



 **MASTECH**  
DIGITAL

# ANNUAL REPORT 2021



# **CORPORATE OVERVIEW**



## CORPORATE OVERVIEW

Mastech Digital (NYSE American: MHH) is a leading provider of Digital Transformation IT Services. The Company offers Data Management and Analytics Solutions, Digital Learning, and IT Staffing Services with a Digital First approach. Backed by robust delivery methodologies and sourcing practices, our vibrant teams spread across the globe are able to drive high levels of business efficiencies for our clients globally. A minority-owned enterprise, Mastech Digital is headquartered in Pittsburgh, PA with offices across the US, Canada, UK & Ireland, Singapore, and India. For more information, visit [www.mastechdigital.com](http://www.mastechdigital.com).

## CORPORATE INFORMATION

### Corporate Office

1305 Cherrington Parkway  
Building 210, Suite 400  
Moon Township, PA 15108

### Transfer Agent

Computershare  
P.O. Box 505000  
Louisville, KY 40233-5000  
1.866.204.9008  
[www.computershare.com/investor](http://www.computershare.com/investor)

### Annual Meeting of Shareholders

The company will hold its annual meeting of shareholders on May 11, 2022, at 9.00 a.m. Eastern Time, at 1305 Cherrington Parkway, Building 210, Suite 400, Moon Township, PA 15108. Shareholders of record as of March 31, 2022 will be invited to attend this meeting.

For address changes, registration changes, lost stock certificates, or if you are receiving duplicate copies of the Annual Report, please contact Computershare at the address listed above.

### Form 10-K

Additional copies of the company's 2021 Annual Report on Form 10-K, and the exhibits and financial statement schedules listed in that report, are available by writing to Donna Kijowski, Investor Relations Manager, at the Corporate Office. These materials are also available in the EDGAR database at [www.sec.gov](http://www.sec.gov), the website for the Securities and Exchange Commission, as well as the company's website [www.mastechdigital.com](http://www.mastechdigital.com), in the Investors section.

### Independent Registered Public Accounting Firm

UHY LLP, Farmington Hills, MI

### Stock Market Information

The company's common stock trades on the NYSE American under the symbol MHH. The table below sets forth the high and low closing bid prices for the last two completed fiscal years.

Common Stock Market Price	High	Low
2021		
Fourth Quarter	\$ 20.35	\$ 16.00
Third Quarter	\$ 19.09	\$ 14.79
Second Quarter	\$ 18.07	\$ 14.33
First Quarter	\$ 19.45	\$ 15.40
2020		
Fourth Quarter	\$ 21.65	\$ 15.68
Third Quarter	\$ 25.14	\$ 17.37
Second Quarter	\$ 28.67	\$ 9.30
First Quarter	\$ 17.84	\$ 7.61



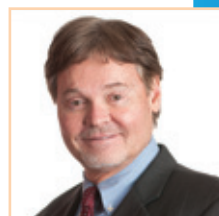
# **EXECUTIVE OFFICERS & DIRECTORS**

## EXECUTIVE OFFICERS



**Vivek Gupta**

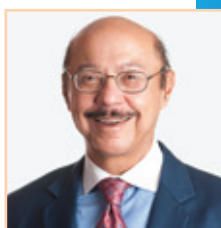
Director, President, and  
Chief Executive Officer



**John J. Cronin, Jr.**

Chief Financial Officer  
and Corporate Secretary

## DIRECTORS



**Sunil Wadhvani**

**Director and Co-Chairman,  
Mastech Digital**

Sunil co-founded Mastech Digital and grew the company from a start-up IT staffing firm into one of the country's leading IT staffing companies. He has also angel-funded over 40 technology start-ups.



**Ashok Trivedi**

**Director and Co-Chairman,  
Mastech Digital**

Ashok co-founded Mastech Digital and has contributed significantly to the growth of the organization. He has also angel-funded over 50 early-stage technology and financial businesses.



**Vivek Gupta**

**Director, President, and Chief  
Executive Officer, Mastech Digital**

Vivek joined Mastech Digital as the President and CEO in March 2016. He has over three decades of global experience in the technology industry.



**John Ausura (1, 2, 3)\***

**Founder and Former Managing  
Director, Capital Resolution**

John founded Capital Resolution, LLC in 2003, a professional services firm which provides strategy and operations assistance to companies in transition.



**Brenda Galilee (1, 2, 3)\***

**Chief Consulting Officer,  
Customer Experience Solutions**

Brenda is a consultant for Customer Experience Solutions. She was the Chief Executive Officer and Chairman of the Board of InTouch Corporation, a customer acquisition and retention services company.



**Gerhard Watzinger (1, 2, 3)\***

**Chairman, CrowdStrike**

Gerhard is the Chairman of CrowdStrike – a cyber-security company. He was earlier the EVP for Corporate Strategy and M&A of the McAfee business unit of Intel Corporation until 2012.

### \*Committee Assignments

1. Audit Committee
2. Compensation Committee
3. Nominating and Corporate Governance Committee

Dear Shareholders,

2021 was a pivotal year for Mastech Digital. We continued to execute on our strategic priorities, growing our businesses organically, leveraging innovation and further strengthening our relationships with customers. We successfully navigated one of the most challenging job markets, unlike any other we have seen before, and dealt with market uncertainties related to a lingering pandemic. Notwithstanding these challenges, our company delivered impressive financial results in 2021, including record revenues and gross margins, solid operating profits, and a strong balance sheet. Additionally, we continued to invest in both of our business segments to expand our company's capabilities and take advantage of the positive trends that we are seeing in our markets.



## GROWTH AND POSITIVE TRENDS IN DATA AND ANALYTICS

Our Data and Analytics Services segment achieved many important milestones, both financial and non-financial, during 2021. We witnessed a significant improvement in market conditions during the year. Order bookings totalled a record \$55 million, despite experiencing some booking delays during the first half of the year. Our multi-year, multi-million-dollar "Center of Excellence (COE)" offering recovered nicely in 2021 after a pandemic-impacted down year in 2020. We ended the year with all-time high order backlog, and our pipeline of opportunities is outstanding. As the world is emerging from pandemic-related restrictions, we believe our customers' renewed willingness to start new assignments bodes well for us and our industry.

Our global partnership with IBM showed improvement in 2021 from depressed global activity levels of 2020. We also saw a larger pipeline of opportunities in the second half of 2021. We believe service offerings built around cloud capabilities and customer experience services are ripe with potential as we enter 2022, and we expect to accelerate our revenue growth in these areas during 2022.

During 2021, we secured a much larger office space in Chennai, India. This new facility nearly doubles our seating capacity, adds upgraded amenities and modernizes the look and feel of our data and analytics delivery center. With markets in recover-mode, adding capacity to our offshore delivery center was a key objective for us in 2021.

Our simple but effective approach to addressing customer needs and how we deliver our services is an important part of our value proposition. Our approach is to fully understand our customers' pain points, clarify their requirements, deliver the best custom solutions possible and continue monitoring, assessing feedback and pivoting when necessary.

Overall, our Data and Analytics Services segment delivered strong financial results in 2021, with record revenues of \$38.3 million; organic growth of 11%; gross margins of 48.4%; and solid profits despite investments made in SG&A during the year. We are confident that we can continue to build on this momentum in 2022.

