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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2023

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

Commission File Number 001-34099

MASTECH DIGITAL, INC.
(Exact name of registrant as specified in its charter)

PENNSYLVANIA
(State or other jurisdiction of
incorporation or organization)

26-2753540
(I.R.S. Employer
Identification No.)

1305 Cherrington Parkway, Building 210, Suite 400
Moon Township, Pennsylvania
(Address of principal executive offices)

15108
(Zip Code)

Registrant's telephone number, including area code: (412) 787-2100

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

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

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|-------------------------|-------------------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input checked="" type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

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

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

The number of shares of the registrant's Common Stock, par value \$.01 per share, outstanding as of April 30, 2023 was 11,651,262.

[Table of Contents](#)

MASTECH DIGITAL, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2023

TABLE OF CONTENTS

| | <u>Page</u> |
|----------|--|
| PART 1 | FINANCIAL INFORMATION |
| Item 1. | Financial Statements: |
| (a) | Condensed Consolidated Statements of Operations (Unaudited) for the Three Months Ended March 31, 2023 and 2022 |
| (b) | Condensed Consolidated Statements of Comprehensive Income (Unaudited) for the Three Months Ended March 31, 2023 and 2022 |
| (c) | Condensed Consolidated Balance Sheets (Unaudited) as of March 31, 2023 and December 31, 2022 |
| (d) | Condensed Consolidated Statements of Shareholders' Equity (Unaudited) as of March 31, 2023 and March 31, 2022 |
| (e) | Condensed Consolidated Statements of Cash Flows (Unaudited) for the Three Months Ended March 31, 2023 and 2022 |
| (f) | Notes to Condensed Consolidated Financial Statements (Unaudited) |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk |
| Item 4. | Controls and Procedures |
| PART II | OTHER INFORMATION |
| Item 1. | Legal Proceedings |
| Item 1A. | Risk Factors |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds |
| Item 6. | Exhibits |
| | SIGNATURES |

PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS**

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

| | Three Months Ended | |
|--|---------------------------|-----------------|
| | March 31, | |
| | 2023 | 2022 |
| Revenues | \$55,063 | \$59,755 |
| Cost of revenues | 41,581 | 43,823 |
| Gross profit | 13,482 | 15,932 |
| Selling, general and administrative expenses | 12,950 | 12,625 |
| Income from operations | 532 | 3,307 |
| Interest income (expense), net | 4 | (114) |
| Other income (expense), net | (57) | 54 |
| Income before income taxes | 479 | 3,247 |
| Income tax expense | 218 | 915 |
| Net income | <u>\$ 261</u> | <u>\$ 2,332</u> |
| Earnings Per Share: | | |
| Basic | <u>\$.02</u> | <u>\$.20</u> |
| Diluted | <u>\$.02</u> | <u>\$.19</u> |
| Weighted average common shares outstanding: | | |
| Basic | <u>11,638</u> | <u>11,509</u> |
| Diluted | <u>12,054</u> | <u>12,035</u> |

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

MASTECH DIGITAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands)
(Unaudited)

| | Three Months Ended | |
|---|---------------------------|-----------------|
| | March 31, | |
| | 2023 | 2022 |
| Net income | \$ 261 | \$ 2,332 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustments | 5 | (147) |
| Total other comprehensive gain (loss), net of taxes | 5 | (147) |
| Total comprehensive income | <u>\$ 266</u> | <u>\$ 2,185</u> |

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

MASTECH DIGITAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share and per share data)
(Unaudited)

| | <u>March 31,</u> <u>2023</u> | <u>December 31,</u> <u>2022</u> |
|---|---------------------------------|------------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 9,097 | \$ 7,057 |
| Accounts receivable, net of allowance for uncollectible accounts of \$444 in 2023 and \$444 in 2022 | 31,441 | 33,603 |
| Unbilled receivables | 10,637 | 8,719 |
| Prepaid and other current assets | 3,353 | 3,795 |
| Total current assets | <u>54,528</u> | <u>53,174</u> |
| Equipment, enterprise software, and leasehold improvements, at cost: | | |
| Equipment | 2,871 | 2,790 |
| Enterprise software | 4,185 | 4,185 |
| Leasehold improvements | 735 | 732 |
| | <u>7,791</u> | <u>7,707</u> |
| Less – accumulated depreciation and amortization | <u>(5,345)</u> | <u>(5,042)</u> |
| Net equipment, enterprise software, and leasehold improvements | 2,446 | 2,665 |
| Operating lease right-of-use assets, net | 3,504 | 3,886 |
| Deferred financing costs, net | 275 | 293 |
| Non-current deposits | 491 | 578 |
| Goodwill, net of impairment | 32,510 | 32,510 |
| Intangible assets, net of amortization | <u>15,080</u> | <u>15,773</u> |
| Total assets | <u>\$108,834</u> | <u>\$ 108,879</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ — | \$ 1,100 |
| Accounts payable | 4,688 | 4,475 |
| Accrued payroll and related costs | 11,481 | 11,085 |
| Current portion of operating lease liability | 1,470 | 1,504 |
| Other accrued liabilities | 926 | 1,186 |
| Deferred revenue | 412 | 207 |
| Total current liabilities | <u>18,977</u> | <u>19,557</u> |
| Long-term liabilities: | | |
| Long-term operating lease liability, less current portion | 1,974 | 2,294 |
| Long-term accrued income taxes | 105 | 105 |
| Deferred income taxes | 674 | 920 |
| Total liabilities | <u>21,730</u> | <u>22,876</u> |
| Commitments and contingent liabilities (Note 6) | | |
| Shareholders' equity: | | |
| Preferred Stock, no par value; 20,000,000 shares authorized; none outstanding | — | — |
| Common Stock, par value \$.01; 250,000,000 shares authorized and 13,297,682 shares issued as of March 31, 2023 and 13,269,118 shares issued as of December 31, 2022 | 133 | 133 |
| Additional paid-in-capital | 32,894 | 32,059 |
| Retained earnings | 59,814 | 59,553 |
| Accumulated other comprehensive income (loss) | (1,550) | (1,555) |
| Treasury stock, at cost; 1,646,420 shares as of March 31, 2023 and as of December 31, 2022 | <u>(4,187)</u> | <u>(4,187)</u> |
| Total shareholders' equity | <u>87,104</u> | <u>86,003</u> |
| Total liabilities and shareholders' equity | <u>\$108,834</u> | <u>\$ 108,879</u> |

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

MASTECH DIGITAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Amounts in thousands)
(Unaudited)

| | <u>Common Stock</u> | <u>Additional Paid-in Capital</u> | <u>Accumulated Retained Earnings</u> | <u>Treasury Stock</u> | <u>Accumulated Other Comprehensive Income (Loss)</u> | <u>Total Shareholders' Equity</u> |
|--|-------------------------|---|--|---------------------------|--|---|
| Balances, December 31, 2022 | \$ 133 | \$ 32,059 | \$ 59,553 | \$(4,187) | \$ (1,555) | \$ 86,003 |
| Net income | — | — | 261 | — | — | 261 |
| Other comprehensive gain, net of taxes | — | — | — | — | 5 | 5 |
| Stock-based compensation expense | — | 835 | — | — | — | 835 |
| Balances, March 31, 2023 | <u>\$ 133</u> | <u>\$ 32,894</u> | <u>\$ 59,814</u> | <u>\$(4,187)</u> | <u>\$ (1,550)</u> | <u>\$ 87,104</u> |

| | <u>Common Stock</u> | <u>Additional Paid-in Capital</u> | <u>Accumulated Retained Earnings</u> | <u>Treasury Stock</u> | <u>Accumulated Other Comprehensive Income (Loss)</u> | <u>Total Shareholders' Equity</u> |
|--|-------------------------|---|--|---------------------------|--|---|
| Balances, December 31, 2021 | \$ 131 | \$ 28,250 | \$ 50,841 | \$(4,187) | \$ (607) | \$ 74,428 |
| Net income | — | — | 2,332 | — | — | 2,332 |
| Other comprehensive (loss), net of taxes | — | — | — | — | (147) | (147) |
| Stock-based compensation expense | — | 526 | — | — | — | 526 |
| Stock options exercised | 2 | 891 | — | — | — | 893 |
| Balances, March 31, 2022 | <u>\$ 133</u> | <u>\$ 29,667</u> | <u>\$ 53,173</u> | <u>\$(4,187)</u> | <u>\$ (754)</u> | <u>\$ 78,032</u> |

