> of each year). In 2021, the Compensation and Management Development Committee of the Parsons' Board of Directors approved a special three-month offering period for eligible employees of BlackHorse Solutions and its eligible subsidiary companies. During 2022 and 2021, our employees purchased approximately 131,000 and 161,000 shares, respectively, of Parsons' stock.

### **Stock Repurchase Plan**

On August 9, 2021, the board of directors authorized Parsons Corporation to acquire a number of shares of common stock having an aggregate market value of not greater than \$100,000,000 from time to time, commencing on August 12, 2021. The Board authorized management to execute any agreements providing for the repurchase of the Company's stock, subject to such conditions, on behalf of the company in such lots, blocks or other amounts, from such persons or entities, from such sources, on the open market, in privately negotiated transactions, or otherwise, on such terms and conditions, from time to time, in accordance with applicable federal and state regulations. As of December 31, 2022, the company had repurchased 1,193,466 shares of common stock at an average price per share of \$36.62 (including commissions calculated at the average price per share) for a total amount of \$43.7 million.

### **Intellectual Property**

Our intellectual property portfolio consists of issued and pending patents as well as trademarks for many of our technologies. In addition, we maintain a number of trade secrets that we endeavor to protect to ensure their continuing availability to us. Our technical expertise is vital to our growth strategy, and we believe they are a core competitive advantage. We have 37 registered patents and 15 pending patents in the United States and 4 pending patents internationally. We have 80 trademarks and 6 pending trademark applications in the United States, and 114 trademarks and 18 pending trademark applications internationally. We also currently offer 25 products for sale to our global customers.

We rely upon a combination of nondisclosure agreements and other contractual arrangements, as well as copyright, trademark, patent, and trade secret laws to protect our proprietary information. We also enter into proprietary information and intellectual property agreements with employees, which require them to disclose any inventions created during employment, to convey such rights to inventions to us and to restrict any disclosure of proprietary information. While protecting trade secrets and proprietary information is important, we are not materially dependent on maintenance of any specific trade secret or group of trade secrets.

During the normal course of business, we perform research and development and technology consulting services and related products in support of our customers. Typically, these services do not depend on patent protection. In accordance with applicable law, our government contracts often provide government agencies certain data rights to our intellectual property. Government agencies may in turn provide to other contractors (including our competitors) the right to utilize our intellectual property. In addition, in the case of our work as a subcontractor, our prime contractor may also have certain rights to data, information and products we develop under the subcontract. At the same time, our government contracts often provide to us the right to utilize intellectual property owned by third parties.



## Regulation

Our business is impacted by government procurement, anti-bribery, international trade, environmental, health and safety and other regulations and requirements. Below is a summary of some of the significant regulations that impact our business.

*Government Procurement.* The services we provide to the U.S. Government are subject to Federal Acquisition Regulation, or FAR, Defense Federal Acquisition Regulation, or DFARS, the Truthful Cost and Pricing Data Act, Cost Accounting Standards, or CAS, the Services Contract Act, the False Claims Act, export controls rules and U.S. Department of Defense security regulations, as well as government agency policies and many other laws and regulations. These laws and regulations affect how we transact business with our clients and, in some instances, impose additional costs on our business operations. A violation of specific laws and regulations could lead to fines, contract termination or suspension of future contracts. Generally, our government clients can also terminate, renegotiate, or modify any of their contracts with us at their convenience, and many of our government contracts are subject to renewal or extension annually.

In 2019, the U.S. Department of Defense announced the development of Cybersecurity Maturity Model Certification (“CMMC”) as a framework to assess and enhance the cybersecurity posture of the Defense Industrial Base (“DIB”), particularly as it relates to controlled unclassified information within the supply chain. CMMC is designed to ensure that contractors providing services to the U.S. Department of Defense have implemented cybersecurity controls and processes to adequately protect information that resides on DIB systems and networks. The U.S. Department of Defense issued an interim rule on September 29, 2020 to amend the Defense Federal Acquisition Regulation Supplement (DFARS) to include one new provision and two new contract clauses. In March 2021, the Department conducted an assessment of the program and published “CMMC 2.0” based upon its findings. CMMC 2.0 simplified the previous program structure and allowed self-assessment of compliance in certain cases. Self-assessments generally would be allowed if the organization does not handle critical national security information. All offerors that handle such information are expected to undergo appropriate third-party CMMC assessment and achieve certification of Level 2 or 3 at the time of contract award. Parsons is currently DFARS/NIST 800-17 compliant with an associated Supplier Performance Risk System score reported and is working toward CMMC Level 2 certification in 2023.

*Anti-Bribery and other regulations.* We are subject to the U.S. Foreign Corrupt Practices Act and similar anti-bribery laws, which generally prohibit companies and their intermediaries from making improper payments to foreign government officials for the purpose of obtaining or retaining business. The U.K. Bribery Act of 2010 prohibits both domestic and international bribery, as well as bribery across both private and public sectors. In addition, an organization that “fails to prevent bribery” committed by anyone associated with the organization can be charged under the U.K. Bribery Act unless the organization can establish the defense of having implemented “adequate procedures” to prevent bribery.

*International Trade.* We are subject to U.S. export control laws and regulations, including the International Traffic in Arms Regulations, or ITAR, and the Export Administration Regulations, or EAR, as well as U.S. economic and trade sanctions, including those administered and enforced by the U.S. Department of Treasury’s Office of Foreign Assets Control, or OFAC. To the extent we export items and provide services outside of the United States (or to certain parties in the United States), we must do so in compliance with these laws and regulations. These laws and regulations impose export licensing requirements, and we may not be successful in obtaining necessary licenses and other authorizations. Further, these laws and regulations restrict our ability to export items or provide services to certain countries and certain persons, including those that are the target of OFAC sanctions. Noncompliance with these or similar laws could lead to government investigations, penalties, reputational harm, and other negative consequences, and thereby could adversely affect our business and financial condition. Further, any change in these laws and regulations, or any shift in the approach to their enforcement or scope, or change to the countries, persons, or items targeted by such regulations, could potentially result in our decreased ability to export or sell items or services to existing or potential customers.

*Environmental, Health and Safety.* We are subject to federal, state and local laws and regulations relating to environmental, health and safety matters, including, among other things, the handling, transport and disposal of regulated substances and wastes, including hazardous and radioactive materials; contamination by regulated substances and wastes; the types, quantities and concentration of materials that can be released into the environment; the acquisition of a permit or other approval before conducting regulated activities; the maintenance of information about hazardous materials used or produced in operations and provision of such information to employees, state and local government authorities and the public; and employee health and safety. Our previous ownership and current and previous operation of real property may subject us to liability pursuant to these laws or regulations. Under the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, and related state laws, certain persons may be liable at sites where or from a release or threatened release of hazardous substances has occurred or is threatened. These persons can include the current owner or operator of property where a release or threatened release occurred, any persons who owned or operated the property when the release occurred, and any persons who disposed of, or arranged for the transportation or disposal of, hazardous substances at a contaminated property. Liability under CERCLA is strict, retroactive and, under certain circumstances, joint and several, so that any responsible party may be held liable for the entire cost of investigating and remediating the release of hazardous substances. The Resource Conservation and Recovery Act, or RCRA, regulates the generation, treatment, storage, handling, transportation and disposal of solid waste and requires states to develop programs to ensure the safe disposal of solid waste. Under RCRA, persons may be liable at sites where the past or present storage, handling, treatment, transportation, or disposal of any solid or hazardous waste may present an imminent and substantial endangerment to health or the environment. These persons can include the current owner or operator of property where disposal occurred, any persons who owned or operated the property when the disposal occurred, and any persons who disposed of, or arranged for the transportation or disposal of, hazardous substances at a contaminated property. Liability under RCRA is strict and, under certain circumstances, joint and several, so that any responsible party may be held liable for the entire cost of investigating and remediating the release of hazardous substances. Violations and liabilities with respect to environmental, health and safety laws and regulations could result in significant administrative, civil, or criminal penalties, remedial clean-ups, natural resource damages, permit modifications or revocations, operational interruptions or shutdowns and other liabilities. Additionally, Congress, state legislatures, local governing bodies and federal and state agencies frequently revise environmental laws and regulations, and any changes could result in more stringent or costly requirements for our operations. Our costs related to complying with environmental, health and safety laws and regulations have not been material in the past and are not currently material to our total operating costs or cash flows. However, if we have any violations of, or incur liabilities pursuant to these laws or regulations in the future, our financial condition and operating results could be adversely affected. In addition, in the unlikely event that we are required to fund remediation of a contaminated site, the statutory framework might allow us to pursue rights of contribution from other potentially responsible parties.

We maintain a compliance program designed to ensure compliance with the various regulations and requirements applicable to us. The compliance program, managed by our Chief Ethics and Compliance Counsel and overseen by our Chief Compliance Officer, includes an annual audit of performance with respect to our codes of ethics and business conduct and the adequacy of our compliance program, among other initiatives.

## **Executive Officers**

*Carey A. Smith* was appointed Chairwoman of the Board of Directors on January 18, 2022, effective April 14, 2022. She became the President and Chief Executive Officer on July 1, 2021 and was appointed to the board of directors in December 2020. She was initially appointed as President and Chief Operating Officer in November 2019, Chief Operating Officer in November 2018 and led Parsons' Federal Solutions business from November 2016. Before joining Parsons, Ms. Smith served in progressive leadership roles at Honeywell International Inc. ("Honeywell") from 2011 to 2016, including President of the Defense and Space business unit. In total, Ms. Smith has 36 years of industry experience spanning the defense, intelligence and infrastructure markets. Ms. Smith serves on the Edison International board of directors, including on the Nominating and

Governance and Safety and Operations Committees. She serves on two non-profit company boards, as the Chairwoman of the Professional Services Council and INSA (Intelligence and National Security Alliance) working with government, industry and academia to promote national security, and she is a National Association of Corporate Directors (NACD) Directorship (NCADD.DC) and Cyber Certified. Ms. Smith received an honorary doctorate degree from Ohio Northern University, a Master of Science degree in electrical engineering from Syracuse University and a bachelor-of-science in electrical engineering from Ohio Northern University. Ms. Smith was selected to serve on our board of directors because of the perspective and experience that she brings as our CEO and due to her significant industry and operations experience.

*Matthew Ofilos* was appointed Chief Financial Officer of Parsons Corporation effective July 25, 2022. Mr. Ofilos previously served as the Parsons' executive vice president of finance and brings more than twenty years of finance experience and a proven track record of delivering profitable growth and building high-performance finance teams to the role. As executive vice-president, Mr. Ofilos led the company's financial operations, including project controls, financial planning, accounting, treasury, and financial systems. Prior to joining Parsons in 2021, he led multi-billion-dollar finance organizations, including those for Amazon Web Services (AWS) Worldwide Public Sector and Strategic Industry businesses. Prior to AWS, he held roles of increasing responsibility at Raytheon, concluding his tenure as CFO for the Space and Command & Control businesses for the Intelligence, Information and Services segment. Mr. Ofilos holds a Master of Business Administration from Boston University and a Bachelor of Science from Babson College.

*Michael R. Kolloway* was appointed General Counsel and Corporate Secretary of Parsons Corporation in October 2017 and later became our Chief Legal Officer in January 2019. Before assuming the role of General Counsel and Corporate Secretary, Mr. Kolloway served as Deputy General Counsel – Americas from March 2016 through October 2017. Before joining Parsons, Mr. Kolloway served as Senior Vice President and Assistant General Counsel for Operations and Risk Management at AECOM Technology Corporation, a publicly traded company. Prior to his tenure at AECOM, Mr. Kolloway was a partner in the Chicago law firm of Rock, Fusco & Garvey, Ltd and a member of the Federal Trial Bar for the Northern District of Illinois. Mr. Kolloway received his Bachelor of Arts degree from St. Norbert College, his Juris Doctor from the University of Illinois College of Law and completed the General Counsel Program at the Harvard University School of Law. Mr. Kolloway served on the Board of Directors for MUSE/IQUE based in Pasadena, California. He is a member of the Association of Corporate Counsel and the In-House Mentorship Committee for the Charlotte Chapter.

*Susan Balaguer* was appointed as Chief Human Resources Officer of Parsons Corporation effective July 16, 2021. Ms. Balaguer is responsible for all aspects of the human resources function, including benefits, recruitment, retention, and the employee lifecycle and employee experience for the company. Ms. Balaguer has over thirty years of extensive experience in global human resources for public and private companies, and over twelve years of experience with public and private mergers and acquisitions, private equity, and large-scale business integrations. Before joining Parsons in 2021, she served as the Chief Human Resources Officer at Serco North America and Engility. She also previously served as the senior vice president of HR operations at CACI and, for over twenty years, she held progressive HR leadership positions at Raytheon. Ms. Balaguer is an executive sponsor for the Diversity, Equity and Inclusion Council and sits on the Mid Atlantic Organizational Development Executive Roundtable.

*Charles L. Harrington* retired as our Executive Chairman effective April 14, 2022.

*George L. Ball* retired as our Chief Financial Officer effective September 30, 2022. He was appointed as a member of the Parsons Corporation Board of Directors effective July 25, 2022.

#### **Available Information**

We file annual, quarterly, and current reports and other information with the Securities and Exchange Commission (SEC). The SEC maintains a website ([www.sec.gov](http://www.sec.gov)) that contains reports, proxy and information

statements, and other information regarding registrants that file electronically with the SEC, including us. You may also access, free of charge, our reports filed with the SEC (for example, our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, and our Current Reports on Form 8-K and any amendments to those forms) through the “Investors” portion of our website (www.parsons.com). Reports filed with or furnished to the SEC will be available as soon as reasonably practicable after they are filed with or furnished to the SEC. Our website is included in this Annual Report as an inactive textual reference only. The information found on our website is not part of this or any other report filed with or furnished to the SEC.

## **Item 1A. Risk Factors.**

*You should carefully consider the risks described below and the other information contained in this Annual Report, including our consolidated financial statements and the related notes, before making an investment decision. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks or uncertainties. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.*

### **Risk Factors Summary**

The following is a summary of the principal risks that could adversely affect our business, operations and financial results.

#### ***Risk Relating to Our Business***

- Government spending and priorities could change in a manner that adversely affects our future revenue and limits our growth prospects.
- The U.S. federal government and its agencies collectively are our largest single customer and, if our reputation or relationships with the U.S. federal government were harmed, our future revenues and cash flows would be adversely affected.
- Our failure to comply with a variety of complex procurement rules and regulations could result in our being liable for penalties, including termination of our government contracts, disqualification from bidding on future government contracts and suspension or debarment from government contracting.
- A substantial portion of our business is subject to reviews, audits and cost adjustments by government agencies, which, if resolved unfavorably to us, could adversely affect our profitability, cash flows or growth prospects.
- Our government contracts may be terminated by the government counterparty at any time and may contain other provisions permitting the government to discontinue contract performance, and if lost contracts are not replaced, our operating results may differ materially and adversely from those anticipated.
- Our revenue and growth prospects may be harmed if we or our employees are unable to obtain government granted eligibility or other qualifications, we and they need to perform services for our customers.
- We may make acquisitions, investments, joint ventures and divestitures in the future that involve numerous risks, which if realized, may adversely affect our business and our future results.
- Our acquisitions may not achieve their full intended benefits or may disrupt our plans and operations.
- We conduct a portion of our work through joint venture entities, some of which we do not have management control over, and with which we typically have joint and several liability with our joint venture partners.

- Our earnings and profitability may vary based on the mix of our contracts and may be adversely affected by our failure to accurately estimate and manage costs, time and resources.
- We use estimates in recognizing revenues and, if we make changes to estimates used in recognizing revenues, our profitability may be adversely affected.
- Systems that we develop, integrate, maintain, or otherwise support could experience security breaches which may damage our reputation with our clients and hinder future contract win rates.
- Services we provide and technologies we develop are designed to detect and monitor threats to our clients, the failure of which may lead to reputational harm or liability against us by our clients or third parties and may subject our staff to potential threats, risk of loss or harm.
- Internal system or service failures affecting us or our vendors, including as a result of cyber or other security threats, could disrupt our business and impair our ability to effectively provide our services to our clients, which could damage our reputation and have a material adverse effect on our business, financial condition and results of operations.
- Our business is subject to numerous legal and regulatory requirements and any violation of these requirements or any misconduct by our employees, subcontractors, agents or business partners could harm our business and reputation.
- Our business is subject the impact of supply chain disruption and inflation risk upon the cost of providing materials and services to customers and upon the profitability for certain contracts.
- Goodwill and intangible assets represent a significant amount of our total assets, and any impairment of these assets would negatively impact our results of operations.
- We depend on our teaming arrangements and relationships with other contractors and subcontractors. If we are not able to maintain these relationships, or if these parties fail to satisfy their obligations to us or the customer, our revenues, profitability and growth prospects could be adversely affected.
- Many of our contracts require innovative design capabilities, are technologically complex or are dependent upon factors not wholly within our control. Failure to meet these obligations could adversely affect our business, financial condition or results of operations.
- Assertions by third parties of infringement, misappropriation or other violations by us of their intellectual property rights could result in significant costs and substantially harm our business, financial condition and operation results.
- We have operations in the Middle East, neighboring regions, and other regions across the globe, and these regions may experience turmoil, political upheaval and similar crises that may impact our current projects, future business and financial stability.
- We may not realize the full value of our backlog, which may result in lower-than-expected revenue.
- Many of our field project sites and facilities are inherently dangerous workplaces. Failure to manage our field project sites and facilities safely could result in environmental disasters, employee deaths or injuries, reduced profitability, the loss of projects or clients and possible exposure to litigation.
- The impact of extreme weather events, including floods, hurricanes, droughts, and wildfires, including as a result of climate change or supply shortages, could have an adverse impact on our business and operations.
- 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 global COVID-19 pandemic and variants thereof. The pandemic 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. While many of these restrictions have been removed or reduced, the spread of new variants or viruses may result in the imposition of additional restrictions. In addition, governments and central banks in several parts of the world have enacted, or may enact in the future, fiscal and monetary stimulus measures to counteract the impacts of any such emergency. The extent to which any emergency may impact our business will depend on future developments, which are highly uncertain and unpredictable, and the resultant 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. Further, the economic impact of such events may cause extreme volatility in financial and other capital markets which may continue to adversely impact our stock price and our ability to access capital markets. Health emergencies may also have the effect of heightening many of the other risks described in this Annual Report on Form 10-K for the year ended December 31, 2022, such as those relating to government spending and priorities.

### ***Risk Related to Our Common Stock***

- Your ability to influence corporate matters may be limited because the ESOP beneficially owns a majority of our stock and therefore our employees, voting the shares allocated to them under the ESOP, or the ESOP Trustee, who will have the right to vote shares for which no voting instructions are provided by employees, could have substantial control over us.
- We are a “controlled company” within the meaning of the New York Stock Exchange listing standards and, as a result, qualify for exemptions from certain corporate governance requirements. You may not have the same protections afforded to stockholders of companies that are subject to such requirements.

### **Risks Related to Government Contracts**

#### ***Government spending and priorities could change in a manner that adversely affects our future revenue and limits our growth prospects.***

We derive, and expect to continue to derive, a significant portion of our revenue from contracts with government entities. As a result, our business depends upon continued government expenditures on defense, intelligence, civil and engineering programs for which we provide support, both among foreign governments and at federal, state and local levels domestically. These expenditures have not remained constant over time and have been reduced in some periods. In particular, these expenditures have recently been affected by efforts to improve efficiency and reduce costs affecting government programs generally. Our business, prospects, financial condition or operating results could be materially harmed, among other causes, by the following:

- budgetary constraints, including mandated automatic spending cuts, affecting across-the-board government spending, or specific agencies in particular, and changes in available funding;
- a shift in expenditures away from agencies or programs that we support;
- reduced government outsourcing of functions that we are currently contracted to provide, including as a result of increased insourcing by various U.S. government agencies due to changes in the definition of “inherently governmental” work, including proposals to limit contractor access to sensitive or classified information and work assignments;
- further efforts to improve efficiency and reduce costs affecting government programs;
- changes or delays in government programs that we support or the programs’ requirements;
- a continuation of recent efforts by the U.S. government in particular to decrease spending for management support service contracts;
- U.S. government shutdowns due to, among other reasons, a failure by elected officials to fund the government, such as the shutdowns which occurred during government fiscal years 2019 and 2014 and, to a lesser extent, government fiscal year 2018, and other potential delays in the appropriations process;

- U.S. government agencies awarding contracts on a technically acceptable/lowest cost basis in order to reduce expenditures;
- delays in the payment of our invoices by government payment offices;
- results of elections, including politicians who may have priorities that would reduce spending in areas in which we operate;
- an inability by the U.S. government to fund its operations as a result of a failure to increase the federal government's debt ceiling, a credit downgrade of U.S. government obligations or for any other reason; and
- changes in the political climate and general economic conditions, including a slowdown of the economy or unstable economic conditions and responses to conditions, such as emergency spending, that reduce funds available for other government priorities.

Any disruption in the functioning of government agencies, including as a result of government closures and shutdowns, terrorism, war, natural disasters, destruction of government facilities, and other potential calamities 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 client locations or facilities as a result of such disruptions.

In particular, with regard to our largest single customer, the U.S. federal government, budget deficits, the national debt and the prevailing economic condition, and actions taken to address them, could continue to negatively affect the U.S. government expenditures on defense, intelligence and civil programs for which we provide support. The U.S. Department of Defense is one of our significant clients and cost cutting, including through consolidation and elimination of duplicative organizations and insourcing, has become a major initiative for the U.S. Department of Defense. There remains uncertainty as to how exactly budget cuts, including sequestration, will impact us, and we are therefore unable to predict the extent of the impact of such cuts on our business and results of operations. However, a reduction in the amount of or delays or cancellations of funding for, services that we are contracted to provide to the U.S. Department of Defense as a result of any of these initiatives, legislation or otherwise could have a material adverse effect on our business, financial condition and results of operations. In addition, in response to an Office of Management and Budget mandate, government agencies have reduced management support services spending in recent years. If federal awards for management support services continue to decline, our revenue and operating profits may materially decline and further efforts by the Office of Management and Budget to decrease federal awards for management support services could have a material and adverse effect on our business, financial condition and results of operations.

In addition, most government contracts are subject to the government's budgetary approval process. Legislatures typically appropriate funds for a given program on a year-by-year basis, even though contract performance may take more than one year. In addition, public-supported financing such as state and local municipal bonds may be only partially raised to support existing infrastructure projects. As a result, at the beginning of a program, the related contract is only partially funded, and additional funding is normally committed only as appropriations are made in each fiscal year. These appropriations, and the timing of payment of appropriated amounts, may be influenced by, among other things, the state of the economy, competing priorities for appropriation, changes in administration or control of legislatures and the timing and amount of tax receipts and the overall level of government expenditures. Similarly, the impact of an economic downturn on state and local governments may make it more difficult for them to fund infrastructure projects. If appropriations are not made in subsequent years on our government contracts, then we will not realize all of our potential revenue and profit from that contract, and we may incur substantial labor costs without reimbursement.

Government funding with respect to our Critical Infrastructure services fluctuates over time and new or changing government policies may affect our Critical Infrastructure business and operations. Government spending for our Critical Infrastructure services may also depend on factors related to government demand, such as the condition of the existing infrastructure and buildings and the need for new or expanded infrastructure and

buildings. Our government clients may face budget cuts or deficits that prohibit them from funding proposed and existing Critical Infrastructure projects.

These or other factors could cause our defense, intelligence, infrastructure or civil clients to decrease the number of new government contracts awarded generally and fail to award us new government contracts, reduce their purchases under our existing government contracts, exercise their right to terminate our government contracts or not exercise options to renew our government contracts, any of which could materially and adversely affect our business, financial condition and results of operations.

***The U.S. federal government and its agencies collectively are our largest single customer and, if our reputation or relationships with the U.S. federal government were harmed, our future revenues and cash flows would be adversely affected.***

The U.S. federal government and its agencies, including the military and intelligence community, collectively are our largest customer. In particular, it represents substantially all of the revenue of our Federal Solutions segment. Approximately 17% of accounts receivable as of December 31, 2022 and December 31, 2021 were derived from contracts with the U.S. federal government and its agencies. Our reputation and relationships with various U.S. government entities and agencies, and in particular with the U.S. Department of Defense, including the Missile Defense Agency and the United States Army, the Federal Aviation Administration, the United States intelligence community and the U.S. Department of Energy are key factors in maintaining and growing these revenues and winning new bids for new business. Negative press reports or publicity, regardless of accuracy, could harm our reputation. If our reputation or relationships with government agencies were to be negatively affected, or if we are suspended or debarred from contracting with government agencies for any reason, the amount of business with government and other customers would decrease and our financial condition and results of operations could be adversely affected.

***Our failure to comply with a variety of complex procurement rules and regulations could result in our being liable for penalties, including termination of our government contracts, disqualification from bidding on future government contracts and suspension or debarment from government contracting.***

We must comply with various laws and regulations relating to the formation, administration and performance of government contracts, which affect how we do business with our customers and may impose added costs on our business.

Many of our U.S. government contracts contain organizational conflict of interest, or OCI, clauses that may limit our ability to compete for or perform contracts or other types of services for particular customers. OCI arises when we engage in activities that may make us unable to render impartial assistance or advice to the U.S. government, impair our objectivity in performing contract work or provide us with an unfair competitive advantage. Existing OCI, and any OCI that may develop, could preclude our competition for or performance on a significant project or contract, which could limit our opportunities.

Some U.S. federal and state statutes and regulations provide for automatic debarment based on our actions, such as violations of the U.S. False Claims Act or the U.S. Foreign Corrupt Practices Act, or FCPA. The suspension or debarment in any particular case may be limited to the facility, contract or subsidiary involved in the violation or could be applied to our entire enterprise in severe circumstances. Even a narrow scope suspension or debarment could result in negative publicity that could adversely affect our ability to renew contracts and to secure new contracts, both with governments and private customers, which could materially and adversely affect our business, financial condition and results of operations.

***Governments may adopt new contract rules and regulations or revise their procurement practices in a manner adverse to us at any time.***

The government-related industries within which we do business continue to experience significant changes to business practices as a result of an increased focus on affordability, efficiencies and recovery of costs, among other items. Our existing and potential clients are similarly focused on increasing the productivity of their contractual arrangements. Moreover, government agencies may face restrictions or pressure regarding the type and amount of services that they may obtain from private contractors. Legislation, regulations and initiatives dealing with procurement reform, mitigation of potential OCIs, deterrence of fraud, and environmental responsibility or sustainability could have an adverse effect on us. Moreover, shifts in the buying practices of government agencies, such as increased usage of fixed price contracts, multiple award contracts and small business set-aside contracts, could have adverse effects on government contractors, including us. Any of these changes could impair our ability to obtain new contracts or contract renewals. Any new contracting requirements or procurement methods could be costly or administratively difficult for us to implement and could adversely affect our business, financial condition and results of operations.

***A substantial portion of our business is subject to reviews, audits and cost adjustments by government agencies, which, if resolved unfavorably to us, could adversely affect our profitability, cash flows or growth prospects.***

Government agencies routinely audit and review a contractor's performance on government contracts, indirect cost rates and pricing practices, and compliance with applicable contracting and procurement laws, regulations and standards. They also review the adequacy of the contractor's compliance with government standards for its business systems, which are defined as the contractor's accounting, earned value management, estimating, materials management, property management and purchasing systems. A finding of significant control deficiencies in a contractor's business systems or a finding of noncompliance with U.S. government Cost Accounting Standards, or CAS, can result in decremented billing rates to U.S. government customers until the control deficiencies are corrected and their remediation is accepted by the Defense Contract Management Agency. The agencies conducting these audits and reviews have come under increased scrutiny. As a result, audits and reviews have become more rigorous and the standards to which we are held are being more strictly interpreted which has increased the likelihood of an audit or review resulting in an adverse outcome.

If a review or investigation by a government agency identifies improper or illegal activities, we may be subject to civil or criminal penalties or administrative sanctions which could include the termination of contracts, forfeiture of profits, the triggering of price reduction clauses, suspension of payments, fines, and suspension or debarment from doing business with governmental agencies. We may suffer harm to our reputation if allegations of impropriety are made against us, which would impair our ability to win new contract awards or receive contract renewals. Penalties and sanctions are not uncommon in our industries. If we incur a material penalty or administrative sanction or otherwise suffer harm to our reputation, our profitability, cash position and future prospects could be adversely affected.

Government audits and reviews may conclude that our practices are not consistent with applicable laws and regulations and result in adjustments to contract costs and mandatory customer refunds. Such adjustments can be applied retroactively, which could result in significant customer refunds, and those refunds would negatively impact our revenue. Receipt of adverse audit findings or the failure to obtain an "approved" determination on our various business systems could significantly and adversely affect our business by, among other things, restricting our ability to bid on new contracts and, for those proposals under evaluation, diminishing our competitive position. A determination of noncompliance could also result in penalties and sanctions against us, including withholding of payments, suspension of payments and increased government scrutiny. Increased scrutiny could adversely impact our ability to perform on contracts, affect our ability to invoice for work performed, delay the receipt of timely payment on contracts, and weaken our ability to compete for new contracts with the government.

***Our government contracts may be terminated by the government counterparty at any time and may contain other provisions permitting the government to discontinue contract performance, and if lost contracts are not replaced, our operating results may differ materially and adversely from those anticipated.***

Government contracts often contain provisions and are subject to laws and regulations that provide government clients with rights and remedies not typically found in commercial contracts. These rights and remedies allow government clients, among other things, to:

- terminate existing contracts, with short notice, for convenience as well as for default;
- reduce orders under or otherwise modify contracts;
- for contracts subject to the Truthful Cost and Pricing Data Act, reduce the contract price or cost where it was increased because a contractor or subcontractor furnished cost or pricing data during negotiations that was not complete, accurate and current;
- for some contracts, (1) demand a refund, make a forward price adjustment or terminate a contract for default if a contractor provided inaccurate or incomplete data during the contract negotiation process and (2) reduce the contract price under triggering circumstances, including the revision of price lists or other documents upon which the contract award was predicated;
- terminate our facility security clearances and thereby prevent us from receiving classified contracts and complete work on existing contracts;
- cancel multi-year contracts and related task orders if funds for contract performance for any subsequent year become unavailable;
- decline to exercise an option to renew a multi-year contract or issue task orders in connection with indefinite delivery/indefinite quantity contracts, or IDIQ contracts;
- claim rights in solutions, systems and technology produced by us, appropriate such work-product for their continued use without continuing to contract for our services and disclose such work-product to third parties, including other government agencies and our competitors, which could harm our competitive position;
- prohibit future procurement awards with a particular agency due to a finding of organizational conflicts of interest based upon prior related work performed for the agency that would give a contractor an unfair advantage over competing contractors, or the existence of conflicting roles that might bias a contractor's judgment;
- subject the award of contracts to protest by competitors, which may require the contracting federal agency or department to suspend our performance pending the outcome of the protest and may also result in a requirement to resubmit offers for the contract or in the termination, reduction or modification of the awarded contract;
- suspend or debar us from doing business with the applicable government; and
- control or prohibit the export of our services.

Recent and potential future budget cuts, the impact of sequestration and recent efforts by the Office of Management and Budget to decrease federal awards for management support services, may cause agencies with which we currently have contracts to terminate, reduce the number of task orders under or fail to renew such contracts. If a government client were to unexpectedly terminate, cancel, or decline to exercise an option to renew with respect to one or more of our significant contracts, or suspend or debar us from doing business with such government, our revenue and operating results would be materially harmed.



***Our revenue and growth prospects may be harmed if we or our employees are unable to obtain government granted eligibility or other qualifications, we and they need to perform services for our customers.***

A number of government programs require contractors to have certain kinds of government granted eligibility, such as security clearance credentials. Depending on the project, eligibility can be difficult and time-consuming to obtain. If we or our employees are unable to obtain or retain the necessary eligibility, including local ownership requirements, we may not be able to win new business, and our existing customers could terminate their contracts with us or decide not to renew them. To the extent we cannot obtain or maintain the required security clearances for our employees working on a particular contract, we may not derive the revenue or profit anticipated from such contract.

### **Risks Related to Our Operations and Markets**

***Our profitability could suffer if we are not able to timely and effectively utilize our employees or manage our cost structure.***

The cost of providing our services, including the degree to which our employees are utilized, affects our profitability. The degree to which we are able to utilize our employees in a timely manner or at all is affected by a number of factors, including:

- our ability to transition employees from completed projects to new assignments and to hire, assimilate and deploy new employees;
- our ability to forecast demand for our services and to maintain and deploy headcount that is aligned with demand, including employees with the right mix of skills and experience to support our projects;
- our employees' ability to obtain or retain necessary security clearances or required certifications;
- changes to or delays or cancellations of projects, as a result of governmental budgetary processes or otherwise;
- our ability to manage attrition;
- the impact of inflation upon the cost of services and materials provided to customers; and
- our need to devote time and resources to training, business development, and other non-chargeable activities.

If our employees are under-utilized, our profit margin and profitability could suffer. Additionally, if our employees are over-utilized, it could have a material adverse effect on employee morale and attrition, which would in turn have a material adverse impact on our business, financial condition or results of operations.

Our profitability is also affected by the extent to which we are able to effectively manage our overall cost structure for operating expenses, such as wages and benefits, real estate expenses, overhead and capital and other investment-related expenditures. If we are unable to effectively manage our costs and expenses and achieve efficiencies, our competitiveness and profitability may be adversely affected.

***Our focus on new growth areas for our business entails risks, including those associated with new relationships, clients, talent needs, capabilities, service offerings and maintaining our collaborative culture and core values.***

We are focused on growing our presence in our addressable markets by enhancing and optimizing our core operations, extending into opportunity-rich adjacent markets and acquiring and integrating transformative, disruptive technologies. These efforts entail inherent risks associated with innovation and competition from other participants in those areas, potential failure to help our clients respond to the challenges they face, our ability to

comply with uncertain evolving legal standards applicable to some of our service offerings, including those in the cybersecurity area, and, with respect to potential international growth, risks associated with operating in foreign jurisdictions, such as compliance with applicable foreign and U.S. laws and regulations that may impose different and, occasionally, conflicting or contradictory requirements, and the economic, legal, and political conditions in the foreign jurisdictions in which we operate, as described in additional detail below. As we attempt to develop new relationships, clients, capabilities, and service offerings, these efforts could harm our results of operations due to, among other things, a diversion of our focus and resources and actual costs, opportunity costs of pursuing these opportunities in lieu of others and a failure to reach a profitable return on our investments in new technologies, capabilities, and businesses, including expenses on research and development investments, and these efforts could ultimately be unsuccessful. Additionally, the possibility exists that our competitors might develop new capabilities or service offerings that might cause our existing capabilities and service offerings to become obsolete. If we fail in our new capabilities development efforts or our capabilities or services fail to achieve market acceptance more rapidly than our competitors, our ability to procure new contracts could be negatively impacted, which would negatively impact our results of operations and our financial condition.

In addition, our ability to grow our business by leveraging our operating model to deploy our people efficiently and effectively across our client base is largely dependent on our ability to maintain our collaborative culture. To the extent that we are unable to maintain our culture for any reason, including our effort to focus on new growth areas or acquire new businesses with different corporate cultures, we may be unable to grow our business. Any such failure could have a material adverse effect on our business, financial condition and results of operations.

With the growth of our U.S. and international operations, we are now providing client services and undertaking business development efforts in numerous and disparate geographic locations both domestically and internationally. Our ability to effectively serve our clients is dependent upon our ability to successfully leverage our operating model across all of these and any future locations, maintain effective management controls over all of our locations to ensure, among other things, compliance with applicable laws, rules and regulations, and instill our core values in all of our personnel at each of these and any future locations. Any inability to ensure any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

***We have submitted claims to clients for work we performed beyond the initial scope of some of our contracts. If these clients do not approve these claims, our results of operations could be adversely impacted.***

We typically have pending claims submitted under some of our contracts for payment of work performed beyond the initial contractual requirements for which we have already recorded revenue. Some of these relate to change orders from the original scope of the contract. Our client may dispute these change orders and claims, and we cannot guarantee that such claims will be approved in whole, in part, or at all. Often, these claims and disputes can be the subject of lengthy arbitration or litigation proceedings, and it is difficult to accurately predict when these claims and disputes will be fully resolved. We may also renegotiate contracts to address these additional costs. When these types of events occur, we have used working capital in projects to cover cost overruns. If our claims are not approved or resolved, our revenue may be reduced in future periods.