## IT STAFFING BUSINESS MODEL BUILT FOR SUCCESS

We deploy a unique IT staffing business model which is built for success, given the market dynamics that exist today in our industry. Large users of staffing services are looking to partner with organizations that have a strong recruitment engine, which can fulfil their needs from both volume and diverse skill set standpoints. Recruitment

is King in the staffing industry today, and our Indian recruitment center provides us with a highly scalable and low-cost advantage over many of our peers. Through our knowledge of and ability to support H1B visa holders, we have access to an additional pool of workers that many organizations do not have at their disposal. Additionally, we have proven our ability to quickly adjust our recruitment cost structure as we did during the 2020 pandemic.

Innovation is a concept that is ingrained in the fabric of our culture throughout Mastech Digital. In recent years, our IT Staffing Services segment has focused its attention on delivering strong digital transformation skill sets to our customers. In 2020, we launched a new service offering, branded as MAS-REMOTE, which embraces a Work-From-Anywhere (WFA) model. This offering enhanced our value proposition by providing top IT talent from across North America to our customers that are willing to upgrade their contingent IT talent-base by simply removing self-imposed geographic barriers to talent acquisition. Given MAS-REMOTE's success over the last two years, we have recently expanded this concept to encompass an offshore India-based solution. This new offering targets customers that are comfortable with the WFA model and are now ready to enjoy material cost savings by embracing our offshore model. Testimony to the effectiveness of our value proposition can be seen in our long-standing relationships with large Fortune 500 customers and our consistent track record of outperforming the industry average growth rate. In 2021, we reported record revenues of \$184 million for the segment, which represented a 12% year-over-year organic growth. We also stepped up our gross margins to a record 22.3% and delivered strong profitability.

## FINANCIAL PERFORMANCE

2021 was a record year for Mastech Digital. Our total consolidated revenues were a record \$222 million, up 14% over 2020. Consolidated gross margins were also a record 26.8%, and we delivered solid operating profits. Both of our business segments contributed to these results, each with double-digit revenue growth.

Our financial position strengthened materially in 2021. Cash flows from operating activities totalled \$5.2 million, despite investing \$11.7 million in operating working capital to support our revenue growth. During the year, we reduced bank debt by \$4.4 million and invested \$1.9 million in capital expenditures to expand our delivery center in Chennai, India and upgrade our IT systems environment.

One of our top financial priorities is to effectively manage our most significant financial asset, accounts receivables. Towards that end, we continued to maintain strict credit standards and act promptly at early signs of collection stress. These actions produced a quality accounts receivable balance at year-end, with a days-sales-outstanding measurement at 61 days, well within our targeted range.

In the fourth quarter of 2021, we amended our credit facility with PNC Bank, increasing our credit capacity; lowering our cost of borrowings and extending the facility term date to 2026. Additionally, the amended facility includes an accordion feature for additional borrowings of up to \$20 million upon satisfaction of certain conditions. At year-end 2021, debt represented approximately 15% of our capital structure and we had borrowing availability under our revolving credit facility of \$32.4 million, excluding the accordion feature. As we look to accelerate our growth via a strong acquisition strategy, we believe we have the financial resources to support that objective.

## THE GREAT RESIGNATION

We are a Company that relies on people. Everything we achieve is reflective of the talent we deploy. Our ability to retain our associates and to attract new talent to Mastech Digital is key to our future success. Given the Great Resignation, competition for talent has never been greater. To be an employer of choice in our markets, we need to continue to move beyond just providing competitive wages – we are doing that. We provide work flexibility to our employees, such as the Work-From-Anywhere (WFA) option. We challenge our employees with stimulating

assignments to enhance their personal growth. And we are also fully committed to creating a more inclusive work environment, where all our employees feel valued and respected. While associate turnover increased in 2021 over previous years, we believe that our attrition rates in the geographies in which we operate compare favorably to many of our industry peers.

## AWARDS AND RECOGNITIONS

I am pleased to say that Mastech Digital's efforts to create differentiated value to our customers was noticed by industry experts and analysts in 2021. We were included in this year's list of the Largest Staffing Firms in the US, published by the Staffing Industry Analysts. Our Data and Analytics Services segment, Mastech InfoTrellis, was recognized as a Representative Vendor by Gartner® in the 2021 Market Guide for MDM External Service Providers. Additionally, I'm honored to have been named to the list of Top 100 Staffing Leaders to Watch in 2022 at the World Staffing Summit. And for the fourth consecutive time, I was named to the list of Fifty Influential Business Leaders in Pittsburgh by Smart Business Magazine. All these awards and recognitions are a testament to our global pool of immensely talented associates and their hard work and commitment to Mastech Digital.

## THE ROAD AHEAD

As we enter 2022, our strategic priorities remain unchanged: to provide our customers with the best service possible; to lead with innovation throughout our organization and to create value for all our stakeholders. We are focused on building upon the momentum created in 2021 and capitalizing upon improving global macro-economic conditions and positive trends in our industries. We also plan to continue building strong relationships with our existing customers, focusing on acquiring new customers and strengthening our service offerings to improve our competitive position in the marketplace. In addition to these organic growth initiatives, we plan to continue exploring acquisitions that have the potential to accelerate our growth and improve our competitive position. Recognizing that COVID-19 and its variants are still present, we will also continue to keep a keen eye on pandemic-related developments with the goal of being prepared to address them on a timely basis. Overall, we are extraordinarily excited about our prospects and opportunities for 2022.

**Vivek Gupta**

President, CEO, Mastech Digital



# Getting Ready for Post-pandemic Growth



In 2021, Mastech InfoTrellis (MIT) continued to build its strategic foundation, which included first-of-a-kind work in AI and Cloud-related services - application migration to Cloud, Cloud-Native development, and Cloud application managed services. These engagements spanned across our company's core business lines of Data Management, Data Engineering, Data Science, and Customer Experience. The core business lines continue to grow to afford the company the capital to invest in our new strategic foundations, which will bring higher growth and profit margins in the post-pandemic world.

Clients continued to invest a portion of their spend in advanced analytics and cloud technologies. Clients have been exploring analytics for ages. Recent investments in advanced analytics are mostly in AI, which requires a massive amount of data and compute power. Traditional analytics starts with identifying what we think we should find interesting. With AI, we let machine learning tools analyze the data to tell you what is interesting. For analytics to work effectively, clients require the massive amount of data available to be trusted and reliable and need additional Data Science skills and compute power of the Cloud platform. This makes our investment in the strategic foundation, built on AI and Cloud, very significant. Our new offices in London and Singapore managed to bring in sustainable businesses for their respective Europe and the Asia Pacific regions. New clients in these regions are formative for our international expansion in the coming years.

Pandemic-driven IT skills shortages continue to tax many companies' recruitments, including ours. We, at MIT, took the challenge head-on and improved our hiring processes, and provided incentives for our existing staff to acquire new skills and certifications. We will hire at locations that clients desire with a continued preference for our Chennai delivery center to make the most of the availability of skilled resources at a lower cost.

All indicators point to a promising sign of businesses re-opening in 2022. Despite the uncertainties in the economy, we can count on the continuous demand from our client base for services tailored to increase the speed of business execution, reduce costs, and increase business resilience. Learning from the pandemic over the last two years, clients are specifically ramping up their investment in technologies that will allow them to increase execution speed and get to the next level of automation to reduce costs further, improve client experiences, and be more agile. Although investments in traditional business automation technologies like ERP and CRM will continue, an increasing portion will be for optimizing these islands of automation.

