

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 8-K

**CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of report (Date of earliest event reported): July 31, 2019

MASTECH DIGITAL, INC.

(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania
(State or Other Jurisdiction of Incorporation)

001-34099
(Commission
File Number)

26-2753540
(IRS Employer
Identification No.)

1305 Cherrington Parkway, Suite 400
Moon Township, PA
(Address of Principal Executive Offices)

15108
(Zip Code)

(412) 787-2100
(Registrant's Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$.01 per share	MHH	NYSE American

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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.

Item 2.02 Results of Operations and Financial Condition.

On July 31, 2019, Mastech Digital, Inc. (the “Company”) issued a press release (the “Press Release”) announcing its financial results for the second quarter ended June 30, 2019. A copy of the Press Release is furnished herewith as Exhibit 99.1 and is incorporated herein by reference.

The information contained in this Item 2.02 and in the accompanying exhibit shall not be deemed filed for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such a filing.

Item 9.01 Financial Statements and Exhibits.

(d) The following exhibit is furnished with this Form 8-K:

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release issued by Mastech Digital, Inc. on July 31, 2019.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

MASTECH DIGITAL, INC.

By: /s/ John J. Cronin

Name: John J. Cronin

Title: Chief Financial Officer

Date: July 31, 2019



FOR IMMEDIATE RELEASE:

Mastech Digital Reports 8% Revenue Growth in Second Quarter 2019 **Data & Analytics Segment Generates Record Revenues**

PITTSBURGH, PA – July 31, 2019 - Mastech Digital, Inc. (NYSE American: MHH), a leading provider of Digital Transformation IT Services, announced today its financial results for the second quarter ended June 30, 2019.

Second Quarter 2019 Highlights:

- Total revenues increased 8% to \$48.5 million, compared to revenues of \$44.9 million in the 2018 second quarter;
- The Company's data and analytics services segment reported record quarterly revenues of \$6.7 million, representing 9% growth over the same quarter last year and a 15% sequential increase over our last quarter;
- The IT staffing segment achieved organic revenue growth of 8% during the second quarter of 2019 compared to the second quarter of 2018 and a 6% sequential increase over our last quarter;
- GAAP diluted earnings per share were \$0.53 in the second quarter of 2019 versus \$0.25 in the 2018 second quarter; the current quarter benefited by a \$6.1 million pretax revaluation of a contingent consideration liability;
- Non-GAAP diluted earnings per share were \$0.20 in the second quarter of 2019 compared to \$0.21 in the 2018 second quarter;
- Bank debt, less cash balances on hand, was reduced by \$7.6 million during the quarter, as cash conversion issues related to system implementation disruptions materially improved.

Second Quarter Results:

Revenues for the second quarter of 2019 totaled \$48.5 million compared to \$44.9 million during the corresponding quarter last year. Gross profit in the second quarter of 2019 was \$12.1 million, compared to \$10.9 million in the same quarter of 2018. GAAP net income for the second quarter of 2019 totaled \$6.0 million or \$0.53 per diluted share, compared to \$2.8 million or \$0.25 per diluted share during the same period last year. Non-GAAP net income for the second quarter of 2019 was \$2.2 million or \$0.20 per diluted share, compared to \$2.3 million or \$0.21 per diluted share in the second quarter of 2018. Activity levels at the Company's data and analytics services segment continued to strengthen from the previous quarter and revenues in the second quarter of 2019 increased by approximately \$0.9 million over revenues reported in the first quarter of 2019. This 15% sequential growth reflected an increase in activity levels for the third consecutive quarter. Demand for the Company's IT staffing services also remained strong during the quarter.

"I am extremely pleased with the performance of our data and analytics segment, which once again showed healthy sequential growth on the strength of continued pipeline expansion and project wins," commented Vivek Gupta, Mastech Digital's Chief Executive Officer. "During the quarter, we significantly enlarged our services stack and hired several key executives, and I am happy to say that we are already seeing payback from these investments. Going forward, we will continue to invest, in a disciplined manner, to capitalize on the bullish conditions that we are seeing in the marketplace. Our IT staffing segment continued to deliver above industry average growth, at higher gross margins, as we continue our focus on digital technologies," Mr. Gupta added.