***Many of our contracts require innovative design capabilities, are technologically complex or are dependent upon factors not wholly within our control. Failure to meet these obligations could adversely affect our business, financial condition or results of operations.***

We design and develop technologically advanced and innovative products and services applied by our customers in a variety of environments. Problems and delays in development or delivery as a result of issues with respect to design, technology, licensing and patent rights, labor, learning curve assumptions or materials and components could prevent us from achieving contractual requirements. Our offerings cannot be tested and proven in all situations and are otherwise subject to unforeseen problems that could negatively affect revenue and profitability such as problems with governmental inaction, quality and workmanship, delivery of subcontractor

components or services, unplanned degradation of product performance, unavailability of vendor materials and changes in the project scope requested by our clients. Among the factors that may adversely affect our business, financial condition or results of operations could be unforeseen costs and expenses not covered by insurance or indemnification from the customer, diversion of management focus in responding to unforeseen problems, loss of follow-on work, damage to our reputation and repayment to the customer of contract cost and fee payments we previously received.

***We face aggressive competition that can impact our ability to obtain contracts and may affect our future revenues, profitability and growth prospects.***

We expect that a majority of the business that we seek in the foreseeable future will be awarded through a competitive bidding process. For example, the U.S. government increasingly relies on IDIQ, GSA Schedule and other multi-award contracts, which has resulted in greater competition and increased pricing pressure. The competitive bidding process involves substantial costs and a number of risks, including significant cost and managerial time to prepare bids and proposals for contracts that may not be awarded to us, or that may be awarded but for which we do not receive meaningful task orders. For contracts awarded to us, we also face the risk of inaccurately estimating the resources and costs that will be required to fulfill any contract we win. Following contract award, we may encounter significant expense, delay, contract modifications or even contract loss as a result of our competitors protesting the award of contracts to us in competitive bidding. Any resulting loss or delay of startup and funding of work under protested contract awards may adversely affect our revenues and/or profitability. In addition, multi-award contracts require that we make sustained post-award efforts to obtain task orders under the contract. As a result, we may not be able to obtain these task orders or recognize revenues under these multi award contracts. Our failure to compete effectively in this procurement environment would adversely affect our business, financial condition and results of operations.

Projects may be awarded based solely upon price, but often take into account other factors, such as technical qualifications, proposed project team, schedule and past performance on similar projects. We compete with larger companies that have greater name recognition, financial resources and larger technical staffs and with smaller, more specialized companies that are able to concentrate their resources on particular areas. Additionally, we may compete with a government's own capabilities. Technology-focused companies may also develop products and services that could disrupt our business or compete with our services. To remain competitive, we must consistently provide superior service, technology and performance on a cost-effective basis to our customers and there is no assurance that we will do so.

**Changing global tax laws could have a material impact on our effective income tax rate.**

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Many tax jurisdictions, including the U.S., have called for comprehensive changes to fiscal and tax policies that could significantly impact how we are taxed on our domestic and foreign earnings. Such changes, if enacted into law, could increase our effective tax rate and have a material adverse impact on our financial condition and results of operations. For example, beginning in 2022, the Tax Cuts and Jobs Act of 2017 eliminated the option to currently deduct research and development expenditures in the year incurred and requires taxpayers to amortize such expenditures over five years for tax purposes. While the most significant impact of this provision is to cash tax liability for 2022, the tax year in which the provision took effect, the impact will decline annually over the five-year amortization period to an immaterial amount beginning in year six.

**Risks Related to Acquisitions and Joint Ventures**

***We may make acquisitions, investments, joint ventures and divestitures in the future that involve numerous risks, which if realized, may adversely affect our business and our future results.***

We may make strategic acquisitions, engage in joint ventures or divest existing businesses, which could cause us to incur unforeseen expenses and have disruptive effects on our business and may not yield the benefits

we expect. Our Credit Agreement imposes limitations on our ability to make other acquisitions. Subject to those limitations, we may selectively pursue additional strategic acquisitions, investments and joint ventures in the future. Any future acquisitions, investments and joint ventures may pose many risks that could adversely affect our reputation, operations or financial results, including:

- we may not retain key employees (including those with needed security clearances), customers and business partners of an acquired business in the future;
- we may fail to successfully integrate acquired businesses, such as failing to successfully integrate information technology and other control systems relating to the operations of any acquired business;
- acquisitions normally require a significant investment of time and resources, which may disrupt our business and distract our management from other important responsibilities;
- we may not be able to accurately estimate the financial effect of any acquisitions and investments on our business and we may not realize anticipated revenue opportunities, cost savings, or other synergies or benefits, or acquisitions may not result in improved operating performance; and
- we may assume known as well as unknown material liabilities, legal or regulatory risks that were not identified as part of our due diligence or for which we are unable to receive a purchase price adjustment or reimbursement through indemnification.

If any acquisitions, investments or joint ventures fail, perform poorly or their value is otherwise impaired for any reason, including contractions in credit markets and global economic conditions, our business, financial condition and results of operations could be adversely affected.

In addition, we may periodically divest or plan to divest businesses, including businesses that are no longer a part of our ongoing strategic plan. These divestitures similarly require significant investment of time and resources and may disrupt our business, distract management from other responsibilities and may result in losses on disposal or continued financial involvement in the divested business, including through indemnification, guarantee or other financial arrangements, for a period of time following the transaction, which could adversely affect our business, financial condition or results of operations. When we determine that we would like to divest a business, we may not be able to divest that business on attractive terms or at all.

***We conduct a portion of our work through joint venture entities, some of which we do not have management control over, and with which we typically have joint and several liability with our joint venture partners.***

12% of our revenue during fiscal 2022, 11.0% of our revenue during fiscal 2021 and 11.5% of our revenue during fiscal 2020 was derived from our operations through consolidated joint ventures. In addition, 5.1% of our revenue during fiscal 2022, 5.6% of our revenue during fiscal 2021 and 4.4% of our revenues in fiscal 2020 related to services we provided to our unconsolidated joint ventures, where control resides with unaffiliated third parties, and 8.8% of our operating income during fiscal 2022, 27.8% of our operating income during fiscal 2021 and 16.9% of our operating income during fiscal 2020 was derived from equity in our unconsolidated joint ventures. As with most joint venture arrangements, differences in views among the joint venture participants may result in delayed decisions or disputes. We also cannot control the actions of our joint venture partners and we typically have joint and several liability with our joint venture partners under the applicable contracts for joint venture projects. These factors could potentially adversely impact the business and operations of a joint venture and, in turn, our business and operations.

Operating through joint ventures in which we are a minority holder results in us having limited control over many decisions made with respect to projects and internal controls relating to projects. We generally do not have control of these unconsolidated joint ventures. These joint ventures may not be subject to the same requirements regarding internal controls and internal control over financial reporting that we follow. As a result, internal control problems may arise with respect to these joint ventures, which could have a material adverse effect on our business, financial condition and results of operations and could also affect our reputation in the industries we serve.

***We participate in joint ventures where we provide guarantees and may be adversely impacted by the failure of such joint venture or its participants to fulfill their obligations.***

We have investments in and commitments to joint ventures with unrelated parties. These joint ventures from time to time may borrow money to help finance their activities and, in some circumstances, we may be required to provide guarantees of the obligations of our affiliated entities. At December 31, 2022, we had \$106.8 million of letters of credit and guarantees that relate to joint ventures. If these entities are not able to honor their obligations under the guarantees, we may be required to expend additional resources or suffer losses, which could be significant.

***Our acquisitions may not achieve their full intended benefits or may disrupt our plans and operations.***

We cannot assure you that we will be able to successfully integrate acquired companies with our business or otherwise realize the expected benefits of our acquisitions. For example, in the last several years we have made four large acquisitions. The combination of multiple independent businesses will be a complex, costly, and time-consuming process. Our business may be negatively impacted following acquisitions if we are unable to effectively manage our expanded operations. The integration process will require significant time and focus from our management team and may divert attention from the day-to-day operations of the combined business. Additionally, consummation of acquisitions could disrupt our current plans and operations, which could delay the achievement of our strategic objectives.

The expected synergies and operating efficiencies of the acquisitions may not be fully realized, which could result in increased costs and have a material adverse effect on our business, financial condition and results of operations. In addition, the overall integration of the businesses may result in material unanticipated problems, expenses, liabilities, competitive responses, loss of customer relationships and diversion of management's attention, among other potential adverse consequences. The risks of combining our operations of the businesses include, among others:

- we may have underestimated the costs to integrate the information systems of acquired companies with ours;
- we may face difficulties in integrating employees, integrating different corporate cultures and in attracting and retaining key personnel; and
- we may face challenges in keeping existing contracts and customers.

Many of these risks will be outside of our control and any one of them could result in increased costs, decreases in the amount of expected revenue, and diversion of our management's time and energy, which could have a material adverse effect on our business, financial condition and results of operations. In addition, even if our operations are integrated successfully, we may not realize the full benefits of the acquisitions, including the synergies, operating efficiencies, or sales or growth opportunities that are expected. These benefits may not be achieved within the anticipated time frame or at all.

***We depend on our teaming arrangements and relationships with other contractors and subcontractors. If we are not able to maintain these relationships, or if these parties fail to satisfy their obligations to us or the customer, our revenues, profitability and growth prospects could be adversely affected.***

We rely on teaming relationships with other prime contractors and subcontractors in order to submit bids for large procurements or other opportunities where we believe the combination of services, products, and solutions provided by us and our teammates will help us to win and perform the contract. Our future revenues and growth prospects could be adversely affected if the other contractors eliminate or reduce their contract relationships with us, or if our government clients terminate or reduce these other contractors' programs, do not award them new contracts or refuse to pay under a contract. Companies that do not have access to government contracts or



experience with our customers may perform services as our subcontractor that we cannot otherwise provide ourselves, and that exposure could enhance such companies' prospects of securing a future position as a prime government contractor which could increase competition for future contracts and impair our ability to win these contracts.

Whenever our subcontractors fail to timely meet their contractual obligations, have regulatory compliance or other problems, our ability to fulfill our obligations as a prime contractor or higher tier subcontractor may be jeopardized. Subcontractor performance deficiencies under subcontracts with us as the prime contractor could lead to significant losses in future periods and could result in our termination for default as the prime contractor even though it was the subcontractor that failed to perform and not our personnel.

### **Risks Related to Estimates and Accounting**

***Our earnings and profitability may vary based on the mix of our contracts and may be adversely affected by our failure to accurately estimate and manage costs, time and resources.***

We generate revenue under various types of contracts, which include time-and-materials, cost-plus and fixed-price contracts. Our earnings and profitability may vary materially depending on changes in the proportionate amount of revenues derived from each type of contract, the nature of services or solutions provided, as well as the achievement of performance objectives and the stage of performance at which the right to receive fees, particularly under incentive fee contracts, is finally determined. Cost-plus and time-and-materials contracts generally have lower profitability than fixed-price contracts. To varying degrees, each of our contract types involves some risk that we could underestimate the costs and resources necessary to fulfill the contract. Our profitability is adversely affected when we incur costs on cost-plus and time-and-materials contracts that we cannot bill to our customers. While fixed-price contracts allow us to benefit from cost savings, these contracts also increase our exposure to the risk of cost overruns.

Revenue derived from fixed-price contracts represented 27% of our total revenue during fiscal 2022, 26% of our total revenue during fiscal 2021, and 32% of our total revenue during fiscal 2020. When making proposals on fixed-price contracts, we rely heavily on our estimates of costs, scope and timing for completing the associated projects, as well as assumptions regarding technical issues. In particular, contracts in our Critical Infrastructure segment are often won in a hard-bid process, in which clients primarily select the lowest price from a qualified bidder with the understanding that they will not pay above the bid amount, even if we perform work beyond the initial scope of our contract. In each case, our failure to accurately estimate costs, scope or the resources and technology needed to perform our contracts or to effectively manage and control our costs during the performance of work could result, and in some instances has resulted, in reduced profits or in losses. More generally, any increased or unexpected costs or unanticipated delays in connection with the performance of our contracts, including costs and delays caused by contractual disputes or other factors outside of our control, such as performance failures of our subcontractors, natural disasters or other force majeure events, could make our contracts less profitable than expected or unprofitable.

***We use estimates in recognizing revenues and, if we make changes to estimates used in recognizing revenues, our profitability may be adversely affected.***

A significant portion of our contract revenues are recognized using the cost-to-cost measure of progress method. This method requires estimates of total costs at completion or measurement of progress towards completion. Particularly due to the technical nature of the services being performed and the length of the contracts, this estimation process is complex and involves significant judgment. Adjustments to original estimates are often required as work progresses, experience is gained and additional information becomes known, even though the scope of the work required under the contract may not change. Any adjustment as a result of a change in estimate is recognized immediately. Changes in the underlying assumptions, circumstances or estimates could result in adjustments that may adversely affect our financial results of operations.

***Goodwill and intangible assets represent a significant amount of our total assets and any impairment of these assets would negatively impact our results of operations.***

As of December 31, 2022, we had goodwill and intangible assets of \$1.9 billion. Goodwill is tested for impairment annually, or more often if indicators of potential impairment exist, and intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Examples of events or changes in circumstances indicating that the carrying value of goodwill may not be recoverable could include a significant adverse change in legal factors or in the business climate, an adverse action or assessment by a regulator, unanticipated competition, loss of key contracts, customer relationships, or personnel that affect current and future operating cash flows of the reporting unit. Any future impairment of goodwill or other intangible assets would have a negative impact on our profitability and financial results.

### **Risks Related to Technology Systems**

***Systems that we develop, integrate, maintain, or otherwise support could experience security breaches which may damage our reputation with our clients and hinder future contract win rates.***

We develop, integrate, maintain, or otherwise support systems and provide services that include managing and protecting information involved in intelligence, national security and other sensitive or classified government functions. Our systems also store and process sensitive information for commercial clients. The cyber and security threats that our clients face have grown more frequent and sophisticated. A security breach in one of these systems could cause serious harm to our business, damage our reputation, and prevent us from being eligible for further work on sensitive systems for government or commercial clients. Work for non-government and commercial clients involving the protection of information systems or that store clients' information could also be harmed due to associated security breaches. Damage to our reputation or limitations on our eligibility for additional work or any liability resulting from a security breach in one of the systems we develop, install, maintain, or otherwise support could have a material adverse effect on our business, financial condition and results of operations.

***Services we provide and technologies we develop are designed to detect and monitor threats to our clients, the failure of which may lead to reputational harm or liability against us by our clients or third parties and may subject our staff to potential threats, risk of loss or harm.***

We help our clients detect, monitor and mitigate threats to their people, information and facilities. These threats may originate from nation states, terrorist or criminal actors, activist hackers or others who seek to harm our clients. There are many factors, some of which are beyond our control, which could result in the failure of our products to detect, monitor or mitigate these threats. Successful attacks on our clients may cause physical or reputational harm to us and our clients, as well as lead to liability claims against us by our clients or third parties, particularly if such attacks are a result of a failure or perceived failure of our services or technologies. In addition, as a result of our involvement with some clients or projects, our staff, information and facilities may be targeted by these or other threat actors and may be at risk for loss, or physical or reputational harm.

***Internal system or service failures affecting us or our vendors, including as a result of cyber or other security threats, could disrupt our business and impair our ability to effectively provide our services to our clients, which could damage our reputation and have a material adverse effect on our business, financial condition and results of operations.***

We create, implement, and maintain information technology and engineering systems and also use vendors to provide services that are often critical to our clients' operations, some of which involve sensitive information and may be conducted in war zones or other hazardous environments, or include information whose confidentiality is protected by law. As a result, we may be subject to systems or service failures, not only

resulting from our own failures or the failures of third-party service providers, natural disasters, power shortages, or terrorist attacks, but also from continuous exposure to cyber and other security threats, including computer viruses and malware, attacks by computer hackers or physical break-ins. There has been an increase in the frequency and sophistication of the cyber and security threats we face, with attacks ranging from those common to businesses generally to those that are more advanced and persistent, which may target us because, as a cybersecurity services contractor, we hold classified, controlled unclassified and other sensitive information. As a result, we and our vendors face a heightened risk of a security breach or disruption resulting from an attack by computer hackers, foreign governments, and cyber terrorists. While we put in place policies, controls and technologies to help detect and protect against such attacks, we cannot guarantee that future incidents will not occur, and if an incident does occur, we may not be able to successfully mitigate the impact. We have been the target of these types of attacks in the past and future attacks are likely to occur. If successful, these types of attacks on our network or other systems or service failures could have a material adverse effect on our business, financial condition and results of operations, due to, among other things, the loss of client or proprietary data, interruptions or delays in our clients' businesses and damage to our reputation. In addition, the failure or disruption of our systems, communications, vendors, or utilities could cause us to interrupt or suspend our operations, which could have a material adverse effect on our business, financial condition and results of operations. In addition, if our employees inadvertently do not adhere to appropriate information security protocols, our protocols are inadequate, or our employees intentionally avoid these protocols, our or our clients' sensitive information may be released thereby causing significant negative impacts to our reputation and exposing us or our clients to liability.

If our or our vendors' systems, services or other applications have significant defects or errors, are successfully attacked by cyber and other security threats, suffer delivery delays or otherwise fail to meet our clients' expectations, we may:

- lose revenue due to adverse client reaction;
- be required to provide additional services to a client at no charge;
- incur additional costs related to remediation, monitoring and increasing our cybersecurity;
- lose revenue due to the deployment of internal staff for remediation efforts instead of client assignments;
- receive negative publicity, which could damage our reputation and adversely affect our ability to attract or retain clients;
- be unable to successfully market services that are reliant on the creation and maintaining of secure information technology systems to government and commercial clients;
- suffer claims by clients or impacted third parties for substantial damages, particularly as a result of any successful network or systems breach and exfiltration of client and/or third-party information; or
- incur significant costs, including fines from government regulators related to complying with applicable federal or state law, including laws pertaining to the security and protection of personal information.

In addition to any costs resulting from contract performance or required corrective action, these failures may result in increased costs or loss of revenue if they result in clients postponing subsequently scheduled work or canceling or failing to renew contracts.

The costs related to cyber or other security threats or disruptions may not be fully insured or indemnified by other means. Additionally, some cyber technologies and techniques that we utilize or develop may raise potential liabilities related to legal compliance, intellectual property and civil liberties, including privacy concerns, which may not be fully insured or indemnified. We may not be able to obtain and maintain insurance coverage on reasonable terms or in sufficient amounts to cover one or more large claims, or the insurer may disclaim

coverage as to some types of future claims. The successful assertion of any large claim against us could seriously harm our business. Even if not successful, these claims could result in significant legal and other costs, may be a distraction to our management, and may harm our client relationships. In some new business areas, we may not be able to obtain sufficient insurance and may decide not to accept or solicit business in these areas.

As a contractor supporting defense and national security clients, we are also subject to regulatory compliance requirements under the Federal Acquisition Regulations, the Defense Federal Acquisition Regulation Supplement and other federal regulations requiring that our networks and information technology systems comply with the security and privacy controls in National Institute of Standards and Technology Special Publications and similar documents. To the extent that we do not comply with the applicable security and control requirements, whether imposed by regulation or contract, unauthorized access or disclosure of sensitive information could potentially result in a contract termination that has a material adverse effect on our business, financial condition and results of operations and reputational harm.

### **Risk Related to Legal Matters and Insurance**

***Unavailability or cancellation of third-party insurance coverage would increase our overall risk exposure as well as disrupt the management of our business operations.***

We maintain insurance coverage from third-party insurers as part of our overall risk management strategy and because some of our contracts require us to maintain specific insurance coverage limits. If any of our third-party insurers fail, suddenly cancel our coverage or otherwise are unable to provide us with adequate insurance coverage, then our overall risk exposure and our operational expenses would increase, and the management of our business operations would be disrupted. In addition, there can be no assurance that any of our existing insurance coverage will be renewable upon the expiration of the coverage period or that future coverage will be affordable at the required limits.

***Adverse judgments or settlements in legal disputes could result in materially adverse monetary damages or injunctive relief and damage our reputation.***

We are subject to, and may become a party to, a variety of litigation or other claims and suits that arise from time to time in the ordinary course of our business. For example, our performance under U.S. government contracts and compliance with the terms of those contracts and applicable laws and regulations are subject to continuous audit, review, and investigation by the U.S. government which may include such investigative techniques as subpoenas or civil investigative demands.

The results of litigation and other legal proceedings, including the claims described under “Business—Legal Proceedings”, are inherently uncertain and adverse judgments or settlements in some or all of these legal disputes may result in materially adverse monetary damages or injunctive relief against us. Additionally, our insurance policies may not protect us against potential liability due to various exclusions in the policies and self-insured retention amounts. Partially or completely uninsured claims, if successful and of significant magnitude, could have a material adverse effect on our business, financial condition and results of operations. Furthermore, any claims or litigation, even if fully indemnified or insured, could damage our reputation and make it more difficult to compete effectively or obtain adequate insurance in the future.

***Our business is subject to numerous legal and regulatory requirements and any violation of these requirements or any misconduct by our employees, subcontractors, agents or business partners could harm our business and reputation.***

In addition to government contract procurement laws and regulations, we are subject to numerous other federal, state and foreign legal requirements on matters as diverse as data privacy and protection, employment

and labor relations, immigration, taxation, anti-corruption, import/export controls, trade restrictions, internal and disclosure control obligations, securities regulation and anti-competition. Compliance with diverse and changing legal requirements is costly, time-consuming and requires significant resources. Violations of one or more of these requirements in the conduct of our business could result in significant fines and other damages, criminal sanctions against us or our officers, prohibitions on doing business and damage to our reputation. Violations of these regulations or contractual obligations related to regulatory compliance in connection with the performance of customer contracts could also result in liability for significant monetary damages, fines and/or criminal prosecution, unfavorable publicity and other reputational damage, restrictions on our ability to compete for work and allegations by our customers that we have not performed our contractual obligations.

Misconduct by our employees, subcontractors, agents or business partners could subject us to fines and penalties, restitution or other damages, loss of security clearance, loss of current and future customer contracts and suspension or debarment from contracting with federal, state or local government agencies, any of which could adversely affect our business, financial condition and results of operations. Such misconduct could include fraud or other improper activities such as falsifying time or other records, failure to comply with our policies and procedures or violations of applicable laws and regulations.

***Our services and operations sometimes involve handling or disposing of hazardous substances or dangerous materials, and we are subject to environmental requirements and risks which could result in significant costs, liabilities and obligations.***

Our operations are subject to stringent and complex federal, state and local laws and regulations governing the discharge of materials into the environment, the health and safety aspects of our operations, or otherwise relating to environmental protection. Some of our services and operations involve the handling or disposal of hazardous substances or dangerous materials, including explosive, chemical, biological, radiological or nuclear materials. These activities generally subject us to extensive foreign, federal, state and local environmental protection and health and safety laws and regulations, which, among other things, require us to incur costs to comply with these regulations and could impose liability on us for handling or disposing of hazardous substances or dangerous materials. Numerous governmental authorities, such as the U.S. Environmental Protection Agency, or the EPA, and analogous state agencies, have the power to enforce compliance with these laws and regulations and the permits issued under them. Such enforcement actions often involve difficult and costly compliance measures or corrective actions. Furthermore, failure to comply with these environmental protection and health and safety laws and regulations could result in civil, criminal, regulatory, administrative or contractual sanctions, including fines, penalties or suspension or debarment from contracting with the U.S. government, and could also result in investigations, the imposition of corrective action or remedial obligations, and the issuance of orders limiting or prohibiting some or all of our operations. In certain instances, citizen groups also have the ability to bring legal proceedings against us if we are not in compliance with environmental laws. In addition, claims for damages to persons or property, including natural resources, may result from the environmental, health and safety impacts of our operations. We, like other businesses, can never completely eliminate the risk of contamination or injury from certain materials that we use in our business. If we have any violations of, or incur liabilities pursuant to, these laws or regulations, it may result in a material adverse effect on our business, financial condition or results of operations.

Certain environmental laws impose strict liability (i.e., no showing of “fault” is required) as well as joint and several liability for costs required to remediate and restore sites where hazardous substances, hydrocarbons or solid wastes have been stored or released. We may be required to remediate contaminated properties currently or formerly owned or operated by us or facilities of third parties that received waste generated by our operations, regardless of whether such contamination resulted from the conduct of others or from the consequences of our own actions that were in compliance with all applicable laws at the time those actions were taken.



We have limited, and potentially insufficient, insurance coverage for expenses and losses that may arise in connection with environmental contamination. Finally, in connection with certain acquisitions, we could acquire, or be required to provide indemnification against, environmental liabilities that could expose us to material losses.

***Our failure to meet contractual schedule requirements, meet a required performance standard, meet our internal contractual performance projections or otherwise perform adequately on a project could adversely affect our business, financial condition or results of operations.***

Under some of our contracts, we can incur liquidated or other damages if we do not achieve project completion by a scheduled date. In addition, our costs generally increase from schedule delays and/or could exceed our projections for a particular project. Project performance can be affected by a number of factors beyond our control, including unavoidable delays from governmental inaction, public opposition, inability to obtain financing, weather conditions, unavailability of vendor materials, changes in the project scope of services requested by our clients, industrial accidents, environmental hazards, labor disruptions and other factors. Any defects or errors, or failures to meet our clients' expectations, in our projects or services could result in claims for damages against us and could adversely affect our reputation. Material performance problems for existing and future contracts could cause actual results of operations to differ from those anticipated by us and also could cause us to suffer damage to our reputation within our industries and client base.

***Failure to adequately protect, maintain, or enforce our rights in our intellectual property may adversely limit our competitive position.***

We rely upon a combination of nondisclosure agreements and other contractual arrangements, as well as copyright, trademark, patent and trade secret laws to protect our proprietary information. We also enter into proprietary information and intellectual property agreements with employees, which require them to disclose any inventions created during employment, to convey such rights to inventions to us, and to restrict any disclosure of proprietary information. Trade secrets are generally difficult to protect. Although our employees are subject to confidentiality obligations, this protection may be inadequate to deter or prevent misappropriation of our confidential information and/or the infringement of our patents and copyrights. Further, we may be unable to detect unauthorized use of our intellectual property or otherwise take appropriate steps to enforce our rights. Failure to adequately protect, maintain, or enforce our intellectual property rights may adversely limit our competitive position.

***Assertions by third parties of infringement, misappropriation or other violations by us of their intellectual property rights could result in significant costs and substantially harm our business, financial condition and operation results.***

In recent years, there has been significant litigation involving intellectual property rights in technology industries. We may face from time to time, allegations that we or a supplier or customer have violated the rights of third parties, including patent, trademark, and other intellectual property rights. If, with respect to any claim against us for violation of third-party intellectual property rights, we are unable to prevail in the litigation or retain or obtain sufficient rights or develop non-infringing intellectual property or otherwise alter our business practices on a timely or cost-efficient basis, our business, financial condition or results of operations may be adversely affected.

Any infringement, misappropriation or related claims, whether or not meritorious, are time consuming, divert technical and management personnel, and are costly to resolve. As a result of any such dispute, we may have to develop non-infringing technology, pay damages, enter into royalty or licensing agreements, cease utilizing products or services, or take other actions to resolve the claims. These actions, if required, may be costly or unavailable on terms acceptable to us.

## **Risks Related to International Operations**

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

Revenue attributable to our services provided outside of the United States as a percentage of our total revenue was 24.9% in 2022, 25.0% in 2021 and 24.5% in 2020. There are risks inherent in doing business internationally, including:

- imposition of governmental controls and changes in laws, regulations or policies;
- political and economic instability and turmoil internationally, including countries in the Middle East;
- civil unrest, acts of terrorism, force majeure, war, or other armed conflict;
- greater physical security risks;
- changes in U.S. and other national government trade policies affecting the markets for our services;
- changes in regulatory practices, tariffs and taxes;
- potential non-compliance with a wide variety of laws and regulations, including anti-corruption, U.S. export controls and economic and trade sanctions, and anti-boycott laws and similar non-U.S. laws and regulations;
- changes in labor conditions;
- logistical and communication challenges;
- currency exchange rate fluctuations, devaluations and other conversion restrictions; and
- health and safety concerns, including those related to the COVID-19 pandemic, variants and other potential epidemics.

Any of these factors could have a material adverse effect on our business, financial condition or results of operations.

***We have operations in the Middle East, neighboring regions, and other regions across the globe, and these regions may experience turmoil, political upheaval or similar crises that may impact our current projects, future business and financial stability.***

We currently have operations in the Middle East, including in Oman, Qatar, Saudi Arabia and the United Arab Emirates. These countries experience frequent political turmoil such as the tensions among Qatar and several of its neighbors, including Saudi Arabia and the United Arab Emirates. Further, we may undertake work in other countries that may experience turmoil, political upheaval, or other similar crises. This uncertainty may affect our ability to continue our projects in these regions due to lack of resources, local support, and safety for our workers. If we are unable to finish these projects, it is likely that our finances will be impacted. Furthermore, we may experience liability regarding our employees and their safety and security in these locations. We also may incur material costs to maintain the safety of our personnel. Despite these precautions, the safety of our personnel in these locations may continue to be at risk. Acts of terrorism and threats of armed conflicts in or around various areas in which we operate could limit or disrupt markets and our operations, including disruptions resulting from the evacuation of personnel, cancellation of contracts, or the loss of key employees, contractors or assets.

***We operate in many different jurisdictions and we could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar worldwide anti-corruption laws.***

The FCPA and similar worldwide anti-corruption laws, including the U.K. Bribery Act of 2010, generally prohibit companies and their intermediaries from making improper payments to non-U.S. officials for the

purpose of obtaining or retaining business. Our internal policies mandate compliance with these anti-corruption laws, including the requirements to maintain accurate information and internal controls which may fall within the purview of the FCPA, its books and records provisions or its anti-bribery provisions. We operate in many parts of the world that have experienced governmental corruption to some degree; and, in some circumstances, strict compliance with anticorruption laws may conflict with local customs and practices. Despite our training and compliance programs, we cannot be certain that our internal control policies and procedures always will protect us from reckless or criminal acts committed by our employees or agents. In addition, from time to time, government investigations of corruption in industries we operate in may affect us and our peers. Violations of these laws, or allegations of such violations, could disrupt our business and result in a material adverse effect on our business, financial condition or results of operations.

### **Risks Related to Debt and Backlog**

#### ***We may not realize the full value of our backlog, which may result in lower-than-expected revenue.***

As of December 31, 2022, our total backlog was \$8.2 billion, of which \$4.5 billion was funded. Our backlog includes orders under contracts that can extend for several years, and in some cases, contracts that extend for more than 10 to 15 years. We historically have not realized all of the revenue included in our total backlog, and we may not realize all of the revenue included in our total backlog in the future. There is a somewhat higher degree of risk in this regard with respect to unfunded backlog and backlog related to unexercised options years and IDIQ contracts for which task orders have not yet been issued. In addition, there can be no assurance that our backlog will result in actual revenue in any particular period. This is because the actual receipt, timing and amount of revenue under contracts included in backlog are subject to various contingencies, including congressional appropriations, many of which are beyond our control. In particular, delays in the completion of the U.S. government's budgeting process and the use of continuing resolutions could adversely affect our ability to timely recognize revenue under our contracts included in backlog. Furthermore, the actual receipt of revenue from contracts included in backlog may never occur or may be delayed because: a program schedule could change or the program could be canceled; a contract's funding or scope could be reduced, modified, delayed or terminated early, including as a result of a lack of appropriated funds or as a result of cost cutting initiatives and other efforts to reduce government spending; in the case of funded backlog, the period of performance for the contract has expired; in the case of unfunded backlog, funding may not be available; in the case of backlog related to unexercised option years, the contract option is not yet exercised or may ever be exercised; and, in the case of backlog related to IDIQ contracts where task orders have not been issued, no further task orders may be issued. In addition, headcount growth is the primary means by which we are able to achieve revenue growth. Any inability to hire additional appropriately qualified personnel or failure to timely and effectively deploy such additional personnel against funded backlog could negatively affect our ability to grow our revenue. We may also not recognize revenue on funded backlog due to, among other reasons, the tardy submissions of invoices by our subcontractors and the expiration of the relevant appropriated funding in accordance with a predetermined expiration date such as the end of the U.S. government's fiscal year. The amount of our funded backlog is also subject to change, due to, among other factors: changes in appropriations that reflect changes in government policies or priorities resulting from various military, political, economic or international developments; changes in the use of government contracting vehicles, and the provisions therein used to procure our services; and adjustments to the scope of services under, or cancellation of contracts, by the applicable government at any time. Furthermore, even if our backlog results in revenue, the contracts may not be profitable.

#### ***If we cannot collect our receivables or if payment is delayed, our business may be adversely affected by our inability to generate cash flow, provide working capital or continue our business operations.***

As of December 31, 2022, our accounts receivable, net was \$717.3 million. We depend on the timely collection of our receivables to generate cash flow, provide working capital and continue our business operations. If our customers fail to pay or delay the payment of invoices for any reason, our business and financial condition

may be materially and adversely affected. Our customers have in the past and may in the future delay or fail to pay invoices for a number of reasons, including lack of appropriated funds, lack of an approved budget or as a result of audit findings by government regulatory agencies. We also experience longer payment cycles in the Middle East. We cannot assure you that we will collect all our accounts receivable in excess of our allowance for doubtful accounts in a timely manner, which would impact our cash flows.

***The agreements governing our debt contain a number of restrictive covenants which may limit our ability to finance future operations, acquisitions or capital needs or engage in other business activities that may be in our interest.***

As of December 31, 2022, our total indebtedness was approximately \$744 million. Our Credit Agreement and the agreements governing our Senior Notes and Convertible Notes contain a number of covenants that impose operating and other restrictions on us and our subsidiaries. Such restrictions affect or will affect, and in many respects limit or prohibit our ability and the ability of our subsidiaries to, among other things:

- incur additional indebtedness;
- create liens;
- pay dividends and make other distributions in respect of our equity securities;
- redeem our equity securities;
- make loans, advances, investments or other restricted payments;
- sell assets or receivables;
- engage in certain business activities;
- amend our ESOP's plan documents;
- enter into transactions with affiliates; and
- effect mergers or consolidations.

In addition, our Credit Agreement also requires us to comply with certain financial ratio covenants, including a debt leverage ratio and a fixed charge coverage ratio. Our ability to comply with these ratios may be affected by events beyond our control.

These restrictions could limit our ability to plan for or react to market or economic conditions or meet capital needs or otherwise restrict our activities or business plans and could adversely affect our ability to finance our operations, acquisitions, investments or strategic alliances or other capital needs or to engage in other business activities that would be in our interest.

A breach of any of these covenants or our inability to comply with the required financial ratios could result in a default under our debt instruments. If an event of default occurs, our creditors could elect to:

- declare all borrowings outstanding, together with accrued and unpaid interest, to be immediately due and payable;
- require us to apply all of our available cash to repay the borrowings; or
- prevent us from making debt service payments on some of our borrowings.

If we were unable to repay or otherwise refinance these borrowings when due, the lenders under our Credit Agreement could demand payment from subsidiary guarantors, as provided under our Credit Agreement. These guarantors constitute substantially all of our domestic, wholly owned subsidiaries' assets.

***Prior to our initial public offering, we were 100% owned by the ESOP, which is a retirement plan that is intended to be qualified under the Internal Revenue Code. If the ESOP failed to meet the requirements of a tax qualified retirement plan, we could be subject to substantial penalties.***

The ESOP is a defined contribution retirement plan subject to the requirements of the Internal Revenue Code (Code) and the Employment Retirement Income Security Act (ERISA). The ESOP received a determination letter, dated January 31, 2012, from the Internal Revenue Service (IRS) that it meets the requirements of a tax qualified retirement plan in form, and we endeavor to maintain and administer the ESOP in compliance with all requirements of the Code and ERISA. However, the rules regarding tax qualified plans, and especially ESOPs, are complex and change frequently. Accordingly, it is possible that the ESOP may not have been administered in full compliance with all applicable rules under the Code or ERISA at all times.

If the ESOP were determined not to be in material compliance with the Code or ERISA, then the ESOP could lose its tax qualified status and we could be subject to substantial penalties under the Code and ERISA which could have a material adverse effect on our business, financial condition or results of operations. Additionally, loss of the ESOP's tax-qualified status would adversely impact our prior treatment as an S Corporation.