Enterprises are investing in newer technologies that enable integration and interoperability of these data islands - Machine Learning and AI to drive the next leap in automation; Privacy and Security to ensure compliance; and Hybrid-Cloud platforms to maximize business agility, speed, and cost-effectiveness. Clients are increasingly looking to create a Data Fabric covering their island of data to integrate, resolve, learn, and provide AI-driven real-time recommendations to compete. MIT will continue to pivot its business to these newer technologies to benefit

from their higher growth and margin. MIT's offices in London and Singapore remain vital to the overall growth and image of us as a global enterprise. With smaller operations in Europe and AP, building up our partner ecosystem in these regions is more crucial than ever to succeed. While our partner ecosystem in North America remains strong, we will build and strengthen our coverage with partners across all regions in which we operate.

To be successful, we all know the newer technologies alone are not enough; enterprises also need people with skills and the ability to make the best use of these technologies. Newer technologies typically mean the people who know them are scarce and expensive. MIT will continue to improve its recruitment process and upskill existing staff while leveraging the company's global presence and hiring at the right locations that meet client demands and maintain competitiveness. At the beginning of 2022, our Chennai office has started moving into a more strategically located and bigger office to handle existing resource demand and future growth. Providing more offshore services via our Chennai office is key to our success.

An active M&A strategy, when executed well, is a highly fruitful process for any company. Among many benefits, this will allow us to quickly increase market shares and access to talents in a chosen market. MIT has learned from our acquisition of AmberLeaf in 2020 and will continue to acquire to build up our strategic foundations of AI and Cloud. M&A remains an important part of our growth strategy.

MIT's marketing team worked to give a brand new look to the company's website, which was released in January 2022. The new look with enhanced content is important to portray our brand and draw more inbound marketing leads. This will also help us overcome some of the challenges faced with increased data privacy regulations across the globe, data usage, and more restrictive outbound marketing campaigns.

Moving forward, we are confident that our core and new foundation business lines will enable MIT to deliver value to our clients and architect enterprise intelligence. Our team has the full spectrum of Data, AI, Customer Experience, and Cloud services to get rid of pain points for our clients, build relationships, influence client behavior, and establish our brand. We are poised for post-pandemic business growth. Let's go!

**Kelvin Looi**

Chief Client Officer, Mastech InfoTrellis

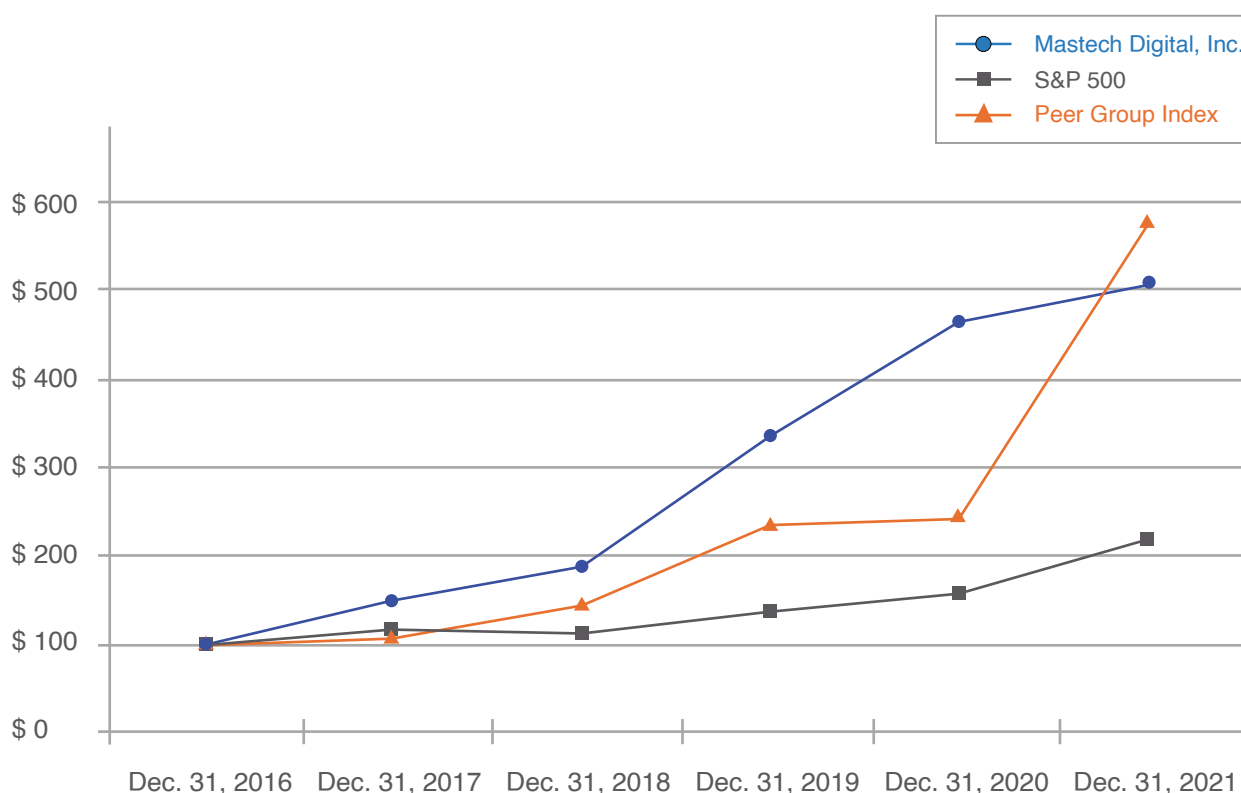
# **STOCK PERFORMANCE GRAPH**

## STOCK PERFORMANCE GRAPH

The following graph compares the five-year cumulative performance of our common stock with Standard & Poor's Composite 500 Stock Index (S&P 500) and a Peer Group Index (capitalization weight) from December 31, 2016 to December 31, 2021.

Our Peer Group of information technology services companies consists of TSR, Inc., Computer Task Group, Inc., Kforce, Inc. and Perficient, Inc. While all of these organizations have certain attributes and service offerings which are different than ours, we believe that their aggregate performance is representative of the industries in which we operate.

The graph assumes that \$100 was invested on December 31, 2016 in each of the three investment options, and that all dividends were reinvested, if any. It should be noted that shareholder returns over the indicated period are based on historical data and should not be considered indicative of future shareholder returns.



Our common stock is currently traded on the NYSE American, under the symbol "MHH".

	S&P 500	Peer Group Index	Mastech Digital, Inc.
Dec. 31, 2016	100	100	100
Dec. 31, 2017	119	111	148
Dec. 31, 2018	112	138	185
Dec. 31, 2019	144	223	325
Dec. 31, 2020	168	233	467
Dec. 31, 2021	213	584	501



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

**FORM 10-K**

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(Mark One)

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

For the fiscal year ended December 31, 2021

☐ **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, PA  
(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:

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post 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 emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2021 (based on the closing price on such stock as reported by NYSE American on such date) was \$47,201,000.

The number of shares of the registrant's Common Stock, par value \$.01 per share, outstanding as of March 1, 2022 was 11,526,705.