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

MASTECH DIGITAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

| | Three Months Ended | |
|---|---------------------------|-----------------|
| | March 31, | |
| | 2023 | 2022 |
| OPERATING ACTIVITIES: | | |
| Net income | \$ 261 | \$ 2,332 |
| Adjustments to reconcile net income to cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 1,014 | 1,020 |
| Interest amortization of deferred financing costs | 18 | 18 |
| Stock-based compensation expense | 835 | 526 |
| Deferred income taxes, net | (245) | 623 |
| Operating lease assets and liabilities, net | 12 | (76) |
| Loss on disposition of fixed assets | 1 | — |
| Working capital items: | | |
| Accounts receivable and unbilled receivables | 245 | (3,445) |
| Prepaid and other current assets | 452 | 699 |
| Accounts payable | 210 | 1,288 |
| Accrued payroll and related costs | 385 | (873) |
| Other accrued liabilities | (262) | (448) |
| Deferred revenue | 205 | (101) |
| Net cash flows provided by operating activities | <u>3,131</u> | <u>1,563</u> |
| INVESTING ACTIVITIES: | | |
| Recovery of (payment for) non-current deposits | 90 | 84 |
| Capital expenditures | (97) | (730) |
| Net cash flows (used in) investing activities | <u>(7)</u> | <u>(646)</u> |
| FINANCING ACTIVITIES: | | |
| (Repayments) on term loan facility | (1,100) | (1,100) |
| Proceeds from exercise of stock options | — | 893 |
| Net cash flows (used in) financing activities | <u>(1,100)</u> | <u>(207)</u> |
| Effect of exchange rate changes on cash and cash equivalents | 16 | (147) |
| Net change in cash and cash equivalents | 2,040 | 563 |
| Cash and cash equivalents, beginning of period | 7,057 | 6,622 |
| Cash and cash equivalents, end of period | <u>\$ 9,097</u> | <u>\$ 7,185</u> |

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

MASTECH DIGITAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2023 AND 2022
(Unaudited)

1. Description of Business and Basis of Presentation:

Basis of Presentation

References in this Quarterly Report on Form 10-Q to “we”, “our”, “Mastech Digital”, “Mastech” or “the Company” refer collectively to Mastech Digital, Inc. and its wholly-owned operating subsidiaries, which are included in these Condensed Consolidated Financial Statements (the “Financial Statements”).

Description of Business

We are a provider of Digital Transformation IT Services to mostly large and medium-sized organizations.

Our portfolio of offerings includes data management and analytics services; digital learning services; and IT staffing services.

With our 2017 acquisition of the services division of Canada-based InfoTrellis, Inc., we added specialized capabilities in delivering data and analytics services to our customers, which became our Data and Analytics Services segment. This segment offers project-based consulting services in the areas of data management, data engineering and data science, with such services delivered using on-site and offshore resources. In October 2020, we acquired AmberLeaf Partners, Inc. (“AmberLeaf”), a Chicago-based customer experience consulting firm. This acquisition expanded our Data and Analytics Services segment’s capabilities in customer experience strategy and managed services offering for a variety of Cloud-based enterprise applications across sales, marketing and customer services organizations.

Our IT staffing segment combines technical expertise with business process experience to deliver a broad range of staffing services in digital and mainstream technologies. Our digital technologies include data management, analytics, cloud, mobility, social and artificial intelligence. We work with businesses and institutions with significant IT spending and recurring staffing service needs. We also support smaller organizations with their “project focused” temporary IT staffing requirements.

The COVID-19 pandemic had a material impact on activity levels in both of our business segments in 2020. This impact was reduced in 2021 as a result of the global roll-out of vaccination programs and signs of improving economic conditions. COVID-19 related concerns were less impactful on our business in 2022. Still, the proliferation of COVID-19 variants have caused some uncertainty and could continue to disrupt global markets in 2023 and beyond.

Accounting Principles

The accompanying Financial Statements have been prepared by management in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and applicable rules and regulations of the Securities and Exchange Commission (the “SEC”). Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for complete consolidated financial statements. In the opinion of management, all adjustments, consisting principally of normal recurring adjustments, considered necessary for a fair presentation have been included. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the Financial Statements and the accompanying notes. Actual results could differ from these estimates. These Financial Statements should be read in conjunction with the Company’s audited consolidated financial statements and accompanying notes for the year ended December 31, 2022, included in our Annual Report on Form 10-K filed with the SEC on March 27, 2023. Additionally, our operating results for the three months ended March 31, 2023, are not necessarily indicative of the results that can be expected for the year ending December 31, 2023 or for any other period.

Principles of Consolidation

The Financial Statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

Critical Accounting Policies

Please refer to Note 1 “Summary of Significant Accounting Policies” of the Consolidated Financial Statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates” in our Annual Report on Form 10-K for the year ended December 31, 2022, for a more detailed discussion of our significant accounting policies and critical accounting estimates. There were no material changes to these critical accounting policies during the three months ended March 31, 2023.

[Table of Contents](#)

Segment Reporting

The Company has two reportable segments, in accordance with Accounting Standards Committee (“ASC”) Topic 280 “Disclosures About Segments of an Enterprise and Related Information”: Data and Analytics Services and IT Staffing Services.

2. Revenue from Contracts with Customers

The Company recognizes revenue on time-and-material contracts over time as services are performed and expenses are incurred. Time-and-material contracts typically bill at an agreed-upon hourly rate, plus out-of-pocket expense reimbursement. Out-of-pocket expense reimbursement amounts vary by assignment, but on average represent less than 2% of the total contract revenues. Revenue is earned on a per transaction or labor hour basis, as that amount directly corresponds to the value of the Company’s performance. Revenue recognition is negatively impacted by holidays and consultant vacation and sick days.

The Company recognizes revenue on fixed price contracts over time as services are rendered and uses a cost-based input method to measure progress. Determining a measure of progress requires management to make judgments that affect the timing of revenue recognized. Under the cost-based input method, the extent of progress towards completion is measured based on the ratio of 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. The Company has determined that the cost-based input method provides a faithful depiction of the transfer of goods or services to the customer. Estimated losses are recognized immediately in the period in which current estimates indicate a loss. We record deferred revenues when cash payments are received or due in advance of our performance, including amounts which may be refundable.

The Company’s time-and-material and fixed price revenue streams are recognized over time as the customer receives and consumes the benefits of the Company’s performance as the work is performed.

In certain situations related to client direct hire assignments, where the Company’s fee is contingent upon the hired resources continued employment with the client, revenue is not fully recognized until such employment conditions are satisfied.

We do not sell, lease or otherwise market computer software or hardware, and, essentially, 100% of our revenue is derived from the sale of data and analytics, IT staffing and digital transformation services. We expense sales commissions in the same period in which revenues are realized. These costs are recorded within sales and marketing expenses.

Each contract the Company enters into is assessed to determine the promised services to be performed and includes identification of the performance obligations required by the contract. In substantially all of our contracts, we have identified a single performance obligation for each contract either because the promised services are distinct or the promised services are highly interrelated and interdependent and therefore represent a combined single performance obligation.

Our Data and Analytics Services segment provides specialized capabilities in delivering data management and analytics services to its customers. This business offers project-based consulting services in the areas of Master Data Management, Enterprise Data Integration, Data Engineering and Analytics, which can be delivered using onsite and offshore resources.