### **Risks Related to our Employees**

***A failure to attract, train and retain skilled employees and our senior management team would adversely affect our ability to execute our strategy and may disrupt our operations.***

Our business relies heavily upon the expertise and services of our employees. Our continued success depends on our ability to recruit and retain highly trained and skilled engineering, technical and professional personnel. Competition for skilled personnel is intense and competitors aggressively recruit key employees. In addition, many U.S. government programs require contractors to have security clearances. Depending on the level of required clearance, security clearances can be difficult and time-consuming to obtain and personnel with security clearances are in great demand. Particularly in highly specialized areas, it has become more difficult to retain employees and meet all of our needs for employees in a timely manner, which may affect our growth in the current and future fiscal years. Although we intend to continue to devote significant resources to recruiting, training and retaining qualified employees, we may not be able to attract, effectively train and retain these employees. Any failure to do so could impair our ability to efficiently perform our contractual obligations, timely meet our customers' needs and ultimately win new business, all of which could adversely affect our business, financial condition and results of operations.

We believe that our success also depends on the continued employment of a highly qualified and experienced senior management team and that team's ability to retain existing business and generate new business. The loss of key personnel in critical functions could lead to lack of business continuity or disruptions in our business until we are able to hire and train replacement personnel.

***We may lose one or more members of our senior management team or fail to develop new leaders, which could cause a disruption in the management of our business.***

We believe that the future success of our business and our ability to operate profitably depends on the continued contributions of the members of our senior management and the continued development of new members of senior management. We rely on our senior management to generate business and execute programs successfully. In addition, the relationships and reputation that many members of our senior management team have established and maintain with our clients are important to our business and our ability to identify new business opportunities. We do not have any employment agreements providing for a specific term of employment with any members of our senior management. The loss of any member of our senior management or our failure to continue to develop new members could impair our ability to identify and secure new contracts, to maintain good client relations, and to otherwise manage our business, and could have a material adverse effect on our business, financial condition and results of operations.



***Negotiations with labor unions and possible work actions could divert management attention and disrupt operations. In addition, new collective bargaining agreements or amendments to existing agreements could increase our labor costs and operating expenses.***

We have entered into twenty-three union labor or collective bargaining agreements as of December 31, 2022. The outcome of any future negotiations relating to union representation or collective bargaining agreements for these or other employees in the future may not be favorable to us. We may reach agreements in collective bargaining that increase our operating expenses and lower our net income as a result of higher wages or benefit expenses. In addition, negotiations with unions could divert management attention and disrupt operations, which may adversely affect our results of operations. If we are unable to negotiate acceptable collective bargaining agreements, we may have to address the threat of union-initiated work actions, including strikes. Depending on the nature of the threat or the type and duration of any work action, these actions could disrupt our operations and adversely affect our operating results.

***Many of our field project sites and facilities are inherently dangerous workplaces. Failure to manage our field project sites and facilities safely could result in environmental disasters, employee deaths or injuries, reduced profitability, the loss of projects or clients and possible exposure to litigation.***

Our field project sites and facilities, particularly in our Critical Infrastructure business, often put our employees and others in close proximity with mechanized equipment, moving vehicles, chemical and manufacturing processes, and highly regulated materials. On some field project sites and in some of our facilities, we may be responsible for safety and, accordingly, we have an obligation to implement effective safety procedures. If these procedures are not appropriately implemented or are ineffective, our employees could be injured or killed, and we could be exposed to possible litigation. As a result, our failure to maintain adequate safety standards and equipment could result in reduced profitability or the loss of projects or clients and could have a material adverse impact on our business, financial condition, and results of operations.

### **Risk Related to Our Common Stock**

***If we are unable to maintain effective internal control over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock may be negatively affected.***

As a public company, we are required to maintain internal control over financial reporting and to report any material weaknesses in such internal control. The process of designing, implementing and testing the internal control over financial reporting required to comply with this obligation is time-consuming, costly and complicated. If we identify material weaknesses in our internal control over financial reporting, or if we are unable to comply in a timely manner with the management certification requirements of Section 404 of the Sarbanes-Oxley Act as to the effectiveness of our internal control over financial reporting or to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports, the market price of our common stock could be negatively affected, and we could become subject to investigations by our stock exchange, the SEC or other regulatory authorities, which could require additional financial and management resources.

***If our stock price fluctuates, you could lose a significant part of your investment.***

The market price of our stock may be influenced by many factors, some of which are beyond our control, including the following:

- the opinions and estimates of any securities analysts who publish research about us;
- announcements by us or our competitors of significant contracts, acquisitions or capital commitments;
- variations in quarterly operating results;

- changes in general economic or market conditions or trends in our industry or the economy as a whole;
- future sales of our common stock; and
- investor perception of us and the industries we operate in.

As a result of these factors, investors in our common stock may not be able to resell their shares at or above the initial purchase price. These broad market and industry factors may materially reduce the market price of our common stock, regardless of our operating performance.

In addition, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were involved in securities litigation, we could incur substantial costs and our resources, and the attention of management could be diverted from our business.

***Our operating results and share price may be volatile, and the market price of our common stock may drop.***

Our quarterly operating results have fluctuated and are likely to continue to fluctuate in the future. In addition, securities markets worldwide have experienced, and are likely to continue to experience, significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could subject the market price of our shares to wide price fluctuations regardless of our operating performance. Our operating results and the trading price of our shares may fluctuate in response to various factors, including:

- market conditions in the broader stock market;
- actual or anticipated fluctuations in our quarterly financial and operating results;
- introduction of new products or services by us or our competitors;
- changes in our awards, backlog and book-to-bill ratios in a given period;
- issuance of new or changed securities analysts' reports or recommendations;
- results of operations that vary from expectations of securities analysis and investors;
- guidance, if any, that we provide to the public, any changes in this guidance or our failure to meet this guidance;
- strategic actions by us or our competitors;
- announcement by us, our competitors or our acquisition targets;
- sales, or anticipated sales, of large blocks of our stock;
- additions or departures of key personnel;
- regulatory, legal or political developments;
- public response to press releases or other public announcements by us or third parties, including our filings with the SEC;
- litigation and governmental investigations;
- seasonality associated with U.S. federal, state, regional and local government funding and spending;
- changing economic conditions;
- changes in accounting principles;
- default under agreements governing our indebtedness;

- exchange rate fluctuations; and
- other events or factors, including those from natural disasters, war, actors of terrorism or responses to these events and pandemics, such as the COVID-19 pandemic.

These and other factors, many of which are beyond our control, may cause our operating results and the market price and demand for our shares to fluctuate substantially. While we believe that operating results for any particular quarter are not necessarily a meaningful indication of future results, fluctuations in our quarterly operating results could limit or prevent investors from readily selling their shares and may otherwise negatively affect the market price and liquidity of our shares. In addition, in the past, when the market price of a stock has been volatile, holders of that stock have sometimes instituted securities class action litigation against the company that issued the stock. If any of our stockholders brought a lawsuit against us, we could incur substantial costs defending the lawsuit. Such a lawsuit could also divert the time and attention of our management from our business, which could significantly harm our profitability and reputation.

***Sales of outstanding shares of our common stock into the market in the future by the ESOP could cause the market price of our common stock to drop significantly.***

At December 31, 2022, we had 146,132,016 shares of our common stock issued and 104,702,996 outstanding. Of these shares, 63,742,151 shares are owned by the ESOP, 40,960,845 shares are publicly owned, and 41,429,020 shares are Treasury stock. We are party to a registration rights agreement with the ESOP Trustee, providing the ESOP with certain demand registration rights related to shares held by the ESOP in the event the ESOP Trustee determines in good faith, in exercising its fiduciary duties under ERISA, that the ESOP is required to sell its shares, which we believe is only likely to occur if our business, financial condition or results of operations have materially and adversely deteriorated.

***Qualifying ESOP participants have the right to receive distributions of shares of our common stock from the ESOP and can sell such shares in the market.***

As of December 31, 2022, there were 63,742,151 shares of common stock held in the ESOP. Shares held in the ESOP are eligible for sale in the public market, subject to applicable Rule 144 limitations, vesting restrictions and any applicable market standoff agreements and lock-up agreements. Participants are generally entitled to distributions from the ESOP only following termination of employment or upon death and in order to diversify their accounts upon attaining a specified age and completing a specified number of years of service. As previously noted in the section of Part 1, Item 1 entitled “Employee Stock Ownership Plan”, in December 2020, the board of directors approved an amendment to the Employee Stock Ownership Plan to provide more flexible diversification rights for participants, and in January 2021, the board of directors approved the modification of the thresholds for distributions to participants in the ESOP effective March 1, 2021. In April 2022, the board of directors approved an amendment providing for lump sum distributions to participants and removing the annual installments. Annual diversification elections and five-year vested termination distributions are not impacted by this amendment and will still occur annually and over installments as outlined in the Plan.

ESOP distributions are made in the form of shares of our common stock (other than distributions in respect of fractional shares, which will be made in cash). Upon receiving a distribution of our common stock from the ESOP, a participant will be able to sell such shares in the market. As a result, we cannot predict the effect, if any, that these distributions and the corresponding sales of shares by the participants may have on the market price of our common stock. Distribution of substantial amounts of our common stock to participants may cause the market price of our common stock to decline.

***The issuance of additional stock, not reserved for issuance under our equity incentive plans or otherwise, will dilute all other stockholdings.***

We have an aggregate of 853,867,984 shares of common stock authorized but not outstanding and not reserved for issuance under our 2021 Plan, under our existing Incentive Plans or otherwise. We may issue all of

these shares without any action or approval by our stockholders. The issuance of additional shares could be dilutive to existing holders. We historically have made annual contributions of our common stock to the ESOP. We made contributions of 1,188,129 shares in fiscal 2022, 1,631,477 shares in fiscal 2021, and 1,522,381 shares in fiscal 2020 of our common stock to the ESOP and intend to continue to make annual contributions in shares of our common stock to the ESOP. In fiscal 2022, 2021 and 2020, we made annual contributions to the ESOP in shares of our common stock in the amount of 8% of the participants' cash compensation for the applicable year (net of shares forfeited by participants in the applicable year). For future fiscal years, the annual contribution to the ESOP shall be in amounts as determined by the board of directors.

***Your ability to influence corporate matters may be limited because the ESOP beneficially owns a majority of our stock and therefore our ESOP participants, voting the shares allocated to them under the ESOP, or the ESOP Trustee, who will have the right to vote shares for which no voting instructions are provided by employees, could have substantial control over us.***

Our common stock has one vote per share. The ESOP beneficially owns approximately 61% of our outstanding common stock, 40% of which is owned by employees of Parsons Corporation. Under the terms of the ESOP, each participant has the ability to direct the ESOP Trustee on the voting of the shares allocated to his or her account under the ESOP. However, the ESOP Trustee will vote any shares that a participant does not direct the voting, or any shares that are held by the ESOP which are not allocated to participants' accounts. As such, the ESOP Trustee may be able to exercise a greater influence than otherwise over matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions.

The purpose of the ESOP is to provide retirement income to employees and their beneficiaries. Accordingly, the interests of the ESOP and the ESOP participants may be contrary to yours as an outside investor.

ERISA sets forth certain fiduciary requirements that require an ERISA fiduciary, like the ESOP Trustee, to act solely in the interests of plan participants and their beneficiaries for the purpose of providing retirement benefits. The Department of Labor, which is the agency with the authority to interpret and enforce the fiduciary sections of ERISA, has indicated in its interpretative guidance that voting is an ERISA fiduciary act. The ESOP Trustee's fiduciary duties under ERISA to the ESOP and its participants may cause the ESOP Trustee to override participants' voting directions to the extent that following such directions would violate ERISA. In such case, the ESOP Trustee will be able to exercise voting control over all of the ESOP's shares. Further, the interests of the minority stockholders may not be aligned with those of the ESOP as the majority stockholder, because the ESOP Trustee is required under ERISA to act in the best interest of the ESOP participants and beneficiaries, this may present a conflict.

As a result, the concentration of ownership in our company by the ESOP could delay or prevent a change in control of our company or otherwise discourage a potential acquirer from attempting to obtain control of our company, which in turn could reduce the price of our common stock.

***We are a "controlled company" within the meaning of the New York Stock Exchange listing standards and, as a result, qualify for exemptions from certain corporate governance requirements. You may not have the same protections afforded to stockholders of companies that are subject to such requirements.***

The ESOP holds common stock representing approximately 61% of the voting power of our common stock as of December 31, 2022. As a result, we are considered a "controlled company" for the purposes of New York Stock Exchange ("NYSE") rules and corporate governance standards. As a controlled company, we are exempt from certain NYSE corporate governance requirements, including those that would otherwise require our board of directors to have a majority of independent directors and require that we either establish compensation and nominating and corporate governance board committees, each comprised entirely of independent directors, or otherwise ensure that the compensation of our executive officers and nominees for directors are determined or recommended to the board of directors by the independent members of the board of directors. While we intend to

have a majority of independent directors, and our compensation and nominating and corporate governance committees to consist entirely of independent directors, we may decide at a later time to rely on one of the “controlled company” exemptions. Accordingly, our common stock may not have the same protections afforded to stockholders of companies that are subject to all of the NYSE corporate governance requirements.

***Our ability to raise capital in the future may be limited, which could limit our business plan or adversely affect your investment.***

Our business and strategic plans may consume resources faster than we anticipate. In the future, we may need to raise additional funds through the issuance of new equity securities, debt or a combination of both. However, any decline in the market price of our common stock could impair our ability to raise capital. Separately, additional financing may not be available on favorable terms, or at all. If adequate funds are not available on acceptable terms, we may be unable to fund our operations or new investments. If we issue new debt securities, the debt holders would have rights senior to common stockholders to make claims on our assets, and the terms of any debt could restrict our operations, including our ability to pay dividends on our common stock. If we issue additional equity securities, existing stockholders will experience dilution, and the new equity securities could have rights senior to those of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future securities offerings reducing the market price of our common stock and diluting their interest.

***Anti-takeover provisions in our organizational documents could delay a change in management and limit our share price.***

Provisions of our certificate of incorporation and bylaws could make it more difficult for a third party to acquire control of us even if such a change in control would increase the value of our common stock and prevent attempts by our stockholders to replace or remove our current board of directors or management.

We have a number of anti-takeover devices that could hinder takeover attempts and could reduce the market value of our common stock or prevent sale at a premium. Our anti-takeover provisions:

- permit the board of directors to establish the number of directors and fill any vacancies and newly created directorships;
- provide that our board of directors is classified into three classes with staggered, three-year terms and that directors may only be removed for cause;
- include blank-check preferred stock, the preference, rights and other terms of which may be set by the board of directors and could delay or prevent a transaction or a change in control that might involve a premium price for our common stock or otherwise benefit our stockholders;
- eliminate the ability of our stockholders to call special meetings of stockholders;
- specify that special meetings of our stockholders can be called only by our board of directors, or a board committee authorized with the power to call such meetings;
- prohibit stockholder action by written consent, which has the effect of requiring all stockholder actions to be taken at a meeting of our stockholders;
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum;
- prohibit cumulative voting in the election of directors; and
- establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at annual stockholders’ meetings.



In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law (DGCL). These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us for a period of time.

***Our certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.***

Our certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for the following civil actions:

- any derivative action or proceeding brought on our behalf;
- any action asserting a claim of breach of a fiduciary duty by any of our directors, officers, employees or agents or our stockholders;
- any action asserting a claim arising pursuant to any provision of the DGCL or our certificate of incorporation or bylaws or as to which the DGCL confers jurisdiction on the Court of Chancery of the State of Delaware; or
- any action asserting a claim governed by the internal affairs doctrine.

This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that the stockholder finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and other employees. Alternatively, if a court were to find the choice of forum provision contained in our certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could have a material adverse effect on our business, financial condition or results of operations.

***We have no current plans to declare dividends.***

We do not currently pay a dividend and have no current plans to declare any cash dividends to holders of our common stock. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon results of operations, financial condition, any contractual restrictions, our indebtedness, restrictions imposed by applicable law and other factors our board of directors deems relevant. Consequently, investors may need to sell all or part of their holdings of our common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends should not purchase our common stock.

***If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.***

The trading market for our common stock depends, in part, on the research and reports that securities or industry analysts publish about us or our business. If an analyst who covers us downgrades our common stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our common stock could decrease, which could cause our stock price and trading volume to decline.

#### **Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

Our headquarters are located in Centreville, Virginia. As of December 31, 2022, we leased 257 commercial facilities (including our headquarters) with an aggregate of approximately 2.8 million square feet of space across 34 U.S. states and 17 countries used in connection with the various services rendered to our customers. Additionally, we operate at several customer-accredited Sensitive Compartmented Information Facilities, which are highly specialized, secure facilities used to perform classified work for the United States intelligence community. We also have employees working at customer sites throughout the U.S. and in other countries. We believe our facilities are adequate for our current and presently foreseeable needs.

**Item 3. Legal Proceedings.**

Our performance under our contracts and our compliance with the terms of those contracts and applicable laws and regulations are subject to continuous audit, review and investigation by our customers, including the U.S. federal government. In addition, we are from time to time involved in legal proceedings and investigations arising in the ordinary course of business, including those relating to employment matters, relationships with clients and contractors, intellectual property disputes, environmental matters and other business matters. Although the outcome of any such matter is inherently uncertain and may be materially adverse, based on current information, except as noted below, we believe there are no pending lawsuits or claims that may have a material adverse effect on our business, financial condition or results of operations.

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

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.

**Item 4. Mine Safety Disclosures.**

Not Applicable.

## PART II

### Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

#### Market Information

Our common stock is listed on the NYSE under the ticker symbol “PSN”.

#### Dividend Policy

During the years ended December 31, 2022, 2021 and 2020, the Company did not declare any dividends. We currently do not intend to declare or pay any cash dividends in the foreseeable future. Any determination to pay dividends on our capital stock will be at the discretion of our board of directors, subject to applicable laws, and will depend on our financial condition, results of operations, capital requirements, restrictions under our Senior Notes issued in a private placement in 2014, or the Convertible Senior Notes, Delayed Draw Term Loan and Credit Agreement, and other factors that our board of directors considers relevant.

#### Shareholders

According to the records of our transfer agent, there were three shareholders of record as of February 6, 2023.

#### Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2022 regarding compensation plans under which our equity securities are authorized for issuance.

| Plan Category  | Number of Securities<br>to be Issued upon<br>Exercise of<br>Outstanding Options,<br>Warrants and Rights<br>(a) | Weighted-Average<br>Exercise Price of<br>Outstanding Options,<br>Warrants and Rights<br>(b) | Number of Securities<br>Remaining Available for<br>Future Issuance under<br>Equity Compensation<br>Plans (Excluding<br>Securities Reflected in<br>Column (a))<br>(c) |
|--|--|---|--|
| Equity compensation<br>plans approved by<br>security holders (1) . .       | —  |   | 1,580,440(2)   |
| Equity compensation<br>plans not approved by<br>security holders . . . . . | 1,621,155(3)   |   | 9,180,697(4)   |
| Total . . . . .  | <u>1,621,155</u>   |   | <u>10,761,137</u>  |

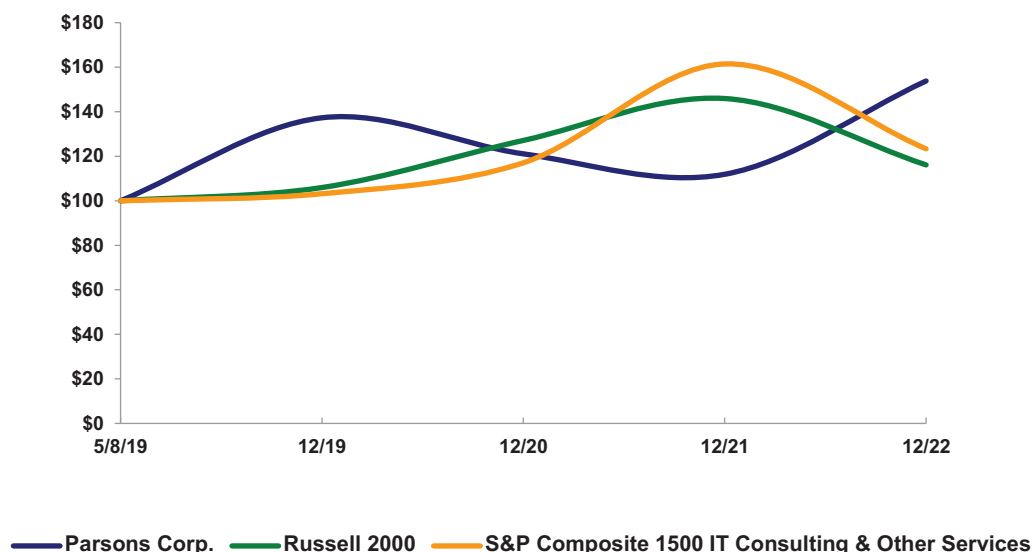
- (1) Consists of the 2020 Employee Stock Purchase Plan.
- (2) Amount represents 1,580,440 shares remaining available for future issuance under the 2020 Employee Stock Purchase Plan (of which 60,381 shares were purchased pursuant to the offering period that ended on December 31, 2022).
- (3) Amount represents the sum of 1,621,155 shares of common stock subject to outstanding RSU and PSU awards under the 2019 Incentive Plan (with PSU awards reflected at “target” levels),
- (4) Amount represents 9,180,697 shares remaining available for future issuance under the 2019 Incentive. The number of shares of our common stock initially reserved for issuance under awards granted pursuant to the 2019 Incentive Plan is equal to 11,700,000 shares. In no event will more than 11,700,000 shares be issued pursuant to awards under the 2019 Incentive Plan.

## Performance Graph

The following graph compares the cumulative total return, from the date of the Company's initial public offering ("IPO") through December 31, 2022, to shareholders of Parsons Corporation common stock relative to the cumulative total returns of the Russell 2000 Index and the Standard and Poor's IT Consulting & Other Services Index. The graph assumes that the value of the initial investment in our common stock and each of the two indexes was \$100 on May 8, 2019, the date of the Company's IPO, and tracks it through December 31, 2022 (including reinvestment of dividends). The stock performance included in this graph is not necessarily indicative of future stock price performance.

### COMPARISON OF 44 MONTH CUMULATIVE TOTAL RETURN\*

Among Parsons Corp., the Russell 2000 Index  
and the S&P Composite 1500 IT Consulting & Other Services Index



\*\$100 invested on 5/8/19 in stock or 4/30/19 in index, including reinvestment of dividends.  
Fiscal year ending December 31.

Copyright© 2023 Standard & Poor's, a division of S&P Global. All rights reserved.  
Copyright© 2023 Russell Investment Group. All rights reserved.

|  | <u>5/8/19</u> | <u>12/19</u>  | <u>12/20</u>  | <u>12/21</u>  | <u>12/22</u>  |
|--|---------------|---------------|---------------|---------------|---------------|
| <b>Parsons Corp.</b> .....   | <b>100.00</b> | <b>137.28</b> | <b>121.08</b> | <b>111.91</b> | <b>153.81</b> |
| <b>Russell 2000</b> .....  | <b>100.00</b> | <b>105.95</b> | <b>127.10</b> | <b>145.93</b> | <b>116.11</b> |
| <b>S&amp;P Composite 1500 IT Consulting &amp; Other Services</b> ..... | <b>100.00</b> | <b>103.18</b> | <b>117.05</b> | <b>161.45</b> | <b>123.35</b> |

## Securities Authorized for Issuance Under Equity Compensation Plans

The information required by this item with respect to our equity compensation plans is incorporated by reference to our 2023 Proxy Statement.

## Recent Sales of Unregistered Securities

None.

## Issuer Purchases of Equity Securities

On August 9, 2021, the Company's Board of Directors authorized the Company to acquire a number of shares of Common Stock having an aggregate market value of not greater than \$100,000,000 from time to time, commencing on August 12, 2021. Repurchased shares of common stock are retired and included in "Repurchases of common stock" in cash flows from financing activities in the Consolidated Statements of Cash Flows. As of December 31, 2022, the Company has spent \$43.7 million (which includes commissions paid of \$24 thousand) repurchasing 1,193,466 shares of Common Stock at an average price of \$36.62 per share.

The following table presents the Company's purchase of equity securities for the three months ended December 31, 2022.

| Period                       | (a)<br>Total number<br>of shares (or<br>units<br>purchased) | (b)<br>Average price<br>paid per share<br>(or unit) (1) | (c)<br>Total number<br>of shares (or<br>units)<br>purchased as<br>part of publicly<br>announced<br>plans or<br>programs | (d)<br>Maximum<br>number (or<br>approximate<br>dollar value) of<br>shares (or<br>units) that may<br>yet be<br>purchased<br>under the plans<br>programs |
|------------------------------|---|---|---|--|
| October 1 to 31, 2022 .....  | —   | \$ —  | —   | \$58,799,141   |
| November 1 to 30, 2022 ..... | —   | \$ —  | —   | 58,799,141   |
| December 1 to 31, 2022 ..... | 52,432  | \$47.68   | 52,432  | 56,299,193   |
| Total .....                  | <u>52,432</u>   | \$47.68   | <u>52,432</u>   | \$56,299,193   |

(1) Includes commissions and calculated at the average price per share

## Item 6. Reserved

## Item 7. 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 Annual Report on Form 10-K.*

*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." Actual results may differ materially from those contained in any forward-looking statements.*



# PARSONS CORPORATION

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

## SEGMENTS



### Critical Infrastructure

Lead smart, sustainable infrastructure deployment



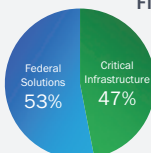
### Federal Solutions

Deliver information dominance across all domains

## FINANCIAL SNAPSHOT

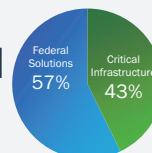
**\$4.2B**

Total Revenue  
(FY 2022)



**\$353M**

Adjusted EBITDA  
(FY 2022)



## KEY FACTS AND FIGURES



**78**

Years Of History



**~ 17K**

Employees



**\$238M**

Cash Flow From Operations  
(FY 2022)



**1.0X**

Book-To-Bill Ratio  
(FY 2022)



**\$8.2B**

Backlog As Of  
12/31/2022

## Overview

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

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

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

## Key Metrics

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

|                    | Fiscal Year Ended    |                      |                      |
|--------------------|----------------------|----------------------|----------------------|
|                    | December 31,<br>2022 | December 31,<br>2021 | December 31,<br>2020 |
| Awards .....       | \$4,274,721          | \$4,565,792          | \$4,195,646          |
| Backlog (1) .....  | \$8,179,245          | \$8,346,937          | \$8,093,258          |
| Book-to-Bill ..... | 1.0                  | 1.2                  | 1.1                  |

- (1) Difference between our backlog of \$8.2 billion and our remaining unsatisfied performance obligations, or RUPO, of \$5.7 billion, each as of December 31, 2022, is due to (i) unissued task orders and unexercised option years, to the extent their issuance or exercise is probable, as well as (ii) contract awards, to the extent we believe contract execution and funding is probable.

### Awards

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

The following table summarizes the total value of new awards for the periods presented below (in thousands):

|                               | Fiscal Year Ended    |                      |                      |
|-------------------------------|----------------------|----------------------|----------------------|
|                               | December 31,<br>2022 | December 31,<br>2021 | December 31,<br>2020 |
| Federal Solutions .....       | \$1,921,123          | \$2,458,528          | \$2,175,221          |
| Critical Infrastructure ..... | 2,353,598            | 2,107,264            | 2,020,425            |
| Total Awards .....            | <u>\$4,274,721</u>   | <u>\$4,565,792</u>   | <u>\$4,195,646</u>   |

The change in new awards from year to year is primarily due to ordinary course fluctuations in our business. The volume of contract awards can fluctuate in any given period due to win rate and the timing and size of the awards issued by our customers. The change in new awards in our Federal Solutions segment for the year ended December 31, 2022 when compared to the corresponding period last year was primarily due to a significant contract awarded in the second quarter of 2021. The awards in Critical Infrastructure for the year ended December 31, 2022 were higher primarily due to several new awards and a large contract value increase during 2022.

### 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 (in thousands):

|                                     | As of                |                      |                      |
|-------------------------------------|----------------------|----------------------|----------------------|
|                                     | December 31,<br>2022 | December 31,<br>2021 | December 31,<br>2020 |
| Federal Solutions:                  |                      |                      |                      |
| Funded .....                        | \$1,257,537          | \$1,414,985          | \$1,176,049          |
| Unfunded .....                      | 3,586,791            | 3,906,678            | 4,009,156            |
| Total Federal Solutions .....       | 4,844,328            | 5,321,663            | 5,185,205            |
| Critical Infrastructure:            |                      |                      |                      |
| Funded .....                        | 3,280,701            | 2,957,968            | 2,830,318            |
| Unfunded .....                      | 54,216               | 67,306               | 77,735               |
| Total Critical Infrastructure ..... | 3,334,917            | 3,025,274            | 2,908,053            |
| Total Backlog (1) .....             | <u>\$8,179,245</u>   | <u>\$8,346,937</u>   | <u>\$8,093,258</u>   |

- (1) Difference between our backlog of \$8.2 billion and our RUPO of \$5.7 billion, each as of December 31, 2022, is due to (i) unissued task orders and unexercised option years, to the extent their issuance or exercise is probable, as well as (ii) contract awards, to the extent we believe contract execution and funding is probable.

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

We expect to recognize \$3.1 billion of our funded backlog at December 31, 2022 as revenues in the following twelve months. However, our U.S. federal government customers may cancel their contracts with us at any time through a termination for convenience or may elect to not exercise option periods under such contracts. In the case of a termination for convenience, we would not receive anticipated future revenues, but would generally be permitted to recover all or a portion of our incurred costs and fees for work performed. See “Risk Factors—Risks Relating to Our Business—We may not realize the full value of our backlog, which may result in lower than expected revenue.”

The change in backlog in our Federal Solutions segment between 2022 and 2021 was impacted by from higher revenue activity in 2022 compared to 2021, partially offset by contributions of \$0.2 billion from business acquisitions. The change in backlog in our Critical Infrastructure segment between 2022 and 2021 was primarily from ordinary course fluctuations in our business and the impacts related to awards discussed above. The changes in backlog in our Federal Solutions segment between 2021 and 2020 included contributions of \$0.1 billion from business acquisitions. The change in backlog in our Critical Infrastructure segment between 2021 and 2020 was primarily from ordinary course fluctuations in our business and the impacts related to awards discussed above. Our backlog will fluctuate in any given period based on the volume of awards issued and the rate of revenue generated from our existing contracts.

### ***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:

|                                   | Fiscal Year Ended    |                      |                      |
|-----------------------------------|----------------------|----------------------|----------------------|
|                                   | December 31,<br>2022 | December 31,<br>2021 | December 31,<br>2020 |
| Federal Solutions . . . . .       | 0.9                  | 1.3                  | 1.1                  |
| Critical Infrastructure . . . . . | 1.2                  | 1.2                  | 1.0                  |
| Overall . . . . .                 | 1.0                  | 1.2                  | 1.1                  |

### **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 well positioned to take advantage of the markets in which we operate because of our proven track record, long-term customer relationships, technology innovation, scalable and agile business offerings and world class talent. Our ability to effectively deliver on project engagements and successfully assist our customers affects our ability to win new contracts and drives our financial performance.

## ***Acquired Operations***

### ***Xator Corporation***

On May 31, 2022, the Company acquired Xator Corporation for \$388.3 million. This strategic acquisition expands Parsons' presence within the U.S. Special Operations Command, the Intelligence Community, Federal Civilian customers, and global critical infrastructure markets, while providing new customer access at the Department of State. Xator also expands Parsons' customer base and brings differentiated technical capabilities in critical infrastructure protection, counter-unmanned aircraft systems (cUAS), intelligence and cyber solutions, biometrics, and global threat assessment and operations, increasing our addressable market in both the Federal Solutions and Critical Infrastructure segments. The financial results of Xator have been included in our consolidated results of operations from May 31, 2022 onward.

### ***BlackHorse Solutions, Inc.***

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

### ***Echo Ridge LLC***

On July 30, 2021, the Company acquired Echo Ridge for \$9.0 million. Echo Ridge adds position, navigation, and timing devices; modeling, simulation, test, and measurement tools; and deployable software defined radio products and signal processing services to Parsons' space portfolio. The acquisition was entirely funded by cash on-hand. The financial results of Echo Ridge have been included in our consolidated results of operations from July 30, 2021 onward.

### *Braxton Science & Technology Group, LLC*

On November 19, 2020, we acquired Braxton for \$310.9 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 enter into the following types of contracts with our customers:

- Under cost-plus contracts, we are reimbursed for allowable or otherwise defined costs incurred, plus a fee. The contracts may also include incentives for various performance criteria, including quality, timeliness, safety and cost-effectiveness. In addition, costs are generally subject to review by clients and regulatory audit agencies, and such reviews could result in costs being disputed as non-reimbursable under the terms of the contract.
- Under time-and-materials contracts, hourly billing rates are negotiated and charged to clients based on the actual time spent on a project. In addition, clients reimburse actual out-of-pocket costs for other direct costs and expenses that are incurred in connection with the performance under the contract.
- Under fixed-price contracts, clients pay an agreed fixed-amount negotiated in advance for a specified scope of work.

Refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates” and “Note 2—*Summary of Significant Accounting Policies*” in the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for a description of our policies on revenue recognition applicable to each type of contract.



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

|                          | Fiscal Year Ended    |                      |                      |
|--------------------------|----------------------|----------------------|----------------------|
|                          | December 31,<br>2022 | December 31,<br>2021 | December 31,<br>2020 |
| Fixed-price .....        | 27%                  | 26%                  | 32%                  |
| Time-and-materials ..... | 28%                  | 28%                  | 26%                  |
| Cost-plus .....          | 45%                  | 46%                  | 42%                  |

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

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

The Company is involved in a significant volume of contracts with the United States federal government and state and local governments. Approximately 53%, 52%, and 49% of consolidated revenues for the years ended December 31, 2022, December 31, 2021 and December 31, 2020, respectively were derived from contracts with the United States federal government. No other customers represented 10% or more of consolidated revenues or accounts receivable in any of the periods presented.

### ***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 of unconsolidated joint ventures. Our revenues included \$215.2 million in 2022, \$204.7 million in 2021, and \$172.2 million in 2020 related to services we provided to our unconsolidated joint ventures.

### ***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. In 2022, 2021 and 2020, we made annual contributions to the ESOP in the amount of 8% of the participants' cash compensation for the applicable year. Total ESOP contribution expense was \$54.7 million for 2022, \$54.9 million for 2021, and \$55.3 million for fiscal 2020, and is recorded in "Direct cost of contracts" and "Selling,

general and administrative expenses.” We expect operating expenses to increase due to our anticipated growth. However, on a forward-looking basis, we generally expect these costs to decline as a percentage of our total revenue as we realize the benefits of scale.

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, Credit Agreement and Delayed Draw Term Loan.

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.

### ***Year ended December 31, 2022 compared to year ended December 31, 2021***

The following table sets forth our results of operations for fiscal 2022 and fiscal 2021 as a percentage of revenue.

|   | <b>Fiscal Year Ended</b>     |                              |
|---|------------------------------|------------------------------|
|   | <b>December 31,<br/>2022</b> | <b>December 31,<br/>2021</b> |
| Revenues .....  | 100.0%                       | 100.0%                       |
| Direct costs of contracts .....                           | 77.4%                        | 76.7%                        |
| Equity in earnings of unconsolidated joint ventures ..... | 0.4%                         | 1.0%                         |
| Selling, general and administrative expenses .....        | 18.5%                        | 20.7%                        |
| Operating income .....                                    | 4.4%                         | 3.6%                         |
| Interest income .....                                     | 0.0%                         | 0.0%                         |
| Interest expense .....                                    | (0.6)%                       | (0.5)%                       |
| Other income, net .....                                   | 0.1%                         | (0.1)%                       |
| Total other income benefit (expense) .....                | (0.5)%                       | (0.5)%                       |
| Income before income tax expense .....                    | 4.0%                         | 3.1%                         |
| Income tax benefit (expense) .....                        | (0.9)%                       | (0.6)%                       |
| Net income including noncontrolling interests .....       | 3.0%                         | 2.4%                         |
| Net income attributable to noncontrolling interests ..... | (0.7)%                       | (0.7)%                       |
| Net income attributable to Parsons Corporation .....      | 2.3%                         | 1.8%                         |

### Revenue

| (U.S. dollars in thousands) | Fiscal Year Ended    |                      | Variance  |         |
|-----------------------------|----------------------|----------------------|-----------|---------|
|                             | December 31,<br>2022 | December 31,<br>2021 | Dollar    | Percent |
| Revenue .....               | \$4,195,272          | \$3,660,771          | \$534,501 | 14.6%   |

Revenue for the year ended December 31, 2022 compared to the prior year increased \$534.5 million. This increase was primarily due to an increase in revenue in our Federal Solutions segment of \$324.9 million and an increase in our Critical Infrastructure segment of \$209.6 million. See “—Segment Results” below for further discussion.