Auditor Firm ID: 1195 Auditor Name: UHY LLP Auditor Location: Farmington Hills, Michigan

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement, prepared for the Annual Meeting of Shareholders scheduled for May 11, 2022 to be filed with the Commission, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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**MASTECH DIGITAL, INC.**

**2021 FORM 10-K**

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## **PART I**

### **Forward-Looking Statements**

This Annual Report on Form 10-K contains statements that are not historical facts and that constitute “forward looking statements” within the meaning of such terms under the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from those expressed in, or implied by, our forward-looking statements. Words such as “expects”, “intends”, “anticipates”, “believes”, “estimates”, “assumes”, “projects” and similar expressions are intended to identify such forward-looking statements. You should not rely solely on the forward-looking statements and should consider all uncertainties and risks throughout this Annual Report on Form 10-K, including those described under “Risk Factors”. These statements are based on information currently available, and we undertake no obligation to update any forward-looking statement as circumstances change.

Factors or events that could cause results or performance to differ materially from those expressed in our forward-looking statements include the following:

- changes in general U.S. and global economic conditions and economic conditions in the industries in which we operate;
- the severity and duration of the COVID-19 pandemic;
- our ability to retain existing clients and obtain new clients;
- changes in competitive conditions;
- our ability to introduce new service offerings;
- availability of and retention of skilled technical employees and key personnel;
- technological changes;
- changes in accounting standards, rules and interpretations;
- the terminability of many of our contracts without penalty to our clients;
- changes in immigration laws, patterns and other factors related to visa holders;
- liabilities and unanticipated developments resulting from litigations, regulatory investigations and similar matters;
- fluctuations due to currency exchange rate variations;
- changes in other U.S. laws, rules and regulations, including the Internal Revenue Code;
- changes in India’s geopolitical environment, laws, rules and regulations;
- the impact and success of new acquisitions;
- management’s ability to identify and manage risks;
- the occurrence of other health epidemics or other outbreaks that disrupt business and day-to-day activities; and
- breach of our systems due to a cyber security attack.

### **ITEM 1. BUSINESS**

#### **Overview**

Mastech Digital, Inc. (referred to in this report as “Mastech Digital”, “Mastech”, the “Company”, “us”, “our” or “we”) is a provider of Digital Transformation IT Services. The Company offers data and analytics

solutions; digital learning; and IT staffing services for both digital and mainstream technologies. Headquartered near Pittsburgh, Pennsylvania, we have approximately 1,600 consultants that provide services across a broad spectrum of industry verticals. 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.

Our Data and Analytics Services segment delivers specialized data management, data engineering, customer experience consulting, data analytics and cloud services to customers globally. Each of these services 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 services include data management and analytics, cloud, mobility, social and automation. Our digital transformation services also include staffing and project-based services around digital learning. Our mainstream technologies services 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.

Sales and marketing of our services are handled by separate and distinct sales organizations within each of our two business segments. Our data and analytic services are marketed through 1) account executives who largely focus on new business development; and 2) technical relationship managers (principals) who focus on growing strong relationships within existing clients. Both account executives and technical relationship managers reside in the U.S., Canada, India, Singapore and Europe.

Our IT staffing and digital transformation services are marketed through account executives across the U.S. who deploy a telesales model, supplemented with client visits. This cost-effective model is aimed at integrator and other staffing clients, with a need to supplement their abilities to attract highly qualified temporary IT personnel. Additionally, we use a branch service sales model in select geographies within the U.S. The branch services model employs local sales and recruitment resources, aimed at establishing strong relationships with both end-clients and candidates.

We recruit for both segments through global recruitment centers located in the U.S. and India that deliver a full range of recruiting and sourcing services. Our centers employ approximately 200 recruiters and sourcers that focus on recruiting U.S.-based candidates to service a geographically-diverse client base in the U.S. Our ability to respond to client requests from our offshore recruiting centers, with their expanded search coverage, round-the-clock sourcing, and extensive pool of candidates, gives us the ability to deliver high-quality candidates to our clients in a timely fashion.

## **History and Developments**

Historically, we operated as the former Professional Services segment of iGATE Corporation (“iGATE”). Mastech Digital, Inc. (f/k/a Mastech Holdings, Inc.) was incorporated in Pennsylvania as a wholly-owned subsidiary of iGATE on June 6, 2008 in anticipation of our spin-off from iGATE. On September 30, 2008, we spun-off from iGATE and began operating as an independent public company. Together with our operating subsidiaries, we have over 35 years of history as a reliable provider of IT staffing services.

Established in 1986, our business model focused on importing global IT talent to the U.S. to meet the growing demand for IT professionals. In the early 2000s, the demand for IT professionals declined and the supply of IT resources quickly exceeded a declining demand curve. No longer was there a need to recruit abroad for technology talent, as supply was abundant in the U.S. Accordingly, we retooled our recruiting model to focus on the recruitment of local U.S.-based IT talent. Given our reputation with and knowledge of H1-B visas, part of



our recruiting efforts focused on attracting H1-B visa holders currently in the U.S. This approach gave us access to a larger and differentiated recruiting pool when compared to many of our competitors.

In 2003, we launched our offshore global recruitment center model in an effort to meet an increase in industry demand with lower cost recruiting resources. Over the last eighteen years, we have made significant investments in our offshore center to improve infrastructure, processes and effectiveness. Additionally, we have made investments in recent years in our domestic recruitment structure, primarily to support our branch service model.

On June 15, 2015, we completed the acquisition of Hudson Global Resources Management, Inc.'s U.S. IT staffing business ("Hudson IT"). Hudson IT was a domestic IT staffing business with offices in Chicago, Boston, Tampa and Orlando. Hudson IT deployed a branch service business model that targeted clients that are direct end-users of IT staffing services. Additionally, as part of the Hudson IT acquisition, we acquired a digital learning services practice which became one of our technology practices.

In 2016, we changed our name to Mastech Digital, Inc. The name change was part of our rebranding initiative that reflects our transformation into a digital technologies company. The rebranding also included a logo change and a refreshed corporate website.

In 2017, we added specialized capabilities in delivering data management and analytics services to a global customer-base through the acquisition of the services division of InfoTrellis, Inc. ("InfoTrellis"), a project-based consulting services company with specialized capabilities in data management and analytics.

In 2018 and 2019, we significantly expanded our service offerings and capabilities within our Data and Analytics Services segment.

In 2020, we launched a new service offering in our IT Staffing Services segment branded as MAS-REMOTE. This new offering allows clients to transcend beyond self-imposed geographical boundaries to gain access to top talent in the U.S. and Canada and reflects learnings from the COVID-19 pandemic that remote workers can be equally or more effective. Also in 2020, we completed the acquisition of AmberLeaf Partners, Inc., ("AmberLeaf") which enhanced our Data and Analytics Services segment's capabilities with its expertise in customer experience consulting and managed services.

In 2021, we added cloud service capabilities to our Data and Analytics Services segment and expanded our IT Staffing Services segment's MAS-REMOTE offering to include off-shore staffing services.

## **Operating Segments**

Our revenues are generated from two business segments: Data and Analytics Services and IT Staffing Services. Details related to these two businesses are discussed separately below, while information about our employees, differentiators, intellectual property rights and various other aspects of our business is shown in the aggregate for Mastech Digital, Inc.

### **Data and Analytics Services**

Our Data and Analytics Services segment began with the acquisition of InfoTrellis, Inc.'s services business in July 2017. The resulting business unit and segment operates under the name Mastech InfoTrellis, with locations in Atlanta, Toronto, London, Dublin, Singapore, and Chennai, India. Mastech InfoTrellis is a specialist data management, data engineering, and data science business focused on helping companies "Architect Enterprise Intelligence" to realize improved returns on their investment. With the October 2020 acquisition of AmberLeaf, this segment gained complimentary capabilities in customer experience consulting and managed services.