Our IT Staffing Services segment combines technical expertise with business process experience to deliver a broad range of services in digital and mainstream technologies. Our digital technology stack includes data management and analytics, cloud, mobility, social and automation. Our mainstream technologies include business intelligence / data warehousing; web services; enterprise resource planning & customer resource management; and e-Business solutions. We work with businesses and institutions with significant IT spend and recurring staffing needs. We also support smaller organizations with their “project focused” temporary IT staffing requirements.

The following table depicts the disaggregation of our revenues by contract type and operating segment:

| | Three Months Ended | |
|---|------------------------|------------------|
| | March 31, | |
| | 2023 | 2022 |
| | (Amounts in thousands) | |
| <u>Data and Analytics Services Segment</u> | | |
| Time-and-material Contracts | \$ 6,701 | \$ 6,181 |
| Fixed-price Contracts | 2,694 | 3,971 |
| Subtotal Data and Analytics Services | \$ 9,395 | \$ 10,152 |

[Table of Contents](#)

| | Three Months Ended | |
|--------------------------------------|--------------------|------------------|
| | March 31, | |
| | 2023 | 2022 |
| (Amounts in thousands) | | |
| IT Staffing Services Segment | | |
| Time-and-material Contracts | \$ 45,668 | \$ 49,399 |
| Fixed-price Contracts | — | 204 |
| Subtotal IT Staffing Services | \$ 45,668 | \$ 49,603 |
| Total Revenues | \$ 55,063 | \$ 59,755 |

For the three months ended March 31, 2023, the Company had one client (CGI =25.5%) that exceeded 10% of total revenues. For the three months ended March 31, 2022, the Company had one client (CGI =17.8%) that exceeded 10% of total revenues.

The Company's top ten clients represented approximately 56% and 51% of total revenues for the three months ended March 31, 2023 and 2022, respectively. The following table presents our revenue from external customers disaggregated by geography, based on the work location of our customers:

| | Three Months Ended | |
|------------------------|--------------------|------------------|
| | March 31, | |
| | 2023 | 2022 |
| (Amounts in thousands) | | |
| United States | \$ 53,755 | \$ 58,347 |
| Canada | 831 | 1,019 |
| India and other | 477 | 389 |
| Total Revenues | \$ 55,063 | \$ 59,755 |

3. Goodwill and Other Intangible Assets, Net

Goodwill related to our June 15, 2015 acquisition of Hudson Global Resources Management's U.S. IT staffing business ("Hudson IT") totaled \$8.4 million. Goodwill related to our July 13, 2017 acquisition of the services division of InfoTrellis totaled \$27.4 million. During 2018, the Company recorded a goodwill impairment related to the InfoTrellis acquisition of \$9.7 million. Goodwill related to our October 1, 2020 acquisition of AmberLeaf totaled \$6.4 million.

The Company is amortizing the identifiable intangible assets on a straight-line basis over estimated average lives ranging from 3 to 12 years. Identifiable intangible assets were comprised of the following as of March 31, 2023, and December 31, 2022:

| (Amounts in thousands) | As of March 31, 2023 | | | |
|-------------------------------------|-----------------------------------|-------------------------|------------------------------|-----------------------|
| | Amortization Period (In Years) | Gross Carrying Value | Accumulative Amortization | Net Carrying Value |
| IT Staffing Services: | | | | |
| Client relationships | 12 | \$ 7,999 | \$ 5,194 | \$ 2,805 |
| Covenant-not-to-compete | 5 | 319 | 319 | — |
| Trade name | 3 | 249 | 249 | — |
| Data and Analytics Services: | | | | |
| Client relationships | 12 | 19,641 | 8,548 | 11,093 |
| Covenant-not-to-compete | 5 | 1,201 | 981 | 220 |
| Trade name | 5 | 1,711 | 1,466 | 245 |
| Technology | 7 | 1,979 | 1,262 | 717 |
| Total Intangible Assets | | \$ 33,099 | \$ 18,019 | \$ 15,080 |

[Table of Contents](#)

| (Amounts in thousands) | As of December 31, 2022 | | | |
|-------------------------------------|--------------------------------|----------------------|---------------------------|--------------------|
| | Amortization Period (In Years) | Gross Carrying Value | Accumulative Amortization | Net Carrying Value |
| IT Staffing Services: | | | | |
| Client relationships | 12 | \$ 7,999 | \$ 5,027 | \$ 2,972 |
| Covenant-not-to-compete | 5 | 319 | 319 | — |
| Trade name | 3 | 249 | 249 | — |
| Data and Analytics Services: | | | | |
| Client relationships | 12 | 19,641 | 8,140 | 11,501 |
| Covenant-not-to-compete | 5 | 1,201 | 959 | 242 |
| Trade name | 5 | 1,711 | 1,441 | 270 |
| Technology | 7 | 1,979 | 1,191 | 788 |
| Total Intangible Assets | | \$ 33,099 | \$ 17,326 | \$ 15,773 |

Amortization expense for the three months ended March 31, 2023 and 2022 totaled \$693,000 and \$792,000, respectively, and is included in selling, general and administrative expenses in the Condensed Consolidated Statement of Operations.

The estimated aggregate amortization expense for intangible assets for the years ending December 31, 2023 through 2027 is as follows:

| | Years Ended December 31, | | | | |
|----------------------|--------------------------|---------|---------|---------|---------|
| | 2023 | 2024 | 2025 | 2026 | 2027 |
| | (Amounts in thousands) | | | | |
| Amortization expense | \$2,772 | \$2,693 | \$2,553 | \$2,413 | \$2,025 |

4. Leases

The Company rents certain office facilities and equipment under non-cancelable operating leases. As of March 31, 2023, approximately 96,000 square feet of office space is utilized for our sales and recruiting offices, delivery centers, and corporate headquarters. All of our leases are classified as operating leases. The average initial lease term is 4.9 years. Several leases have an option to renew, at our sole discretion, for an additional term. Our present lease terms range from less than one year to 4 years, with a weighted average of 3.1 years. Leases with an initial term of twelve months or less are not recorded on the balance sheet.

The following table summarizes the balance sheet classification of the lease assets and related lease liabilities:

| | March 31, 2023 | December 31, 2022 |
|---|----------------|-------------------|
| | (in thousands) | |
| Assets: | | |
| Long-term operating lease right-of-use assets | \$ 3,504 | \$ 3,886 |
| Liabilities: | | |
| Short-term operating lease liability | \$ 1,470 | \$ 1,504 |
| Long-term operating lease liability | 1,974 | 2,294 |
| Total Liabilities | \$ 3,444 | \$ 3,798 |

Future minimum rental payments for office facilities and equipment under the Company's noncancelable operating leases are as follows:

| | Amount as of March 31, 2023 (in thousands) |
|--|--|
| 2023 (for remainder of year) | \$ 1,219 |
| 2024 | 947 |
| 2025 | 679 |
| 2026 | 663 |
| 2027 | 157 |
| Thereafter | — |
| Total | \$ 3,665 |
| Less: Imputed interest | (221) |
| Present value of operating lease liabilities | \$ 3,444 |

[Table of Contents](#)

The weighted average discount rate used to calculate the present value of future lease payments was 3.8%.

We recognize rent expense for these leases on a straight-line basis over the lease term. Rental expense for the three months ended March 31, 2023 and 2022 totaled \$0.4 million and \$0.4 million, respectively.

Total cash paid for lease liabilities for the three months ended March 31, 2023 and 2022 totaled \$0.4 million and \$0.4 million, respectively.

New leases entered into during the three months ended March 31, 2023 and 2022 totaled \$0 and \$0.5 million, respectively, and are considered non cash transactions.

5. Payroll Tax Liability

As allowed under the Coronavirus Aid, Relief and Economic Security (CARES) Act, the Company elected to defer payment of \$4.6 million of the employer's share of social security tax. The Company paid \$2.3 million of the deferred amount in December 2022 and \$2.3 million in December 2021. Therefore, there is no balance reflected in the Consolidated Balance Sheets as of March 31, 2023 and December 31, 2022.