### Direct costs of contracts

| (U.S. dollars in thousands)    | Fiscal Year Ended    |                      | Variance  |         |
|--------------------------------|----------------------|----------------------|-----------|---------|
|                                | December 31,<br>2022 | December 31,<br>2021 | Dollar    | Percent |
| Direct cost of contracts ..... | \$3,248,550          | \$2,807,950          | \$440,600 | 15.7%   |

Direct cost of contracts for the year ended December 31, 2022 compared to the prior year increased \$440.6 million. This increase was primarily due to an increase in direct cost of contracts in our Federal Solutions segment of \$272.6 million and an increase in our Critical Infrastructure segment of \$168.0 million. The increases were primarily due to an increase in business volume from recent contract awards and business acquisitions.

### Equity in earnings of unconsolidated joint ventures

| (U.S. dollars in thousands)                               | Fiscal Year Ended    |                      | Variance   |         |
|---|----------------------|----------------------|------------|---------|
|   | December 31,<br>2022 | December 31,<br>2021 | Dollar     | Percent |
| Equity in earnings of unconsolidated joint ventures ..... | \$16,347             | \$36,862             | \$(20,515) | (55.7)% |

Equity in earnings of unconsolidated joint ventures for the year ended December 31, 2022 decreased by \$20.5 million compared to the prior year. The decrease was primarily related to change orders which delayed joint venture profits to future periods and a reduction in activity.

### Selling, general and administrative expenses

| (U.S. dollars in thousands)                        | Fiscal Year Ended    |                      | Variance |         |
|--|----------------------|----------------------|----------|---------|
|  | December 31,<br>2022 | December 31,<br>2021 | Dollar   | Percent |
| Selling, general and administrative expenses ..... | \$777,403            | \$757,237            | \$20,166 | 2.7%    |

SG&A expenses for the year ended December 31, 2022 increased by \$20.1 million compared to the prior year. The increase in SG&A was primarily due to a \$17.2 million increase from business acquisitions, a \$12.6 million increase related to investments in future growth and general increases in operating costs, a \$9.0 million increase in incentives, a \$6.2 million increase in transaction related costs primarily related to business acquisition activity, and a \$4.8 million increase in compensation costs related to equity-based awards. These increases were partially offset by a \$25.0 million decrease in intangible asset amortization primarily related to the drop-off in intangible asset amortization from the Company’s older acquisitions offset by intangible amortization from the Company’s more recent acquisitions and a reduction in the Company’s liability insurance costs of \$4.6 million.

*Total other (expense) income*

| (U.S. dollars in thousands)        | Fiscal Year Ended    |                      | Variance      |               |
|------------------------------------|----------------------|----------------------|---------------|---------------|
|                                    | December 31,<br>2022 | December 31,<br>2021 | Dollar        | Percent       |
| Interest income .....              | \$ 966               | \$ 396               | \$ 570        | 143.9%        |
| Interest expense .....             | (23,185)             | (17,697)             | (5,488)       | (31.0)%       |
| Other income (expense), net .....  | 2,775                | (2,557)              | 5,332         | (208.5)%      |
| Total other income (expense) ..... | <u>\$(19,444)</u>    | <u>\$(19,858)</u>    | <u>\$ 414</u> | <u>(2.1)%</u> |

Interest expense increased for the year ended December 31, 2022 compared to the corresponding period last year primarily due to interest expense from borrowings under the Credit Agreement and Delayed Draw Term Loan, neither of which had outstanding balances during the year ended December 31, 2021. Interest expense for the year ended December 31, 2022 included \$2.1 million associated with a make-whole payment and remaining unamortized debt issuance costs resulting from the repayment of all outstanding Senior Notes under the Company's Private Placement.

The amounts in other income (expense), net, are primarily related to transaction gains and losses on foreign currency transactions and sublease income.

*Income tax expense*

| (U.S. dollars in thousands) | Fiscal Year Ended    |                      | Variance |         |
|-----------------------------|----------------------|----------------------|----------|---------|
|                             | December 31,<br>2022 | December 31,<br>2021 | Dollar   | Percent |
| Income tax expense .....    | \$39,657             | \$23,636             | \$16,021 | 67.8%   |

Income tax expense increased in fiscal 2022 primarily due to an increase in earnings and a decrease in foreign tax credits, partially offset by a change in jurisdictional mix of earnings and nonrecurring write down of a foreign tax receivable included in 2021.

Our effective tax rate was 23.9% and 21.0% for the years ended December 31, 2022 and 2021, respectively. The difference between the statutory U.S. federal income tax rate of 21% and the effective tax rate for the year ended December 31, 2022 primarily relates to state income taxes and a recorded valuation allowance on foreign tax credit carryovers, offset in part by benefits related to income attributable to noncontrolling interest, earnings in lower tax jurisdictions and federal research tax credits. For the year ended December 31, 2021, the difference primarily relates to state income taxes and a recorded valuation allowance on foreign tax credit carryovers, a write down of a foreign tax receivable and an increase in executive compensation subject to IRC Section 162(m) limitations, offset by benefits related to income attributable to noncontrolling interest, release of uncertain tax positions, and federal research tax credits.

Effective for tax year 2022, the Tax Cuts and Jobs Act of 2017 eliminated the option to currently deduct research and development expenditures in the year incurred and requires taxpayers to amortize such expenditures over five years for tax purposes (15 years for foreign research and development expenditures). This provision resulted in additional cash tax liability and additional net deferred tax assets for the 2022 tax year of approximately \$16 million. This 2022 additional cash tax liability was offset by other carryforward tax attributes. This provision is expected to increase our 2023 cash tax liability by approximately \$12 million. The actual impact on 2023 cash tax liability will depend on the actual amount of research and development expenses incurred in 2023, among other factors. While the largest impact of this provision will be to our 2022 cash tax liability, the impact will continue to decline over the five-year amortization period and is expected to have an immaterial impact beginning in year six.

***Year ended December 31, 2021 compared to year ended December 31, 2020***

The following table sets forth our results of operations for fiscal 2021 and fiscal 2020 as a percentage of revenue.

|   | Fiscal Year Ended    |                      |
|---|----------------------|----------------------|
|   | December 31,<br>2021 | December 31,<br>2020 |
| Revenues .....  | 100.0%               | 100.0%               |
| Direct costs of contracts .....                           | 76.7%                | 77.6%                |
| Equity in earnings of unconsolidated joint ventures ..... | 1.0%                 | 0.8%                 |
| Selling, general and administrative expenses .....        | 20.7%                | 18.6%                |
| Operating income .....                                    | 3.6%                 | 4.5%                 |
| Interest income .....                                     | 0.0%                 | 0.0%                 |
| Interest expense .....                                    | (0.5)%               | (0.5)%               |
| Other income, net .....                                   | (0.1)%               | 0.1%                 |
| Total other income benefit (expense) .....                | (0.5)%               | (0.4)%               |
| Income before income tax expense .....                    | 3.1%                 | 4.1%                 |
| Income tax benefit (expense) .....                        | (0.6)%               | (1.1)%               |
| Net income including noncontrolling interests .....       | 2.4%                 | 3.0%                 |
| Net income attributable to noncontrolling interests ..... | (0.7)%               | (0.5)%               |
| Net income attributable to Parsons Corporation .....      | 1.8%                 | 2.5%                 |

***Revenue***

| (U.S. dollars in thousands) | Fiscal Year Ended    |                      | Variance    |         |
|-----------------------------|----------------------|----------------------|-------------|---------|
|                             | December 31,<br>2021 | December 31,<br>2020 | Dollar      | Percent |
| Revenue .....               | \$3,660,771          | \$3,918,946          | \$(258,175) | -6.6%   |

Revenue for the year ended December 31, 2021 compared to the prior year decreased \$258.2 million. This decrease was primarily due to a decrease in revenue in our Critical Infrastructure segment of \$234.3 million and a decrease in our Federal Solutions segment of \$23.8 million. See “—Segment Results” below for further discussion.

***Direct costs of contracts***

| (U.S. dollars in thousands)    | Fiscal Year Ended    |                      | Variance    |         |
|--------------------------------|----------------------|----------------------|-------------|---------|
|                                | December 31,<br>2021 | December 31,<br>2020 | Dollar      | Percent |
| Direct cost of contracts ..... | \$2,807,950          | \$3,042,087          | \$(234,137) | -7.7%   |

Direct cost of contracts decreased in 2021 primarily due to a decrease of \$197.0 million in our Critical Infrastructure segment and a decrease of \$37.1 million in our Federal Solutions segment. The decrease was primarily attributable to a decrease in business volume on contracts with significant pass-through costs and a decrease in business volume from project completions and transitions.

*Equity in earnings of unconsolidated joint ventures*

| (U.S. dollars in thousands)                                   | Fiscal Year Ended |                   | Variance |         |
|---|-------------------|-------------------|----------|---------|
|   | December 31, 2021 | December 31, 2020 | Dollar   | Percent |
| Equity in earnings of unconsolidated joint ventures . . . . . | \$36,862          | \$30,059          | \$6,803  | 22.6%   |

Equity in earnings of unconsolidated joint ventures increased in fiscal 2021 primarily due to \$7.5 million from newly started joint ventures in 2021. The remaining fluctuation was due to decreases associated with the timing of the completion of joint ventures and other small changes across multiple joint ventures as part of ordinary course timing fluctuations in our business. In addition, there were offsetting write-downs of \$15.6 million and \$15.5 million in 2021 and 2020, respectively, on a project in the Critical Infrastructure segment.

*Selling, general and administrative expenses*

| (U.S. dollars in thousands)                            | Fiscal Year Ended |                   | Variance |         |
|--|-------------------|-------------------|----------|---------|
|  | December 31, 2021 | December 31, 2020 | Dollar   | Percent |
| Selling, general and administrative expenses . . . . . | \$757,237         | \$729,103         | \$28,134 | 3.9%    |

SG&A expenses for the years ended December 31, 2021 and December 31, 2020 include \$19.6 million and \$9.8 million, respectively, of compensation cost associated with 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. Subsequent to the IPO, the share price of the Company's common stock is based on quoted prices on the New York Stock Exchange. The plans in which these awards were granted have been frozen and the Company does not currently intend to grant any further cash settled equity-based awards.

Excluding the compensation costs discussed above, SG&A for the years ended December 31, 2021 and December 31, 2020 was \$737.6 million and \$719.3 million, respectively.

The increase in SG&A of \$18.3 million, exclusive of equity compensation cost, was primarily due to additional expenses of \$25.4 million associated with business acquisitions and \$15.3 million intangible asset amortization. These increases were partially offset by \$8.7 million reduction in transaction-related costs, \$11.9 million reduction in incentive costs, and \$1.8 million in other costs.

*Total other (expense) income*

| (U.S. dollars in thousands)            | Fiscal Year Ended  |                    | Variance          |              |
|--|--------------------|--------------------|-------------------|--------------|
|  | December 31, 2021  | December 31, 2020  | Dollar            | Percent      |
| Interest income . . . . .              | \$ 396             | \$ 787             | \$ (391)          | (49.7)%      |
| Interest expense . . . . .             | (17,697)           | (20,956)           | 3,259             | (15.6)%      |
| Other income (expense), net . . . . .  | (2,557)            | 3,767              | (6,324)           | (167.9)%     |
| Total other income (expense) . . . . . | <u>\$ (19,858)</u> | <u>\$ (16,402)</u> | <u>\$ (3,456)</u> | <u>21.1%</u> |

Interest expense decreased in 2021 primarily due to early adoption of ASU 2020-06 in the first quarter of 2021, resulting in no interest expense related to amortization of the debt discount during 2021 compared to \$3.8



million in 2020. Refer to “Note 2 – Summary of Significant Accounting Policies” and “Note 11 – Debt and Credit Facilities” in the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The amounts in other income (expense), net, are primarily related to transaction gains and losses on foreign currency transactions and sublease income.

### *Income tax expense*

| (U.S. dollars in thousands)  | Fiscal Year Ended    |                      | Variance   |         |
|------------------------------|----------------------|----------------------|------------|---------|
|                              | December 31,<br>2021 | December 31,<br>2020 | Dollar     | Percent |
| Income tax expense . . . . . | \$23,636             | \$42,492             | \$(18,856) | (44.4)% |

Income tax expense decreased in fiscal 2021 primarily due to an increase in untaxed income attributable to noncontrolling interests, release of a valuation allowance on foreign tax credits, a change in jurisdictional earnings, and a release of uncertain tax positions, partially offset by a write down of a foreign tax receivable and an increase in executive compensation subject to IRC Section 162(m) limitations.

Our effective tax rate was 21.0% and 26.3% for the years ended December 31, 2021 and 2020, respectively. The difference between the statutory U.S. federal income tax rate of 21% and the effective tax rate for the year ended December 31, 2021 primarily relates to state income taxes and a recorded valuation allowance on foreign tax credit carryovers, a write down of a foreign tax receivable and an increase in executive compensation subject to IRC Section 162(m) limitations, offset by benefits related to income attributable to noncontrolling interest, release of uncertain tax positions, and federal research tax credits. For the year ended December 31, 2020, the difference 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 interest and federal research tax credits.

### **Non-GAAP Financial Measures:**

| (U.S. dollars in thousands)          | December 31,<br>2022 | December 31,<br>2021 | December 31,<br>2020 |
|--------------------------------------|----------------------|----------------------|----------------------|
| <b>Other Information:</b>            |                      |                      |                      |
| Adjusted EBITDA (1) . . . . .        | \$352,782            | \$309,720            | \$342,621            |
| Net Income Margin (2) . . . . .      | 3.0%                 | 2.4%                 | 3.0%                 |
| Adjusted EBITDA Margin (3) . . . . . | 8.4%                 | 8.5%                 | 8.7%                 |

- (1) A reconciliation of net income (loss) 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.

|   | December 31,<br>2022 | December 31,<br>2021 | December 31,<br>2020 |
|---|----------------------|----------------------|----------------------|
| Net income attributable to Parsons Corporation . . . . .      | \$ 96,664            | \$ 64,072            | \$ 98,541            |
| Interest expense, net . . . . .                               | 22,219               | 17,301               | 20,169               |
| Income tax expense (benefit) . . . . .                        | 39,657               | 23,636               | 42,492               |
| Depreciation and amortization . . . . .                       | 120,501              | 144,209              | 127,980              |
| Net income attributable to noncontrolling interests . . . . . | 29,901               | 24,880               | 20,380               |
| Equity-based compensation . . . . .                           | 24,354               | 19,601               | 9,785                |

|   | December 31,<br>2022 | December 31,<br>2021 | December 31,<br>2020 |
|---|----------------------|----------------------|----------------------|
| Transaction-related costs (a) . . . . . | 16,270               | 11,965               | 19,922               |
| Restructuring (b) . . . . .             | 213                  | 736                  | 2,193                |
| Other (c) . . . . .                     | 3,003                | 3,320                | 1,159                |
| Adjusted EBITDA . . . . .               | <u>\$352,782</u>     | <u>\$309,720</u>     | <u>\$342,621</u>     |

- (a) Reflects costs incurred in connection with acquisitions, and other non-recurring transaction costs, primarily fees paid for professional services and employee retention.
- (b) Reflects costs associated with and related to 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 included in this Annual Report on Form 10-K because it is 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 to 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 U.S. 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 U.S. GAAP. We define Adjusted EBITDA as net income attributable to Parsons Corporation, adjusted to include net income 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, equity-based compensation, 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 U.S. 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.

See "Segment Results" below and "Note 20—*Segments Information*" in the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for further discussion regarding our segment Adjusted EBITDA attributable to Parsons Corporation

## 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.

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

| (U.S. dollars in thousands)  | Fiscal Year Ended    |                      |                      |
|--|----------------------|----------------------|----------------------|
|  | December 31,<br>2022 | December 31,<br>2021 | December 31,<br>2020 |
| Federal Solutions Adjusted EBITDA                                  |                      |                      |                      |
| attributable to Parsons Corporation . . . . .                      | \$199,004            | \$162,733            | \$167,340            |
| Critical Infrastructure Adjusted EBITDA                            |                      |                      |                      |
| attributable to Parsons Corporation . . . . .                      | 123,385              | 121,700              | 154,528              |
| Adjusted EBITDA attributable to noncontrolling interests . . . . . | 30,393               | 25,287               | 20,753               |
| Total Adjusted EBITDA . . . . .                                    | <u>\$352,782</u>     | <u>\$309,720</u>     | <u>\$342,621</u>     |

***Year ended December 31, 2022 compared to year ended December 31, 2021***

***Federal Solutions***

| (U.S. dollars in thousands)                                   | The Year Ended       |                      | Variance  |         |
|---|----------------------|----------------------|-----------|---------|
|   | December 31,<br>2022 | December 31,<br>2021 | Dollar    | Percent |
| Revenue . . . . .   | \$2,212,987          | \$1,888,050          | \$324,937 | 17.2%   |
| Adjusted EBITDA attributable to Parsons Corporation . . . . . | \$ 199,004           | \$ 162,733           | \$ 36,271 | 22.3%   |

The increase in Federal Solutions revenue for the year ended December 31, 2022 compared to the corresponding period last year was primarily due to increases from business acquisitions of \$205 million, and increases in business volume from recent contract awards and increased activity on existing contracts.

The increase in Federal Solutions Adjusted EBITDA attributable to Parsons Corporation for the year ended December 31, 2022 compared to the prior year was primarily due to increases in business volume, increases related to acquisitions, and a write down on a project in the corresponding period last year.

***Critical Infrastructure***

| (U.S. dollars in thousands)                                   | The Year Ended       |                      | Variance  |         |
|---|----------------------|----------------------|-----------|---------|
|   | December 31,<br>2022 | December 31,<br>2021 | Dollar    | Percent |
| Revenue . . . . .   | \$1,982,285          | \$1,772,721          | \$209,564 | 11.8%   |
| Adjusted EBITDA attributable to Parsons Corporation . . . . . | \$ 123,385           | \$ 121,700           | \$ 1,685  | 1.4%    |

The increase in revenue for the year ended December 31, 2022 compared to the corresponding period last year was primarily due to an increase in business volume from recent contract awards, increased activity on existing contracts, increased hiring activity, and write downs on projects in the corresponding period last year.

The increase in Critical Infrastructure Adjusted EBITDA attributable to Parsons for the year ended December 31, 2022 compared to the corresponding period last year was primarily due to increases in business volume, partially offset by reduced equity in earnings of \$21.9 million and increased SG&A.

***Year ended December 31, 2021 compared to year ended December 31, 2020***

***Federal Solutions***

| (U.S. dollars in thousands)                               | The Year Ended       |                      | Variance   |         |
|---|----------------------|----------------------|------------|---------|
|   | December 31,<br>2021 | December 31,<br>2020 | Dollar     | Percent |
| Revenue .....   | \$1,888,050          | \$1,911,910          | \$(23,860) | -1.2%   |
| Adjusted EBITDA attributable to Parsons Corporation ..... | \$ 162,733           | \$ 167,340           | \$ (4,607) | -2.8%   |

The decrease in Federal Solutions revenue for the year ended December 31, 2021 compared to the corresponding period last year was primarily due to a decrease in business volume from program completions and transitions, a reserve taken on a program, and the competitive hiring environment for cleared personnel. The decreases were partially offset by increases from business acquisitions of \$160.8 million.

The decrease in Federal Solutions Adjusted EBITDA attributable to Parsons Corporation for the year ended December 31, 2021 compared to the prior year was primarily due to a \$5.5 million net impact from a reserve taken on a program during 2021, compared to a \$13.9 million incentive fee recognized during 2020, partially offset by an increase related to business acquisitions.

***Critical Infrastructure***

| (U.S. dollars in thousands)                               | The Year Ended       |                      | Variance    |         |
|---|----------------------|----------------------|-------------|---------|
|   | December 31,<br>2021 | December 31,<br>2020 | Dollar      | Percent |
| Revenue .....   | \$1,772,721          | \$2,007,036          | \$(234,315) | -11.7%  |
| Adjusted EBITDA attributable to Parsons Corporation ..... | \$ 121,700           | \$ 154,528           | \$ (32,828) | -21.2%  |

The decrease in revenue for the year ended December 31, 2021 compared to the corresponding period last year was primarily related to a decrease in business volume from program completions and transitions, lower pass through revenue, and write downs on projects during the year.

The decrease in Critical Infrastructure Adjusted EBITDA attributable to Parsons for the year ended December 31, 2021 compared to the corresponding period last year was primarily due to write downs on projects and a decrease in business volume.

**Liquidity and Capital Resources**

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

Generally, cash provided by operating activities has been adequate to fund our operations. Due to fluctuations in our cash flows and growth in our operations, it may be necessary from time to time in the future to borrow under 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 and Delayed Draw Term Loan.

As of December 31, 2022, we believe we have adequate liquidity and capital resources to fund our operations, support our debt service and support our ongoing acquisition strategy for at least the next twelve months based on the liquidity from cash provided by our operating activities, cash and cash equivalents on-hand and our borrowing capacity under our Revolving Credit Facility.

During October 2022, we prepaid the private placement debt of \$200.0 million with borrowings under the revolving credit facility and subsequently borrowed \$350.0 million on the 2022 Delayed Draw Term Loan. Proceeds from the Delayed Draw Term Loan were used to pay down the borrowings under the revolving credit facility. See “Note 11 – Debt and Credit Facilities” in the notes to the consolidated financial statements in this Form 10-K 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.

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.

Accounts receivable is the principal component of our working capital and is generally driven by revenue growth. Accounts receivable includes billed and unbilled amounts. The total amount of our accounts receivable can vary significantly over time but is generally sensitive to revenue levels. We experience delays in collections from time to time from Middle East customers. Net days sales outstanding, which we refer to as net DSO, is calculated by dividing (i) accounts receivable (net of project accruals, billings in excess of revenue and 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 69 days at December 31, 2022, up from 68 days at December 31, 2021. DSO was 64 days at December 31, 2020. Our working capital (current assets less current liabilities) was \$611.7 million at December 31, 2022, \$601.6 million at December 31, 2021 and \$655.7 million at December 31, 2020.

Our cash, cash equivalents and restricted cash decreased by \$81.3 million to \$262.5 million at December 31, 2022 from \$343.9 million at December 31, 2021. This compares to a decrease in cash, cash equivalents and restricted cash of \$143.3 million to \$343.9 million at December 31, 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):

|  | Fiscal Year Ended    |                      |                      |
|--|----------------------|----------------------|----------------------|
|  | December 31,<br>2022 | December 31,<br>2021 | December 31,<br>2020 |
| Net cash provided by operating activities . . . . .            | \$ 237,526           | \$ 205,574           | \$ 289,161           |
| Net cash used in investing activities . . . . .                | (417,468)            | (240,907)            | (346,369)            |
| Net cash provided by (used in) financing activities . . . . .  | 100,368              | (106,503)            | 348,226              |
| Effect of exchange rate changes . . . . .                      | (1,770)              | (1,496)              | 823                  |
| Net (decrease) increase in cash and cash equivalents . . . . . | <u>\$ (81,344)</u>   | <u>\$ (143,332)</u>  | <u>\$ 291,841</u>    |

### *Operating Activities*

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

Net cash provided by operating activities increased \$32.0 million to \$237.5 million during 2022 compared to \$205.6 million during 2021. The increase in net cash provided by operating activities is primarily due to a \$40.4 million change in net income after adjusting for non-cash items and a change in the use of cash related to other long-term liabilities of \$50.1 million. The long-term liabilities change was primarily driven by CARES Act deferrals from 2020 being reclassified from long-term to short-term at the end of 2021 and long-term portion of insurance reserve reduction during 2021. These increases were offset primarily from changes in our working capital accounts of \$58.5 million (primarily from accounts receivable and contract assets, offset by accrued expenses, contract liabilities, accounts payable and prepaid expenses). Net DSO increased one day to 69 days as of December 31, 2022, compared to 68 as of December 31, 2021.

Net cash provided by operating activities decreased \$83.6 million to \$205.6 million during 2021 compared to \$289.2 million during 2020. The decrease in net cash provided by operating activities is primarily due to a \$32.9 million change in net income after adjusting for non-cash items and a change in the use of cash related to our working capital accounts of \$35.6 million (primarily from accounts receivable, contract assets, prepaid expenses and current assets, offset by accounts payable and accrued expenses). Under the CARES Act, the Company received a net cash benefit in 2020 of \$35.2 million from the deferral of social security taxes otherwise due from April 10, 2020 through the year ended December 31, 2020. One-half of the deferred amount was paid during the third quarter of 2021. The decrease was also due to a \$15.0 million change in other long-term liabilities. Net DSOs increased from 64 days to 68 days primarily driven by the change in our working capital accounts discussed above.

### *Investing Activities*

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

Net cash used in investing activities increased \$176.6 million to \$417.5 million during 2022 compared to \$240.9 million during 2021, primarily due to the use of \$379.5 million, net of cash acquired during 2022 for the acquisition of Xator compared to the use of cash of \$189.6 million, net of cash acquired, for the acquisition of BlackHorse and the use of \$8.7 million, net of cash acquired, for the acquisition of Echo Ridge, both in 2021. Also impacting the increase in cash used in investing activities was a decrease in proceeds from sale of investments in unconsolidated joint ventures to zero during 2022 compared to \$14.8 million during 2021. These increases in cash used in investment activities were offset in part by a \$20.8 million decrease in investments in unconsolidated joint ventures.

Net cash used in investing activities decreased \$105.5 million to \$240.9 million during 2021 compared to \$346.4 million during 2020, primarily due to the use of \$189.6 million, net of cash acquired, for the acquisition of BlackHorse and the use of \$8.7 million, net of cash acquired, for the acquisition of Echo Ridge in 2021, compared to \$302.4 million, net of cash acquired, for the acquisition of Braxton in 2020. Net cash used in investing activities also decreased due to proceeds from sale of investments in unconsolidated joint ventures of \$14.8 million and a decrease in cash used for capital expenditures of \$12.9 million, offset by increased investments in unconsolidated joint ventures of \$27.4 million.



### *Financing Activities*

Net cash provided by (used in) financing activities is primarily associated with proceeds from debt, the repayment thereof, transactions related to the Company's common stock, and contributions by and distributions to noncontrolling interests.

Net cash provided by (used in) financing activities increased \$206.9 million to \$100.4 million in 2022 compared to \$(106.5) million in 2021. Cash provided by financing activities in 2022 included \$916.0 million in proceeds from borrowings under our credit agreement and \$350 million in proceeds from the Delayed Draw Term Loan. These increases in cash provided by financing activities were offset in part by a change in repayments borrowings under our credit agreement of \$866.0 million and a \$200 million repayment under our private placement debt.

Net cash (used in) provided by financing activities decreased \$454.7 million to \$(106.5) million in 2021 compared to \$348.2 million in 2020. 2021 activities include repayment of the \$50.0 million Series A tranche of our Senior Note during July 2021, repurchases of common stock of \$21.7 million and increased distributions to noncontrolling interests of \$32.1 million, compared to \$348.5 million of net proceeds from the issuance of Convertible Senior Notes in 2020.

### *Letters of Credit*

We also 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 \$222.5 million as of December 31, 2022. Letters of credit outstanding under the Credit Agreement total \$44.5 million.

## **Critical Accounting Policies and Estimates**

Our significant accounting policies are described in "Note 2—*Summary of Significant Accounting Policies*" in the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K. Management makes estimates and judgments in preparing our consolidated financial statements. These estimates and judgments affect the reported amounts of certain assets and liabilities and the revenues and expenses reported for the periods presented in the consolidated financial statements. Although such estimates and assumptions are based on information available through the date of the issuance of our consolidated financial statements, actual results could differ significantly from those estimates and assumptions. Our estimates, judgments and assumptions are evaluated periodically and adjusted accordingly.

We believe that the following items are the most critical accounting policies and estimates that involved significant judgment as we prepared our financial statements. We consider an accounting policy or estimate to be critical if the policy or estimate requires assumptions to be made that were uncertain at the time they were made and if changes in these assumptions could have a material impact on our financial condition or results of operations.

### *Revenue Recognition and Cost Estimation*

In our industry, recognition of revenue and profit on long-term contracts requires the use of assumptions and estimates related to total contract revenue, total cost at completion, and the measurement of progress towards completion. Estimates are continually evaluated as work progresses and are revised when necessary. When a change in estimate is determined to have an impact on contract revenue or profit, we record a positive or negative adjustment to the consolidated statements of income.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in ASC 606. The transaction price of a contract is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. To the extent a contract is deemed to have multiple performance obligations, we allocate the transaction price of the contract to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. We determine the relative standalone selling price utilizing observable prices for the sale of the underlying goods or services. Contracts are considered to have a single performance obligation if the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts or is not distinct in the context of the contract, which is mainly because we provide a significant service of integrating a complex set of tasks and components into a single project or capability. Engineering and construction contracts are generally accounted for as a single performance obligation, while our engineering and construction supervision contracts are accounted for as two separate performance obligations. When providing construction supervision services, we are not liable for the construction of the asset, but have an overall responsibility to oversee, coordinate, measure, and evaluate the quality of construction work and the performance of the construction contractor on behalf of the customer. Customers are generally billed as we satisfy our performance obligations and payment terms typically range from 30 to 120 days from the invoice date. Billings under certain fixed-price contracts may be based upon the achievement of specified milestones, while some arrangements may require advance customer payment. Our contracts generally do not include a significant financing component.

The transaction price for our contracts may include variable consideration, which includes increases to the transaction price for approved and unpriced change orders, claims and incentives, and reductions to transaction price for liquidated damages. We recognize adjustments in estimated profit on contracts under the cumulative catch-up method. Under this method, the impact of the adjustment on profit recorded to-date is recognized in the period the adjustment is identified. If at any time the estimate of contract profitability indicates an anticipated loss on the contract, we recognize the total loss in the quarter it is identified.

Claims revenue is related to amounts in excess of agreed contract price that we seek to collect from clients or others for customer-caused delays, errors in specifications and designs, contract terminations, change orders that are either in dispute or are unapproved as to both price and scope, or other causes of unanticipated additional contract costs, including factors outside of our control, where we therefore believe we are entitled to additional compensation. Claims revenue, when recorded, is only recorded to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur. We include certain unapproved claims in the transaction price when the claims are legally enforceable, we consider collection to be probable and believe we can reliably estimate the ultimate value. We continue to engage in negotiations with our customers on our outstanding claims. However, these claims may be resolved at amounts that differ from our current estimates, which could result in increases or decreases in future estimated contract profits or losses. Costs related to claims are recognized when they are incurred.

Change orders, which are a normal and recurring part of our business, are generally not distinct and are accounted for as part of the existing contract. The effect of a change order that is not distinct on the transaction price and our measure of progress for the performance obligation to which it relates is recognized on a cumulative catch-up basis. To the extent change orders included in the transaction price are not resolved in our favor, there could be reductions in, or reversals of previously reported amounts of, revenues and profits, and charges against current earnings. Costs relating to change orders are recognized when they are incurred.

We recognize revenue for most of our contracts over time as performance obligations are satisfied, as we are continuously transferring control to the customer. Typically, revenue is recognized over time using an input measure (i.e., costs incurred to date relative to total estimated costs at completion) to measure progress.

We often enter into contracts in which the amount billed to the customer corresponds directly with the amount of work performed. These contract types qualify for the “right to invoice” practical expedient method of measuring progress, in which the right to consideration corresponds directly with the value to the customer of our performance to date. For these contracts, revenue is recognized in the amount that we have the right to invoice.

Provisions for anticipated losses on contracts, including those arising from disputes and other contingencies, are recorded in the period such loss becomes known; provisions not ultimately required are released as disputes or contingencies are resolved.

Contract costs include labor and materials, amounts payable to subcontractors, direct overhead costs and equipment expense (primarily depreciation, fuel, maintenance and repairs). All contract costs are recorded as incurred. Changes to estimated contract costs, either due to unexpected events or revisions to management's initial estimates, for a given project are recognized in the period in which they are determined.

### ***Leases***

We determine if an arrangement is a lease at inception. Operating leases are included in operating lease ROU assets and current and long-term operating lease liabilities in the consolidated balance sheets. Finance leases are included in other noncurrent assets, accrued expenses and other current liabilities and other long-term liabilities in the consolidated balance sheets.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit interest rate, incremental borrowing rates are used based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

We have lease agreements with lease and non-lease components, which are generally accounted for separately. For certain equipment leases, such as vehicles, we account for the lease and non-lease components as a single lease component. Additionally, for certain equipment leases, we apply a portfolio approach to effectively account for the operating lease ROU assets and liabilities.

We have 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 10 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 up to the seventh year.

### ***Business Combinations***

The cost of an acquired company is assigned to the tangible and intangible assets purchased and the liabilities assumed on the basis of their fair values at the date of acquisition. The determination of fair values of assets acquired and liabilities assumed requires us to make estimates and use valuation techniques when a market value is not readily available. Any excess of purchase price over the fair value of tangible and intangible assets acquired and obligations assumed is allocated to goodwill. Goodwill typically represents the value paid for the assembled workforce and enhancement of our service offerings. Transaction costs associated with business combinations are expensed as incurred. The determination of fair values of assets acquired and liabilities assumed requires the Company to make estimates and use valuation techniques when a market value is not readily available. The Company adjusts the preliminary purchase prices allocation, as necessary, during the measurement period of up to one year after the acquisition closing date as the Company obtains more information as to facts and circumstances existing at the acquisition date.

### ***Goodwill and Intangible Assets***

Goodwill is not amortized but is subject to an annual impairment test. Interim testing for impairment is performed if indicators of potential impairment exist. For purposes of impairment testing, goodwill is allocated to

the applicable reporting units based on the current reporting structure. When evaluating goodwill for impairment, we may decide to first perform a qualitative assessment, or “step zero” impairment test, to determine whether it is more likely than not that impairment has occurred. If we do not perform a qualitative assessment, or if we determine that it is not more likely than not that the fair value of our reporting units exceeds their carrying amounts, we perform a quantitative assessment and calculate the estimated fair value of the respective reporting unit. If the carrying amount of a reporting unit’s goodwill exceeds the fair value of that goodwill, an impairment loss is recognized.

Our decision to perform a qualitative impairment assessment in a given year is influenced by a number of factors, including the significance of the excess of our estimated fair value over carrying value at the last quantitative assessment date, the amount of time in between quantitative fair value assessments, and the date of the applicable acquisitions, if any.

We perform a goodwill impairment test annually, on October 1<sup>st</sup> of each year, for each reporting unit that requires certain assumptions and estimates be made regarding industry economic factors and future profitability. For the years ended December 31, 2022, December 31, 2021 and December 31, 2020, we performed a quantitative analysis for all of our reporting units. It was determined that the fair value of each of our reporting units substantially exceeded their carrying values. As a result, no goodwill impairments were identified for those periods.

The goodwill impairment test involves determination of the fair value of our reporting units. This process requires significant judgments and estimates, including assumptions about our strategic plans for operations as well as the interpretation of current economic indicators. Development of the present value of future cash flow projections includes assumptions and estimates derived from a review of our expected revenue growth rates, profit margins, business plans, cost of capital and tax rates. We also make certain assumptions about future market conditions, market prices, interest rates and changes in business strategies. Changes in assumptions or estimates could materially affect the determination of the fair value of a reporting unit. This could eliminate the excess of fair value over carrying value of a reporting unit entirely and, in some cases, result in impairment. Such changes in assumptions could be caused by a loss of one or more significant contracts, reductions in government or commercial client spending, or a decline in the demand for our services due to changing economic conditions. In the event that we determine that our goodwill is impaired, we would be required to record a non-cash charge that could result in a material adverse effect on our results of operations or financial position.