Founded by the engineering principals behind IBM's Master Data Management ("MDM") products and Informatica's Customer 360 code-base, Mastech InfoTrellis represents one of the largest concentrations of technology-agnostic data management, data engineering, and data science expertise in the marketplace.

We help clients accelerate business velocity, minimize costs, and improve corporate resiliency. We architect enterprise intelligence through personalized, process-oriented programs consisting of strategy, data management (including master data management), business intelligence and reporting, data engineering, customer experience, predictive analytics, and advanced analytics. We activate the value of information assets by building a strong data foundation and adding to it, brick by brick, to create modern, advanced analytics capabilities, such as Artificial Intelligence and Machine Learning.

### *Sales and Marketing*

Sales and Marketing at Mastech InfoTrellis is a single, integrated function spanning across four groups in multiple locations: Marketing, Inside Sales, Principals, and Client Partners.

- Our Marketing team is responsible for designing outbound campaigns around data and business value, for dissemination through our digital channels and industry publications. Our Marketing team also works with our experts and thought leaders to create and disseminate data management, data engineering and data science thought leadership articles and white papers.
- Our Inside Sales team is responsible for operating integrated email-and-voice outbound marketing campaigns targeted at specific industries and functional populations, on an ongoing basis.
- Our onshore team of Principals and Client Partners is responsible for building buyer relationships with prospects and leads, and for converting those conversations into value-positive revenue generating engagements.

In addition to the above, our Partner / Channel Relationships (such as those we have with IBM and Informatica, among others) also provide us with a significant pipeline of opportunities and new business. Furthermore, prospective clients reach us through referrals from our existing client base, our reputation in the data & analytics domain, and through our industry partners.

Once engaged with a prospect, our approach to value-delivery starts with the definition of a discrete business problem. We then master and manage our clients' data and develop data products and deploy purpose-built advanced analytics, machine learning, and artificial intelligence, to deliver greater business velocity, significant cost reduction, and greater corporate resilience.

### *Our Practices*

Mastech InfoTrellis builds a strong data foundation that delivers significant business value. Our expertise and technology practice stretches across five key domain areas.

#### Data Management

Our Data Management services help enterprises identify, acquire, store, manage, and transform data to fuel impactful business insights. Our offerings in this practice are:

- Data Advisory, where we design strategic roadmaps for clients to make informed decisions with analytics.
- Data Services, which includes a set of strategy and implementation services focused on Cloud Pak for Data, Data Governance solutions, and Master Data Management.

- Data Management CoE, where we partner with clients to make Data Management and Data Governance easier with a Center of Excellence (CoE) while migrating to the Cloud without business interruptions.

### Data Engineering

We establish an Enterprise Data Environment to derive insights, knowledge, and intelligence and deliver value from a modern, agile, and trusted implementation architecture. Our offerings fall under two broad categories:

#### ***Technology***

- Enterprise Data Integration is a single desk for ingesting existing data while providing the capability to integrate new data sources for scale.
- Enterprise Intelligence Hub (EIH) brings together a modular architecture across all the major ecosystem components to allow an enterprise to adapt and grow at a much higher velocity.
- Entity Resolution creates a Record Linkage process across the Enterprise by consistently identifying existing and new entities through the data connectivity process.
- Enterprise Data Bus (EDB) is a scalable, fault-tolerant ecosystem that can collect, transport, engineer, and act on data for our clients in a reliable manner.

#### ***Service***

- Data Engineering Advisory Services help enterprises develop a coherent data strategy to become a more data-driven enterprise by assessing the enterprise data ecosystem and determining the changes needed.
- Data Engineering Managed Services is a comprehensive approach to manage and support enterprise Data Information Systems.

### Data Science

We bring our clients a rapid-learning culture, coupled with a co-creation-driven approach, to solve business problems and make smart decisions by applying Data Science powered by Machine Learning, Artificial Intelligence, and Knowledge Graphs. Our analytics and AI/ML solutions facilitate both culture and business transformation, leveraging domain knowledge with cognitive computing to produce unbiased learning accelerators for different parts of our client's business. We offer:

- Analytics Advisory – a strategic view of how analytics can drive digital transformation.
- Analytics Services – to drive excellence in reporting and modeling.
- Analytics Centre of Excellence—data science expertise delivered on state-of-the-art data architecture and analytics infrastructure.

### Customer Experience Consulting

We optimize Customer Experience (“CX”) across Sales, Service, and Marketing with relevant, coordinated, consistent, and personalized experiences informed by analytics:

- CX Advisory Services – we design a roadmap for Customer Experience across all enterprise functions that are fast-paced and cost-effective and provide the client with information needed to start their Customer Experience initiative.

- CX Accelerators – a vertical-focused suite that uses a set of frameworks to allow clients to get a head start on their implementation instead of starting with a blank sheet of paper.
- CXaaS (Customer Experience as a Service) – tailored to manage specific client needs, informed by analytics, across all aspects of Customer Experience in Sales, Marketing, and Services.

### Cloud Services

We help our clients take advantage of enterprise Cloud Infrastructure by modernizing application development and accelerate Cloud adoption:

- Cloud Advisory Services – where we build our clients a Cloud journey roadmap to reduce DevOps and CloudOps challenges in Cloud adoption while supporting best-practices of agile application development.
- Cloud Adoption Services – to help enterprises with Cloud adoption and deployment of both cloud-native applications and the migration of existing applications to the Cloud.
- Cloud CoE – to build and manage our clients’ Cloud infrastructure and DevOps and CloudOps practices with a one-stop delivery model.

### *Geographic and Vertical Focus*

Mastech InfoTrellis’ primary customer geographies are in North America; however, we have customers and prospects in Europe, the Middle East and the ASEAN region. Our target clients are largely corporations with revenues exceeding \$1 billion. Our typical project size, excluding our multi-year Center of Excellence contracts, is in the \$500,000 to \$1 million range depending on the scope and duration of the engagement. Our Center of Excellence contracts generally range from \$5 million to \$12 million. From a vertical perspective, customers in the financial services, retail, healthcare, manufacturing and government segments are significant users of our services. Below is a breakdown of customer revenue percentages for each industry vertical in 2021:

Financial Services	34%	Healthcare	10%
Manufacturing	21%	Government	6%
Retail	20%	Other	9%

### **IT Staffing Services**

In our IT Staffing Services business, we typically negotiate our business relationship by using one of three methods to gain agreement on the services to be provided. We either establish our relationship based on a simple standard term sheet; create a Statement of Work (“SOW”) specific to a project; or enter into a master service agreement with a client that describes the framework of our relationship. In each case, a client will submit to us positions and / or requirements that they plan on satisfying by using temporary contractors. We propose consultants to the client that we believe satisfy their needs and propose an hourly bill rate for each consultant submitted. The client will select our consultant or a competing firm’s consultant based on their view of quality, fit and pricing. Consultant specific contractual details, such as billable rates, are documented as an annex to the agreement type that is chosen by the client. While we have the ability to deliver our digital transformation services on a managed solutions basis, the majority of our assignments have been delivered as staffing assignments.

We generally do not enjoy exclusivity with respect to a client’s contractor needs. Most of our clients use multiple suppliers to satisfy their requirements and to ensure a competitive environment. Our success with any particular client is determined by (a) the quality and fit of our consultant; (b) our ability to deliver a quality consultant on a timely basis; and (c) pricing considerations. We invoice our clients on a weekly, bi-weekly or monthly basis, in accordance with the terms of our agreement. Typical credit terms require our invoices to be paid within 30 to 45 days of receipt by the client.