6. Commitments and Contingencies

In December 2022, the Company received a demand letter from the attorney of a former employee who resigned from his employment with the Company in November 2022. Among other allegations in the letter, this former employee has asserted various employment-related claims against the Company, including a claim of wrongful termination. No lawsuit has been filed to date, and the parties currently plan to proceed to mediation in an attempt to reach a resolution. Due in part to the preliminary nature of this matter, the Company cannot reasonably estimate a possible loss, or range of loss, in connection with this matter. The Company disputes this former employee's allegations, and management does not believe that the ultimate outcome of this matter is likely to have a material adverse effect on the Company's financial position or cash flows, although the resolution of this matter in any fiscal period may have a material adverse effect on the Company's results of operations for that period.

In the ordinary course of our business, the Company is involved in several lawsuits. While uncertainties are inherent in the final outcome of these matters, the Company's management believes, after consultation with legal counsel, that the disposition of these proceedings should not have a material adverse effect on our financial position, results of operations or cash flows.

7. Employee Benefit Plan

The Company provides an Employee Retirement Savings Plan (the "Retirement Plan") under Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Code"), that covers substantially all U.S. based salaried and W-2 hourly employees. Employees may contribute a percentage of eligible compensation to the Retirement Plan, subject to certain limits under the Code. The Company did not provide for any matching contributions for the three months ended March 31, 2023 and 2022.

8. Stock-Based Compensation

In 2008, the Company adopted a Stock Incentive Plan (the "Plan") which, as amended, provides that up to 4,900,000 shares of the Company's Common Stock shall be allocated for issuance to directors, officers and key personnel. Grants under the Plan can be made in the form of stock options, stock appreciation rights, performance shares or stock awards. During the three months ended March 31, 2023, the Company granted 19,924 restricted share units and 100,000 stock options at a strike price of \$11.53 under the Plan. During the three months ended March 31, 2022, the Company granted restricted share units of 11,304 and 400,000 stock options at an average strike price of \$18.41. As of March 31, 2023 there were 30,000 shares available for grants under the Plan.

Stock-based compensation expense for the three months ended March 31, 2023 and 2022 was \$835,000 and \$526,000, respectively, and is included in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

During the three months ended March 31, 2023 and 2022, the Company issued 17,804 and 90,933 shares, respectively, related to the grant of restricted share units and the exercise of stock options.

[Table of Contents](#)

In October 2018, the Board of Directors of the Company approved the Mastech Digital, Inc. 2019 Employee Stock Purchase Plan (the “Employee Stock Purchase Plan”). The Employee Stock Purchase Plan is intended to meet the requirements of Section 423 of the Code and was approved by the Company’s shareholders to be qualified. On May 15, 2019, the Company’s shareholders approved the Employee Stock Purchase Plan. Under the Employee Stock Purchase Plan, 600,000 shares of Common Stock (subject to adjustment upon certain changes in the Company’s capitalization) are available for purchase by eligible employees who become participants in the Employee Stock Purchase Plan. The purchase price per share is 85% of the lesser of (i) the fair market value per share of Common Stock on the first day of the offering period, or (ii) the fair market value per share of Common Stock on the last day of the offering period.

The Company’s eligible full-time employees are able to contribute up to 15% of their base compensation into the Employee Stock Purchase Plan, subject to an annual limit of \$25,000. Employees are able to purchase Company Common Stock at a 15% discount to the lower of the fair market value of the Company’s Common Stock on the initial or final trading dates of each six-month offering period. Offering periods begin on January 1 and July 1 of each year. The Company uses the Black-Scholes option pricing model to determine the fair value of Employee Stock Purchase Plan share-based payments. The fair value of the six-month “look-back” option in the Company’s Employee Stock Purchase Plan is estimated by adding the fair value of 15% of one share of stock to 85% of the fair value of an option on one share of stock. The Company utilized U.S. Treasury yields as of the grant date for its risk-free interest rate assumption, matching the Treasury yield terms to the six-month offering period. The Company utilized historical company data to develop its dividend yield and expected volatility assumptions.

During the three months ended March 31, 2023 and 2022, there were no shares issued under the Employee Stock Purchase Plan. As of March 31, 2023, there were 492,565 shares available for purchases under the Employee Stock Purchase Plan.

9. Credit Facility

On July 13, 2017, the Company entered into a Credit Agreement (the “Credit Agreement”) with PNC Bank, as administrative agent, swing loan lender and issuing lender, PNC Capital Markets LLC, as sole lead arranger and sole book-runner, and certain financial institution parties thereto as lenders (the “Lenders”). The Credit Agreement, as amended, provides for a total aggregate commitment of \$53.1 million, consisting of (i) a revolving credit facility (the “Revolver”) in an aggregate principal amount not to exceed \$40 million and; (ii) a \$13.1 million term loan facility (the “Term Loan), as more fully described in Exhibit 10.1 to the Company’s Form 8-Ks filed with the SEC on July 19, 2017, April 25, 2018 and October 7, 2020, and Exhibit 10.2 to the Form 8-K/A filed with the SEC on January 4, 2022. Additionally, the facility includes an accordion feature for additional borrowing of up to \$20 million upon satisfaction of certain conditions.

The Revolver expires in December 2026 and includes swing loan and letter of credit sub-limits in the aggregate amount not to exceed \$6.0 million for swing loans and \$5.0 million for letters of credit. Borrowings under the Revolver may be denominated in U.S. dollars or Canadian dollars. The maximum borrowings in U.S. dollars may not exceed the sum of 85% of eligible U.S. accounts receivable and 60% of eligible U.S. unbilled receivables, less a reserve amount established by the administrative agent. The maximum borrowings in Canadian dollars may not exceed the lesser of (i) \$10.0 million; and (ii) the sum of 85% of eligible Canadian receivables, plus 60% of eligible Canadian unbilled receivables, less a reserve amount established by the administrative agent.

Amounts borrowed under the Term Loan were required to be repaid in consecutive quarterly installments of \$1.1 million through and including the maturity date of October 1, 2024. In August 2022, the Company prepaid \$7.6 million of the outstanding term loan with excess cash balances. The final term loan payment was made on January 3, 2023 taking the outstanding balance to zero.

Borrowings under the revolver and the term loan, at the Company’s election, bear interest at either (a) the higher of PNC’s prime rate or the federal funds rate plus 0.50%, plus an applicable margin determined based upon the Company’s senior leverage ratio or (b) the Bloomberg Short-Term Bank Yield Index (“BSBY”), plus an applicable margin determined based upon the Company’s senior leverage ratio. The applicable margin on the base rate is between 0.50% and 1.25% on revolver borrowings and between 1.75% and 2.50% on term loans. The applicable margin on the BSBY is between 1.50% and 2.25% on revolver borrowings and between 2.75% and 3.50% on term loans. A 20 to 30-basis point per annum commitment fee on the unused portion of the revolver facility is charged and due monthly in arrears. The applicable commitment fee is determined based upon the Company’s senior leverage ratio.

The Company pledged substantially all of its assets in support of the Credit Agreement. The credit agreement contains standard financial covenants, including, but not limited to, covenants related to the Company’s senior leverage ratio and fixed charge ratio (as defined under the credit agreement) and limitations on liens, indebtedness, guarantees, contingent liabilities, loans and investments, distributions, leases, asset sales, stock repurchases and mergers and acquisitions. As of March 31, 2023, the Company was in compliance with all provisions under the facility.

Table of Contents

In connection with securing the commitments under the Credit Agreement and the April 20, 2018, October 1, 2020 and December 29, 2021 amendments to the Credit Agreement, the Company paid a commitment fee and incurred deferred financing costs totaling \$975,000, which were capitalized and are being amortized as interest expense over the life of the facility. Deferred financing costs of \$275,000 and \$293,000 (net of amortization) as of March 31, 2023 and December 31, 2022, respectively, are presented as long-term assets in the Company's Consolidated Balance Sheets.

As of March 31, 2023 and December 31, 2022, the Company's outstanding borrowings under the Revolver totaled \$0 and \$0, respectively; and unused borrowing capacity available was approximately \$31.5 million and \$31.8 million, respectively. The Company's outstanding borrowings under the term loan were \$0 and \$1.1 million at March 31, 2023 and December 31, 2022, respectively.