Commenting on the Company's financial position, Jack Cronin, Mastech Digital's Chief Financial Officer, stated, "At June 30, 2019 we had bank debt, net of cash balances on hand, of \$29.4 million and approximately \$12.5 million of borrowing capacity available to us under our revolving credit line. During the quarter, debt levels, net of cash, declined by \$7.6 million, as our cash conversion issues related to the implementation of our new Cloud-based ERP platform are largely behind us."

About Mastech Digital, Inc.:

Mastech Digital (NYSE American: MHH) is a leading provider of Digital Transformation IT Services. The Company offers Data Management and Analytics services; other digital transformation services that include Salesforce.com, and Digital Learning services; and IT staffing services. A minority-owned enterprise, Mastech Digital is headquartered in Pittsburgh, PA with offices across the U.S. and India. For more information, visit www.mastechdigital.com.

Use of Non-GAAP Measures:

This press release contains non-GAAP financial measures to supplement our financial results presented on a GAAP basis. The presentation of these financial measures is not intended to be considered in isolation or as a substitute for, or superior to, financial information prepared and presented in accordance with GAAP. Investors are cautioned that there are material limitations associated with the use of non-GAAP financial measures as an analytical tool. Reconciliations of these non-GAAP measures to their comparable GAAP measures are included in the attached financial tables.

We believe that providing non-GAAP net income and non-GAAP diluted earnings per share offers investors useful supplemental information about the financial performance of our business, enables comparison of financial results between periods where certain items may vary independent of business performance, and allows for greater transparency with respect to key metrics used by management in operating our business. Additionally, management uses these non-GAAP financial measures in evaluating the Company's performance.

Specifically, the non-GAAP financial measures contained herein exclude the following expense items:

Amortization of acquired intangible assets: We amortize intangible assets acquired in connection with our June 2015 acquisition of Hudson IT and our July 2017 acquisition of the services division of InfoTrellis, Inc. We exclude these amortization expenses in our non-GAAP financial measures because we believe it allows investors to make more meaningful comparisons between our operating results and those of other companies within our industry and facilitates a helpful comparison of our results with other periods.

Stock-based compensation expenses: We incur material recurring expense related to non-cash, stock-based compensation. We exclude these expenses in our non-GAAP financial measures because we believe that it provides investors with meaningful supplemental information regarding operational performance. In particular, because of varying available valuation methodologies, subjective assumptions and the variety of award types that companies can use under ASC 718, we believe that providing non-GAAP financial measures that exclude these expenses allows investors to make more meaningful comparisons between our operating results and those of other companies within our industry and facilitates comparison of our results with other periods.

Acquisition-related transaction expenses: We incurred significant expenses in connection with our July 2017 acquisition of InfoTrellis, Inc. which we would not have otherwise incurred in the periods presented as part of our continuing operations. These transaction expenses consisted of investment banking fees, legal expenses, audit charges related to our acquired companies and various advisor costs. In the 2018 period, we recorded a reduction in acquisition-related transaction expense due to a revised estimate of investment banking fees associated with contingent consideration payments. No transaction expenses were incurred in 2019. We believe that providing non-GAAP financial measures that exclude these expenses / credits allows investors to make more meaningful comparisons between our operating results and those of other companies within our industry and facilitates a helpful comparison of our results with other periods.

Contingent consideration liability revaluation: In connection with the InfoTrellis acquisition, the Company was required to pay future consideration that was contingent upon the achievement of specific earnings before interest and tax objectives. As of the acquisition date, the Company recorded a contingent consideration liability representing the estimated fair value of such contingent consideration that was expected to be paid. In the second quarter of 2019 and 2018, this contingent consideration liability was reduced by \$6.1 million and \$9.1 million, respectively, after determining that relevant conditions for payment of such liability were unlikely to be satisfied. We believe that providing non-GAAP financial measures that exclude these adjustments to expense are useful for investors to understand the effects of these items on our total operating expenses and facilitate comparison of our results with other periods.