While our primary focus is on contract IT staffing and digital transformation services, we also provide permanent placement services for our clients when opportunities arise. Permanent placement revenues have historically represented less than 1% of our total revenues.

### *Sales and Marketing*

We target much of our marketing efforts on businesses and institutions with significant budgets and recurring IT staffing and digital transformation needs. We look to develop relationships with new clients. In addition, we work to penetrate our existing client relationships to deeper levels. Most of our strategic relationships are established at the vice president / sales director level.

Selling is conducted through account executives utilizing a sales model which is desirable to our clients' needs. For clients with a need to supplement their own abilities to attract highly qualified temporary IT personnel and prefer a low-touch sales model, such as integrator and staffing clients, we generally deploy a centralized telesales model, complemented with client visits. We supplement these domestic sales efforts through our sales organization in India, whose account executives target smaller IT staffing clients utilizing a cost-effective offshore telesales model. For end-user clients, who typically prefer a higher-touch sales model, we generally utilize a branch service model which deploys sales and recruitment resources locally, or regionally, in select geographies within the U.S. Account executives generally are responsible for a combination of new business development efforts and expanding existing client relationships. Account executives at our branch operations call on, and meet with, potential new customers and are also responsible for maintaining existing client relationships within their geographic territory. These account executives are paired with recruiters and both receive incentive compensation based on revenue generation activities using a localized sales and recruitment model.

Many large end-users of IT staffing services retain a third party to provide vendor management services to centralize the consultant hiring process and reduce costs. Under this arrangement, the third-party managed service provider ("MSP") retains control of the vendor selection and vendor evaluation process, which somewhat weakens the relationship built with the client. Our lower-cost centralized telesales model and highly efficient offshore recruiting model have better positioned us to respond to the growing use of MSPs.

### *Recruiting*

We operate several small recruiting centers located in the U.S. and one significantly larger facility in NOIDA, India that deliver a full range of recruiting and sourcing services. Our centers employ approximately 200 recruiters and sourcers who focus on recruiting U.S.-based candidates to service a geographically diverse client base in the U.S. Our ability to respond to client requests faster than the competition is critical for success in our industry as most staffing firms access the same candidate pool via job boards and websites. The combination of our offshore recruiting capabilities, investment in sourcing and recruiting processes, expanded search coverage, around-the-clock sourcing, and extensive candidate pool, gives us the ability to deliver high-quality candidates to our clients in a timely fashion.

We continue to invest in leading technologies and recruitment tools to enhance efficiencies. For example, we use artificial intelligence and web-based tools to expand the reach of our candidate searches. We also employ a state-of-the-art applicant tracking system that has recently been enhanced with proprietary tool-kits and job board / internet interfacing capabilities, resulting in further operational efficiencies.

In 2016, we closed our offshore recruitment office in Bangalore, India and concentrated all of our offshore recruitment efforts exclusively in NOIDA, a city near New Delhi. In late 2018, we significantly expanded our offshore recruitment offices in NOIDA which gave us the ability to nearly double our recruiter seats. This facility provides our offshore organization with state-of-the-art infrastructure and workforce amenities to attract top-quality recruiters and sourcers. This centralized offshore facility also affords us the ability to improve operational efficiencies compared to operating two offshore facilities.

We have access to a large and differentiated recruiting pool due to our brand recognition with both U.S. citizens and H1-B visa holders in the U.S. Unlike most staffing firms that have a high concentration of either H1-B workers or W-2 hourly U.S. citizens, we have historically maintained a balance of H1-B and W-2 hourly employees. We believe that this balanced mix allows us to access a broader candidate pool than our primary competition.

#### *Technology and Client Focus of our IT Staffing and Digital Transformation Services*

Our staffing delivery teams, spread across the U.S. and India, are segmented 1) by technologies, allowing us to reach deep and wide in our understanding of technology domains; and 2) by client relationships which gives us a keen understanding of our clients' needs and preferences. The delivery teams work in an integrated manner to provide quality IT talent with a faster turnaround time than many of our competitors. We have long-standing engagements with marquee brands and other premier global enterprises across various industries.

#### IT Staffing—Digital Technologies

Recognizing that a new breed of IT professionals adept in digital technologies are in high demand, we enhanced our recruitment capabilities to focus on digital technology skill sets. Today, Mastech Digital provides its clients with the ability to secure skill sets that encompass social, mobile, analytics, cloud-based technologies and automation. IT staffing for digital technologies is growing much faster than mainstream technologies, a trend that is expected to continue into the future. Digital technologies include the following areas:

- Social Analytics
- Social Blogging
- Social Campaign Management
- Enterprise Mobility Strategy
- Mobile Application Development
- Artificial Intelligence
- Data Engineering
- Data Analytics
- Data Science
- Cloud Strategy
- Cloud Implementation and Support
- Machine Learning

#### IT Staffing—Mainstream Technologies

A large part of our business today comes from IT staffing services around mainstream technologies. We provide services and have strategic relationships in many high-demand mainstream technology areas. Our IT professionals help design, develop, integrate, maintain and support mainstream technologies in the following areas:

- Mainframes
- Databases
- Middleware
- Enterprise Systems
- SoA and Web Services
- Verification and Validation
- Project Management
- Open Source (JAVA)
- Data Warehousing
- Microsoft (C, .NET, SQL)
- IT Administration
- IT Helpdesk and Support
- Business Analysis

#### Digital Learning Services

Our digital learning practice provides custom training programs for different organizational needs. With rich experience and proven success in handling several learning and performance engagements across industries, Mastech Digital's team combines digital and physical modes of learning methods to ensure unified organizational behavior and augmented performance across teams. Mastech Digital's learning paradigm consists of web-based learning, mobile learning, social learning, hybrid learning and virtual learning.

### *Geographic Presence & Industry Verticals*

All of our IT staffing services revenues are generated from services provided in the U.S. We market our services on a national basis and have the ability to provide services in all 50 U.S. States. Our geographical concentration tends to track major client locations, such as California, Texas, Pennsylvania, Virginia and Massachusetts, and in large metropolitan areas such as Chicago, New York City and Washington, D.C.

We provide these services across a broad spectrum of industry verticals, including: financial services, government, healthcare, manufacturing, retail, technology, telecommunications and transportation. Below is a breakdown of our IT Staffing billable consultant base by industries that represented at least 5% of our billable consultants as of December 31, 2021:

Financial Services	45%	Government	7%
Technology	17%	Other	6%
Healthcare	12%	Retail	5%
Telecom	8%		

### **Mastech Digital, Inc.**

#### *Employees*

At December 31, 2021, we had 1,155 North American employees and 508 employees offshore, in addition to 351 subcontracted professionals. None of our employees are subject to collective bargaining agreements governing their employment with our Company. We employ our consultants on both an hourly and salary basis. A large portion of our salaried employees are H1-B visa holders. We enjoy a good reputation within the H1-B visa community, which allows us to access a very broad candidate pool. The majority of our hourly employees are U.S. citizens. On average, we maintain a balanced composition of salaried and hourly employees. We believe that our employee relations are good.