10. Income Taxes

The components of income before income taxes, as shown in the accompanying Financial Statements, consisted of the following for the three months ended March 31, 2023, and 2022:

| | Three Months Ended March 31, | |
|-----------------------------|---------------------------------|-----------------|
| | 2023 | 2022 |
| | (Amounts in thousands) | |
| Income before income taxes: | | |
| Domestic | \$ 2,080 | \$ 3,315 |
| Foreign | (1,601) | (68) |
| Income before income taxes | <u>\$ 479</u> | <u>\$ 3,247</u> |

The Company has foreign subsidiaries which generate revenues from non-U.S.-based clients. Additionally, these subsidiaries provide services to the Company's U.S. operations. Accordingly, the Company allocates a portion of its income to these subsidiaries based on a "transfer pricing" model and reports such income as foreign in the above table.

The provision for income taxes, as shown in the accompanying Financial Statements, consisted of the following for the three months ended March 31, 2023, and 2022:

| | Three Months Ended March 31, | |
|------------------------------------|---------------------------------|---------------|
| | 2023 | 2022 |
| | (Amounts in thousands) | |
| Current provision: | | |
| Federal | \$ 711 | \$ 98 |
| State | 170 | 25 |
| Foreign | (446) | 86 |
| Total current provision | <u>435</u> | <u>209</u> |
| Deferred provision (benefit): | | |
| Federal | (248) | 542 |
| State | (60) | 137 |
| Foreign | 62 | (56) |
| Total deferred provision (benefit) | <u>(246)</u> | <u>623</u> |
| Change in valuation allowance | 29 | 83 |
| Total provision for income taxes | <u>\$ 218</u> | <u>\$ 915</u> |

The reconciliation of income taxes computed using the statutory U.S. income tax rate and the provision for income taxes for the three months ended March 31, 2023, and 2022 were as follows (amounts in thousands):

| | Three Months Ended March 31, 2023 | | Three Months Ended March 31, 2022 | |
|--|--------------------------------------|--------------|--------------------------------------|--------------|
| | \$ | % | \$ | % |
| Income taxes computed at the federal statutory rate | \$ 100 | 21.0% | \$ 682 | 21.0% |
| State income taxes, net of federal tax benefit | 110 | 23.0 | 176 | 5.4 |
| Excess tax expense (benefits) from stock options/restricted shares | 23 | 4.8 | (77) | (2.4) |
| Difference in tax rate on foreign earnings/other | (44) | (9.2) | 51 | 1.6 |
| Change in valuation allowance | 29 | 6.0 | 83 | 2.6 |
| | <u>\$ 218</u> | <u>45.6%</u> | <u>\$ 915</u> | <u>28.2%</u> |

[Table of Contents](#)

We evaluate deferred income taxes quarterly to determine if valuation allowances are required or should be adjusted. GAAP accounting guidance requires us to assess whether valuation allowances should be established against deferred tax assets based on all available evidence, both positive and negative using a “more likely than not” standard. Our assessment considers, among other things, the nature of cumulative losses; forecast of future profitability; the duration of statutory carry-forward periods and tax planning alternatives. At March 31, 2023, our valuation allowance was comprised of balances within locations of Singapore, Ireland and the United Kingdom. The valuation allowance balances at these locations totaled \$588,000 and \$559,000 as of March 31, 2023 and December 31, 2022, respectively, and reflect net operating losses which may not be realizable in the future. In the third quarter of 2022, the Company decided to close the Singapore and Ireland operations.

The Company’s Canadian subsidiary is currently under audit by Revenue Canada for the years 2018 and 2019.

11. Shareholders’ Equity

On February 8, 2023, the Company announced that the Board of Directors authorized a share repurchase program of up to 500,000 shares of the Company’s common stock over a two-year period. Repurchases under the program may occur from time to time in the open market, through privately negotiated transactions, through block purchases or other purchase techniques, or by any combination of such methods, and the program may be modified, suspended or terminated at any time at the discretion of the Board of Directors. During the three months ended March 31, 2023, the Company did not repurchase any shares of common stock under this program.

Additionally, the Company makes stock purchases from time to time to satisfy employee tax obligations related to its Stock Incentive Plan. The Company did not purchase any shares during the three months ended March 31, 2023 and 2022.

12. Earnings Per Share

The computation of basic earnings per share is based on the Company’s net income divided by the weighted average number of common shares outstanding. Diluted earnings per share reflect the potential dilution that could occur if outstanding stock options were exercised. The dilutive effect of stock options was calculated using the treasury stock method.

For the three months ended March 31, 2023, there were 1,390,000 anti-dilutive stock options excluded from the computation of diluted earnings per share. For the three months ended March 31, 2022, there were zero anti-dilutive stock options excluded from the computation of diluted earnings per share.

13. Business Segments and Geographic Information

Our reporting segments are: 1) Data and Analytics Services; and 2) IT Staffing Services.

The Data and Analytics Services segment was acquired through the July 13, 2017 acquisition of the services division of Canada-based InfoTrellis, Inc. This segment is a project-based consulting services business with specialized capabilities in data management and analytics. The business is marketed as Mastech InfoTrellis and utilizes a dedicated sales team with deep subject matter expertise. Mastech InfoTrellis has offices in Atlanta, Toronto and London, and a global delivery center in Chennai, India. Project-based delivery reflects a combination of on-site resources and offshore resources. Assignments are secured on both a time and material and fixed price basis. In October 2020, we acquired AmberLeaf, a Chicago-based customer experience consulting firm. This acquisition expanded our capabilities in customer experience strategy and managed services offering for a variety of Cloud-based enterprise application across sales, marketing and customer service organizations.

The IT Staffing Services segment offers staffing services in digital and mainstream technologies and uses digital methods to enhance organizational learning. These services are marketed using a common sales force and delivered via our domestic and global recruitment centers. While the vast majority of our assignments are based on time and materials, we do have the capabilities to deliver our digital transformation services on a fixed price basis.

[Table of Contents](#)

| | Three Months Ended March 31, | |
|--|---------------------------------|------------------|
| | 2023 | 2022 |
| (Amounts in thousands) | | |
| Revenues: | | |
| Data and Analytics Services | \$ 9,395 | \$ 10,152 |
| IT Staffing Services | 45,668 | 49,603 |
| Total revenues | <u>\$ 55,063</u> | <u>\$ 59,755</u> |
| Gross Margin %: | | |
| Data and Analytics Services | 38.5% | 45.2% |
| IT Staffing Services | 21.6% | 22.9% |
| Total gross margin % | <u>24.5%</u> | <u>26.7%</u> |
| Segment operating income: | | |
| Data and Analytics Services | \$ (680) | \$ 972 |
| IT Staffing Services | 1,905 | 3,127 |
| Subtotal | 1,225 | 4,099 |
| Amortization of acquired intangible assets | (693) | (792) |
| Interest expense, FX gains/losses and other, net | (53) | (60) |
| Income before income taxes | <u>\$ 479</u> | <u>\$ 3,247</u> |

Below is a reconciliation of segment total assets to consolidated total assets:

| | March 31, | December 31, |
|-----------------------------|------------------|-------------------|
| | 2023 | 2022 |
| (Amounts in thousands) | | |
| Total assets: | | |
| Data and Analytics Services | \$ 53,571 | \$ 54,544 |
| IT Staffing Services | 55,263 | 54,335 |
| Total assets | <u>\$108,834</u> | <u>\$ 108,879</u> |

Below is geographic information related to our revenues from external customers:

| | Three Months Ended March 31, | |
|------------------------|---------------------------------|------------------|
| | 2023 | 2022 |
| (Amounts in thousands) | | |
| United States | \$ 53,755 | \$ 58,347 |
| Canada | 831 | 1,019 |
| India and Other | 477 | 389 |
| Total revenues | <u>\$ 55,063</u> | <u>\$ 59,755</u> |

14. Recently Issued Accounting Standards

Recently Adopted Accounting Pronouncements

In October 2021, the Financial Accounting Standards Board issued ASU 2021-08, "Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers". The amendments in this ASU require that an entity (acquirer) recognize and measure contract assets and contract liabilities acquired in a business combination, including contract assets and contract liabilities arising from revenue contracts with customers, as if it had originated the contracts as of the acquisition date. The amendments in this ASU are effective for annual and interim periods beginning after December 15, 2022. We adopted this ASU on January 1, 2023 with no material impact on our financial statements.