We use the Income Approach and Market Approach (Guideline Transaction and Guideline Company Method) to determine the fair value of reporting units. The Income Approach utilizes the discounted cash flow method, which focuses on the expected cash flow of the reporting unit. In applying this approach, the cash flow is calculated for a finite period of years. Beyond the finite period, a terminal value is developed using a sustainable long-term annual growth rate estimate. Then the finite period cash flows and the terminal value are discounted to present value to arrive at an indication of fair value. We utilized internal financial projections through fiscal 2027. The Market Approach utilizes market comparable transactions and comparable companies to calculate the estimated fair value. The guideline company approach focuses on comparing the reporting unit to select reasonably similar (or “guideline”) publicly traded companies. Under this method, valuation multiples are derived from the median of the operating data of selected guideline companies and applied to the operating data of the reporting unit to arrive at an indicative value. In the similar transactions approach, consideration is given to prices paid in recent transactions that have occurred in the reporting unit’s industry or in related industries. For the Federal Solutions reporting unit, only the Guideline Company Method is used as the Federal Solutions reporting unit has gone through multiple acquisitions during the past two years, thus making Guideline Transaction Method difficult to apply. For the Critical Infrastructure reporting unit, both the Guideline Transaction Method and Guideline Company Method are utilized to calculate the estimated fair value. Equal weighing is given to each of the methods used to estimate the fair value of reporting units. Our last review at October 1, 2022 (i.e., the first day of our fourth quarter in fiscal 2022), indicated that we had no impairment of goodwill, and all of our reporting units had estimated fair values that were in excess of their carrying values, including goodwill.

Intangible assets with finite lives arise from business acquisitions and are amortized based on the period over which the contractual or economic benefit of the intangible assets are expected to be realized or on a straight-line basis over the useful lives of the underlying assets, ranging from one to ten years. These primarily consist of customer relationships, backlog, and covenants not to compete. We assess the recoverability of the unamortized balance of our intangible assets when indicators of impairment are present based on expected future profitability and undiscounted expected cash flows and their contribution to overall operations. Should the review indicate that the carrying value is not fully recoverable, the excess of the carrying value over the fair value of the intangible assets would be recognized as an impairment loss.

### ***Consolidation of Joint Ventures and Variable Interest Entities***

We participate in joint ventures, which include partnerships and partially owned limited liability corporations, to bid, negotiate and complete specific projects. We are required to consolidate these joint ventures if we hold the majority voting interest or if we meet the criteria under the consolidation model as described below.

A variable interest entity, or “VIE”, is an entity with one or more of the following characteristics: (a) the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support; (b) as a group, the holders of the equity investment at risk lack the ability to make certain decisions, the obligation to absorb expected losses or the right to receive expected residual returns; or (c) an equity investor has voting rights that are disproportionate to its economic interest and substantially all of the entity’s activities are on behalf of the investor with disproportionately low voting rights. Our VIEs may be funded through contributions, loans and/or advances from the joint venture partners or by advances and/or letters of credit provided by clients. Certain VIEs are directly governed, managed, operated and administered by the joint venture partners. Others have no employees and, although these entities own and hold the contracts with the clients, the services required by the contracts are typically performed by the joint venture partners or by other subcontractors.

We are required to perform an analysis to determine whether we are the primary beneficiary of our VIEs. We are deemed to be the primary beneficiary of a VIE if we have (i) the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance; and (ii) the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE.

Many of the joint ventures we enter into are deemed to be VIEs because they lack sufficient equity to finance the activities of the joint venture. We use a qualitative approach to determine if we are the primary beneficiary of the VIE, which considers factors that indicate a party has the power to direct the activities that most significantly impact the joint venture’s economic performance. In determining whether we are the primary beneficiary of the VIE, significant assumptions and judgments include the following: (1) identifying the significant activities and the parties that have the power to direct them; (2) reviewing the governing board composition and participation ratio; (3) determining the equity, profit and loss ratio; (4) determining the management-sharing ratio; (5) reviewing employment terms, including which joint venture partner provides the project manager; and (6) reviewing the funding and operating agreements. We analyze each joint venture initially to determine if it should be consolidated or unconsolidated into our financial statements:

- A joint venture is consolidated into our financial statements if we are the primary beneficiary of a VIE or hold the majority of voting interests of a non-VIE (and no significant participative rights are available to the other partners).
- A joint venture is not consolidated into our financial statements if we are not the primary beneficiary of a VIE, or do not hold the majority of voting interest of a non-VIE.

We account for our unconsolidated joint ventures using the equity method of accounting. Under this method, we recognize our proportionate share of the net earnings of these joint ventures as “Equity in earnings

(loss) of unconsolidated joint ventures”. Our maximum exposure to loss as a result of our investments in unconsolidated variable interest entities is typically limited to the aggregate of the carrying value of the investment and future funding commitments in these entities.

### ***ESOP***

Throughout the year, as employee services are rendered, we record compensation expense based on salaries of eligible employees. Contributions of our common stock to the ESOP are made annually in amounts determined by our 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.

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 our common stock based on quoted prices of a share of our 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.

### **Equity-Based Compensation**

We measure the value of services received from employees and directors in exchange for an equity-based award based on the grant date fair value. We issue equity-based awards that settle in shares of our common stock. Awards containing performance measures are adjusted at each reporting period for the number of shares expected to be earned. Compensation cost for performance awards are trueed-up at each reporting period for changes in expected shares pro-rated for the portion of the requisite service period rendered. We recognize compensation costs for these awards on either a straight-line or accelerated basis over the vesting period of the award in “Selling, general and administrative expenses” in the consolidated statements of income.

### ***Self-Insurance***

We are self-insured for a portion of our losses and liabilities primarily associated with workers’ compensation, general, professional, automobile, employee matters, certain medical plans, and project specific liability claims. Losses are accrued based upon our estimates of the aggregate liability for claims incurred using historical experience and certain actuarial assumptions, as provided by an independent actuary. The estimate of self-insurance liability includes an estimate of incurred but not reported claims, based on data compiled from historical experience. Actual losses and related expenses may deviate, perhaps substantially, from the self-insurance liability estimates reflected in our financial statements.

### **Recent Accounting Pronouncements**

See the information set forth in “Note 2—*Summary of Significant Accounting Policies*—Recently Adopted Accounting Pronouncements” in the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

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

As of December 31, 2022, we have no off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.



## **Commitments and Contingencies**

We are subject to certain claims and assessments that arise in the ordinary course of business. Additionally, Parsons has been named as a defendant in lawsuits alleging personal injuries as a result of contact with asbestos products at various project sites. We believe that any significant costs relating to these claims will be reimbursed by applicable insurance and do not expect any of these claims to have a material adverse effect on our financial condition or results of operations. We record a liability when we believe that it is both probable that a loss has been incurred and the amount can be reasonably estimated. 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 our consolidated results of operations or our financial position.

### **Item 7A. Qualitative and Quantitative Disclosure About Market Risk**

#### ***Interest Rate Risk***

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

As of December 31, 2022 and December 31, 2021, there were no amounts outstanding under the Revolving Credit Facility. Borrowings under the Revolving Credit Facility effective June 2021 bear interest at either an adjusted Term SOFR rate plus a margin between 1.0% and 1.625%, or a base rate (as defined in the Credit Agreement) plus a margin of between 0% and 0.625%, both based on the leverage ratio of the Company at the end of each quarter. Prior to June 2021, interest on borrowings under the Credit Facility were at either the base rate (as defined in the Credit Agreement), plus an applicable margin, or LIBOR plus an applicable margin. The applicable margin for base rate loans was a range of 0.125% to 1.00% and the applicable margin for LIBOR loans was a range of 1.125% to 2.00%, both based on the leverage ratio of the Company at the end of each quarter.

As of December 31, 2022, there was \$350.0 million outstanding under the Delayed Draw Term Loan. Borrowings under the 2022 Delayed Draw Term Loan Agreement will bear interest at either an adjusted Term SOFR benchmark rate plus a margin between 0.875% and 1.500% or a base rate plus a margin of between 0% and 0.500% and will initially bear interest at the middle of this range. The Company will pay a ticking fee on unused term loan commitments at a rate of 0.175% commencing with the date that is ninety (90) days after the Closing Date. The interest rate at December 31, 2022 was 5.7%.

#### ***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 8. Financial Statements and Supplementary Data.**

The information required by this item 8 is submitted as a separate section beginning on page F-1 of this Annual Report on Form 10-K and is incorporated by reference.

### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.****Evaluation of Disclosure Controls and Procedures**

Our management carried out, as of December 31, 2022, with the participation of our Chief Executive Officer and our Chief Financial Officer, an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2022, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports we file or submit 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.

**Management’s Annual Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining for the Company adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. Management, with the participation of its Chair and Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), has assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2022 based on the framework established in “Internal Control—Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on this assessment, management has concluded that the Company’s internal control over financial reporting was effective as of December 31, 2022.

The Company’s independent registered public accounting firm, PricewaterhouseCoopers LLP, which audited the Company’s consolidated financial statements included in this Annual Report on Form 10-K, also audited the effectiveness of our internal control over financial reporting as of December 31, 2022, as stated in their audit report included in this Annual Report on Form 10-K.

Consistent with the guidance issued by the Securities and Exchange Commission Staff, management has excluded Xator Corporation, which we acquired on May 31, 2022, from its evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2022. The total assets and revenue related to Xator, a wholly owned subsidiary, are approximately 1% and 4%, respectively, of the related consolidated financial statement amounts as of the end for the fiscal year ended December 31, 2022.

**Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, that occurred during the quarter ended December 31, 2022 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information.**

None

**Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.**

None

## **PART III**

### **Item 10. Directors, Executive Officers and Corporate Governance.**

Information related to our directors will be set forth under the caption “Proposal 1: Election of Directors” of our Proxy Statement for our Annual Meeting of Stockholders in 2023 (the “2023 Proxy Statement”). Such information is incorporated herein by reference.

Information relating to our Executive Officers is included in Part I of this Annual Report under the caption “Executive Officers.”

Information relating to compliance with Section 16(a) of the Exchange Act will be set forth under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” of our 2023 Proxy Statement. Such information is incorporated herein by reference.

Information related to our code of ethics will be set forth under the caption “Corporate Governance and General Information Concerning the Board of Directors and its Committees” of our 2023 Proxy Statement. Such information is incorporated herein by reference.

Information relating to the Audit Committee and Board of Directors determinations concerning whether a member of the Audit Committee is a “financial expert” as that term is defined under Item 407(d)(5) of Regulation S-K will be set forth under the caption “Corporate Governance and General Information Concerning the Board of Directors and its Committees” of our 2023 Proxy Statement. Such information is incorporated herein by reference.

### **Item 11. Executive Compensation.**

Information relating to this item will be set forth under the captions “Compensation Discussion and Analysis,” “Director Compensation,” “Compensation Committee Interlocks and Insider Participation” and “Compensation Committee Report on Executive Compensation” of our 2023 Proxy Statement. Such information is incorporated herein by reference.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

Information relating to the security ownership of certain beneficial owners and management will be included in our 2023 Proxy Statement under the caption “Security Ownership of Certain Beneficial Owners and Management” and is incorporated herein by reference.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence.**

Information relating to this item will be set forth under the captions “Certain Relationships and Related Party Transactions” and “Corporate Governance and General Information Concerning the Board of Directors and its Committees” of our 2023 Proxy Statement. Such information is incorporated herein by reference.

### **Item 14. Principal Accounting Fees and Services.**

Information relating to this item will be set forth under the caption “Independent Registered Public Accounting Firm Fees” of our 2023 Proxy Statement. Such information is incorporated herein by reference.

## **PART IV**

### **Item 15. Exhibits, Financial Statement Schedules.**

- (a) List the following documents filed as a part of the report:
  - (1) The Company's Consolidated Financial Statements at December 31, 2022 and December 31, 2021 and for each of the three years in the period ended December 31, 2022, and the notes thereto, together with the report of the independent auditors on those Consolidated Financial Statements, are hereby filed as part of this report, beginning on page F-1.
  - (2) Valuation & Qualifying Accounts for each of the three years in the period ended December 31, 2022 are hereby filed as part of this report on page F-57.
  - (3) See Exhibit Index below.

### **Item 16. Form 10-K Summary**

None.

## Exhibit Index

| Exhibit<br>Number | Description  |
|-------------------|--|
| 3.1#              | Amended and Restated Certificate of Incorporation of Parsons Corporation.  |
| 3.2#              | Amended and Restated Bylaws of Parsons Corporation.  |
| 3.3#              | Second Amended and Restated Bylaws of Parsons Corporation.   |
| 4.1#              | Description of Capital Stock of Parsons Corporation.   |
| 4.2#              | Indenture, dated as of August 20, 2020, between Parsons Corporation and U.S. Bank National Association.  |
| 10.1#             | 2012 Amendment and Restatement of Parsons Employee Stock Ownership Plan (including all amendments to date), currently in effect.                               |
| 10.2#             | 2019 Amendment and Restatement of Parsons Employee Stock Ownership Plan.   |
| 10.3#             | First Amendment to the 2019 Amendment and Restatement of Parsons Employee Stock Ownership Plan, effective January 1, 2020                                      |
| 10.4#             | Second Amendment to the 2019 Amendment and Restatement of Parsons Employee Stock Ownership Plan, effective May 8, 2019.  |
| 10.5#             | Parsons Corporation Employee Stock Ownership Trust Agreement, effective as of December 31, 2005.   |
| 10.6#+            | Parsons Corporation Restricted Award Plan.   |
| 10.7#+            | Form of Restricted Award Units agreement under the Parsons Corporation Restricted Award Plan.  |
| 10.8#+            | Parsons Corporation Annual Incentive Plan dated January 1, 2020.   |
| 10.9#+            | Parsons Corporation Annual Incentive Plan Amended as of October 19, 2020.  |
| 10.10#+           | Parsons Corporation Annual Incentive Plan Amendment dated January 1, 2021.   |
| 10.11#+           | Parsons Corporation Shareholder Value Plan.  |
| 10.12#+           | Parsons Corporation Long Term Growth Plan.   |
| 10.13#+           | Parsons Corporation Share Value Retirement Plan.   |
| 10.14#+           | Parsons Corporation Incentive Award Plan.  |
| 10.15#+           | Form of Restricted Stock Unit Agreement under the Parsons Corporation Incentive Award Plan.  |
| 10.16#+           | Third Amendment to the 2019 Amendment and Restatement of Parsons Employee Stock Ownership Plan, effective January 1, 2021.                                     |
| 10.17#+           | Form of Restricted Stock Unit Agreement under the Parsons Corporation Incentive Award Plan (for Non-Employee Director Awards commencing in 2020).              |
| 10.18#+           | Form of Restricted Stock Unit Agreement under the Parsons Corporation Incentive Award Plan (for Non-Employee Director Fee Deferral Awards commencing in 2020). |
| 10.19#+           | Form of Restricted Stock Unit Agreement under the Parsons Corporation Incentive Award Plan (for Non-Employee Director Awards in 2019).                         |
| 10.20#+           | Parsons Corporation Non-Employee Director Compensation Policy (as amended effective April 21, 2020).   |

| <b>Exhibit<br/>Number</b> | <b>Description</b>  |
|---------------------------|---|
| 10.21#+                   | Fee Deferral Plan for Outside Directors of the Parsons Corporation.   |
| 10.22#+                   | Parsons Corporation Employee Stock Purchase Plan.   |
| 10.23#+                   | Parsons Corporation Prospectus to Employee Stock Purchase Plan dated November 1, 2021.  |
| 10.24#+                   | Parsons Corporation Employee Stock Purchase Plan Special Offering Period dated November 1, 2021.                                      |
| 10.25#+                   | Parsons Corporation Employee Stock Purchase Plan List of Participating Companies.   |
| 10.26#+                   | Supplemental Executive Retirement Plan dated January 1, 1997.   |
| 10.27#+                   | First Amendment to the SERP effective January 1, 2020.  |
| 10.28#+                   | Change in Control Severance Agreement, dated August 6, 2021, by and between Parsons Corporation and Carey Smith.                      |
| 10.29#+                   | Change in Control Severance Agreement, dated August 9, 2021, by and between Parsons Corporation and Charles L. Harrington.            |
| 10.30#+                   | Change in Control Severance Agreement, dated August 6, 2021, by and between Parsons Corporation and George Ball.                      |
| 10.31#+                   | Change in Control Severance Agreement, dated August 6, 2021, by and between Parsons Corporation and Michael Kolloway.                 |
| 10.32#+                   | Change in Control Severance Agreement, dated August 6, 2021, by and between Parsons Corporation and David Spille.                     |
| 10.33#+                   | Change in Control Severance Agreement, dated October 6, 2021, by and between Parsons Corporation and Matthew Ofilos.                  |
| 10.34#+                   | Form of Equity Award Amendment Letter Agreement, dated August 10, 2020, by and between Parsons Corporation and George L. Ball.        |
| 10.35#+                   | Form of Equity Award Amendment Letter Agreement, dated August 10, 2020, by and between Parsons Corporation and Charles L. Harrington. |
| 10.36#+                   | Form of Equity Award Amendment Letter Agreement, dated August 10, 2020, by and between Parsons Corporation and Carey A. Smith.        |
| 10.37#+                   | Form of Equity Award Amendment Letter Agreement, dated August 10, 2020, by and between Parsons Corporation and Michael R. Kolloway.   |
| 10.38#+                   | Form of Equity Award Amendment Letter Agreement, dated August 10, 2020, by and between Parsons Corporation and Debra Fiori.           |
| 10.39#+                   | Form of Performance Stock Unit Award Amendment, dated July 19, 2021, by and between Parsons Corporation and Carey A. Smith.           |
| 10.40#+                   | Form of Restricted Stock Unit Award Amendment, dated July 19, 2021, by and between Parsons Corporation and Carey A. Smith.            |
| 10.41#+                   | Form of Performance Stock Unit Award Amendment, dated July 19, 2021, by and between Parsons Corporation and Charles L. Harrington.    |
| 10.42#+                   | Form of Restricted Stock Unit Award Amendment, dated July 19, 2021, by and between Parsons Corporation and Charles L. Harrington.     |



| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
| 10.43#+                   | Form of Performance Stock Unit Award Amendment, dated July 19, 2021, by and between Parsons Corporation and George Ball.   |
| 10.44#+                   | Form of Restricted Stock Unit Award Amendment, dated July 19, 2021, by and between Parsons Corporation and George Ball.  |
| 10.45#+                   | Form of Performance Stock Unit Award Amendment, dated July 19, 2021, by and between Parsons Corporation and Michael R. Kolloway.   |
| 10.46#+                   | Form of Restricted Stock Unit Award Amendment, dated July 19, 2021, by and between Parsons Corporation and Michael R. Kolloway.  |
| 10.47#+                   | Form of Performance Stock Unit Award Amendment, dated July 19, 2021, by and between Parsons Corporation and David Spille.  |
| 10.48#+                   | Form of Restricted Stock Unit Award Amendment, dated July 19, 2021, by and between Parsons Corporation and David Spille.   |
| 10.49#                    | Note Purchase Agreement, dated as of May 9, 2014, among Parsons Corporation and the purchasers party thereto, and the forms of Senior Notes.   |
| 10.50#                    | Subsidiary Guaranty, dated as of July 1, 2014, by each of Parsons Constructors Inc., Parsons Engineering of New York, Inc., Parsons Environment & Infrastructure Group Inc., Parsons Government Services Inc., Parsons Government Services International Inc., Parsons International Limited, Parsons Technical Services Inc., Parsons Transportation Group Inc., Parsons Water & Infrastructure Inc., PTSI Managed Services Inc., Parsons RCI Inc. and each entity that may from time to time become a Guarantor thereunder.              |
| 10.51#                    | First Amendment to the Note Purchase Agreement, dated as of August 10, 2018, by and between Parsons Corporation and the purchasers party thereto.  |
| 10.52#                    | Fifth Amended and Restated Credit Agreement, dated as of November 15, 2017, by and among Parsons Corporation, the lenders from time to time party thereto, The Bank of Tokyo-Mitsubishi UFJ, Ltd., as administrative agent, swing line bank and co-lead arranger, Wells Fargo Bank, National Association, as syndication agent, The Bank of Nova Scotia, JPMorgan Chase Bank, N.A., Sumitomo Mitsui Banking Corporation and U.S. Bank National Association, as documentation agents, and Wells Fargo Securities, LLC, as co-lead arranger. |
| 10.53#                    | First Amendment to the Fifth Amended and Restated Credit Agreement, dated as of January 4, 2019, by and among Parsons Corporation, the Banks party thereto and MUFG Bank Ltd, as administrative agent.   |
| 10.54#                    | Credit Agreement dated June 25, 2021, among Parsons Corporation, the Guarantors, the Lenders, and Bank of America, N.A., as Administrative Agent, Swingline Lender, and an L/C Issuer.   |
| 10.55#                    | Term Loan Agreement, dated as of January 4, 2019, among Parsons Corporation, MUFG Union Bank, N.A., as administrative agent, The Bank of Nova Scotia, as syndication agent, the other financial institutions party thereto and MUFG Union Bank, N.A. and The Bank of Nova Scotia, as co-lead arrangers.  |
| 10.56#                    | Form of Employee Stockownership Trust Agreement, dated as of June 8, 2020, by and between Parsons Corporation and Newport Trust Company.   |
| 10.57#                    | Form of Registration Rights Agreement by and between Parsons Corporation and Newport Trust Company.  |
| 10.58#                    | Form of Fifth Amendment to the Parsons Corporation Retirement Savings Plan.  |

| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
| 10.59#+                   | Form of Fourth Amendment to the 2019 Amendment and Restatement of Parsons Employee Stock Ownership Plan, effective March 1, 2021.  |
| 10.60#+                   | Fourth Amendment to the Parsons Employee Stock Ownership Plan 2019 Amendment and Restatement, effective March 1, 2021.   |
| 10.61#+                   | Form of Indemnification Agreement between Parsons Corporation and certain of its directors and officers.   |
| 10.62#+                   | Form of Transition Agreement, dated February 2022, by and between Parsons Corporation and Charles L. Harrington.   |
| 10.63#                    | Delayed Draw Term Loan Agreement and Form of First Amendment to Credit Agreement.  |
| 10.64*                    | Xator Purchase Agreement.  |
| 10.65*+                   | Seventh Amendment to The Parsons Corporation Retirement Savings Plan (2017 Amendment and Restatement).   |
| 10.66#+                   | Fifth Amendment to The Parsons Employee Stock Ownership Plan 2019 Amendment and Restatement.   |
| 10.67*+                   | Sixth Amendment to The Parsons Employee Stock Ownership Plan 2019 Amendment and Restatement.   |
| 21.1*                     | List of Subsidiaries of the Registrant.  |
| 23.1*                     | Consent of PricewaterhouseCoopers LLP.   |
| 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 Annual Report on Form 10-K for the year ended December 31, 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.

# Previously filed.

+ Indicates a management contract or compensatory plan or arrangement.

## SIGNATURES

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

Company Name

Date: February 17, 2023

By:                     /s/ Carey A. Smith                      
                     Carey A. Smith  
                     Chief Executive Officer  
                     (Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

| Name  | Title   | Date              |
|---|---|-------------------|
| <u>          /s/ Carey A. Smith          </u><br>Carey A. Smith               | Chief Executive Officer and Director<br>(Principal Executive Officer)   | February 17, 2023 |
| <u>          /s/ Matthew M. Ofilos          </u><br>Matthew M. Ofilos         | Chief Financial Officer<br>(Principal Financial and Accounting Officer) | February 17, 2023 |
| <u>          /s/ George L. Ball          </u><br>George L. Ball               | Director  | February 17, 2023 |
| <u>          /s/ Mark K. Holdsworth          </u><br>Mark K. Holdsworth       | Director  | February 17, 2023 |
| <u>          /s/ Steven F. Leer          </u><br>Steven F. Leer               | Director  | February 17, 2023 |
| <u>          /s/ Ellen M. Lord          </u><br>Ellen M. Lord                 | Director  | February 17, 2023 |
| <u>          /s/ Letitia A. Long          </u><br>Letitia A. Long             | Director  | February 17, 2023 |
| <u>          /s/ Darren W. McDew          </u><br>Darren W. McDew             | Director  | February 17, 2023 |
| <u>          /s/ Harry T. McMahon          </u><br>Harry T. McMahon           | Director  | February 17, 2023 |
| <u>          /s/ M. Christian Mitchell          </u><br>M. Christian Mitchell | Director  | February 17, 2023 |
| <u>          /s/ Suzanne M. Vautrinot          </u><br>Suzanne M. Vautrinot   | Director  | February 17, 2023 |
| <u>          /s/ David C. Wajsgras          </u><br>David C. Wajsgras         | Director  | February 17, 2023 |

[THIS PAGE INTENTIONALLY LEFT BLANK]

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

|  |      |
|--|------|
| Report of Independent Registered Public Accounting Firm (PCAOB ID 238) .....   | F-2  |
| Consolidated Balance Sheets as of December 31, 2022 and December 31, 2021 .....  | F-6  |
| Consolidated Statements of Income for the Years ended December 31, 2022, December 31, 2021 and<br>December 31, 2020 .....                                    | F-7  |
| Consolidated Statements of Comprehensive Income for the Years ended December 31, 2022,<br>December 31, 2021 and December 31, 2020 .....                      | F-8  |
| Consolidated Statements of Changes in Shareholders' Equity (Deficit) for the Years ended December 31,<br>2022, December 31, 2021 and December 31, 2020 ..... | F-9  |
| Consolidated Statements of Cash Flows for the Years ended December 31, 2022, December 31, 2021 and<br>December 31, 2020 .....                                | F-10 |
| Notes to Consolidated Financial Statements .....   | F-11 |

## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of Parsons Corporation

### ***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Parsons Corporation and its subsidiaries (the “Company”) as of December 31, 2022 and 2021, and the related consolidated statements of income, of comprehensive income, of changes in redeemable common stock and shareholders’ equity (deficit) and of cash flows for each of the three years in the period ended December 31, 2022, including the related notes and financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the COSO.

### **Changes in Accounting Principles**

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for convertible instruments and contracts in an entity’s own equity in 2021.

### ***Basis for Opinions***

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the Management’s Annual Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.



As described in Management's Report on Internal Control over Financial Reporting, management has excluded Xator Corporation ("Xator") from its assessment of internal control over financial reporting as of December 31, 2022, because it was acquired by the Company in a purchase business combination during 2022. We have also excluded Xator from our audit of internal control over financial reporting. Xator is a wholly-owned subsidiary whose total assets and total revenues excluded from management's assessment and our audit of internal control over financial reporting represent 1% and less than 4%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2022.

### ***Definition and Limitations of Internal Control over Financial Reporting***

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### ***Critical Audit Matters***

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

### ***Revenue Recognition – Determination of Estimated Contract Cost and Variable Consideration related to Estimated Claims Revenue for Fixed-Price Contracts Recognized Over Time***

As described in Notes 2 and 4 to the consolidated financial statements, revenue is derived from long-term contracts with customers whereby the Company provides planning, design, engineering, technical, and construction and program management services. The Company enters into cost-plus, time-and-materials, and fixed-price contracts with its customers. Fixed-price contract revenue recognized was \$1.1 billion for the year ended December 31, 2022, which accounts for approximately 27% of the Company's total consolidated revenue. Fixed-price contract revenue is recognized over time using an input measure (i.e., costs incurred to date relative to total estimated costs at completion) to measure progress. Under the cost-to-cost measure of progress method, the extent of progress towards completion is measured based on the ratio of total costs incurred to-date to the total estimated costs at completion of the performance obligation. Revenues, including estimated fees or profits, are recorded proportionally as costs are incurred. Management includes variable consideration, such as claims revenue, in the estimated transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur or when the uncertainty associated with the variable consideration is resolved. Contract costs consist of direct costs on contracts, including labor and materials, amounts payable to

subcontractors, direct overhead costs and equipment expense (primarily depreciation, fuel, maintenance and repairs). Changes to estimated contract costs, either due to unexpected events or revisions to management's initial estimates, for a given project are recognized in the period in which they are determined. Recognition of profit on long-term contracts requires the use of assumptions and estimates related to total contract revenue and in particular estimated claims revenue, total estimated cost at completion, and the measurement of progress towards completion. Management's estimates are continually evaluated as work progresses and are revised when necessary.

The principal considerations for our determination that performing procedures relating to revenue recognition, specifically the determination of estimated contract cost and variable consideration related to estimated claims revenue for fixed-price contracts recognized over time is a critical audit matter are (i) the significant judgment by management in determining the estimated contract cost and variable consideration related to estimated claims revenue for fixed-price contracts; (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating audit evidence for the estimated contract cost and variable consideration related to estimated claims revenue for fixed-price contracts recognized over time.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the revenue recognition process, including controls over the determination of estimated contract cost and variable consideration related to estimated claims revenue for fixed-price contracts recognized over time. These procedures also included, among others, for a selection of fixed-price contracts, (i) evaluating and testing management's process for determining the estimated contract cost and variable consideration related to estimated claims revenue, which included reading contracts and other documents related to the estimates, and testing of underlying incurred and estimated contract costs; (ii) assessing management's ability to reasonably estimate total contract costs by performing a comparison of the actual estimated contract cost as compared with prior period estimates, including evaluating the timely identification of circumstances that may warrant a modification to the estimated contract cost; and (iii) evaluating estimated claims revenue by inquiry with external legal counsel regarding the underlying claim and agreeing estimated claims revenue to documents related to those estimates.

#### *Acquisition of Xator Corporation—Valuation of the Customer Relationships Intangible Asset*

As described in Notes 2 and 3 to the consolidated financial statements, on May 31, 2022, the Company acquired a 100% ownership interest in Xator Corporation (Xator) for \$388.3 million which resulted in \$123.5 million of intangible assets being recorded, of which \$37 million related to a customer relationships intangible asset. Management accounts for business combinations using the acquisition method, under which the purchase price of an acquired company is allocated to the tangible and intangible assets acquired and the liabilities assumed on the basis of their fair values at the date of acquisition. The determination of fair values of assets acquired and liabilities assumed requires management to make estimates and use valuation techniques when a market value is not readily available. Management's determination of the fair value of the intangible assets acquired involved the use of significant estimates and assumptions related to revenue growth rates and projected EBITDA margins.

The principal considerations for our determination that performing procedures relating to the valuation of the customer relationships intangible asset acquired in the acquisition of Xator is a critical audit matter are (i) the significant judgment by management when developing the fair value estimate of the customer relationships intangible asset acquired; (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating management's significant assumptions related to the revenue growth rates and projected EBITDA margins; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to acquisition accounting, including controls over the significant assumptions used in

management's valuation of the customer relationships intangible asset. These procedures also included, among others (i) reading the purchase agreement; (ii) testing management's process for developing the fair value estimate of the customer relationships intangible asset; (iii) evaluating the appropriateness of the valuation technique; (iv) testing the completeness and accuracy of the underlying data used in the valuation technique; and (v) evaluating the reasonableness of significant assumptions related to the revenue growth rates and projected EBITDA margins. Evaluating the reasonableness of management's significant assumptions related to the revenue growth rates and projected EBITDA margins involved considering (i) the current and past performance of the acquired business; (ii) the consistency with external market and industry data; and (iii) whether these assumptions were consistent with evidence obtained in other areas of the audit. Professionals with specialized skill and knowledge were used to assist in the evaluation of the appropriateness of management's valuation technique.

/s/ PricewaterhouseCoopers LLP  
Los Angeles, California  
February 17, 2023

We have served as the Company's auditor since at least 1969. We have not been able to determine the specific year we began serving as the auditor of the Company.