#### *Intellectual Property Rights*

Our intellectual property consists primarily of proprietary processes; client, employee and candidate information; and proprietary rights of third parties from whom we license intellectual property. We also own proprietary knowledge of the frameworks and products that we have built in our Mastech InfoTrellis business. We rely upon a combination of nondisclosure and other arrangements to protect our intellectual property.

#### *Seasonality*

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

### **Our Competitive Position**

We operate in highly competitive and fragmented industries, with largely low barriers to entry. In our Data and Analytics Services segment, we primarily compete with Cognizant, Tata Consultancy Services, Deloitte, Accenture, as well as with smaller boutique data and analytics firms. Many competitors are significantly larger and have greater financial resources in comparison to us. Our IT Staffing Services segment competes for potential clients with providers of outsourcing services, systems integrators, computer systems consultants, other staffing services firms and, to a lesser extent, temporary personnel agencies.

We believe that the principal competitive factors for securing and building client relationships are driven by the ability to precisely comprehend client requirements and by providing highly qualified personnel who are

motivated to meet or exceed a client's expectations. We must be able to do this efficiently to provide speed to market with pricing that is competitive and represents value to our clients. The principal competitive factors in attracting qualified personnel are compensation, availability, location and quality of projects and schedule flexibility. We believe that many of the professionals included in our database may also pursue other employment opportunities. Therefore, our responsiveness to the needs of these professionals is an important factor in our ability to be successful.

## **Our Strengths**

We believe our strengths compared to industry peers include:

### *Established client base*

Our client base consists of large, medium-sized and small companies that span across multiple industry verticals. Long-standing relationships with corporate clients, blue-chip IT integrators and MSPs are a core component of our future growth strategy for our staffing business, while good relationships with customer influencers and C-level decision makers drives our Mastech InfoTrellis business. These relationships, exemplified by our consistently low customer attrition rate, reflect our focus and commitment to our customers.

### *Operational excellence*

In our Data and Analytics Services business, our global delivery model is designed to ensure operational excellence by delivering higher value to our customers on project-based Mastech InfoTrellis engagements. Projects are delivered using our proprietary SMART Implementation Methodology—a multi-phased approach based on parts of the Rational Unified Process (RUP) and Agile development methodologies.

In the IT Staffing Services business, operational excellence largely relates to a firm's ability to effectively recruit high quality talent. Our offshore recruitment operation gives us the ability to respond to clients' staffing needs in a timely and cost-effective manner. Investments in sourcing and recruiting processes and leading technologies and recruitment tools have resulted in a highly scalable offshore recruiting model, which has delivered value to our clients.

Additionally, we employ a human resource management model, featuring portal technology as well as immigration support services, for our widely dispersed consultant base. This model enables us to maintain attrition rates that are lower than the industry averages for our salaried workforce.

### *Minority-owned status*

Our businesses benefit with some clients from the fact that we are a large minority-owned staffing firm. We have received multiple awards for our commitment to diversity. We have been certified as a minority-owned business by the National Minority Supplier Development Council ("NMSDC"). This certification is attractive to certain existing and potential clients in the U.S. government and public-sector segments, where project dollars are specifically earmarked for diversity spending.

### *Attractive financial profile*

We have historically enjoyed a lower operating cost structure than our industry peers due to our low cost telesales in our IT Staffing Services segment and our offshore delivery models in both of our operating segments. These business models are cost-effective and allow us to quickly adjust our cost structure to changes in our business environment. Our blue-chip client base has resulted in high quality accounts receivable and a strong and predictable cash flow conversion metric. Additionally, we have an existing credit facility to support our organic and inorganic growth aspirations.



### *Expertise in high-demand digital transformation IT skills*

In our Data and Analytics Services segment, we have strong expertise in data management, data engineering, analytics and customer experience consulting – both in North America as well as off-shore. Additionally, we have considerable industry experience by serving some of the world’s most-respected brands in financial services, manufacturing, retail and healthcare.

In our IT Staffing Services segment, we have substantial expertise in certain advanced technology IT skills, including: cloud, mobile, data & analytics, social media, artificial intelligence/machine learning and digital learning. We also have the capacity in both of our business segments to take advantage of our technical expertise in these high demand growth areas, as we are well positioned in terms of scale, capabilities, and a blue-chip client base.

### *Experienced management team*

Business leaders of our Data and Analytics Services business were part of the original thought leaders in the Master Data Management space, which lends significant credibility to this segment’s Master Data service offerings. Today, we are led by an executive team of “business transformation” veterans and data science experts, with a track record of delivering positive business outcomes for clients across industry verticals.

Our IT staffing management team is comprised of business leaders with deep industry experience, is a unique blend of executives with significant Mastech Digital experience and others who have held leadership roles in other companies. We believe this talent, together with combined experience across a variety of industries, allows us to capitalize on the positives of our existing business models and, at the same time, improve our service offerings, internal processes and long-term strategy for future growth.

## **Reportable Financial Segments**

The Company has two reportable segments in accordance with Accounting Standards Codification (“ASC”) Topic 280 “Disclosures about Segments of an Enterprise and Related Information”. Refer to Note 18 “Business Segments and Geographic Information” to our Consolidated Financial Statements included in Item 8 herein for information about our two reportable segments.

## **Government Regulation**

We recruit IT professionals on a global basis from time to time and, therefore, must comply with the immigration laws in the countries in which we operate. As of December 31, 2021, approximately 26% of our workforce was working under Mastech Digital sponsored H1-B temporary work permits. Statutory law limits the number of new H1-B petitions that may be approved in a fiscal year to enter the U.S. Legislation could be enacted limiting H1-B visa holders’ employment with staffing companies. In recent years, the vast majority of our H1-B hires were not subject to the annual quota limiting H1-B visas because they were already in the U.S. under H1-B visa status with other employers. Additionally, the U.S. Congress has recently considered, and may consider in the future, extensive changes to U.S. immigration laws regarding the admission of high-skilled temporary and permanent workers and increases in prevailing wage related to H1-B employees. Such changes, if enacted, may impact the types of H1-B temporary work permits that could be granted, the number of available H1-B temporary work permits, or the required prevailing wage that we are required to pay our H1-B employees, which in turn may have a negative impact on our revenues and profits.

## **Available Information**

Our headquarters are located at 1305 Cherrington Parkway, Building 210, Suite 400, Moon Township, Pennsylvania 15108, and our telephone number is (412) 787-2100. The Company’s website is

[www.mastechdigital.com](http://www.mastechdigital.com). Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and other Securities and Exchange Commission (the “SEC”) filings, including any amendments to the foregoing reports, are available free of charge by accessing the Investors page of the Company’s website as soon as reasonably practical after such reports are filed with, or furnished to, the SEC.

## **ITEM 1A. RISK FACTORS**

*You should carefully consider each of the following risk factors and all of the other information set forth in this Annual Report on Form 10-K or incorporated by reference herein. Based on the information currently known to us, we believe that the following information identifies the most significant risk factors affecting our company. However, additional risks and uncertainties not currently known to us or that we currently believe to be immaterial may also adversely impact our business.*

*If any of the following risks and uncertainties develop into actual events, these events could have a material adverse effect on our business, financial condition or results of operations.*

### **Risks Related to the Company’s Business and Operation**

***We are unable to predict the extent to which the global COVID-19 pandemic may adversely impact our business operations, financial performance and results of operations.***

The COVID-19 pandemic and efforts to control its spread have significantly curtailed the movement of people and goods and services worldwide in regions where we sell our services and conduct our business operations. The pandemic has resulted in a global slowdown of economic activity, including travel restrictions and prohibitions of non-essential activities in some cases. Our revenues and operations were affected by a range of external factors in 2020 and 2021 related to the COVID-19 pandemic. Although we believe the immediate impact of the COVID-19 pandemic has been assessed and largely reflected in our 2021 financial results, the long-term magnitude and duration of the disruption and resulting decline in business activity is still highly uncertain and cannot currently be predicted. While the roll-out of global vaccination programs is an encouraging sign for the future, the COVID-19 variants and efforts to control their spread could still continue to adversely affect our business, impact the demand for our services and alter the way we conduct our business, and we cannot predict the magnitude or duration of these effects.