A variety of proposed or otherwise potential accounting standards are currently under consideration by standard-setting organizations and certain regulatory agencies. Because of the tentative and preliminary nature of such proposed standards, management has not yet determined the effect, if any, that the implementation of such proposed standards would have on the Company's consolidated financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with our audited consolidated financial statements and accompanying notes for the year ended December 31, 2022, included in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission ("SEC") on March 27, 2023.

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements about future events, future performance, plans, strategies, expectations, prospects, competitive environment and regulations. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words, "may", "will", "expect", "anticipate", "believe", "estimate", "plan", "intend" or the negative of these terms or similar expressions in this quarterly report on Form 10-Q. We have based these forward-looking statements on our current views with respect to future events and financial performance. Our actual financial performance could differ materially from those projected in the forward-looking statements due to the inherent uncertainty of estimates, forecasts and projections and our financial performance may be better or worse than anticipated. Given these uncertainties, you should not put undue reliance on any forward-looking statements. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed under "Risk Factors", "Forward-Looking Statements" and elsewhere in our Annual Report on Form 10-K for the year ended December 31, 2022. Forward-looking statements represent our estimates and assumptions only as of the date that they were made. We do not undertake any duty to update forward-looking statements and the estimates and assumptions associated with them, after the date of this quarterly report on Form 10-Q, except to the extent required by applicable securities laws.

Website Access to SEC Reports:

The Company's website is www.mastechdigital.com. The Company's Annual Report on Form 10-K for the year ended December 31, 2022, current reports on Form 8-K and all other reports filed with the SEC, are available free of charge on the Investors page. The website is updated as soon as reasonably practical after such reports are filed electronically with the SEC.

Critical Accounting Policies

Please refer to Note 1 "Summary of Significant Accounting Policies" of the Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2022 for a more detailed discussion of our significant accounting policies and critical accounting estimates. There were no material changes to these critical accounting policies during the three months ended March 31, 2023.

Employment-Related Claims Against the Company

In December 2022, the Company received a demand letter from the attorney of a former employee who resigned from his employment with the Company in November 2022. Among other allegations in the letter, this former employee has asserted various employment-related claims against the Company, including a claim of wrongful termination. No lawsuit has been filed to date, and the parties currently plan to proceed to mediation in an attempt to reach a resolution. Due in part to the preliminary nature of this matter, the Company cannot reasonably estimate a possible loss, or range of loss, in connection with this matter. The Company disputes this former employee's allegations, and management does not believe that the ultimate outcome of this matter is likely to have a material adverse effect on the Company's financial position or cash flows, although the resolution of this matter in any fiscal period may have a material adverse effect on the Company's results of operations for that period. During the quarter ended March 31, 2023, the Company incurred approximately \$400,000 of professional services fees related to this matter. This expense is included in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

Overview:

We are a provider of Digital Transformation IT Services to mostly large and medium-sized organizations.

Our portfolio of offerings includes data management and analytics services; other digital transformation services such as digital learning services; and IT staffing services.

We operate in two reporting segments – Data and Analytics Services and IT Staffing Services. Our data and analytics services are marketed on a global basis under the brand Mastech InfoTrellis and are delivered largely on a project basis with on-site and off-shore resources. These data and analytics capabilities and expertise were acquired through our acquisition of InfoTrellis and enhanced and expanded subsequent to the acquisition. In October 2020, we acquired AmberLeaf Partners, Inc. ("AmberLeaf"), a Chicago-based customer experience consulting firm. This acquisition enhanced our capabilities in customer experience strategy and managed services offerings for a variety of Cloud-based enterprise applications across sales, marketing and customer services organizations. Our IT staffing business combines technical expertise with business process experience to deliver a broad range of staffing services in digital and mainstream technologies, as well as our other digital transformation services.

[Table of Contents](#)

Both business segments provide their services across various industry verticals, including financial services, government, healthcare, manufacturing, retail, technology telecommunications and transportation. In our Data and Analytics Services segment, we evaluate our revenues and gross profits largely by service line. In our IT Staffing Services segment, we evaluate our revenues and gross profits largely by sales channel responsibility. This analysis within both our reporting segments is multi-purposed and includes technologies employed, client relationships, and geographic locations.

Data and Analytics:

We provide information regarding our new bookings in our Data and Analytics Services segment, which represents the estimated value of client engagements, including those acquired through acquisitions, as well as renewals, extensions and changes to existing contracts, because we believe doing so provides useful trend information regarding changes in the volume of our new business over time. New bookings can vary significantly quarter to quarter depending in part on the timing of the signing of a small number of large engagements. Among other factors, the types of services and solutions to be delivered, the duration of the engagement and the pace and level of client spending impact the timing of the conversion of new bookings to revenues. In addition, substantially all of our contracts are terminable by the client on short notice with little or no termination penalties. Information regarding our new bookings is not comparable to, nor should it be substituted for, an analysis of our revenues over time. New bookings involve estimates and judgments. There are no third-party standards or requirements governing the calculation of bookings. We do not update our new bookings for material subsequent terminations or reductions related to bookings originally provided in prior periods.

Economic Trends and Outlook:

Generally, our business outlook is highly correlated to general North American economic conditions. During periods of increasing employment and economic expansion, demand for our services tends to increase. Conversely, during periods of contracting employment and/or a slowing global economy, demand for our services tends to decline. As the economy slowed in 2007 and recessionary conditions emerged in 2008 and 2009, we experienced less demand for our IT staffing services. With economic expansion during the period from 2010 through 2019, activity levels improved. However, as the recovery strengthened, we experience increased tightness in the supply-side (skilled IT professionals) of our businesses. These supply-side challenges pressured resource costs and, to some extent, gross margins. As we entered 2020, we were encouraged by continued growth in the domestic job markets and expanding U.S. and global economies. However, with the COVID-19 pandemic surfacing in the first quarter of 2020, we realized the economic growth would quickly turn into recessionary conditions, which had a material impact on activity levels in both of our business segments. In 2021, we were encouraged by the global rollout of vaccination programs and signs of economic improvement, however, the proliferation of COVID-19 variants has caused some uncertainty and disruption in the global markets. In 2022, COVID-19-related concerns seemed to subside, however, increased inflation, expanding interest rates and concerns about a possible recession created much uncertainty and impacted demand for our services in the second half of the year. During the first quarter of 2023, economic uncertainty continued to impact our business, particularly in our IT Staffing Services segment, as we experienced a reduced demand from our clients to invest in new projects. Additionally, it is difficult to predict the impact or duration that these economic pressures may have on our business and results of operations in future quarters.

In addition to tracking general economic conditions in the markets that we service, a large portion of our revenues is generated from a limited number of clients (see Item 1A, the Risk Factor entitled “Our revenues are highly concentrated, and the loss of a significant client would adversely affect our business and revenues” in our Annual Report on Form 10-K for the year ended December 31, 2022). Accordingly, our trends and outlook are additionally impacted by the prospects and well-being of these specific clients. This “account concentration” factor may result in our results of operations deviating from the prevailing economic trends from time to time.

Within our IT Staffing Services segment, a larger portion of our revenues has come from strategic relationships with systems integrators and other staffing organizations. Additionally, many large end users of IT staffing services are employing managed service providers to manage their contractor spending. Both of these dynamics may pressure our IT staffing gross margins in the future.

Recent growth in advanced technologies (social, cloud, analytics, mobility, automation) is providing opportunities within our IT Staffing Services segment. However, supply side challenges have proven to be acute with respect to many of these technologies. We believe these challenges will remain in 2023.