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Consolidated Balance Sheets**  
*(in thousands, except shares and par value)*

|   | <b>December 31,<br/>2022</b> | <b>December 31,<br/>2021</b> |
|---|------------------------------|------------------------------|
| <b>Assets</b>   |                              |                              |
| Current assets:   |                              |                              |
| Cash and cash equivalents (including \$53,193 and \$78,514 Cash of consolidated joint ventures) . . . . .   | \$ 262,539                   | \$ 342,608                   |
| Restricted cash and investments . . . . .   | —                            | 1,275                        |
| Accounts receivable, net (including \$217,419 and \$140,266 Accounts receivable of consolidated joint ventures, net) . . . . .  | 717,345                      | 598,311                      |
| Contract assets (including \$11,313 and \$8,779 Contract assets of consolidated joint ventures) . . . . .   | 634,033                      | 579,216                      |
| Prepaid expenses and other current assets (including \$7,913 and \$18,783 Prepaid expenses and other current assets of consolidated joint ventures) . . . . .   | 105,866                      | 110,941                      |
| Total current assets . . . . .  | <u>1,719,783</u>             | <u>1,632,351</u>             |
| Property and equipment, net (including \$2,543 and \$1,721 Property and equipment of consolidated joint ventures, net) . . . . .  | 96,050                       | 104,196                      |
| Right of use assets, operating leases . . . . .   | 155,090                      | 182,672                      |
| Goodwill . . . . .  | 1,661,850                    | 1,412,690                    |
| Investments in and advances to unconsolidated joint ventures . . . . .  | 107,425                      | 110,688                      |
| Intangible assets, net . . . . .  | 254,127                      | 207,821                      |
| Deferred tax assets . . . . .   | 137,709                      | 134,393                      |
| Other noncurrent assets . . . . .   | 66,108                       | 46,129                       |
| Total assets . . . . .  | <u>\$4,198,142</u>           | <u>\$3,830,940</u>           |
| <b>Liabilities and Shareholders' Equity</b>   |                              |                              |
| Current liabilities:  |                              |                              |
| Accounts payable (including \$49,078 and \$78,558 Accounts payable of consolidated joint ventures) . . . . .  | \$ 201,428                   | \$ 196,286                   |
| Accrued expenses and other current liabilities (including \$102,417 and \$82,746 Accrued expenses and other current liabilities of consolidated joint ventures) . . . . .   | 630,193                      | 599,089                      |
| Contract liabilities (including \$40,654 and \$14,333 Contract liabilities of consolidated joint ventures) . . . . .  | 213,064                      | 171,671                      |
| Short-term lease liabilities, operating leases . . . . .  | 59,144                       | 55,902                       |
| Income taxes payable . . . . .  | 4,290                        | 7,836                        |
| Total current liabilities . . . . .   | <u>1,108,119</u>             | <u>1,030,784</u>             |
| Long-term employee incentives . . . . .   | 17,375                       | 15,997                       |
| Long-term debt . . . . .  | 743,605                      | 591,922                      |
| Long-term lease liabilities, operating leases . . . . .   | 111,417                      | 148,893                      |
| Deferred tax liabilities . . . . .  | 12,471                       | 11,400                       |
| Other long-term liabilities . . . . .   | 109,220                      | 94,832                       |
| Total liabilities . . . . .   | <u>2,102,207</u>             | <u>1,893,828</u>             |
| Contingencies (Note 14)   |                              |                              |
| Shareholders' equity:   |                              |                              |
| Common stock, \$1 par value; authorized 1,000,000,000 shares; 146,132,016 and 146,276,880 shares issued; 40,960,845 and 33,331,494 public shares outstanding; 63,742,151 and 70,328,237 ESOP shares outstanding . . . . . | 146,132                      | 146,277                      |
| Treasury stock, 41,429,020 shares at cost . . . . .   | (844,936)                    | (867,391)                    |
| Additional paid-in capital . . . . .  | 2,717,134                    | 2,684,979                    |
| Retained earnings (accumulated deficit) . . . . .   | 43,089                       | (53,529)                     |
| Accumulated other comprehensive loss . . . . .  | (17,849)                     | (9,568)                      |
| Total Parsons Corporation shareholders' equity . . . . .  | <u>2,043,570</u>             | <u>1,900,768</u>             |
| Noncontrolling interests . . . . .  | 52,365                       | 36,344                       |
| Total shareholders' equity . . . . .  | <u>2,095,935</u>             | <u>1,937,112</u>             |
| Total liabilities and shareholders' equity . . . . .  | <u>\$4,198,142</u>           | <u>\$3,830,940</u>           |

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

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Consolidated Statements of Income**  
**Years Ended December 31, 2022, December 31, 2021 and December 31, 2020**  
*(in thousands, except for per share data)*

|   | <u>2022</u>      | <u>2021</u>      | <u>2020</u>      |
|---|------------------|------------------|------------------|
| Revenue .....   | \$4,195,272      | \$3,660,771      | \$3,918,946      |
| Direct cost of contracts .....                            | 3,248,550        | 2,807,950        | 3,042,087        |
| Equity in earnings of unconsolidated joint ventures ..... | 16,347           | 36,862           | 30,059           |
| Selling, general and administrative expenses .....        | 777,403          | 757,237          | 729,103          |
| Operating income .....                                    | <u>185,666</u>   | <u>132,446</u>   | <u>177,815</u>   |
| Interest income .....                                     | 966              | 396              | 787              |
| Interest expense .....                                    | (23,185)         | (17,697)         | (20,956)         |
| Other income (expense), net .....                         | <u>2,775</u>     | <u>(2,557)</u>   | <u>3,767</u>     |
| Total other (expense) income .....                        | <u>(19,444)</u>  | <u>(19,858)</u>  | <u>(16,402)</u>  |
| Income before income tax expense .....                    | 166,222          | 112,588          | 161,413          |
| Income tax expense .....                                  | <u>(39,657)</u>  | <u>(23,636)</u>  | <u>(42,492)</u>  |
| Net income including noncontrolling interests .....       | 126,565          | 88,952           | 118,921          |
| Net income attributable to noncontrolling interests ..... | <u>(29,901)</u>  | <u>(24,880)</u>  | <u>(20,380)</u>  |
| Net income attributable to Parsons Corporation .....      | <u>\$ 96,664</u> | <u>\$ 64,072</u> | <u>\$ 98,541</u> |
| Earnings per share:                                       |                  |                  |                  |
| Basic earnings per share .....                            | <u>\$ 0.93</u>   | <u>\$ 0.62</u>   | <u>\$ 0.98</u>   |
| Diluted earnings per share .....                          | <u>\$ 0.87</u>   | <u>\$ 0.59</u>   | <u>\$ 0.97</u>   |

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

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Income**  
**Years Ended December 31, 2022, December 31, 2021 and December 31, 2020**  
*(in thousands)*

|  | <u>2022</u>      | <u>2021</u>      | <u>2020</u>      |
|--|------------------|------------------|------------------|
| Net income including noncontrolling interests .....                            | \$126,565        | \$ 88,952        | \$118,921        |
| Other comprehensive income (loss), net of tax                                  |                  |                  |                  |
| Foreign currency translation adjustment, net of tax .....                      | (7,752)          | 3,834            | 484              |
| Pension adjustments, net of tax .....  | <u>(547)</u>     | <u>460</u>       | <u>(88)</u>      |
| Comprehensive income including noncontrolling interests, net of tax .....      | 118,266          | 93,246           | 119,317          |
| Comprehensive income attributable to noncontrolling interests, net of tax .... | <u>(29,883)</u>  | <u>(24,877)</u>  | <u>(20,380)</u>  |
| Comprehensive income attributable to Parsons Corporation, net of tax .....     | <u>\$ 88,383</u> | <u>\$ 68,369</u> | <u>\$ 98,937</u> |

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



**PARSONS CORPORATION AND SUBSIDIARIES**  
**Consolidated Statements of Changes in Shareholders' Equity (Deficit)**  
**Years Ended December 31, 2022, December 31, 2021 and December 31, 2020**

| <i>(in thousands)</i>  | <u>Common<br/>Stock</u> | <u>Treasury<br/>Stock</u> | <u>Additional<br/>Paid-in<br/>Capital</u> | <u>Retained<br/>Earnings<br/>(Accumulated<br/>Deficit)</u> | <u>Accumulated<br/>Other<br/>Comprehensive<br/>(Loss) Income</u> | <u>Total<br/>Parsons Equity<br/>(Deficit)</u> | <u>Noncontrolling<br/>Interests</u> | <u>Total</u>       |
|--|-------------------------|---------------------------|---|--|--|---|-------------------------------------|--------------------|
| <b>Balances at December 31, 2019 . . .</b>                       | <u>\$146,441</u>        | <u>\$(934,240)</u>        | <u>\$2,649,975</u>                        | <u>\$(218,025)</u>   | <u>\$(14,261)</u>  | <u>\$1,629,890</u>                            | <u>\$ 30,866</u>                    | <u>\$1,660,756</u> |
| Comprehensive income   |                         |                           |   |  |  |   |                                     |                    |
| Net income . . . . .   | —                       | —                         | —   | 98,541   | —  | 98,541  | 20,380                              | 118,921            |
| Foreign currency translation<br>gain . . . . .                   | —                       | —                         | —   | —  | 484  | 484   | —                                   | 484                |
| Pension adjustments . . . . .                                    | —                       | —                         | —   | —  | (88)   | (88)  | —                                   | (88)               |
| Adoption of ASU 2016-13 . . . . .                                |                         |                           |   | (1,000)  |  | (1,000)                                       | —                                   | (1,000)            |
| Contributions of treasury stock to<br>ESOP . . . . .             | —                       | 34,912                    | 20,010                                    | —  | —  | 54,922  | —                                   | 54,922             |
| Contributions . . . . .  | —                       | —                         | —   | —  | —  | —   | 2,215                               | 2,215              |
| Distributions . . . . .  | —                       | —                         | —   | —  | —  | —   | (5,816)                             | (5,816)            |
| Issuance of equity securities, net of<br>retirements . . . . .   | 168                     | —                         | 2,957                                     | (85)   | —  | 3,040   | —                                   | 3,040              |
| Equity component value of<br>convertible note issuance . . . . . | —                       | —                         | 53,552                                    | —  | —  | 53,552  | —                                   | 53,552             |
| Purchase of convertible note<br>hedge . . . . .                  | —                       | —                         | (54,611)                                  | —  | —  | (54,611)                                      | —                                   | (54,611)           |
| Sale of common stock warrants . . . . .                          | —                       | —                         | 13,808                                    | —  | —  | 13,808  | —                                   | 13,808             |
| Stock-based compensation . . . . .                               | —                       | —                         | 15,234                                    | —  | —  | 15,234  | —                                   | 15,234             |
| <b>Balances at December 31, 2020 . . .</b>                       | <u>\$146,609</u>        | <u>\$(899,328)</u>        | <u>\$2,700,925</u>                        | <u>\$(120,569)</u>   | <u>\$(13,865)</u>  | <u>\$1,813,772</u>                            | <u>\$ 47,645</u>                    | <u>\$1,861,417</u> |
| Comprehensive income   |                         |                           |   |  |  |   |                                     |                    |
| Net income . . . . .   | —                       | —                         | —   | 64,072   | —  | 64,072  | 24,880                              | 88,952             |
| Foreign currency translation<br>gain (loss), net . . . . .       | —                       | —                         | —   | —  | 3,837  | 3,837   | (3)                                 | 3,834              |
| Pension adjustments, net . . . . .                               | —                       | —                         | —   | —  | 460  | 460   | —                                   | 460                |
| Contributions of treasury stock to<br>ESOP . . . . .             | —                       | 31,937                    | 22,064                                    | —  | —  | 54,001  | —                                   | 54,001             |
| Adoption of ASU 2020-06 . . . . .                                |                         |                           | (40,002)                                  | 2,782  |  | (37,220)                                      |                                     | (37,220)           |
| Contributions . . . . .  | —                       | —                         | —   | —  | —  | —   | 1,754                               | 1,754              |
| Distributions . . . . .  | —                       | —                         | —   | —  | —  | —   | (37,932)                            | (37,932)           |
| Issuance of equity securities, net of<br>retirement . . . . .    | 287                     | —                         | 2,887                                     | 186  | —  | 3,360   | —                                   | 3,360              |
| Repurchase of common stock . . . . .                             | (619)                   | —                         | (21,082)                                  | —  | —  | (21,701)                                      | —                                   | (21,701)           |
| Stock-based compensation . . . . .                               | —                       | —                         | 20,187                                    | —  | —  | 20,187  | —                                   | 20,187             |
| <b>Balances at December 31, 2021 . . .</b>                       | <u>\$146,277</u>        | <u>\$(867,391)</u>        | <u>\$2,684,979</u>                        | <u>\$ (53,529)</u>   | <u>\$ (9,568)</u>  | <u>\$1,900,768</u>                            | <u>\$ 36,344</u>                    | <u>\$1,937,112</u> |
| Comprehensive income   |                         |                           |   |  |  |   |                                     |                    |
| Net income . . . . .   | —                       | —                         | —   | 96,664   | —  | 96,664  | 29,901                              | 126,565            |
| Foreign currency translation<br>gain (loss), net . . . . .       | —                       | —                         | —   | —  | (7,734)  | (7,734)                                       | (18)                                | (7,752)            |
| Pension adjustments, net . . . . .                               | —                       | —                         | —   | —  | (547)  | (547)   | —                                   | (547)              |
| Contributions of treasury stock to<br>ESOP . . . . .             | —                       | 22,455                    | 31,346                                    | —  | —  | 53,801  | —                                   | 53,801             |
| Contributions . . . . .  | —                       | —                         | —   | —  | —  | —   | 10,266                              | 10,266             |
| Distributions . . . . .  | —                       | —                         | —   | —  | —  | —   | (24,128)                            | (24,128)           |
| Issuance of equity securities, net of<br>retirement . . . . .    | 429                     | —                         | (773)                                     | (46)   | —  | (390)   | —                                   | (390)              |
| Repurchases of common stock . . . . .                            | (574)                   | —                         | (21,426)                                  | —  | —  | (22,000)                                      | —                                   | (22,000)           |
| Stock-based compensation . . . . .                               | —                       | —                         | 23,008                                    | —  | —  | 23,008  | —                                   | 23,008             |
| <b>Balances at December 31, 2022 . . .</b>                       | <u>\$146,132</u>        | <u>\$(844,936)</u>        | <u>\$2,717,134</u>                        | <u>\$ 43,089</u>   | <u>\$(17,849)</u>  | <u>\$2,043,570</u>                            | <u>\$ 52,365</u>                    | <u>\$2,095,935</u> |

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

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2022, December 31, 2021 and December 31, 2020**

| <i>(in thousands)</i>  | <b>2022</b>       | <b>2021</b>       | <b>2020</b>       |
|--|-------------------|-------------------|-------------------|
| <b>Cash flows from operating activities</b>  |                   |                   |                   |
| Net income including noncontrolling interests  | \$ 126,565        | \$ 88,952         | \$ 118,921        |
| Adjustments to reconcile net income to net cash provided by operating activities             |                   |                   |                   |
| Depreciation and amortization  | 120,501           | 144,209           | 127,980           |
| Amortization of debt issue costs   | 3,029             | 2,817             | 1,356             |
| Amortization of convertible notes discount   | —                 | —                 | 3,831             |
| (Gain) loss on disposal of property and equipment  | (164)             | 338               | 116               |
| Provision for doubtful accounts  | 57                | 8                 | (1,503)           |
| Deferred taxes   | (844)             | (3,468)           | 1,271             |
| Foreign currency transaction gains and losses  | 1,973             | 4,916             | (493)             |
| Equity in earnings of unconsolidated joint ventures  | (16,347)          | (36,862)          | (30,059)          |
| Return on investments in unconsolidated joint ventures                                       | 28,417            | 24,494            | 41,457            |
| Stock-based compensation   | 23,008            | 20,187            | 15,234            |
| Contributions of treasury stock  | 54,659            | 54,905            | 55,327            |
| Changes in assets and liabilities, net of acquisitions and newly consolidated joint ventures |                   |                   |                   |
| Accounts receivable  | (117,318)         | 99,894            | (8,623)           |
| Contract assets  | (32,032)          | 1,494             | 9,243             |
| Prepaid expenses and other assets  | (1,405)           | (18,798)          | 11,494            |
| Accounts payable   | (717)             | (31,766)          | 1,494             |
| Accrued expenses and other current liabilities   | 3,879             | (74,683)          | 3,405             |
| Contract liabilities   | 41,306            | (30,407)          | (29,674)          |
| Income taxes   | (3,649)           | 2,878             | (3,080)           |
| Other long-term liabilities  | 6,608             | (43,534)          | (28,536)          |
| Net cash provided by operating activities  | <u>237,526</u>    | <u>205,574</u>    | <u>289,161</u>    |
| <b>Cash flows from investing activities</b>  |                   |                   |                   |
| Capital expenditures   | (30,593)          | (21,105)          | (34,036)          |
| Proceeds from sale of property and equipment   | 771               | 1,329             | 1,546             |
| Payments for acquisitions, net of cash acquired  | (379,467)         | (198,256)         | (302,894)         |
| Investments in unconsolidated joint ventures   | (17,622)          | (38,459)          | (11,038)          |
| Return of investments in unconsolidated joint ventures                                       | 9,443             | 772               | 53                |
| Proceeds from sales of investments in unconsolidated joint ventures                          | —                 | 14,812            | —                 |
| Net cash used in investing activities  | <u>(417,468)</u>  | <u>(240,907)</u>  | <u>(346,369)</u>  |
| <b>Cash flows from financing activities</b>  |                   |                   |                   |
| Proceeds from borrowings   | 916,000           | —                 | 212,900           |
| Proceeds from delayed draw term loan   | 350,000           | —                 | —                 |
| Repayments of borrowings   | (916,000)         | (50,000)          | (212,900)         |
| Repayment of private placement debt  | (200,000)         | —                 | —                 |
| Payments for debt costs and credit agreement   | (862)             | (1,937)           | —                 |
| Proceeds from issuance of convertible notes  | —                 | —                 | 400,000           |
| Payments for acquired warrants   | (11,243)          | —                 | —                 |
| Payments for purchase of bond hedges   | —                 | —                 | (54,968)          |
| Proceeds from issuance of warrants   | —                 | —                 | 13,808            |
| Transaction costs paid in connection with convertible notes issuance                         | —                 | —                 | (10,250)          |
| Contributions by noncontrolling interests  | 10,266            | 1,754             | 2,215             |
| Distributions to noncontrolling interests  | (24,128)          | (37,932)          | (5,816)           |
| Repurchases of common stock  | (22,000)          | (21,701)          | —                 |
| Taxes paid on vested stock   | (7,042)           | (2,242)           | (1,149)           |
| Proceeds from issuance of common stock   | 5,377             | 5,555             | 4,386             |
| Net cash provided by (used in) financing activities  | <u>100,368</u>    | <u>(106,503)</u>  | <u>348,226</u>    |
| Effect of exchange rate changes  | (1,770)           | (1,496)           | 823               |
| Net increase (decrease) in cash, cash equivalents and restricted cash                        | (81,344)          | (143,332)         | 291,841           |
| <b>Cash, cash equivalents and restricted cash</b>  |                   |                   |                   |
| Beginning of year  | 343,883           | 487,215           | 195,374           |
| End of year  | <u>\$ 262,539</u> | <u>\$ 343,883</u> | <u>\$ 487,215</u> |
| <b>Cash paid during the year for</b>   |                   |                   |                   |
| Interest   | \$ 20,819         | \$ 14,993         | \$ 14,207         |
| Income taxes (net of refunds)  | 32,175            | 22,461            | 55,354            |

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

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

**1. Description of Operations**

**Organization**

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

**2. Summary of Significant Accounting Policies**

**Basis of Presentation and Principles of Consolidation**

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and include 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 significant influence, the Company applies the equity method of accounting. Intercompany accounts and transactions are eliminated in consolidation.

**Use of Estimates**

The preparation of the consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates. The Company’s most significant estimates and judgments involve revenue recognition with respect to the determination of the costs to complete contracts and transaction price; determination of self-insurance reserves; useful lives of property and equipment and intangible assets; valuation of deferred income tax assets and uncertain tax positions, among others.

**ESOP**

The Company maintains a non-leveraged ESOP for eligible employees, for which the Company contributes shares of its own stock to the ESOP trust each year. Throughout the year, as employee services are rendered, the Company records compensation expense based on salaries of eligible employees. At each reporting period, the shares held within the ESOP or committed to be contributed to the ESOP are adjusted to their redemption value through an offsetting charge or credit to retained earnings/accumulated deficit.

**Treasury Stock**

The Company records treasury stock purchases under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock. The Company records the reissuance of treasury stock using the first-in, first-out method of accounting. Contributions of 1,188,129 shares, 1,631,477 shares, and 1,522,381 shares of common stock were made to the ESOP in 2022, 2021 and 2020, respectively.

**Share Repurchases**

During the third quarter of 2021, the Company’s Board of Directors authorized the Company to acquire a number of shares of Common Stock having an aggregate market value of not greater than \$100,000,000 from

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

time to time. Repurchased shares of common stock are retired and included in “Repurchases of common stock” in cash flows from financing activities in the Consolidated Statements of Cash Flows.

### **Earnings per Share**

Basic earnings per common share (“EPS”) is calculated by dividing Net income by the weighted average number of common shares outstanding during the year. Diluted earnings per common share is calculated using the if-converted method by dividing adjusted net income by adjusted weighted average outstanding shares, assuming conversion of all potentially dilutive securities. Upon contribution to the ESOP, the shares become outstanding and are included within the earnings per share computations.

### **Revenue Recognition**

In accordance with ASC 606, the Company follows the five-step process in ASC 606 to recognize revenue:

1. Identify the contract
2. Identify performance obligations
3. Determine the transaction price
4. Allocate the transaction price
5. Recognize revenue

*Contracts*—Revenue is derived from long-term contracts with customers whereby the Company provides planning, design, engineering, technical, and construction and program management services. The Company has contracts with the United States federal government that contain provisions requiring compliance with the United States Federal Acquisition Regulation (“FAR”) and the United States Cost Accounting Standards (“CAS”). These regulations are generally applicable to all of the Company’s federal government contracts and are partially or fully incorporated in some local and state agency contracts. Most of the Company’s federal government contracts are subject to termination at the convenience of the client. These contracts typically provide for reimbursement of costs incurred and payment of fees earned through the date of such termination.

The Company enters into the following types of contracts with its customers:

*Cost-Plus*—Under cost-plus contracts, the Company is 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.

*Time-and-Materials*—Under time-and-materials contracts, hourly billing rates are negotiated and charged to clients based on the actual time spent on a project. In certain cases, these contracts may be subject to maximum contract values. In addition, clients reimburse actual out-of-pocket costs for materials and other direct incidental expenditures that are incurred in connection with the performance under the contract.

*Fixed-Price*—The Company enters into two types of fixed-price contracts: firm fixed-price (“FFP”) and fixed-price per unit (“FPPU”). Under FFP contracts, clients pay an agreed fixed-amount negotiated in advance for a specified scope of work.

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

*Contract Costs*—Contract costs consist of direct costs on contracts, including labor and materials, amounts payable to subcontractors, direct overhead costs and equipment expense (primarily depreciation, fuel, maintenance and repairs). All contract costs are recorded as incurred. Changes to estimated contract costs, either due to unexpected events or revisions to management’s initial estimates, for a given project are recognized in the period in which they are determined. Pre-contract costs are expensed as incurred unless they are expected to be recovered from the client, generate or enhance resources that will be used in satisfying performance obligations in the future and directly relate to an existing or anticipated contract. Costs to mobilize equipment and labor to a job site, prior to substantive work beginning (“mobilization costs”) are capitalized as incurred and amortized over the expected duration of the contract. Additionally, the Company may incur incremental costs to obtain certain contracts, such as selling and market costs, bid and proposal costs, sales commissions, and legal fees, certain of which can be capitalized if they are recoverable under the contract. Capitalized contract costs are included in other current assets on the consolidated balance sheets and were not material as of December 31, 2022 and December 31, 2021.

*Performance Obligations*—A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in ASC 606. The transaction price of a contract is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. To the extent a contract is deemed to have multiple performance obligations, the Company allocates the transaction price of the contract to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. The Company determines the relative standalone selling price utilizing observable prices for the sale of the underlying goods or services. Contracts are considered to have a single performance obligation if the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts or is not distinct in the context of the contract, which is mainly because the Company provides a significant service of integrating a complex set of tasks and components into a single project or capability. Engineering and construction contracts are generally accounted for as a single performance obligation while our engineering and construction supervision contracts are accounted for as two separate performance obligations. When providing construction supervision services, the Company is not liable for the construction of the asset, but has an overall responsibility to oversee, coordinate, measure, and evaluate the quality of construction work and the performance of the construction contractor on behalf of the customer. Customers are generally billed as the Company satisfies its performance obligations and payment terms typically range from 30 to 120 days from the invoice date. Billings under certain fixed-price contracts may be based upon the achievement of specified milestones, while some arrangements may require advance customer payment. The Company’s contracts generally do not include a significant financing component.

*Variable Consideration*—The transaction price for the Company’s contracts may include variable consideration, which includes increases to transaction price for approved and unpriced change orders, claims and incentives, and reductions to transaction price for liquidated damages. Change orders, claims and incentives are generally not distinct from the existing contract due to the significant integration service provided in the context of the contract and are accounted for as a modification of the existing contract and performance obligation. The Company estimates variable consideration for a performance obligation utilizing one of the two prescribed methods, depending on which method better predicts the amount of consideration to which the Company will be entitled (or the amount the Company expects to incur in the case of liquidated damages). Such methods are: (a) the expected value method, whereby the amount of variable consideration to be recognized represents the sum of probability weighted amounts in a range of possible consideration amounts, and (b) the most likely amount method, whereby the amount of variable consideration to be recognized represents the single most likely amount in a range of possible consideration amounts. When applying these methods, the Company considers all information that is reasonably available, including historical, current and estimates of future performance. The

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

expected value method is utilized in situations where a contract contains a large number of possible outcomes, while the most likely amount method is utilized in situations where a contract has only two possible outcomes.

The Company includes variable consideration in the estimated transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur or when the uncertainty associated with the variable consideration is resolved. The Company's estimates of variable consideration and determination of whether to include estimated amounts in transaction price are based largely on an assessment of anticipated performance and all information (historical, current and forecasted) that is reasonably available. The effect of variable consideration on the transaction price of a performance obligation is recognized as an adjustment to revenue on a cumulative catch-up basis.

*Change Orders*—Change orders, which are a normal and recurring part of business, may include changes in specifications or design, manner of performance, facilities, equipment, materials, sites and period of completion of the work. The Company or customer may initiate change orders. Most change orders are not distinct from the existing contract and are accounted for as part of that existing contract. The effect of a change order on the transaction price and measure of progress for the performance obligation to which it relates is recognized as an adjustment to revenues (either as an increase in or a reduction of revenues) on a cumulative catch-up basis. Revenues from unpriced change orders are recognized to the extent of the amounts the Company expects to recover, consistent with the variable consideration policy discussed above. If it is probable that a reversal of revenues will occur, the costs attributable to change orders are treated as contract costs without incremental revenues. To the extent change orders included in the price are not resolved in the Company's favor, there could be reductions in, or reversals of previously reported amounts of, revenues and profits, and charges against current earnings, which could be material.

*Claims Revenue*—Claims revenue are amounts in excess of agreed contract prices that the Company seeks to collect from clients or others for customer-caused delays, errors in specifications and designs, contract terminations, change orders that are in dispute, or other causes of unanticipated additional contract costs, including factors outside of our control, and therefore the Company believes it is entitled to additional compensation. Claims revenue, when recorded, is only recorded to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur. The Company includes certain claims in the transaction price when the claims are legally enforceable, the Company considers collection to be probable and believes it can reliably estimate the ultimate value. The Company continues to engage in negotiations with its customers on outstanding claims. However, these claims may be resolved at amounts that differ from current estimates, which could result in increases or decreases in future estimated contract profits or losses.

*Warranties*—In most cases, contracts include assurance-type warranties that the Company's performance is free from material defect and consistent with the specifications of the Company's contracts, which do not give rise to a separate performance obligation. To the extent the warranty terms provide the customer with an additional service, such as extended maintenance services, such warranty is accounted for as a separate performance obligation.

*Revenue recognized over time*—The Company's performance obligations are generally satisfied over time as work progresses because of continuous transfer of control to the customer and the Company has the right to bill the customer as costs are incurred. Typically, revenue is recognized over time using an input measure (i.e. costs incurred to date relative to total estimated costs at completion) to measure progress. The Company generally uses the cost-to-cost measure of progress method because it best depicts the transfer of control to the customer which occurs as the Company incurs costs on its contracts. Under the cost-to-cost measure of progress



**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

method, the extent of progress towards completion is measured based on the ratio of total costs incurred to-date to the total estimated costs at completion of the performance obligation. Revenues, including estimated fees or profits, are recorded proportionally as costs are incurred. Any expected losses on construction-type contracts in progress are charged to earnings, in total, in the period the losses are identified. The Company recognizes adjustments in estimated profit on contracts under the cumulative catch-up method. Under this method, the impact of the adjustment on profit recorded to date is recognized in the period the adjustment is identified. Revenue and profit in future periods of contract performance is recognized using the adjusted estimate. If at any time the estimate of contract profitability indicates an anticipated loss on the contract, the Company recognizes the total loss in the period it is identified.

*Right to invoice practical expedient*—For performance obligations satisfied over time where the Company has a right to consideration from a customer in an amount that corresponds directly with the value of the Company's performance to-date, the Company recognizes revenue in the amount to which it has a right to invoice. For the Company's reimbursable services contracts, revenue is recognized using the right to invoice practical expedient, or on a cost-to-cost measure of progress method. The Company will select the method that best represents progress on a project.

*Revenue recognized at a point in time*—For performance obligations satisfied at a point in time, revenue is recognized when the services are performed, control is transferred, and the performance obligation is complete. The Company recognizes revenue at a point in time for vehicle inspection services. Revenue related to the inspection service is recognized for each vehicle inspection at the point the Company has completed the inspection.

In the Company's industry, recognition of profit on long-term contracts requires the use of assumptions and estimates related to total contract revenue and in particular estimated claims revenue, total estimated cost at completion, and the measurement of progress towards completion. Estimates 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 statements of income.

### **Cash Equivalents**

The Company considers all highly liquid investments with original maturities of less than three months to be cash equivalents. Cash equivalent investments are carried at cost, which approximates fair value, and consist primarily of United States Treasuries, time deposits, and other forms of short-term fixed income investments.

### **Restricted Cash and Investments**

Restricted cash and investments held in trust accounts represent collateral for certain incentive programs.

### **Accounts Receivable, Net**

Accounts receivable includes billed and unbilled amounts and are recognized in the period when the Company's rights to receive consideration are unconditional.

The Company establishes an allowance for doubtful accounts 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. Past due receivable balances are written off when internal collection efforts have been unsuccessful in collecting the amounts due.

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

**Contract Assets and Contract Liabilities**

Projects with performance obligations recognized over time that have revenue recognized to-date in excess of cumulative billings and unbilled accounts receivable are reported on our consolidated balance sheets as “Contract assets”. Contract retentions, included in contract assets, represent amounts withheld by clients, in accordance with underlying contract terms, until certain conditions are met or the project is completed. The operating cycle for certain long-term contracts may extend beyond one year, and, accordingly, collection of retainage on those contracts may extend beyond one year. Contract assets are reclassified to accounts receivable when the right to consideration becomes unconditional.

Contract liabilities on uncompleted contracts represent the excess of cash collected from clients and billings to clients on contracts in advance of work performed over the amount of revenue recognized and provisions for losses. The majority of these amounts are expected to be earned within 12 months and are classified as current liabilities.

**Concentration of Credit Risk**

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivables. The Company’s cash is primarily held with major banks and financial institutions throughout the world. At times, cash balances may be in excess of the amount insured.

The Company is involved in a significant volume of contracts with the United States federal government and state and local governments. Approximately 53%, 52%, and 49% of consolidated revenues for the years ended December 31, 2022, December 31, 2021 and December 31, 2020, respectively, and approximately 17% of accounts receivable as of both December 31, 2022 and December 31, 2021, were derived from contracts with the United States federal government. No other customers represented 10% or more of consolidated revenues or accounts receivable in any of the periods presented.

In order to mitigate the credit risk associated with customers, the Company performs periodic credit evaluations of its customers’ financial condition.

**Property and Equipment**

Property and equipment are stated at cost and are shown net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Depreciation of leasehold improvements is computed using the straight-line method over the shorter of their estimated useful lives or the remaining term of the lease.

The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts, and any gain or loss thereon is included in net income. Expenditures for maintenance and repairs are expensed as incurred. Property and equipment are reviewed for impairment when events or circumstances change that indicate they may not be recoverable. Impairment losses are recognized when estimated future cash flows expected to result from the use of the assets and their eventual disposition are less than their carrying amount, in which case the asset is written down to its fair value.

**Leases**

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease ROU assets and current and long-term operating lease liabilities in the consolidated balance

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

sheets. Finance leases are included in other noncurrent assets, accrued expenses and other current liabilities and other long-term liabilities in the consolidated balance sheets.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, incremental borrowing rates are used based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

We have lease agreements with lease and non-lease components where the lease consideration is allocated between the components based on relative standalone prices. For real property leases, allocations of lease consideration between lease and non-lease components are immaterial. For certain equipment leases, such as vehicles, we account for the lease and non-lease components as a single lease component. Additionally, for certain equipment leases, we apply a portfolio approach to effectively account for the operating lease ROU assets and liabilities.

### **Equity-Based Compensation**

The Company measures the value of services received from employees and directors in exchange for an equity-based award based on the grant date fair value. The Company issues equity-based awards that settle in shares of the Company's common stock. Awards containing performance measures are adjusted at each reporting period for the number of shares expected to be earned. Compensation cost for performance awards are trueed-up at each reporting period for the number of shares expected to be earned pro-rated for the portion of the requisite service period rendered. The Company recognizes compensation costs for these awards on either a straight-line or accelerated basis over the vesting period of the award in selling, general and administrative expense in the consolidated statements of income.

### **Business Combinations**

The Company accounts for business combinations using the acquisition method, under which the purchase price of an acquired company is allocated to the tangible and intangible assets acquired and the liabilities assumed on the basis of their fair values at the date of acquisition. Any excess of purchase price over the fair value of tangible and intangible assets acquired and liabilities assumed is allocated to goodwill. The determination of fair values of assets acquired and liabilities assumed requires the Company to make estimates and use valuation techniques when a market value is not readily available.

The Company's determination of the fair value of the intangible assets acquired involves the use of significant estimates and assumptions related to discount rates, revenue growth rates, projected margins, and customer revenue attrition rates.

The Company adjusts the preliminary purchase price allocation, as necessary, during the measurement period of up to one year after the acquisition closing date as the Company obtains more information as to facts and circumstances existing at the acquisition date. Acquisition-related costs are recognized separate from the acquisition and are expensed as incurred.

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

**Consolidation of Joint Ventures and Variable Interest Entities**

The Company participates in joint ventures, which include partnerships and partially owned limited liability corporations, 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 joint venture is determined to be a variable interest entity (“VIE”) for which the Company is the primary beneficiary, as described below.

A VIE is an entity with one or more of the following characteristics: (a) the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support; (b) as a group, the holders of the equity investment at risk lack the ability to make certain decisions, the obligation to absorb expected losses or the right to receive expected residual returns; or (c) an equity investor has voting rights that are disproportionate to its economic interest and substantially all of the entity’s activities are on behalf of the investor with disproportionately low voting rights. The Company’s VIEs may be funded through contributions, loans and/or advances from the joint venture partners or by advances and/or letters of credit provided by clients. Certain VIEs are directly governed, managed, operated and administered by the joint venture partners. Others have no employees and, although these entities own and hold the contracts with the clients, the services required by the contracts are typically performed by the joint venture partners or by other subcontractors.

The Company is considered the primary beneficiary and required to consolidate a VIE if it has the power to direct the activities that most significantly impact that VIE’s economic performance, and the obligation to absorb losses or the right to receive benefits of that VIE that could potentially be significant to the VIE. In determining whether the Company is the primary beneficiary, significant assumptions and judgments include the following: (1) identifying the significant activities and the parties that have the power to direct them; (2) reviewing the governing board composition and participation ratio; (3) determining the equity, profit and loss ratio; (4) determining the management-sharing ratio; (5) reviewing employment terms; and (6) reviewing the funding and operating agreements. Examples of significant activities currently being performed by the Company’s significant consolidated and unconsolidated joint ventures include engineering and design services; management consulting services; procurement and construction services; program management; construction management; and operations and maintenance services. If the Company determines that the power to direct the significant activities is shared by two or more joint venture parties, then there is no primary beneficiary and no party consolidates the VIE. In making the shared-power determination, the Company analyzes the key contractual terms, governance, related party and de facto agency as they are defined in the accounting standard, and other arrangements.

**Goodwill**

The Company performs a goodwill impairment test annually, on October 1<sup>st</sup> of each year and additionally, performs a quarterly qualitative assessment to address whether a triggering event has occurred that would require an impairment test in the interim period.

For purposes of impairment testing, goodwill is allocated to the applicable reporting units based on the current reporting structure. Reporting units are operating segments or components of operating segments where discrete financial information is available and segment management regularly reviews the operating results. When evaluating goodwill for impairment, the Company may decide to first perform a qualitative assessment, or “step zero” impairment test, to determine whether it is more likely than not that impairment has occurred. If the Company does not perform a qualitative assessment, or if the Company determines that it is not more likely than not that the fair value of its reporting units exceeds their carrying amounts, the Company performs a quantitative

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

assessment and calculates the estimated fair value of the respective reporting unit. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized in the amount the carrying value exceeds its fair value, not to exceed the carrying amount of goodwill.

The Company's decision to perform a qualitative impairment assessment in a given year is influenced by a number of factors, including the significance of the excess of the Company's estimated fair value over carrying value at the last quantitative assessment date, the amount of time in between quantitative fair value assessments, and the date of its acquisitions, if any.

### **Intangible Assets**

Intangible assets with finite lives arise from business acquisitions and are amortized based on the period over which the contractual or economic benefit of the intangible assets are expected to be realized or on a straight-line basis over the useful lives of the underlying assets, ranging from one to sixteen years. These primarily consist of customer relationships, developed technology, backlog, and covenants not to compete. When indicators of a potential impairment exist, the Company assesses the recoverability of the unamortized balance of its intangible assets by first comparing undiscounted expected cash flows associated with the asset, or the asset group they are part of, to its carrying value. Should the review indicate that the carrying value is not fully recoverable, the excess of the carrying value over the fair value of the intangible assets would be recognized as an impairment loss.

### **Income Taxes**

Income taxes are accounted for under the asset and liability method. This approach requires the recognition of deferred tax liabilities and assets to reflect the tax effects of temporary differences between the financial statement carrying amounts and tax bases of the Company's assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to be in effect when the asset or liability is recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. Deferred tax assets are evaluated for future realization and valuation allowances are established when, in our opinion, it is more likely than not that all or some portion of the asset will not be realized.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements on a particular tax position are measured based on the largest benefit that is greater than 50 percent likely of being realized. The amount of unrecognized tax benefits ("UTB") is adjusted as appropriate for changes in facts and circumstances, such as significant amendments to existing tax law, new regulations or interpretations by the taxing authorities, new information obtained during a tax examination, or resolution of an examination. The Company recognizes both accrued interest and penalties, where appropriate, related to UTBs in income tax expense.

### **Foreign Currency Translation**

The Company's reporting currency is the U.S. Dollar. The functional currency of the Company's foreign entities is typically the currency of the primary environment in which they operate. For foreign entities whose functional currency is not the U.S. dollar, the assets and liabilities are translated based on exchange rates in effect at the balance sheet date, while the income and expense accounts are translated using the average exchange rates during the period. Translation gains or losses, net of income tax effects, are reflected in accumulated other

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

comprehensive income on the consolidated balance sheets. Transaction gains and losses due to movements in exchange rates between the functional currency and the currency in which a foreign currency transaction is denominated are recognized as “Other income (expense), net” in the Company’s consolidated statements of income.

### **Self-Insurance**

The Company typically utilizes third-party insurance subject to varying retention levels or self-insurance. The Company is self-insured for a portion of the losses and liabilities primarily associated with workers’ compensation, general, professional, automobile, employee matters, certain medical plans, and project-specific liability claims. Losses are accrued based upon the Company’s estimates of the aggregate liability for claims incurred using historical experience and certain actuarial assumptions, as provided by an independent actuary. The estimate of self-insurance liability includes an estimate of incurred but not reported claims, based on data compiled from historical experience.

### **Recently Adopted Accounting Pronouncements**

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

In the first quarter of 2021, the Company early adopted Accounting Standards Update (“ASU”) ASU 2020-06, Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40) (“ASU2020-06”). The update simplified 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 included targeted improvements to the disclosures for convertible instruments and earnings per share. ASU 2020-06 was effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption was 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 June 2016, the FASB issued ASU 2016-13, “*Measurement of Credit Losses on Financial Instruments*,” and issued subsequent amendments to the initial guidance within ASU 2019-04 and ASU 2019-05. The amendments in ASU 2016-13 replace 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. ASU 2016-13 and its amendments are effective for interim and annual reporting periods beginning after December 15, 2019. The Company adopted this ASU in the first quarter of 2020, and it did not have a material impact on its financial statements.

In December 2019, the FASB issued 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



**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

of accounting for income taxes for those entities that fall within the scope of the accounting standard. The guidance is 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. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, with early adoption permitted. The Company adopted this ASU in the first quarter of 2021, and it did not have a material impact on its financial statements.