Goodwill impairment: The Company accounts for acquisitions in accordance with guidance found in ASC 805, *Business Combinations*. Accordingly, excess purchase price over the fair value of net tangible assets and identifiable intangible assets are recorded as goodwill. Goodwill is not amortized but is tested for impairment at least on an annual basis. If impairment is indicated, a write-down to fair value is recorded based on the excess of the carrying value of the asset over its fair market value. As a result of the reductions to contingent consideration related to the July 2017 InfoTrellis acquisition, we performed quantitative impairment tests on June 30, 2019 and June 30, 2018. The results of these tests indicated no impairment of goodwill in 2019 and a \$7.7 million impairment associated with the carrying value of goodwill in 2018. While it is possible that goodwill impairment could occur in the future, we believe that providing non-GAAP financial measures that exclude impairment expense are useful for investors to understand the effects of these items on our total operating expenses and facilitate comparison of our results with other periods.

Forward-Looking Statements:

Certain statements contained in this release are forward-looking statements based on management's expectations, estimates, projections and assumptions. Words such as "expects," "anticipates," "plans," "believes," "scheduled," "estimates" and variations of these words and similar expressions are intended to identify forward-looking statements, which include but are not limited to (i) projections of revenues, earnings, and cash flow, and (ii) the expected benefits to Mastech Digital from completing the acquisition of the services division of InfoTrellis, Inc. and the PNC credit facility and the expected performance of Mastech Digital following completion of these transactions. These statements are based on information currently available to the Company and it assumes no obligation to update the forward-looking statements as circumstances change. These statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Therefore, actual future results and trends may differ materially from what is forecast in forward-looking statements due to a variety of factors, including, without limitation, the level of market demand for its services, the highly competitive market for the types of services offered by the Company, the impact of competitive factors on profit margins, market conditions that could cause the Company's customers to reduce their spending for its services, and the Company's ability to create, acquire and build new lines of business, to attract and retain qualified personnel, reduce costs and conserve cash, and other risks that are described in more detail in the Company's filings with the Securities and Exchange Commission including its Form 10-K for the year ended December 31, 2018.

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For more information, contact:
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MASTECH DIGITAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands)
(Unaudited)

	June 30, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,869	\$ 1,294
Accounts receivable, net	35,791	38,080
Prepaid and other current assets	1,349	1,321
Total current assets	41,009	40,695
Equipment, enterprise software and leasehold improvements, net	2,438	2,208
Operating lease right-of-use assets	4,980	-
Deferred income taxes	-	297
Non-current deposits	447	540
Goodwill, net of impairment	26,106	26,106
Intangible assets, net	21,394	22,738
Total assets	\$ 96,374	\$ 92,584
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 4,575	\$ 4,575
Current portion of operating lease liability	1,339	-
Accounts payable	3,909	4,127
Accrued payroll and related costs	10,088	7,728
Other accrued liabilities	1,271	1,476
Total current liabilities	21,182	17,906
Long-term liabilities:		
Long-term debt, less current portion, net	28,366	34,129
Contingent consideration liability	-	6,069
Long-term operating lease liability, less current portion	3,736	-
Long-term accrued income taxes	204	204
Deferred income taxes	1,157	-
Total liabilities	54,645	58,308
Shareholders' equity:		
Common stock, par value \$0.01 per share	127	126
Additional paid-in capital	21,437	20,829
Retained earnings	24,536	17,614
Accumulated other comprehensive income (loss)	(184)	(119)
Treasury stock, at cost	(4,187)	(4,174)
Total shareholders' equity	41,729	34,276
Total liabilities and shareholders' equity	\$ 96,374	\$ 92,584

MASTECH DIGITAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share data)
(Unaudited)