Within our Data and Analytics Services segment, many customers are satisfying their data and analytics needs using a holistic approach. This often results in the customer using one vendor partner rather than multiple vendors. We have responded to this trend by establishing a service offering called “Center of Excellence,” which bundles a customer’s total requirements under a multi-year contract. This concept allows us to better understand the customer’s longer-term strategy with respect to data and analytics and effectively address such needs.

[Table of Contents](#)**Results of Operations for the Three Months Ended March 31, 2023 as Compared to the Three Months Ended March 31, 2022:****Revenues:**

Revenues for the three months ended March 31, 2023 totaled \$55.1 million compared to \$59.8 million for the corresponding three-month period in 2022. This 8% year-over-year revenue decrease reflected a 7% decline in our Data and Analytics Services segment and an 8% decline in our IT Staffing Services segment. For the three months ended March 31, 2023, the Company had one client that had revenues in excess of 10% of total revenues (CGI = 25.5%). For the three months ended March 31, 2022, the Company had one client that had revenues in excess of 10% of total revenues (CGI = 17.8%). The Company's top ten clients represented approximately 56% and 51% of total revenues for the three months ended March 31, 2023 and 2022, respectively.

Below is a tabular presentation of revenues by reportable segment for the three months ended March 31, 2023 and 2022, respectively:

| Revenues (Amounts in thousands) | Three Months Ended March 31, 2023 | Three Months Ended March 31, 2022 |
|--|--|--|
| Data and Analytics Services | \$ 9,395 | \$ 10,152 |
| IT Staffing Services | 45,668 | 49,603 |
| Total revenues | <u>\$ 55,063</u> | <u>\$ 59,755</u> |

Revenues from our Data and Analytics Services segment totaled \$9.4 million in the quarter ended March 31, 2023, compared to \$10.2 million in the corresponding quarter last year. This decline largely reflects a soft booking performance during the last half of 2022. Bookings during the first quarter of 2023 totaled \$8.4 million, which sequentially exceeded fourth quarter 2022 bookings. Additionally, pipeline opportunities and RFP activity significantly increased in the first quarter of 2023, compared to the second half of 2022.

Revenues from our IT Staffing Services segment totaled \$45.7 million in the three months ended March 31, 2023, compared to \$49.6 million during the corresponding 2022 period. This 8% revenue decline largely reflected a net 84 person decrease in billable consultants during the first quarter of 2023. Billing consultants at March 31, 2023 totaled 1,124-consultants compared to 1,295-consultants at March 31, 2022. Our average bill rate in the first quarter of 2023 for this segment was \$80.55 per hour compared to \$78.99 per hour in the first quarter of 2022. The increase in average bill rate was due to higher rates on new assignments and is reflective of the types of skill sets that we deployed. Permanent placement / fee revenues were approximately \$0.2 million during the quarter ended March 31, 2023, which was \$0.4 million lower than our permanent placement performance of a year ago.

Gross Margins:

Gross profits in the first quarter of 2023 totaled \$13.5 million, compared to gross profits of \$15.9 million in the first quarter of 2022, a 15% year-over-year decrease. Gross profit as a percentage of revenue was 24.5% for the three-month period ending March 31, 2023, compared to 26.7% during the same period of 2022. This 2.2% decrease reflected declines in gross margins from both of our business segments in the 2023 first quarter.

Below is a tabular presentation of gross margin by reporting segment for the three months ended March 31, 2023 and 2022, respectively:

| Gross Margin | Three Months Ended March 31, 2023 | Three Months Ended March 31, 2022 |
|-----------------------------|--|--|
| Data and Analytics Services | 38.5% | 45.2% |
| IT Staffing Services | 21.6 | 22.9 |
| Total gross margin | <u>24.5%</u> | <u>26.7%</u> |

Gross margins for our Data and Analytics Services segment were 38.5% during the third quarter of 2023 compared to 45.2% during the first quarter of 2022. The margin decline reflected lower utilization and lower project margins on several long-term assignments due to compensation increases in 2022.

Gross margins for our IT Staffing Services segment were 21.6% in the first quarter of 2023 compared to 22.9% during the corresponding quarter of 2022. This 1.3% reduction was largely due to lower permanent placement fees of \$0.4 million and lower utilization rates on several major clients.

[Table of Contents](#)

Selling, General and Administrative (“SG&A”) Expenses:

Below is a tabular presentation of operating expenses by sales, operations, amortization of acquired intangible assets and general and administrative categories for the three months ended March 31, 2023 and 2022, respectively:

| SG&A Expenses (Amounts in millions) | Three Months Ended March 31, 2023 | Three Months Ended March 31, 2022 |
|---|--------------------------------------|--------------------------------------|
| Data and Analytics Services Segment | | |
| Sales and Marketing | \$ 1.4 | \$ 1.9 |
| Operations | 0.5 | 0.6 |
| Amortization of Acquired Intangible Assets | 0.5 | 0.6 |
| General & Administrative | 2.4 | 1.1 |
| Subtotal Data and Analytics Services | \$ 4.8 | \$ 4.2 |
| IT Staffing Services Segment | | |
| Sales and Marketing | \$ 2.2 | \$ 2.5 |
| Operations | 2.5 | 2.8 |
| Amortization of Acquired Intangible Assets | 0.2 | 0.2 |
| General & Administrative | 3.2 | 2.9 |
| Subtotal IT Staffing Services | \$ 8.1 | \$ 8.4 |
| Total SG&A Expenses | \$ 12.9 | \$ 12.6 |

SG&A expenses for the three months ended March 31, 2023 totaled \$12.9 million or 23.5% of total revenues, compared to \$12.6 million or 21.1% of total revenues for the three months ended March 31, 2022. Excluding amortization of acquired intangible assets in both periods, SG&A expense as a percentage of total revenues would have been 22.1% and 19.7%, respectively.

Fluctuations within SG&A expense components during the first quarter of 2023, compared to the first quarter of 2022, included the following:

- Sales expense decreased by \$0.8 million in the 2023 period compared to the corresponding 2022 period. Approximately \$0.5 million related to our Data and Analytics Services segment, which reflected a lower headcount / salaries and lower commissions and bonus accruals. Sales expense in our IT Staffing Services segment decreased by \$0.3 million largely due to lower variable compensation expense.
- Operations expenses decreased by \$0.4 million in the 2023 period compared to the corresponding 2022 period. Operations expenses were down \$0.1 million in our Data and Analytics Services segment due to lower compensation expenses. In our IT Staffing Services segment operations expenses decreased by \$0.3 million and reflected lower recruitment staff and lower variable compensation expenses.
- Amortization of acquired intangible assets was \$0.7 million in 2023 compared to \$0.8 million in 2022.
- General and administrative expenses increased by \$1.6 million in the 2023 period compared to the corresponding 2022 period. General and administrative expense in our Data and Analytics Services segment increased by \$1.3 million due to higher executive compensation (we did not have a CEO for this segment in place during the first quarter of 2022); higher legal expenses and an increase in leadership staff other than the CEO of this segment. In our IT Staffing Services segment, general and administrative expenses increased by approximately \$0.3 million due to higher corporate-related expenses and an increase in travel expenses.

Other Income / (Expense) Components:

Other Income / (Expense) for the three months ended March 31, 2023 consisted of net interest income of \$4,000 and foreign exchange losses of (\$57,000). For the three months ended March 31, 2022, Other Income / (Expense) consisted of interest expense of (\$114,000) and foreign exchange gains of \$54,000. The lower level of interest expense was reflective of us not having any bank debt after making the final term loan payment on our Term Loan in January 2023.

Income Tax Expense:

Income tax expense for the three months ended March 31, 2023 totaled \$218,000, representing an effective tax rate on pre-tax income of 45.5%, compared to \$915,000 for the three months ended March 31, 2022, which represented a 28.2% effective tax rate on pre-tax income. The higher effective tax rate in the 2023 period largely reflected our tax valuation allowance related to foreign net operating losses (“NOLs”) in the UK and excess tax expense from stock options/restricted shares, as a percentage of our pre-tax income.