In August 2020, the FASB issued 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)*”. 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 early adopted this ASU 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.

### **3. Acquisitions**

#### **Xator Corporation**

On May 31, 2022, the Company acquired a 100% ownership interest in Xator Corporation (“Xator”), a privately-owned company, for \$388.3 million in cash. The Company borrowed \$300 million under the Credit Agreement, as described in “Note 11 – Debt and Credit Facilities”, to partially fund the acquisition. Xator expands Parsons’ customer base and brings differentiated technical capabilities in critical infrastructure protection, counter-unmanned aircraft systems (cUAS), intelligence and cyber solutions, biometrics, and global threat assessment and operations. In connection with this acquisition, the Company recognized \$7.7 million of acquisition-related expenses in “Selling, general and administrative expense” in the consolidated statements of income for the year ended December 31, 2022, including legal fees, consulting fees, and other miscellaneous direct expenses associated with the acquisition.

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

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

|  | <u>Amount</u>     |
|--|-------------------|
| Cash and cash equivalents . . . . .                                    | \$ 8,935          |
| Accounts receivable . . . . .  | 7,393             |
| Contract assets . . . . .  | 25,397            |
| Prepaid expenses and other current assets . . . . .                    | 3,615             |
| Property and equipment . . . . .                                       | 1,699             |
| Right of use assets, operating leases . . . . .                        | 7,517             |
| Goodwill . . . . .   | 253,190           |
| Investments in and advances to unconsolidated joint ventures . . . . . | 698               |
| Intangible assets . . . . .  | 123,500           |
| Other noncurrent assets . . . . .                                      | 9,156             |
| Accounts payable . . . . .   | (6,626)           |
| Accrued expenses and other current liabilities . . . . .               | (31,119)          |
| Contract liabilities . . . . .   | (2,080)           |
| Short-term lease liabilities, operating leases . . . . .               | (2,371)           |
| Long-term lease liabilities, operating leases . . . . .                | (5,146)           |
| Other long-term liabilities . . . . .                                  | (9,156)           |
| Net assets acquired . . . . .  | <u>\$ 384,602</u> |

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

|                                  | <u>Gross<br/>Carrying<br/>Amount</u> | <u>Amortization<br/>Period</u><br>(in years) |
|----------------------------------|--------------------------------------|--|
| Customer relationships . . . . . | \$37,000                             | 15   |
| Backlog . . . . .                | 81,000                               | 6  |
| Trade Name . . . . .             | 4,000                                | 1  |
| Developed technologies . . . . . | 1,000                                | 3  |
| Non-compete agreements . . . . . | 500                                  | 3  |

Amortization expense of \$11.9 million related to these intangible assets was recorded for the year ended December 31, 2022. The entire value of goodwill was assigned to the Federal Solutions reporting unit and represents synergies expected to be realized from this business combination. Goodwill in its entirety is deductible for tax purposes.

The amount of revenue generated by Xator and included within consolidated revenues is \$157.8 million for the year ended December 31, 2022. The Company has determined that the presentation of net income from the date of acquisition is impracticable due to the integration of general corporate functions upon acquisition.

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

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

**Supplemental Pro Forma Information (Unaudited)**

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

|   | <u>2022</u><br>(unaudited) | <u>2021</u><br>(unaudited) |
|---|----------------------------|----------------------------|
| Pro forma Revenue .....                                       | \$4,302,448                | \$3,949,562                |
| Pro forma Net Income including noncontrolling interests ..... | 139,901                    | 91,770                     |

**BlackHorse Solutions, Inc.**

On July 6, 2021, the Company acquired a 100% ownership interest in BlackHorse Solutions, Inc (“BlackHorse”), a privately-owned company, for \$205.0 million paid in cash. BlackHorse expands Parsons’ capabilities and products in next-generation military, intelligence, and space operations, specifically in cyber electronic warfare and information dominance. The acquisition was entirely funded by cash on-hand. In connection with this acquisition, the Company recognized \$3.1 million of acquisition-related expenses in “Selling, general and administrative expense” in the consolidated statements of income for the year ended December 31, 2021, including legal fees, consulting fees, and other miscellaneous direct expenses associated with the acquisition.

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

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

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

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

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

Amortization expense of \$14.0 million and \$5.4 million related to these intangible assets was recorded for the year ended December 31, 2022 and December 31, 2021, respectively. The entire value of goodwill of \$143.1 million was assigned to the Federal Solutions reporting unit and represents synergies expected to be realized from this business combination. Goodwill of \$10.6 million is deductible for tax purposes.

The amount of revenue generated by BlackHorse and included within consolidated revenues was \$35.3 million for the year ended December 31, 2021. The Company has determined that the presentation of net income from the date of acquisition is impracticable due to the integration of general corporate functions upon acquisition.

**Supplemental Pro Forma Information (Unaudited)**

Supplemental information on an unaudited pro forma basis, as if the acquisition closed as of the beginning of the fiscal year ended December 31, 2020 as follows (in thousands):

|  | <b>2021</b><br><b>(unaudited)</b> | <b>2020</b><br><b>(unaudited)</b> |
|--|-----------------------------------|-----------------------------------|
| Pro forma Revenue . . . . .  | \$3,699,227                       | \$3,966,809                       |
| Pro forma Net Income including noncontrolling<br>interests . . . . . | 93,592                            | 108,008                           |

The unaudited pro forma supplemental information is based on estimates and assumptions which the Company believes are reasonable and reflects the pro forma impact of additional amortization related to the fair value of acquired intangible assets, and the pro forma impact of reflecting acquisition costs, which consisted of legal, advisory and due diligence fees and expenses. This supplemental pro forma information has been prepared for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition been consummated during the periods for which pro forma information is presented.

**Echo Ridge LLC**

On July 30, 2021, the Company acquired a 100% ownership interest in Echo Ridge LLC (“Echo Ridge”), a privately-owned company, for \$9.0 million in cash. Echo Ridge adds position, navigation, and timing devices; modeling, simulation, test, and measurement tools; and deployable software defined radio products and signal processing services to Parsons’ space portfolio. The acquisition was entirely funded by cash on-hand. In connection with this acquisition, the Company recognized \$0.3 million of acquisition related “Selling, general and administrative expense” in the consolidated statements of income for the year ended December 31, 2021,

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

including legal fees, consulting fees, and other miscellaneous direct expenses associated with the acquisition. The Company allocated the purchase price to the appropriate classes of tangible assets and liabilities and assigned the excess of \$7.2 million entirely to goodwill. The entire value of goodwill was assigned to the Federal Solutions reporting unit and represents synergies expected to be realized from this business combination. Goodwill in its entirety is deductible for tax purposes. The amount of revenue generated by Echo Ridge and included within consolidated revenues for 2021 is \$2.9 million.

**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 \$310.9 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 11—*Debt and Credit Facilities*”. In connection with this acquisition, the Company recognized \$5.5 million of acquisition-related expense in “Selling, general and administrative expense” in the consolidated statements of income for the year ended December 31, 2020, 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):

|  | <u>Amount</u>    |
|--|------------------|
| 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 . . . . .                            | <u>\$309,501</u> |

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

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

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

Amortization expense of \$16.1 million and \$16.2 million related to these intangible assets was recorded for the years ended December 31, 2022 and December 31, 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 \$200.5 million is deductible for tax purposes.

The amount of revenue generated by Braxton and included within consolidated revenues for 2020 is \$10.1 million. 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 2019 (in thousands) is as follows:

|  | <u>2020</u><br><u>(unaudited)</u> |
|--|-----------------------------------|
| Pro forma Revenue . . . . .  | \$4,039,420                       |
| Pro forma Net Income including noncontrolling<br>interests . . . . . | 125,298                           |

The unaudited pro forma supplemental information is based on estimates and assumptions which the Company believes are reasonable and reflects the pro forma impact of additional amortization related to the fair value of acquired intangible assets, the pro forma impact of reflecting acquisition costs, which consisted of legal, advisory and due diligence fees and expenses. This supplemental pro forma information has been prepared for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition been consummated during the periods for which pro forma information is presented.



**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

**4. 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):

|                          | December 31,<br>2022 | December 31,<br>2021 | December 31,<br>2020 |
|--------------------------|----------------------|----------------------|----------------------|
| Cost plus .....          | \$1,890,242          | \$1,674,276          | \$1,631,140          |
| Time-and-Materials ..... | 1,166,548            | 1,021,568            | 1,034,596            |
| Fixed price .....        | 1,138,482            | 964,927              | 1,253,210            |
| Total .....              | <u>\$4,195,272</u>   | <u>\$3,660,771</u>   | <u>\$3,918,946</u>   |

Refer to "Note 20—Segments Information" for the Company's revenues by business lines.

***Contract Assets and Contract Liabilities***

Contract assets and contract liabilities balances at December 31, 2022 and December 31, 2021 were as follows (in thousands):

|   | December 31,<br>2022 | December 31,<br>2021 | \$ change       | % change    |
|---|----------------------|----------------------|-----------------|-------------|
| Contract assets .....                       | \$634,033            | \$579,216            | \$54,817        | 9.5%        |
| Contract liabilities .....                  | 213,064              | 171,671              | 41,393          | 24.1%       |
| Net contract assets (liabilities) (1) ..... | <u>\$420,969</u>     | <u>\$407,545</u>     | <u>\$13,424</u> | <u>3.3%</u> |

- (1) Total contract retentions included in net contract assets (liabilities) were \$73.5 million as of December 31, 2022, of which \$37.5 million are not expected to be paid in 2023. Total contract retentions included in net contract assets (liabilities) were \$91.7 million as of December 31, 2021. Contract assets at December 31, 2022 and December 31, 2021 include approximately \$127.9 million and \$98.6 million, respectively, related to unapproved change orders, claims, and requests for equitable adjustment. For the years ended December 31, 2022 and December 31, 2021, no material losses were recognized related to the collectability of claims, unapproved change orders, and requests for equitable adjustment.

During the years ended December 31, 2022 and December 31, 2021, the Company recognized revenue of approximately \$94.1 million and \$102.5 million, respectively, that was included in the corresponding contract liability balance at December 31, 2021 and December 31, 2020, respectively. Certain changes in contract assets and contract liabilities consisted of the following:

|                                     | December 31,<br>2022 | December 31,<br>2021 |
|-------------------------------------|----------------------|----------------------|
| Acquired contract assets .....      | \$25,397             | \$5,979              |
| Acquired contract liabilities ..... | 2,080                | 320                  |

There was no significant impairment of contract assets recognized during the years ended December 31, 2022 and December 31, 2021.

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 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:

|                               | <u>2022</u> | <u>2021</u> | <u>2020</u> |
|-------------------------------|-------------|-------------|-------------|
| Revenue impact, net . . . . . | \$—         | \$(30,828)  | \$8,875     |

**Accounts Receivable, Net**

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

|  | <u>2022</u>      | <u>2021</u>      |
|--|------------------|------------------|
| Billed . . . . .                           | \$502,411        | \$434,776        |
| Unbilled . . . . .                         | 218,945          | 167,490          |
| Total accounts receivable, gross . . . . . | 721,356          | 602,266          |
| Allowance for doubtful accounts . . . . .  | (4,011)          | (3,955)          |
| Total accounts receivable, net . . . . .   | <u>\$717,345</u> | <u>\$598,311</u> |

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

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

*Transaction Price Allocated to the Remaining Unsatisfied Performance Obligations*

The Company's remaining unsatisfied performance obligations ("RUPO") as of December 31, 2022 represent a measure of the total dollar value of work to be performed on contracts awarded and in progress. The Company had \$5.7 billion in RUPO as of December 31, 2022.

RUPO will increase with awards of new contracts and decrease as the Company performs work and recognizes revenue on existing contracts. Projects are included within RUPO at such time the project is awarded and agreement on contract terms has been reached. The difference between RUPO and backlog relates to unexercised option years that are included within backlog and the value of Indefinite Delivery/Indefinite Quantity ("IDIQ") contracts included in backlog for which task 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.

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

The Company expects to satisfy its RUPO as of December 31, 2022 over the following periods (in thousands):

| <u>Period RUPO Will Be Satisfied</u> | <u>Within One Year</u> | <u>Within One to Two Years</u> | <u>Thereafter</u>  |
|--------------------------------------|------------------------|--------------------------------|--------------------|
| Federal Solutions .....              | \$1,410,279            | \$ 504,882                     | \$ 305,095         |
| Critical Infrastructure .....        | 1,731,154              | 902,203                        | 864,294            |
| Total .....                          | <u>\$3,141,434</u>     | <u>\$1,407,085</u>             | <u>\$1,169,389</u> |

**5. 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 seven 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 years ended December 31, 2022 and December 31, 2021 are as follows (in thousands):

|   | <u>2022</u>     | <u>2021</u>     |
|---|-----------------|-----------------|
| Operating lease cost .....                | \$67,033        | \$61,800        |
| Short-term lease cost .....               | 14,008          | 11,261          |
| Amortization of right-of-use assets ..... | 2,322           | 2,128           |
| Interest on lease liabilities .....       | 98              | 106             |
| Sublease income .....                     | <u>(5,045)</u>  | <u>(3,049)</u>  |
| Total lease cost .....                    | <u>\$78,416</u> | <u>\$72,246</u> |

Supplemental cash flow information related to leases for the years ended December 31, 2022 and December 31, 2021 is as follows (in thousands):

|  | <u>2022</u> | <u>2021</u> |
|--|-------------|-------------|
| Operating cash flows for operating leases .....                                    | \$73,169    | \$68,563    |
| Operating cash flows for financing activities .....                                | 98          | 107         |
| Financing cash flows for finance leases .....                                      | 2,175       | 2,082       |
| Right-of-use assets obtained in exchange for new operating lease liabilities ..... | 26,607      | 18,931      |
| Right-of-use assets obtained in exchange for new finance lease liabilities .....   | \$ 1,813    | \$ 2,003    |

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

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

|  | <u>2022</u>       | <u>2021</u>      |
|--|-------------------|------------------|
| Operating Leases:                                    |                   |                  |
| Right-of-use assets .....                            | \$ 155,090        | \$182,672        |
| Lease liabilities:                                   |                   |                  |
| Current .....  | \$ 59,144         | \$ 55,902        |
| Long-term .....                                      | 111,417           | 148,893          |
| Total operating lease liabilities .....              | <u>\$ 170,561</u> | <u>\$204,795</u> |
| Finance Leases:                                      |                   |                  |
| Other noncurrent assets .....                        | \$ 3,965          | \$ 4,389         |
| Accrued expenses and other current liabilities ..... | \$ 1,746          | \$ 1,822         |
| Other long-term liabilities .....                    | \$ 2,246          | \$ 2,422         |
| Weighted Average Remaining Lease Term:               |                   |                  |
| Operating leases .....                               | 3.6 Year          | 4.3 years        |
| Finance leases .....                                 | 2.6 Years         | 2.9 years        |
| Weighted Average Discount Rate:                      |                   |                  |
| Operating leases .....                               | 3.4%              | 3.5%             |
| Finance leases .....                                 | 2.8%              | 2.1%             |

As of December 31, 2022, the Company has no additional 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 December 31, 2022 is as follows (in thousands):

|  | <u>Operating<br/>Leases</u> | <u>Finance<br/>Leases</u> |
|--|-----------------------------|---------------------------|
| 2023 .....                                     | \$ 64,271                   | \$1,884                   |
| 2024 .....                                     | 45,312                      | 1,333                     |
| 2025 .....                                     | 34,232                      | 859                       |
| 2026 .....                                     | 19,967                      | 213                       |
| 2027 .....                                     | 8,386                       | —                         |
| Thereafter .....                               | 9,410                       | —                         |
| Total lease payments .....                     | 181,578                     | 4,289                     |
| Less: imputed interest .....                   | (11,017)                    | (297)                     |
| Total present value of lease liabilities ..... | <u>\$170,561</u>            | <u>\$3,992</u>            |

Rental expense for the years ended December 31, 2022, December 31, 2021 and December 31, 2020 was \$81.0 million, \$73.1 million and \$ 81.8 million, respectively, and is recorded in "Selling, general and administrative expenses" in the consolidated statements of income.

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

**6. Employee Stock Purchase and Equity-Based Compensation Plans**

**Employee Stock Purchase Plan**

The Parsons Corporation Employee Stock Purchase Plan (“ESPP”) was adopted effective March 1, 2020. Under the ESPP, eligible employees who elect to participate are granted the right to purchase shares of Parsons common stock at a discount of 5% of the market value on the last trading day of the offering period.

The following table presents stock issuance activity for the years ended December 31, 2022 and December 31, 2021 (in thousands):

|   | <u>2022</u> | <u>2021</u> |
|---|-------------|-------------|
| Purchase price paid for shares sold . . . . . | \$5,377     | \$5,556     |
| Number of shares sold . . . . .               | 131         | 161         |

The average purchase price for the year ended December 31, 2022 and December 31, 2021 was \$40.95 and \$34.46 per share, respectively.

**Equity-Based Compensation Plans**

The Company issues stock-based awards through the Incentive Award Plan. Prior to the adoption of the Incentive Award Plan on April 15, 2019, the Company issued awards under the Shareholder Value Plan, Long-Term Growth Plan and Restricted Award Plan. Through these plans the Company may issue stock options (including incentive and non-qualified stock options), stock appreciation rights, restricted stock, restricted stock units, an “other” stock or cash-based awards, or a dividend equivalent award. The compensation expense for these awards is recorded in “Selling, general and administrative expenses” in the Company’s consolidated financial statements.

Stock-based compensation expense was \$20.0 million, \$16.8 million, and \$8.2 million for the years ended December 31, 2022, December 31, 2021 and December 31, 2020, respectively, net of recognized tax benefits of \$4.4 million, \$2.8 million, and \$1.5 million for 2022, 2021 and 2020, respectively. The tax benefit realized related to awards vested during 2022, 2021, and 2020 was \$2.7 million, \$6.3 million, and \$10.3 million, respectively. We recognize forfeitures as they occur.

With the adoption of the Incentive Award Plan on April 15, 2019, the Company has discontinued issuing awards under the Shareholder Value Plan, Long-Term Growth Plan and Restricted Award Plan. Outstanding awards granted out of the discontinued plans will continue to vest and will settle in cash.

At December 31, 2022, the amount of compensation cost relating to non-vested awards not yet recognized in the consolidated financial statements is \$28.1 million. The majority of these unrecognized compensation costs will be recognized by the third quarter of fiscal 2024.

The fair value of a share of the Company’s common stock is based on quoted prices on the NYSE.

**Stock Appreciation Rights**

Stock Appreciation Rights (“SARs”) were issued under the Shareholder Value Plan (“SVP”). Outstanding awards provide a cash incentive based on the increase in the Company’s share price over a three-year period, multiplied by a number of phantom share units. If at the end of a performance cycle the Company’s share price has not increased, then no award payment will be made. The awards issued under the SVP are time-vested cash-settled SARs. The SARs vest at the end of three years and expense is recognized on an accelerated basis over the

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

vesting period. The grant date fair value of the award is determined by using the Black-Scholes option-pricing model. SARs are remeasured, using the Black-Scholes option-pricing model, to an updated fair value at each reporting period until the award is settled. The fair value of the grant on the vesting date is determined based on the 60-trading day weighted average closing price of the Company's common stock on the NYSE. Compensation cost is trued-up at each reporting period for changes in fair value pro-rated for the portion of the requisite service period rendered.

The final SVP grant vested on December 31, 2020 based on the 60-trading day weighted average closing price of the Company's common stock on the NYSE.

The following table presents the number of SARs granted, vested, and forfeited for the year ended December 31, 2020:

|                                     | <u>Number of Units</u> | <u>Weighted Average<br/>Grant-Date Fair<br/>Value</u> |
|-------------------------------------|------------------------|---|
| Unvested at December 31, 2019 ..... | 1,477,628              | \$3.00  |
| Granted .....                       | —                      | \$ —  |
| Vested .....                        | (1,434,836)            | \$3.00  |
| Forfeited .....                     | (42,792)               | \$3.00  |
| Unvested at December 31, 2020 ..... | —                      | \$ —  |

**Long-Term Growth Units**

Long-Term Growth Units awards were issued under the Long-Term Growth Plan. Outstanding awards provide a cash incentive based on performance conditions. The grant date fair value of the award is based on fair value of the Company's common stock on the grant day. These awards vest at the end of three years and expense is recognized on an accelerated basis over the vesting period subject to the probability of meeting the performance requirements and adjusted for the number of shares expected to be earned. Awards are remeasured to an updated fair value at each reporting period until the award is settled. The updated fair value is based on the 60-trading day weighted average closing price of the Company's common stock on the NYSE on the last day of the reporting period. Compensation cost is trued-up at each reporting period for changes in fair value and expected shares pro-rated for the portion of the requisite service period rendered.

The final long-term growth units grant vested during the year ended December 31, 2020.

The following table presents the number of Long-Term Growth Units granted, vested, and forfeited (at target shares) for the year ended December 31, 2020:

|                                     | <u>Number of Units</u> | <u>Weighted Average<br/>Grant-Date Fair<br/>Value</u> |
|-------------------------------------|------------------------|---|
| Unvested at December 31, 2019 ..... | 127,437                | \$20.23   |
| Granted .....                       | —                      | \$ —  |
| Vested .....                        | (125,948)              | \$22.67   |
| Forfeited .....                     | (1,489)                | \$22.67   |
| Unvested at December 31, 2020 ..... | —                      | \$ —  |



**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

**Restricted Award Units**

Restricted Award Units awards were issued under the Restricted Award Plan. Outstanding awards provide a cash incentive based on the fair value of the Company's common stock on the vesting date. The grant date fair value of the award is based on the fair value of the Company's common stock on the grant date. These awards vest and expense is recognized on an accelerated basis over the respective vesting periods. Awards are remeasured to an updated fair value at each reporting period until the award is settled. The updated fair value is based on the 60-trading day weighted average closing price of the Company's common stock on the NYSE on the last day of the reporting period. Compensation cost is trued-up at each reporting period for changes in fair value pro-rated for the portion of the requisite service period rendered.

The final restricted award units grant vested during the year ended December 31, 2021.

The following table presents the number of Restricted Award Units granted, vested, and forfeited for the years ended December 31, 2021 and December 31, 2020:

|                                     | <u>Number of Units</u> | <u>Weighted Average<br/>Grant-Date Fair<br/>Value</u> |
|-------------------------------------|------------------------|---|
| Unvested at December 31, 2019 ..... | 249,444                | \$22.40   |
| Granted .....                       | —                      | \$ —  |
| Vested .....                        | (234,028)              | \$22.38   |
| Forfeited .....                     | (9,017)                | \$22.67   |
| Unvested at December 31, 2020 ..... | 6,399                  | \$22.67   |
| Granted .....                       | —                      | \$ —  |
| Vested .....                        | (6,399)                | \$22.38   |
| Forfeited .....                     | —                      | \$ —  |
| Unvested at December 31, 2021 ..... | —                      | \$ —  |

The following table presents the amount paid for cash settled awards, by award type, for the years ended December 31, 2021 and December 31, 2020 (in thousands) (there were no awards outstanding as of the year ended December 31, 2021):

|                                 | <u>December 31,<br/>2021</u> | <u>December 31,<br/>2020</u> |
|---------------------------------|------------------------------|------------------------------|
| Stock Appreciation Rights ..... | \$15,798                     | \$26,920                     |
| Long-Term Growth .....          | 3,778                        | 3,617                        |
| Restricted Award Units .....    | 7,067                        | 9,408                        |
| Total .....                     | \$26,643                     | \$39,945                     |

**Restricted Stock Units**

Restricted Stock Units awards are issued under the Incentive Award Plan and are settled by the issuance of the Company's common stock. Outstanding awards have been granted based on either service or service and performance conditions. The fair value of the award is based on the closing price of the Company's common stock on the grant date. Awards vest over three-year periods, either annually or cliff. Expense is recognized on an

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

accelerated basis for awards with service conditions only and on a straight-line basis for awards that include performance conditions. Expense recognition of awards with performance criteria are subject to the probability of meeting the performance conditions and adjusted for the number of shares expected to be earned. Compensation cost for awards with performance conditions are trued-up at each reporting period for changes in the expected shares pro-rated for the portion of the requisite service period rendered.

The following table presents the number of shares of restricted stock units granted (at target shares for awards with performance conditions) for the years ended December 31, 2022, December 31, 2021 and December 31, 2020:

|   | <u>December 31,<br/>2022</u> | <u>December 31,<br/>2021</u> | <u>December 31,<br/>2020</u> |
|---|------------------------------|------------------------------|------------------------------|
| Restricted Stock Units (service condition) . . . .                      | 666,184                      | 450,675                      | 313,735                      |
| Restricted Stock Units (service and<br>performance condition) . . . . . | 402,436                      | 374,535                      | 269,710                      |

The number of units granted for awards with performance conditions in the above table is based on performance against the target amount. The number of shares ultimately issued, which could be greater or less than target, will be based on achieving specific performance conditions related to the awards.

The following table presents the number and weighted average grant-date fair value of restricted stock units (at target shares for awards with performance conditions) for the years ended December 31, 2022, December 31, 2021 and December 31, 2020:

|  | <u>Number of Units</u> | <u>Weighted Average<br/>Grant-Date Fair Value</u> |
|--|------------------------|---|
| Outstanding at December 31, 2019 . . . . . | <u>506,640</u>         | \$34.07   |
| Granted . . . . .                          | 583,445                | 37.92   |
| Vested . . . . .                           | (104,016)              | 34.34   |
| Forfeited . . . . .                        | <u>(54,284)</u>        | 35.54   |
| Outstanding at December 31, 2020 . . . . . | <u>931,785</u>         | \$36.32   |
| Granted . . . . .                          | 825,210                | 37.09   |
| Vested . . . . .                           | (222,228)              | 36.49   |
| Forfeited . . . . .                        | <u>(175,524)</u>       | 36.39   |
| Outstanding at December 31, 2021 . . . . . | <u>1,359,243</u>       | \$36.75   |
| Granted . . . . .                          | 1,068,620              | 37.42   |
| Vested . . . . .                           | (497,200)              | 35.86   |
| Forfeited . . . . .                        | <u>(309,508)</u>       | 36.28   |
| Outstanding at December 31, 2022 . . . . . | <u>1,621,155</u>       | \$37.49   |

For the year ended December 31, 2022, 458,952 shares of restricted stock units were issued, and 160,212 shares of common stock related to employee statutory income tax withholding were retired. For the year ended December 31, 2021, 188,408 shares of restricted stock units were issued, and 63,482 shares of common stock related to employee statutory income tax withholding were retired. For the year ended December 31, 2020, 78,476 shares of restricted stock units were issued, and 36,921 shares of common stock related to employee statutory income tax withholding were retired.

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

The following table presents the number of shares of restricted stock outstanding (at target shares for awards with performance conditions) at December 31, 2022, December 31, 2021 and December 31, 2020:

|   | <u>December 31,<br/>2022</u> | <u>December 31,<br/>2021</u> | <u>December 31,<br/>2020</u> |
|---|------------------------------|------------------------------|------------------------------|
| Restricted Stock Units (service condition) . . . .                      | 817,278                      | 526,349                      | 374,819                      |
| Restricted Stock Units (service and<br>performance condition) . . . . . | 803,877                      | 832,894                      | 556,966                      |

**7. Goodwill**

The following table summarizes the changes in the carrying value of goodwill by reporting segment for the years ended December 31, 2022 and December 31, 2021 (in thousands):

|                                   | <u>December 31,<br/>2021</u> | <u>Acquisitions</u> | <u>Foreign<br/>Exchange</u> | <u>December 31,<br/>2022</u> |
|-----------------------------------|------------------------------|---------------------|-----------------------------|------------------------------|
| Federal Solutions . . . . .       | \$1,339,117                  | \$252,446           | \$ —                        | \$1,591,563                  |
| Critical Infrastructure . . . . . | 73,573                       | —                   | (3,286)                     | 70,287                       |
| <b>Total</b> . . . . .            | <u>\$1,412,690</u>           | <u>\$252,446</u>    | <u>\$(3,286)</u>            | <u>\$1,661,850</u>           |

|                                   | <u>December 31,<br/>2020</u> | <u>Acquisitions</u> | <u>Foreign<br/>Exchange</u> | <u>December 31,<br/>2021</u> |
|-----------------------------------|------------------------------|---------------------|-----------------------------|------------------------------|
| Federal Solutions . . . . .       | \$1,188,882                  | \$150,235           | \$—                         | \$1,339,117                  |
| Critical Infrastructure . . . . . | 73,096                       | —                   | 477                         | 73,573                       |
| <b>Total</b> . . . . .            | <u>\$1,261,978</u>           | <u>\$150,235</u>    | <u>\$477</u>                | <u>\$1,412,690</u>           |

For the years ended December 31, 2022 and December 31, 2021, the Company performed a quantitative impairment analysis for all reporting units. It was determined that the fair value of all reporting units exceeded their carrying values. No goodwill impairments were identified for the three years ended December 31, 2022, December 31, 2021 and December 31, 2020.

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

**8. Intangible Assets**

The gross amount and accumulated amortization of acquired identifiable intangible assets included in “Intangible assets, net” on the consolidated balance sheets were as follows (in thousands except for years):

|  | December 31, 2022           |                             |                           | December 31, 2021           |                             |                           | Weighted<br>Average<br>Amortization<br>Period<br>(in years) |
|--|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|---|
|  | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |   |
| Backlog . . . . .                                | \$142,200                   | \$ (45,903)                 | \$ 96,297                 | \$ 60,407                   | \$ (17,591)                 | \$ 42,816                 | 4   |
| Customer relationships . . . . .                 | 293,730                     | (146,032)                   | 147,698                   | 267,295                     | (123,869)                   | 143,426                   | 9   |
| Leases . . . . .                                 | 120                         | (87)                        | 33                        | 120                         | (68)                        | 52                        | 6   |
| Developed technology . . . . .                   | 16,600                      | (11,560)                    | 5,040                     | 109,700                     | (92,526)                    | 17,174                    | 5   |
| Trade name . . . . .                             | 5,000                       | (3,083)                     | 1,917                     | 1,000                       | (244)                       | 756                       | 1   |
| Non-compete agreements . . . . .                 | 3,350                       | (2,074)                     | 1,276                     | 2,850                       | (1,123)                     | 1,727                     | 3   |
| In process research and<br>development . . . . . | 1,800                       | —                           | 1,800                     | 1,800                       | —                           | 1,800                     | n/a   |
| Other intangibles . . . . .                      | 275                         | (209)                       | 66                        | 275                         | (205)                       | 70                        | 10  |
| Total intangible assets . . .                    | <u>\$463,075</u>            | <u>\$(208,948)</u>          | <u>\$254,127</u>          | <u>\$443,447</u>            | <u>\$(235,626)</u>          | <u>\$207,821</u>          |   |

The prior year presentation has been corrected to reflect the removal of fully amortized intangible assets resulting in reductions to gross carrying amount and accumulated amortization of \$159 million.

The aggregate amortization expense of intangible assets was \$78.2 million, \$103.2 million, and \$87.8 million for the years ended December 31, 2022, December 31, 2021 and December 31, 2020, respectively.

Estimated amortization expense in each of the next five years and beyond is as follows (in thousands):

|                      | <u>December 31, 2022</u> |
|----------------------|--------------------------|
| 2023 . . . . .       | \$ 68,255                |
| 2024 . . . . .       | 35,359                   |
| 2025 . . . . .       | 29,818                   |
| 2026 . . . . .       | 26,238                   |
| 2027 . . . . .       | 25,319                   |
| Thereafter . . . . . | 67,338                   |
| Total . . . . .      | <u>\$252,327</u>         |

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

**9. Property and Equipment, Net**

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

|  | <u>December 31,<br/>2022</u> | <u>December 31,<br/>2021</u> | <u>Useful life<br/>(years)</u> |
|--|------------------------------|------------------------------|--------------------------------|
| Buildings and leasehold improvements ..... | \$ 103,071                   | \$ 99,543                    | 1-15                           |
| Furniture and equipment .....              | 85,088                       | 86,862                       | 3-10                           |
| Computer systems and equipment .....       | 152,511                      | 157,633                      | 3-10                           |
| Construction equipment .....               | 5,271                        | 6,806                        | 5-7                            |
| Construction in progress .....             | 21,952                       | 12,970                       |                                |
|  | <u>367,893</u>               | <u>363,814</u>               |                                |
| Accumulated depreciation .....             | <u>(271,843)</u>             | <u>(259,618)</u>             |                                |
| Property and equipment, net .....          | <u>\$ 96,050</u>             | <u>\$ 104,196</u>            |                                |

Depreciation expense of \$39.0 million, \$38.6 million, and \$39.0 million was recorded for the years ended December 31, 2022, December 31, 2021 and December 31, 2020, respectively.

**10. Accrued Expenses and Other Current Liabilities**

Accrued expenses and other current liabilities consisted of the following at December 31, 2022 and December 31, 2021 (in thousands):

|  | <u>2022</u>      | <u>2021</u>      |
|--|------------------|------------------|
| Salaries and wages .....                                   | \$ 85,328        | \$ 90,023        |
| Employee benefits .....                                    | 298,914          | 264,912          |
| Self-insurance liability .....                             | 25,351           | 23,737           |
| Project cost accruals .....                                | 147,378          | 127,970          |
| Other accrued expenses .....                               | <u>73,222</u>    | <u>92,447</u>    |
| Total accrued expenses and other current liabilities ..... | <u>\$630,193</u> | <u>\$599,089</u> |

**11. Debt and Credit Facilities**

Debt consisted of the following at December 31, 2022 and December 31, 2021 (in thousands):

|                                 | <u>December 31, 2022</u> | <u>December 31, 2021</u> |
|---------------------------------|--------------------------|--------------------------|
| Long-Term:                      |                          |                          |
| Delayed draw term loan .....    | \$350,000                | \$ —                     |
| Senior notes .....              | —                        | 200,000                  |
| Convertible senior notes .....  | 400,000                  | 400,000                  |
| Revolving credit facility ..... | —                        | —                        |
| Debt issuance costs .....       | <u>(6,395)</u>           | <u>(8,078)</u>           |
| Total long-term .....           | <u>743,605</u>           | <u>591,922</u>           |
| Total Debt .....                | <u>\$743,605</u>         | <u>\$591,922</u>         |

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

***Revolving Credit Facility***

In June 2021, the Company entered into a \$650 million unsecured revolving credit facility (the “Credit Agreement”). The Company incurred \$1.9 million of costs in connection with this Credit Agreement. The 2021 Credit Agreement replaced an existing Fifth Amended and Restated Credit Agreement dated as of November 15, 2017. Under the new agreement, the Company’s revolving credit facility was increased from \$550 million to \$650 million. The credit facility has a five-year maturity, which may be extended up to two times for periods determined by the Company and the applicable extending lenders, and permits the Company to borrow in U.S. dollars, certain specified foreign currencies, and each other currency that may be approved in accordance with the 2021 Facility. The borrowings under the Credit Agreement bear interest at either 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 December 31, 2022 and December 31, 2021 were 5.7% and 1.36%, respectively. Borrowings under this Credit Agreement are guaranteed by certain Company operating subsidiaries. Letters of credit commitments outstanding under this agreement aggregated approximately \$44.5 million and \$44.3 million at December 31, 2022 and December 31, 2021, respectively, which reduced borrowing limits available to the Company. Interest expense related to the Credit Agreement was \$4.3 million, \$0.7 million and \$1.0 million, for the years ended December 31, 2022, December 31, 2021 and December 31, 2020, respectively. There were no loan amounts outstanding under the Credit Agreement at December 31, 2022 and December 31, 2021.

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

| <u>Tranche</u>              | <u>Debt Amount</u> | <u>Maturity Date</u> | <u>Interest Rate</u> |
|-----------------------------|--------------------|----------------------|----------------------|
| 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 approximately \$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 approximately \$0.5 million of additional issuance costs. These costs were presented as a direct deduction from the debt on the face of the balance sheet. Interest expense related to the Senior Notes was \$8.5 million \$11.6 million and \$12.4 million for the years ended December 31, 2022, December 31, 2021 and December 31, 2020, respectively. The amortization of debt issuance costs and interest expense is recorded in “Interest expense” on the consolidated statements of income. The Company paid the \$50 million Series A tranche of the Senior Notes as scheduled in July 2021. The Company made interest payments related to the Senior Notes of approximately \$13.1 million during the year ended December 31, 2022, and \$12.4 million during the years ended December 31, 2021 and December 31, 2020. Interest payable of



**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

approximately \$4.7 million was recorded in “Accrued expenses and other current liabilities” on the consolidated balance sheets at December 31, 2021 related to the Senior Notes. The Company repaid all outstanding Senior Notes in October 2022. In connection with the prepayment, the Company incurred \$2.1 million of interest expense associated with a make-whole amount and remaining unamortized debt issuance costs.