	Three Months ended June 30,		Six Months ended June 30,	
	2019	2018	2019	2018
Revenues	\$ 48,472	\$ 44,894	\$ 93,671	\$ 88,227
Cost of revenues	36,418	34,002	70,782	67,074
Gross profit	12,054	10,892	22,889	21,153
Selling, general and administrative expenses	3,475	6,435	12,440	14,258
Income from operations	8,579	4,457	10,449	6,895
Other income/(expense), net	(507)	(607)	(1,061)	(1,119)
Income before income taxes	8,072	3,850	9,388	5,776
Income tax expense	2,114	1,033	2,466	1,579
Net income	<u>\$ 5,958</u>	<u>\$ 2,817</u>	<u>\$ 6,922</u>	<u>\$ 4,197</u>
Earnings per share:				
Basic	\$ 0.54	\$ 0.26	\$ 0.63	\$ 0.38
Diluted	\$ 0.53	\$ 0.25	\$ 0.62	\$ 0.38
Weighted average common shares outstanding:				
Basic	11,022	10,926	11,013	10,924
Diluted	11,164	11,142	11,183	11,106

MASTECH DIGITAL, INC.
RECONCILIATION OF GAAP MEASURES TO NON-GAAP MEASURES
(Amounts in thousands, except per share data)
(Unaudited)

	Three Months ended June 30,		Six Months ended June 30,	
	2019	2018	2019	2018
GAAP Net Income	\$ 5,958	\$ 2,817	\$ 6,922	\$ 4,197
Adjustments:				
Amortization of acquired intangible assets	672	689	1,344	1,382
Stock-based compensation	267	120	503	225
Acquisition transaction expenses/(credits)	-	(140)	-	(140)
Goodwill impairment	-	7,738	-	7,738
Revaluation of contingent consideration liability	(6,069)	(9,106)	(6,069)	(9,106)
Income tax effect of pretax adjustments	1,351	187	1,110	(27)
Non-GAAP Net Income	\$ 2,179	\$ 2,305	\$ 3,810	\$ 4,269
GAAP Diluted Earnings Per Share	\$ 0.53	\$ 0.25	\$ 0.62	\$ 0.38
Non-GAAP Diluted Earnings Per Share	\$ 0.20	\$ 0.21	\$ 0.34	\$ 0.38
Weighted average common shares outstanding:				
GAAP Diluted Shares	11,164	11,142	11,183	11,106
Non-GAAP Diluted Shares	11,164	11,142	11,183	11,106

MASTECH DIGITAL, INC.
SUPPLEMENTAL FINANCIAL INFORMATION
(Amounts in thousands)
(Unaudited)

	Three Months ended June 30,		Six Months ended June 30,	
	2019	2018	2019	2018
Revenues:				
Data and analytics services	\$ 6,654	\$ 6,083	\$ 12,422	\$ 12,655
IT staffing services	41,818	38,811	81,249	75,572
Total revenues	\$ 48,472	\$ 44,894	\$ 93,671	\$ 88,227
Gross Margin %:				
Data and analytics services	46.1%	42.2%	45.8%	43.3%
IT staffing services	21.5%	21.4%	21.2%	20.7%
Total gross margin %	24.9%	24.3%	24.4%	24.0%
Segment Operating Income:				
Data and analytics services	\$ 1,285	\$ 1,411	\$ 2,326	\$ 3,186
IT staffing services	1,897	2,227	3,398	3,583
Subtotal	3,182	3,638	5,724	6,769
Acquisition transaction expenses	-	140	-	140
Amortization of acquired intangible assets	(672)	(689)	(1,344)	(1,382)
Goodwill impairment	-	(7,738)	-	(7,738)
Revaluation of contingent consideration liability	6,069	9,106	6,069	9,106
Interest expense and other, net	(507)	(607)	(1,061)	(1,119)
Income before income taxes	\$ 8,072	\$ 3,850	\$ 9,388	\$ 5,776