[Table of Contents](#)

Liquidity and Capital Resources:

Financial Conditions and Liquidity:

As of March 31, 2023, we had no bank debt, cash balances on hand, of \$9.1 million and approximately \$31.5 million of borrowing capacity under our existing credit facility.

Historically, we have funded our organic business needs with cash generated from operating activities. Controlling our operating working capital levels by closely managing our accounts receivable balance is an important element of cash generation. As of March 31, 2023, our accounts receivable “days sales outstanding” (“DSOs”) measurement was 61-days, which was three days lower than at March 31, 2022.

We believe that cash provided by operating activities, cash balances on hand and current availability under our credit facility will be adequate to fund our business needs and support the share repurchase program we announced in February 2023 over the next twelve months, absent any acquisition-related activities.

Cash flows provided by (used in) operating activities:

Cash provided by operating activities for the three months ended March 31, 2023 totaled \$3.1 million compared to \$1.6 million during the three months ended March 31, 2022. Elements of cash flows in the 2023 period were net income of \$0.3 million, non-cash charges of \$1.6 million, and a decrease in operating working capital levels of \$1.2 million. During the three months ended March 31, 2022, elements of cash flow were net income of \$2.3 million, non-cash charges of \$2.1 million, and an increase in operating working capital levels of (\$2.8 million).

Cash flows (used in) investing activities:

Cash (used in) investing activities for the three months ended March 31, 2023 was (\$7,000) compared to (\$646,000) for the three months ended March 31, 2022. In the 2023 period, investing activities included \$97,000 of capital expenditures, partially offset by \$90,000 of deposit recoveries. In the 2022 period, investing activities included (\$730,000) of capital expenditures, partially offset by \$84,000 of deposit recoveries. The increase in capital expenditures in 2022 compared to 2023 reflects expenditures related to the Chennai delivery center in India and the implementation of Oracle Cloud for the Data and Analytics Services segment.

Cash flows provided by (used in) financing activities:

Cash provided by (used in) financing activities for the three months ended March 31, 2023 totaled (\$1.1 million) and consisted of our final term-loan debt repayment. Cash provided by (used in) financing activities for the three months ended March 31, 2022 totaled (\$0.2 million) and consisted of debt repayments of (\$1.1 million), partially offset by proceeds from the exercise of stock options of \$0.9 million.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Inflation:

We do not believe that inflation had a significant impact on our results of operations for the periods presented, although economic uncertainty, including the concerns of our clients and other companies with respect to inflationary conditions in North America and elsewhere, has had and may continue to have an adverse impact on the demand for our services. On an ongoing basis, we attempt to minimize any effects of inflation on our operating results by controlling operating costs and, whenever possible, seek to ensure that billing rates reflect increases in costs due to inflation. However, high levels of inflation may result in higher interest rates which could increase our cost of borrowings.

In addition, refer to “Item 1A. Risk factors” in our 2022 Annual Report on Form 10-K for a discussion about risks that inflation directly or indirectly may pose to our business.

[Table of Contents](#)

Seasonality:

Our operations are generally not affected by seasonal fluctuations. However, our consultants' billable hours are affected by national holidays and vacation policies. Accordingly, we generally have lower utilization rates and higher benefit costs during the fourth quarter. Additionally, assignment completions tend to be higher near the end of the calendar year, which largely impacts our revenue and gross profit performance during the subsequent quarter.

Recently Issued Accounting Standards:

Recent accounting pronouncements are described in Note 14 to the accompanying financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In addition to the inherent operational risks, the Company is exposed to certain market risks, primarily related to changes in interest rates and currency fluctuations.

Interest Rates

As of March 31, 2023, we had no outstanding borrowings under our Credit Agreement with PNC Bank and certain other financial institution lenders — Refer to Note 9 – “Credit Facility” in the Notes to Condensed Consolidated Financial Statements, included herein.

Currency Fluctuations

The reporting currency of the Company and its subsidiaries is the U.S. dollar. The functional currency of the Company's subsidiary in Canada is the U.S. dollar because the majority of its revenue is denominated in U.S. dollars. The functional currencies of the Company's Indian and European subsidiaries are the local currency of the location of such subsidiary. The results of operations of the Company's Indian and European subsidiaries are translated at the monthly average exchange rates prevailing during the period. The financial position of the Company's Indian and European subsidiaries is translated at the current exchange rates at the end of the period, and the related translation adjustments are recorded as a component of accumulated other comprehensive income (loss) within Shareholders' Equity. Gains and losses resulting from foreign currency transactions are included as a component of other income (expense), net in the Consolidated Statements of Operations, and have not been material for all periods presented. A hypothetical 10% increase or decrease in overall foreign currency rates in the first quarter ended March 31, 2023 would not have had a material impact on our consolidated financial statements.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of Company management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(b). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

We do not expect that our disclosure controls and procedures will prevent all errors and all instances of fraud. Disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Further, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and the benefits must be considered relative to their costs. Because of the inherent limitations in all disclosure controls and procedures, no evaluation of disclosure controls and procedures can provide absolute assurance that we have detected all our control deficiencies and instances of fraud, if any. The design of disclosure controls and procedures also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

[Table of Contents](#)

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2023 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of our business, we are involved in a number of lawsuits and administrative proceedings. While uncertainties are inherent in the final outcome of these matters, management believes, after consultation with legal counsel, that the disposition of these proceedings should not have a material adverse effect on our financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on March 27, 2023.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

Table of Contents

ITEM 6. EXHIBITS

(a) Exhibits

| | |
|---------|---|
| 10.1 | <u>Schedule A-7, dated March 15, 2023, to Fourth Amended and Restated Executive Employment Agreement, dated as of March 20, 2019, between Mastech Digital Technologies, Inc., Mastech Digital, Inc. and Vivek Gupta, incorporated by reference to Exhibit 10.1 to Mastech Digital, Inc.'s Current Report on Form 8-K filed with the SEC on March 17, 2023</u> |
| 10.2 | <u>Schedule A-12, dated March 15, 2023, to Third Amended and Restated Executive Employment Agreement, dated as of March 20, 2019, between Mastech Digital Technologies, Inc., Mastech Digital, Inc. and John J. Cronin, Jr., incorporated by reference to Exhibit 10.2 to Mastech Digital, Inc.'s Current Report on Form 8-K filed with the SEC on March 17, 2023</u> |
| 31.1 | <u>Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer is filed herewith.</u> |
| 31.2 | <u>Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Financial Officer is filed herewith.</u> |
| 32.1 | <u>Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by the Chief Executive Officer is furnished herewith.</u> |
| 32.2 | <u>Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by the Chief Financial Officer is furnished herewith.</u> |
| 101.INS | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document. |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document. |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) |

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 12th day of May, 2023.

May 12, 2023

MASTECH DIGITAL, INC.

/s/ VIVEK GUPTA

Vivek Gupta
Chief Executive Officer

/s/ JOHN J. CRONIN, JR.

John J. Cronin, Jr.
Chief Financial Officer
(Principal Financial Officer)

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer

I, Vivek Gupta, certify that:

1. I have reviewed this report on Form 10-Q of Mastech Digital, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

MASTECH DIGITAL, INC.

Date: May 12, 2023

/S/ VIVEK GUPTA

Vivek Gupta
Chief Executive Officer

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer

I, John J. Cronin, Jr., certify that:

1. I have reviewed this report on Form 10-Q of Mastech Digital, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

MASTECH DIGITAL, INC.

Date: May 12, 2023

/S/ JOHN J. CRONIN, JR.

John J. Cronin, Jr.
Chief Financial Officer

**Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Mastech Digital, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Vivek Gupta, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ VIVEK GUPTA

Vivek Gupta

Chief Executive Officer

Date: May 12, 2023

**Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Mastech Digital, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John J. Cronin, Jr. Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ JOHN J. CRONIN, JR.

John J. Cronin, Jr.
Chief Financial Officer

Date: May 12, 2023