***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 51<sup>st</sup> scheduled trading day immediately before the maturity date at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, but only if the last reported sale price per share of the Company’s common stock exceeds 130% of the

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

conversion price for a specified period of time. In addition, calling any Convertible Senior Note for redemption will constitute a Make-Whole Fundamental Change with respect to that Convertible Senior Note, in which case the conversion rate applicable to the conversion of that Convertible Senior Note will be increased in certain circumstances if it is converted after it is called for redemption.

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

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

Under existing GAAP at the time of issuance during 2020, convertible debt instruments that may be settled in cash on conversion were required to be separated into liability and equity components in a manner that reflects the issuer's non-convertible debt borrowing rate. The carrying amount of the liability component was based on the fair value of a similar instrument that does not contain an equity conversion option. The carrying amount allocated to the equity component, which was 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%. The Company recognized interest expense of \$3.0 million for the years ended December 31, 2022 and December 31, 2021, respectively. As of December 31, 2022 and December 31, 2021 the carrying value of the Notes was \$400.0 million, respectively.

In the first quarter of 2021, the Company early adopted ASU 2020-06. The Company used the modified retrospective method which resulted in a reduction in non-cash interest expense and reclassification of the 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.

#### **Delayed Draw Term Loan**

In September 2022, the Company entered into a \$350 million unsecured Delayed Draw Term Loan with an increase option of up to \$150 million (the "2022 Delayed Draw Term Loan"). The 2022 Delayed Draw Term Loan may be borrowed in a single draw during the period from and including the Closing Date to the earlier to occur of (a) the date of termination of the 2022 Delayed Draw Term Loan by the Company pursuant to the terms of the 2022 Delayed Draw Term Loan Agreement and (b) six (6) months following the Closing Date. Proceeds of

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

the 2022 Delayed Draw Term Loan Agreement may be used (a) to pay off in full, or partially payoff, the Company's existing Senior Notes, (b) to prepay revolving loans outstanding under the Revolving Credit Agreement (as defined below), or (c) for working capital, capital expenditures and other lawful corporate purposes. The Company drew \$350.0 million from the 2022 Delayed Draw Term Loan in November 2022. The Company incurred \$0.9 million of debt issuance costs in connection with the delayed draw term loan as of December 31, 2022. These costs are presented as a direct deduction from the debt on the face of the balance sheet. Interest expense related to the Delayed Draw Term Loan was \$3.3 million for the year ended December 31, 2022. The amortization of debt issuance costs and interest expense is recorded in "Interest expense" on the consolidated statements of income. As of December 31, 2022, there was \$350.0 million outstanding under the Delayed Draw Term Loan.

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

#### **Letters of Credit**

The Company also has in place several secondary bank credit lines for issuing letters of credit, principally for foreign contracts, to support performance and completion guarantees. Letters of credit commitments outstanding under these bank lines aggregated approximately \$222.5 million and \$223.0 million at December 31, 2022 and December 31, 2021, respectively.

#### ***Convertible Note Hedge and Warrant***

##### ***Transactions***

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

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

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

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.

## **12. Other Long-term Liabilities**

Other long-term liabilities consisted of the following at December 31, 2022 and December 31, 2021 (in thousands):

|   | <u>2022</u>      | <u>2021</u>     |
|---|------------------|-----------------|
| Self-insurance liability .....            | \$ 77,307        | \$72,424        |
| Reserve for uncertain tax positions ..... | 21,508           | 19,318          |
| Finance lease obligations .....           | 2,246            | 2,422           |
| Other long-term liabilities .....         | 8,159            | 668             |
| Total other long-term liabilities .....   | <u>\$109,220</u> | <u>\$94,832</u> |

Refer to "Note 13—*Income Taxes*" for further discussion of the Company's reconciliation of the beginning and ending balances of uncertain tax positions.

## **13. Income Taxes**

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

On November 18, 2022, the U.S. Treasury Department and IRS (collectively, "Treasury") released proposed regulations that provide additional guidance relating to the foreign tax credit ("FTC"). The 2022 Proposed Regulations include guidance with respect to the reattribution asset rule for purposes of allocating and apportioning foreign taxes, the cost recovery requirement, and the attribution rule for withholding taxes on

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

royalty payments. These Proposed Regulations would, if finalized, supplement and revise Final Regulations that were published on January 4, 2022. The Company has assessed the impact of the January 4, 2022, Final Regulations and has included the impact in its provision for income taxes. The Company does not expect any material impact to its consolidated financial statements from the issuance of the Proposed Regulations.

The following table presents the components of our income from continuing operations before income taxes (in thousands):

|                              | <u>2022</u>      | <u>2021</u>      | <u>2020</u>      |
|------------------------------|------------------|------------------|------------------|
| United States earnings ..... | \$ 77,110        | \$ 24,687        | \$ 64,810        |
| Foreign earnings .....       | 89,112           | 87,901           | 96,603           |
|                              | <u>\$166,222</u> | <u>\$112,588</u> | <u>\$161,413</u> |

The income tax expense (benefit) attributable to income from continuing operations for the years ended December 31, 2022, December 31, 2021, and December 31, 2020 consists of the following (in thousands):

|  | <u>2022</u>     | <u>2021</u>     | <u>2020</u>     |
|--|-----------------|-----------------|-----------------|
| <b>Current</b>                             |                 |                 |                 |
| Federal .....                              | \$21,323        | \$ 653          | \$15,663        |
| State .....                                | 9,946           | 6,830           | 9,024           |
| Foreign .....                              | 9,232           | 19,621          | 16,534          |
| Total current income tax expense .....     | <u>40,501</u>   | <u>27,104</u>   | <u>41,221</u>   |
| <b>Deferred</b>                            |                 |                 |                 |
| Federal .....                              | (2,902)         | 1,624           | (186)           |
| State .....                                | (623)           | (1,263)         | (1,785)         |
| Foreign .....                              | 2,681           | (3,829)         | 3,242           |
| Total deferred tax expense (benefit) ..... | <u>(844)</u>    | <u>(3,468)</u>  | <u>1,271</u>    |
| Total income tax expense .....             | <u>\$39,657</u> | <u>\$23,636</u> | <u>\$42,492</u> |

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

Income tax expense (benefit) was different from the amount computed by applying the United States federal statutory rate to pre-tax income from continuing operations as a result of the following (in thousands):

|  | <u>2022</u>      |              | <u>2021</u>      |              | <u>2020</u>      |              |
|--|------------------|--------------|------------------|--------------|------------------|--------------|
| Income before income tax expense . . . . .               | \$166,222        |              | \$112,588        |              | \$161,413        |              |
| Tax at federal statutory tax rate . . . . .              | 34,907           | 21.0%        | 23,644           | 21.0%        | 33,897           | 21.0%        |
| State taxes, net of federal tax benefit . . . . .        | 7,530            | 4.5%         | 4,192            | 3.7%         | 4,838            | 3.0%         |
| Change in tax status . . . . .                           | —                | 0.0%         | —                | 0.0%         | 3,897            | 2.4%         |
| Change in valuation allowance . . . . .                  | 1,363            | 0.8%         | 3,865            | 3.4%         | 6,850            | 4.2%         |
| Change in uncertain tax positions . . . . .              | 1,688            | 1.0%         | (80)             | -0.1%        | 883              | 0.6%         |
| Foreign tax rate differential . . . . .                  | (1,787)          | -1.1%        | (388)            | -0.3%        | (128)            | -0.1%        |
| Tax cost of foreign operations, net of credits . . . . . | 777              | 0.5%         | (5,151)          | -4.6%        | (47)             | 0.0%         |
| Transaction costs . . . . .                              | —                | 0.0%         | 540              | 0.5%         | 61               | 0.0%         |
| Noncontrolling interests . . . . .                       | (6,279)          | -3.8%        | (5,225)          | -4.6%        | (4,280)          | -2.6%        |
| Federal business credits . . . . .                       | (1,926)          | -1.2%        | (2,538)          | -2.2%        | (2,206)          | -1.4%        |
| Executive compensation . . . . .                         | 1,921            | 1.2%         | 2,352            | 2.1%         | 80               | 0.0%         |
| Other, net . . . . .                                     | 1,463            | 0.9%         | 2,425            | 2.1%         | (1,353)          | -0.9%        |
| Total income tax expense . . . . .                       | <u>\$ 39,657</u> | <u>23.9%</u> | <u>\$ 23,636</u> | <u>21.0%</u> | <u>\$ 42,492</u> | <u>26.3%</u> |

The effective tax rate in 2022 increased to 23.9% from 21.0% in 2021. The change in the effective tax rate was due primarily to a net increase of uncertain tax positions during 2022, an income tax benefit recognized in 2021 for foreign tax credits which did not reoccur in 2022, partially offset by a decrease in withholding taxes, a benefit from a change in jurisdictional mix of earnings, and a tax expense recognized in 2021 related to a nonrecurring write down of a foreign tax receivable.

The effective tax rate in 2021 decreased to 21.0% from 26.3% in 2020. The change in the effective tax rate was due primarily to an increase in untaxed income attributable to noncontrolling interests, foreign tax credits utilized on the 2020 federal return, a change in jurisdictional earnings, and a release of uncertain tax positions, partially offset by a write down of a foreign tax receivable and an increase in executive compensation subject to IRC Section 162(m) limitations.

The effective tax rate for the year ended December 31, 2022 differs from the federal statutory tax rate primarily due to state income taxes and a recorded valuation allowance on foreign tax credit carryovers, partially offset by benefits related to income attributable to noncontrolling interests, earnings in lower tax jurisdictions and federal business tax credits.

The effective tax rate for the year ended December 31, 2021 differs from the federal statutory tax rate primarily due to state income taxes, a recorded valuation allowance on foreign tax credit carryovers, a write down of a foreign tax receivable, and an increase in executive compensation subject to IRC Section 162(m) limitations, partially offset by benefits related to untaxed income attributable to noncontrolling interests, release of uncertain tax positions, and federal business tax credits.



**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

The components of deferred tax assets and liabilities consists of the following at December 31, 2022 and December 31, 2021 (in thousands):

|  | <u>2022</u>      | <u>2021</u>      |
|--|------------------|------------------|
| <b>Deferred tax assets</b>                   |                  |                  |
| Project and non-project reserves . . . . .   | \$ 20,862        | \$ 24,668        |
| Employee compensation and benefits . . . . . | 55,103           | 60,397           |
| Revenue and cost recognition . . . . .       | 43,629           | 28,930           |
| Insurance accruals . . . . .                 | 14,067           | 16,661           |
| Net operating losses . . . . .               | 8,928            | 11,589           |
| Lease liabilities . . . . .                  | 44,285           | 54,926           |
| Tax credit carryforwards . . . . .           | 22,333           | 21,818           |
| Other . . . . .                              | 3,847            | 3,323            |
| Total deferred tax assets . . . . .          | 213,054          | 222,312          |
| Valuation allowance . . . . .                | (28,705)         | (27,348)         |
| Total deferred tax assets . . . . .          | <u>184,349</u>   | <u>194,964</u>   |
| <b>Deferred tax liabilities</b>              |                  |                  |
| Intangible assets . . . . .                  | (12,131)         | (16,542)         |
| Right-of-use assets . . . . .                | (40,111)         | (48,993)         |
| Other . . . . .                              | (6,868)          | (6,436)          |
| Total deferred tax liabilities . . . . .     | (59,110)         | (71,971)         |
| Net deferred tax asset . . . . .             | <u>\$125,239</u> | <u>\$122,993</u> |

The Company assesses the realizability of its deferred tax assets each reporting period through an analysis of potential sources of taxable income, including prior year taxable income available to absorb carryback of tax losses, reversals of existing taxable temporary differences, tax planning strategies, and forecasts of taxable income. The Company considers all negative and positive evidence, including the weight of the evidence, to determine if a valuation allowance against deferred tax assets is required. A valuation allowance is recorded against deferred tax assets to reflect the amount of deferred tax assets that is determined to be more-likely-than-not to be realized.

The Company is not asserting that any of the earnings of the foreign subsidiaries will be permanently reinvested. Therefore, the Company has recorded a deferred tax liability for the undistributed earnings net of applicable foreign tax credits.

Beginning in 2022, the Tax Cuts and Jobs Act of 2017 eliminated the option to currently deduct research and development expenditures in the year incurred and requires taxpayers to amortize such expenditures over five years for tax purposes. This provision resulted in additional cash tax liability for the 2022 tax year of approximately \$16 million. Correspondingly, our deferred tax asset for revenue and cost recognition increased by approximately \$16 million to reflect future amortization deductions of the capitalized expenses.

As of December 31, 2022, and December 31, 2021, the Company's valuation allowance against deferred tax assets was \$28.7 million and \$27.3 million, respectively. The Company has recorded a valuation allowance against certain tax attributes that the Company has determined are not more-likely-than-not to be realized, including certain foreign net operating loss carryforwards, foreign tax credit carryforwards, and capital loss

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

carryforwards. From December 31, 2021 to December 31, 2022, the Company's valuation allowance increased by \$1.4 million. This increase relates to deferred tax assets recorded for foreign tax credit carryforwards, offset in part by a decrease related to net operating loss carryforwards. The valuation allowance is recorded because the Company does not expect to have sufficient taxable income and foreign source income to support the net operating loss carryforwards and the foreign tax credit carryforwards before they expire.

As of December 31, 2022, the Company has NOLs of \$0.4 million, \$30.6 million, and \$30.2 million for U.S. Federal, U.S. states and foreign jurisdictions, respectively. The utilization of the U.S. federal and U.S. state NOLs are subject to certain annual limitations. Of these NOL amounts, \$0 million, \$20.1 million and \$19.3 million in U.S. Federal, U.S. states and foreign jurisdictions, respectively, do not expire. The remaining amounts of NOLs in U.S. states and in foreign jurisdictions will expire if not used between 2023 and 2043.

As of December 31, 2022, the Company has foreign tax credit carryforwards of \$22.3 million. The Company has provided a valuation allowance of \$22.3 million as the Company considers it is not more likely than not that these credits will be realized. These foreign tax credits start expiring in the year 2029.

A reconciliation of the beginning and ending balances of unrecognized tax benefits is as follows (in thousands):

|  | <u>2022</u>     | <u>2021</u>     | <u>2020</u>     |
|--|-----------------|-----------------|-----------------|
| <b>Beginning of year</b> .....             | \$21,181        | \$16,395        | \$15,526        |
| Increases—current year tax positions ..... | 4,666           | 6,203           | 950             |
| Increases—prior year tax positions .....   | 2,254           | 1,512           | 1,951           |
| Decreases—prior year tax positions .....   | (3,537)         | (2,929)         | (1,366)         |
| Settlements .....                          | (1,447)         | —               | (666)           |
| Lapse of statute of limitations .....      | (319)           | —               | —               |
| <b>End of year</b> .....                   | <u>\$22,798</u> | <u>\$21,181</u> | <u>\$16,395</u> |

At December 31, 2022, and December 31, 2021, there are \$21.8 million and \$19.5 million of unrecognized tax benefits that if recognized would affect the Company's effective tax rate.

The Company recognizes interest and penalties related to unrecognized tax benefits as part of its income tax expense. During the years ended December 31, 2022, December 31, 2021, and December 31, 2020, the Company recognized approximately \$0.7 million, \$(0.9) million, and \$1.1 million in interest and penalties, respectively, in the consolidated statements of income. The total amount of interest and penalties accrued in the consolidated balance sheets was \$4.1 million, \$3.5 million, and \$4.4 million at December 31, 2022, December 31, 2021, and December 31, 2020, respectively.

The Company conducts business globally and, as a result, the Company or one or more of its subsidiaries file income tax returns in the U.S. federal jurisdiction, various U.S. states, and foreign jurisdictions. The Company is subject to examination by tax authorities in several jurisdictions, including major jurisdictions such as Canada, Qatar, Saudi Arabia and the United States. As of December 31, 2022, the Company's U.S. federal income tax returns for tax years 2019 and forward remain subject to examination. U.S. states and foreign income tax returns remain subject to examination based on varying local statutes of limitations.

The Company estimates that, within 12 months, it may decrease its uncertain tax positions by approximately \$2.5 million as a result of concluding various tax audits and closing tax years.

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

Although the Company believes its reserves for its tax positions are reasonable, the final outcome of tax audits could be significantly different, both favorably and unfavorably. It is reasonably possible that these 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.

#### **14. Contingencies**

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

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

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

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

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.

## **15. Retirement and Other Benefit Plans**

The Company's principal retirement benefit plan is the ESOP, a stock bonus plan, established in 1975 to cover eligible employees of the Company and certain affiliated companies. Contributions of treasury stock to 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 December 31, 2022, the total shares of the Company's common stock outstanding were 104,702,996, of which 63,742,151 were held by the ESOP. As of December 31, 2021, the total shares of the Company's common stock outstanding were 103,659,731, of which 70,328,237 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 approximately \$54.7 million, \$54.9 million and \$55.3 million for the years ended December 31, 2022, December 31, 2021 and December 31, 2020, respectively, and is recorded in "Direct costs of contracts" and "Selling, general and administrative expense" in the consolidated statements of income.

The Company also maintains a defined contribution plan (the "401(k) Plan"). Substantially all domestic employees are entitled to participate in the 401(k) Plan, subject to certain minimum requirements. The Company's contributions to the 401(k) Plan for the years ended December 31, 2022, December 31, 2021 and December 31, 2020 amounted to \$30.2 million, \$25.5 million, and \$24.4 million, respectively.

As part of an acquisition in 2014, the Company acquired a defined contribution pension plan, a defined benefit pension plan, and supplemental retirement plan. For the defined contribution pension plan, the Company contributes a base amount plus an additional amount based upon a predetermined formula. At December 31, 2022 and December 31, 2021, the defined benefit pension plan was in a net asset position of \$1.8 million and \$2.6 million, respectively, which is recorded in "Other noncurrent assets" on the consolidated balance sheets.

## **16. 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.

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

The Company performs an analysis to determine whether its variable interests give the Company a controlling financial interest in a 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 11—*Debt and Credit Facilities*" that relate to project ventures are approximately \$106.8 million and \$73.2 million at December 31, 2022 and December 31, 2021, respectively.

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

***Consolidated Joint Ventures***

The following represents financial information for consolidated joint ventures included in the consolidated financial statements as of and for the years ended December 31, 2022, December 31, 2021 and December 31, 2020 (in thousands):

|                                  | <u>2022</u>      | <u>2021</u>      |
|----------------------------------|------------------|------------------|
| Current assets .....             | \$289,837        | \$246,342        |
| Noncurrent assets .....          | 9,961            | 2,180            |
| Total assets .....               | <u>299,798</u>   | <u>248,522</u>   |
| Current liabilities .....        | 198,464          | 175,637          |
| Total liabilities .....          | <u>198,464</u>   | <u>175,637</u>   |
| Total joint venture equity ..... | <u>\$101,334</u> | <u>\$ 72,885</u> |

|   | <u>2022</u>      | <u>2021</u>      | <u>2020</u>      |
|---|------------------|------------------|------------------|
| Revenue .....   | \$483,888        | \$402,078        | \$450,530        |
| Costs .....   | 422,559          | 351,670          | 408,319          |
| Net income .....  | <u>\$ 61,329</u> | <u>\$ 50,408</u> | <u>\$ 42,211</u> |
| Net income attributable to noncontrolling interests ... | \$ 29,901        | \$ 24,880        | \$ 20,380        |

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

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 VIEs 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 as of and for the years ended December 31, 2022 and December 31, 2021 (in thousands):

|  | <u>2022</u>       | <u>2021</u>       |                   |
|--|-------------------|-------------------|-------------------|
| Current assets .....   | \$1,610,246       | \$1,620,735       |                   |
| Noncurrent assets .....  | 491,658           | 531,261           |                   |
| Total assets .....   | <u>2,101,904</u>  | <u>2,151,996</u>  |                   |
| Current liabilities .....  | 1,255,297         | 1,088,985         |                   |
| Noncurrent liabilities .....                                       | 468,056           | 669,911           |                   |
| Total liabilities .....  | <u>1,723,353</u>  | <u>1,758,896</u>  |                   |
| Total joint venture equity .....                                   | <u>\$ 378,551</u> | <u>\$ 393,100</u> |                   |
| Investments in and advances to unconsolidated joint ventures ..... | \$ 107,425        | \$ 110,688        |                   |
|  | <u>2022</u>       | <u>2021</u>       | <u>2020</u>       |
| Revenue .....  | \$2,406,407       | \$2,709,305       | \$1,830,802       |
| Costs .....  | <u>2,325,472</u>  | <u>2,536,403</u>  | <u>1,709,933</u>  |
| Net income .....   | <u>\$ 80,935</u>  | <u>\$ 172,902</u> | <u>\$ 120,869</u> |
| Equity in earnings of unconsolidated joint ventures .....          | \$ 16,347         | \$ 36,862         | \$ 30,059         |

The Company received net distribution from its unconsolidated joint ventures of \$20.2 million and \$30.5 million for the years ended December 31, 2022 and December 31, 2020, respectively, and had net contributions to its unconsolidated joint ventures of \$13.2 million for the year ended December 31, 2021.

For the years ended December 31, 2022, December 31, 2021 and December 31, 2020, the Company recorded a \$13.8 million, \$15.6 million and \$15.5 million write-down, respectively, on an unconsolidated joint venture in the Critical Infrastructure segment as a result of changes in estimates made by the managing partner. For the year ended December 31, 2022, this write-down decreased operating and net income by \$13.8 million and \$10.3 million, respectively, and decreased diluted earnings per share by \$0.09. For the year ended December 31, 2021, this write-down decreased operating and net income by \$15.6 million and \$11.6 million, respectively, and decreased diluted earnings per share by \$0.10. For the year ended December 31, 2020, this write-down decreased operating and net income by \$15.5 million and \$11.5 million, respectively, and decreased diluted earnings per share by \$0.11.



**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

**17. Related Party Transactions**

The Company often provides services to unconsolidated joint ventures and revenues include amounts related to recovering overhead costs for these services. For the years ended December 31, 2022, December 31, 2021 and December 31, 2020, revenues included \$215.2 million, \$204.7 million, and \$172.2 million, respectively, related to services the Company provided to unconsolidated joint ventures. For the years ended December 31, 2022, December 31, 2021 and December 31, 2020, the Company incurred approximately \$156.0 million, \$155.5 million and \$133.8 million, respectively, of reimbursable costs. Amounts included in the consolidated balance sheets related to services the Company provided to unconsolidated joint ventures are as follows (in thousands):

|                            | <u>2022</u> | <u>2021</u> |
|----------------------------|-------------|-------------|
| Accounts receivable .....  | \$40,320    | \$30,246    |
| Contract assets .....      | 30,578      | 16,069      |
| Contract liabilities ..... | 14,906      | 10,605      |

**18. 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 December 31, 2022 and December 31, 2021, 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 1    Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities;
- Level 2    Pricing inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the derivative instrument; and
- Level 3    Prices or valuations that require inputs that are both significant to the fair value measurements and unobservable.

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

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.

The following table sets forth assets associated with the pension plan in “Note 15—*Retirement and Other Benefits Plans*” that are accounted for at fair value by Level within the fair value hierarchy.

Fair value as of December 31, 2022 (in thousands):

|                                     | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>    |
|-------------------------------------|----------------|----------------|----------------|-----------------|
| Mutual funds . . . . .              | \$1,924        | \$ —           | \$—            | \$ 1,924        |
| Fixed income . . . . .              | —              | 7,662          | —              | 7,662           |
| Cash and cash equivalents . . . . . | 449            | —              | —              | 449             |
|                                     | <u>\$2,373</u> | <u>\$7,662</u> | <u>\$—</u>     | <u>\$10,035</u> |

Fair value as of December 31, 2021 (in thousands):

|                                     | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>  |
|-------------------------------------|----------------|----------------|----------------|---------------|
| Mutual funds . . . . .              | \$2,951        | \$ —           | \$—            | 2,951         |
| Fixed income . . . . .              | —              | 9,813          | —              | 9,813         |
| Cash and cash equivalents . . . . . | 489            | —              | —              | 489           |
|                                     | <u>3,440</u>   | <u>9,813</u>   | <u>—</u>       | <u>13,253</u> |

As described in “Note 15—*Retirement and Other Benefits Plans*”, the Company acquired a defined contribution pension plan, a defined benefit pension plan, and supplemental retirement plans. At December 31, 2022 and December 31, 2021, the Company measured the mutual funds held within the defined benefit pension plan at fair value using unadjusted quoted prices in active markets that are accessible for identical assets. The Company measured the fixed income securities using market bid and ask prices. The inputs that are significant to the valuation of fixed income securities are generally observable, and therefore have been classified as Level 2.

With respect to equity-based compensation, we estimate the fair value of cash settled awards based on the 60-trading day weighted average closing price of the Company’s common stock on the NYSE at the end of each reporting period and on the vesting date. For restricted stock units containing service conditions or service and performance conditions, fair value is based on the closing stock price of a share of the Company’s common stock on the NYSE on the grant date.

## 19. Earnings Per Share

The tables below 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 years ended December 31, 2022, December 31, 2021 and December 31, 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.

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

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 during the third quarter of 2020. In connection with the offerings of our note, the Company entered into a convertible note hedge and warrants (see Note 11 Debt and Credit Facilities); however, the convertible note hedge is not considered when calculating dilutive shares given its impact is anti-dilutive. The impact of the bond hedge would offset the dilutive impact of the shares underlying the Convertible Senior Note. The warrants have a strike price above our average share price during the period and are out of the money and not included in the tables below.

Dilutive potential common shares include, when circumstances require, shares the Company could be obligated to issue from its Convertible Senior Notes and warrants (see Note 11 Debt and Credit Facilities 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 years ended December 31, 2022, December 31, 2021, and December 31, 2020 were 15,113, 11,986, and 5,327, respectively. In addition, the convertible senior notes were anti-dilutive and excluded for 2020.

The weighted average number of shares used to compute basic and diluted EPS were (in thousands):

|  | <u>2022</u>    | <u>2021</u>    | <u>2020</u>    |
|--|----------------|----------------|----------------|
| Basic weighted average number of shares outstanding . . .          | 103,758        | 102,544        | 100,848        |
| Stock-based awards . . . . .                                       | 808            | 666            | 357            |
| Convertible senior notes . . . . .                                 | <u>8,917</u>   | <u>8,917</u>   | <u>—</u>       |
| Diluted weighted average number of shares<br>outstanding . . . . . | <u>113,483</u> | <u>112,127</u> | <u>101,205</u> |

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

|   | <u>2022</u>   | <u>2021</u>   | <u>2020</u>   |
|---|---------------|---------------|---------------|
| Net income attributable to Parsons Corporation . . . . .                      | 96,664        | 64,072        | 98,541        |
| Convertible senior notes if-converted method interest<br>adjustment . . . . . | <u>2,176</u>  | <u>2,130</u>  | <u>—</u>      |
| Diluted net income attributable to Parsons Corporation . . . . .              | <u>98,840</u> | <u>66,202</u> | <u>98,541</u> |

### Share Repurchases

In August 2021, the Company's Board of Directors authorized a stock repurchase program to repurchase up to \$100.0 million of shares of Common Stock. Repurchases under this stock repurchase program commenced on August 12, 2021. Any and all shares of Common Stock purchased by the Company pursuant to the program shall be retired upon their acquisition and shall not become treasury shares but instead shall resume the status of authorized but unissued shares of Common Stock.

The following table summarizes the repurchase activity under the stock repurchase program.

|  | <u>2022</u> | <u>2021</u> |
|--|-------------|-------------|
| Total shares repurchased . . . . .     | 574,933     | 618,533     |
| Total shares retired . . . . .         | 574,933     | 618,533     |
| Average price paid per share . . . . . | \$ 38.27    | \$ 35.08    |

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

As of December 31, 2022, the Company has \$56.3 million remaining under the stock repurchase program.

**20. Segments 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”), currently its 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 information for the periods presented (in thousands):

|                                   | <u>2022</u>        | <u>2021</u>        | <u>2020</u>        |
|-----------------------------------|--------------------|--------------------|--------------------|
| Revenues:                         |                    |                    |                    |
| Federal Solutions . . . . .       | \$2,212,987        | \$1,888,050        | \$1,911,910        |
| Critical Infrastructure . . . . . | <u>1,982,285</u>   | <u>1,772,721</u>   | <u>2,007,036</u>   |
| Total revenues . . . . .          | <u>\$4,195,272</u> | <u>\$3,660,771</u> | <u>\$3,918,946</u> |

The Company defines Adjusted EBITDA attributable to Parsons Corporation as Adjusted EBITDA excluding Adjusted EBITDA attributable to noncontrolling interests. The Company defines Adjusted EBITDA as net income (loss) attributable to Parsons Corporation, adjusted to include net income (loss) attributable to noncontrolling interests and to exclude interest expense (net of interest income), provision for income taxes, depreciation and amortization and certain other items that are not considered in the evaluation of ongoing operating performance. These other items include net income (loss) attributable to noncontrolling interests, asset impairment charges, income and expense recognized on litigation matters, expenses incurred in connection with

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

acquisitions and other non-recurring transaction costs and expenses related to our prior restructuring. The following table summarizes business segment Adjusted EBITDA and a reconciliation to net income attributable to Parsons Corporation for the periods presented (in thousands):

|  | <u>2022</u>      | <u>2021</u>      | <u>2020</u>      |
|--|------------------|------------------|------------------|
| Adjusted EBITDA attributable to Parsons Corporation            |                  |                  |                  |
| Federal Solutions .....  | \$ 199,004       | \$ 162,733       | \$ 167,340       |
| Critical Infrastructure .....                                  | 123,385          | 121,700          | 154,528          |
| Adjusted EBITDA attributable to Parsons Corporation .....      | 322,389          | 284,433          | 321,868          |
| Adjusted EBITDA attributable to noncontrolling interests ..... | 30,393           | 25,287           | 20,753           |
| Depreciation and amortization .....                            | (120,501)        | (144,209)        | (127,980)        |
| Interest expense, net .....                                    | (22,219)         | (17,301)         | (20,169)         |
| Income tax (expense) benefit .....                             | (39,657)         | (23,636)         | (42,492)         |
| Equity-based compensation .....                                | (24,354)         | (19,601)         | (9,785)          |
| Transaction-related costs (a) .....                            | (16,270)         | (11,965)         | (19,922)         |
| Restructuring (b) .....  | (213)            | (736)            | (2,193)          |
| Other (c) .....  | (3,003)          | (3,320)          | (1,159)          |
| Net income including noncontrolling interests ....             | \$ 126,565       | \$ 88,952        | \$ 118,921       |
| Net income attributable to noncontrolling interests .....      | (29,901)         | (24,880)         | (20,380)         |
| Net income attributable to Parsons Corporation ...             | <u>\$ 96,664</u> | <u>\$ 64,072</u> | <u>\$ 98,541</u> |

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

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

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

|   | <u>2022</u>        | <u>2021</u>        | <u>2020</u>        |
|---|--------------------|--------------------|--------------------|
| Revenues:                               |                    |                    |                    |
| North America .....                     | \$3,463,128        | \$3,028,760        | \$3,215,874        |
| Middle East .....                       | 710,830            | 610,655            | 684,353            |
| Rest of World .....                     | 21,314             | 21,356             | 18,719             |
| Total revenues .....                    | <u>\$4,195,272</u> | <u>\$3,660,771</u> | <u>\$3,918,946</u> |
| Property and equipment, net             |                    |                    |                    |
| North America .....                     | \$ 91,217          | \$ 100,674         | \$ 116,460         |
| Middle East .....                       | 4,833              | 3,522              | 4,567              |
| Total property and equipment, net ..... | <u>\$ 96,050</u>   | <u>\$ 104,196</u>  | <u>\$ 121,027</u>  |

**PARSONS CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2022, December 31, 2021 and December 31, 2020**

---

North America revenue includes \$3.2 billion, \$2.7 billion and \$3.0 billion of United States revenue for the years ended December 31, 2022, December 31, 2021 and December 31, 2020, respectively. North America property and equipment, net includes \$84.4 million, \$95.0 million and \$109.6 million of property and equipment, net in the United States at December 31, 2022, December 31, 2021 and December 31, 2020, respectively.

The geographic location of revenue is determined by the location of the customer. The prior reporting of revenue by geographic location has been conformed to the current presentation.

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

|  | <u>2022</u>               | <u>2021</u>               | <u>2020</u>               |
|--|---------------------------|---------------------------|---------------------------|
| Revenue:                               |                           |                           |                           |
| Defense & Intelligence .....           | \$1,368,779               | \$1,269,030               | \$1,205,152               |
| Engineered Systems .....               | 844,208                   | 619,020                   | 706,758                   |
| Federal Solutions revenues .....       | <u>2,212,987</u>          | <u>1,888,050</u>          | <u>1,911,910</u>          |
| Mobility Solutions .....               | 1,291,088                 | 1,164,718                 | 1,280,535                 |
| Connected Communities .....            | <u>691,197</u>            | <u>608,003</u>            | <u>726,501</u>            |
| Critical Infrastructure revenues ..... | <u>1,982,285</u>          | <u>1,772,721</u>          | <u>2,007,036</u>          |
| Total revenues .....                   | <u><u>\$4,195,272</u></u> | <u><u>\$3,660,771</u></u> | <u><u>\$3,918,946</u></u> |

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

## **21. Subsequent Events**

None.



**PARSONS CORPORATION AND SUBSIDIARIES**  
**Schedule II—Valuation and Qualifying Accounts**

| <u>Description</u>                                 | <u>Balance at<br/>beginning<br/>of period</u> | <u>Additions</u> | <u>Deductions</u> | <u>Other and foreign<br/>exchange impact</u> | <u>Balance at<br/>end of period</u> |
|--|---|------------------|-------------------|--|-------------------------------------|
| 2022   |   |                  |                   |  |                                     |
| Allowance for doubtful accounts . . . . .          | 3,955   | 59               | (3)               | —  | 4,011                               |
| Valuation allowance on deferred tax assets . . . . | 27,348  | 3,656            | (2,180)           | (119)  | 28,705                              |
| 2021   |   |                  |                   |  |                                     |
| Allowance for doubtful accounts . . . . .          | 4,001   | 8                | (54)              | —  | 3,955                               |
| Valuation allowance on deferred tax assets . . . . | 23,878  | 4,873            | (878)             | (525)  | 27,348                              |
| 2020   |   |                  |                   |  |                                     |
| Allowance for doubtful accounts . . . . .          | 5,497   | 1,201            | (2,697)           | —  | 4,001                               |
| Valuation allowance on deferred tax assets . . . . |   |                  |                   |  | 23,878                              |
|  | 17,359  | 7,655            | (596)             | (540)  |                                     |

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

# BOARD OF DIRECTORS



**Carey A. Smith**

Chair, President, and CEO



**Steven F. Leer**

Lead Independent Director,  
Former Executive Chairman of the Board  
of Directors of Arch Coal, Inc.



**Mark K. Holdsworth**

Founder and Managing Partner  
of the Holdsworth Group



**Ellen Lord**

Former Under Secretary of Defense  
for Acquisition and Sustainment for  
the US Department of Defense



**George Ball**

Former Chief Financial Officer  
of Parsons Corporation



**Letitia A. Long**

Former Director of the National  
Geospatial-Intelligence Agency



**Harry T. McMahon**

Former Executive Vice Chairman  
of Bank of America Merrill Lynch



**Darren W. McDew,  
USAF (ret)**

Retired US Air Force General



**M. Christian Mitchell**

Former National Managing Partner  
of Deloitte & Touche LLP's Mortgage  
Banking and Finance Practice



**Major General Suzanne M. "Zan"  
Vautrinot, USAF (ret)**

President of Kilovolt Consulting, Inc.



**David Wajsglas**

Chief Executive Officer of Intelsat

#### **INVESTOR RELATIONS**

Dave Spille, Senior Vice President  
[dave.spille@parsons.com](mailto:dave.spille@parsons.com)  
Direct: +1 571.775.0408

#### **CORPORATE HEADQUARTERS**

5875 Trinity Parkway, Suite 300  
Centreville, Virginia 20120  
Direct: +1 703.988.8500  
[parsons.com](http://parsons.com)