To the extent the COVID-19 pandemic or the efforts taken to control its spread adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in this “Risk Factors” section. Because developments concerning the COVID-19 pandemic have been and continue to be constantly evolving, additional impacts and risks may arise that we are not aware of or that we may not be able to appropriately or timely address.

***Lack of success in recruitment and retention of IT and data and analytics professionals may decrease our revenues and increase the costs needed to maintain our workforce.***

Our business involves the delivery of professional services and is labor-intensive. Our success depends upon our ability to attract, develop, motivate and retain highly skilled professionals who possess the skills and experience necessary to deliver our services. Qualified IT and data and analytics professionals are in demand worldwide and are likely to remain a limited resource for the foreseeable future. There can be no assurance that these qualified professionals will be available to us in sufficient numbers, or that we will be successful in retaining current or future employees. Failure to attract and retain qualified professionals in sufficient numbers may have a material adverse effect on our business, operating results and financial condition. Historically, we have done much of our recruiting from outside of the country where the client work is performed. Accordingly, any perception among our IT professionals, whether or not well founded, that our ability to assist them in obtaining temporary work visas and permanent residency status has been diminished, could lead to significant

employee attrition. Any significant employee attrition will increase expenses necessary to replace and retrain our professionals and could decrease our revenues if we are not able to provide sufficient numbers of these resources to our clients.

***We may have difficulty maintaining client relationships if the trend towards utilizing Managed Service Providers continues.***

Within our IT Staffing Services segment, many large users of staffing services are employing MSP's to manage their contractor expenses in an effort to drive down overall costs. The general impact of this shift towards the MSP model has been to lower our gross margins. Should this trend towards utilizing the MSP model continue, it is likely that our gross margins will be pressured in the future. In addition, if large users of staffing services continue to employ MSPs, the relationship between us and those large users may be primarily conducted through MSPs, in which case we may have difficulty maintaining those client relationships because the MSP model uses the MSP as an intermediary between the staffing service provider and the end-user, and reduces our direct contact with the end-user.

***We are dependent upon our Indian operations and there can be no assurance that our Indian operations will support our growth strategy and historical cost structure.***

Our Indian recruitment and delivery centers depend greatly upon business and technology transfer laws in India, and upon the continued development of technology infrastructure. There can be no assurance that our Indian operations will support our growth strategy. The risks inherent in our Indian business activities include:

- unexpected changes in regulatory environments;
- foreign currency fluctuations;
- tariffs and other trade barriers;
- difficulties in managing international operations; and
- the burden of complying with a wide variety of foreign laws and regulations.

Our failure to manage growth, attract and retain personnel or a significant interruption in our ability to transmit data and voice efficiently, could have a material adverse impact on our ability to successfully maintain and develop our global recruitment and delivery centers and could have a material adverse effect on our business, operating results and financial condition.

The Indian rupee may increase in value relative to the dollar, increasing our costs. Although, we receive the vast majority of our revenues in U.S. dollars, we maintain a significant portion of our recruiting and delivery workforces in India, and those employees are paid in rupees. Therefore, any increase in the value of the rupee versus the dollar would increase our expenses, which could have a material adverse effect on our business, operating results and financial condition.

***Our quarterly operating results may be subject to significant variations.***

Our revenues and operating results have historically been subject to significant variations from quarter to quarter depending on a number of factors, including the timing and number of client projects commenced and completed during the quarter, the number of working days in a quarter, employee hiring and attrition, and utilization rates during the quarter.

***Our multi-year Center of Excellence service offering may be early terminated with a short-notice from the client, which could materially impact our backlog and adversely affect our business and future revenues.***

Our Data and Analytics Services segment markets a multi-year service offering known as a Center of Excellence. This service provides our clients with a virtual extension of their internal team to assist with their

data and analytics business strategies and objectives. These engagements are generally multi-year and provide added flexibility to the client by adjusting dedicated readily-available and appropriately skilled resources on an as needed basis. While these engagements provide opportunities to partner with and deeply understand a client's data management and analytics longer-term objectives, these contracts generally can be early terminated by the client with a short-term notice. Should a client terminate an engagement early, this termination could materially impact our backlog of orders and adversely affect our business and future revenues.

***Our acquisition AmberLeaf Partners, Inc. may not provide us with the long-term business advantages that we expected which may result in the slower growth of our business and reduced operating margins.***

Our October 1, 2020 acquisition of AmberLeaf Partners, Inc., and the purchase prices of such acquisitions, were based on a series of long-term assumptions and estimates. There can be no assurance that these long-term expectations will be completely realized and could result in a material adverse effect on our business, operating results and financial condition.

***Our strategy of expansion through the acquisition of additional companies may not be successful and may result in slower growth of our business and reduced operating margins.***

We plan to gradually expand our operations through the acquisition of, or investment in, additional businesses and companies. We may be unable to identify businesses that complement our strategy for growth. If we do succeed in identifying a company with such a business, we may not be able to acquire the company, its relevant business or an interest in the company for many reasons, including:

- a failure to agree on the terms of the acquisition or investment;
- incompatibility between us and the management of the company that we wish to acquire or invest;
- competition from other potential acquirers;
- a lack of capital to make the acquisition or investment; or
- the unwillingness of the company to partner with us.

If we are unable to acquire and invest in attractive businesses, our strategy for growth may be impaired. Even if we are able to complete one or more acquisitions, there can be no assurance that those completed acquisitions will result in successful growth, and the costs of completing an acquisition may reduce our margins.

***We have made in the past, and may make in the future, acquisitions which could require significant management attention, disrupt our existing business, result in dilution to our shareholders, deplete our cash reserves, increase our debt levels and adversely affect our financial results.***

Acquisitions, such as our acquisitions of Hudson IT, the services division of InfoTrellis, Inc., and AmberLeaf Partners, Inc., involve numerous risks, including the possibility that:

- we do not successfully integrate the operations, systems, technologies, products, offerings and personnel of the acquired company or companies;
- we do not generate sufficient revenues to offset increased expenses associated with our acquisitions;
- our management's attention is diverted from normal daily operations of our business and the challenges with managing larger and more widespread operations resulting from our acquisitions;
- we experience difficulties entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions; and
- we lose key employees, customers, distributors, vendors and other business partners of the companies we acquire following and continuing after announcement of acquisition plans.

In addition to the foregoing, acquisitions may also cause us to:

- use a substantial portion of our cash reserves or incur debt;
- issue equity securities or grant equity incentives that dilute our current shareholders' percentage ownership;
- assume liabilities, including potentially unknown liabilities;
- record goodwill and amortizable intangible assets that are subject to impairment testing on a regular basis and potential periodic impairment charges;
- incur amortization expenses related to certain intangible assets;
- incur large and immediate write-offs and restructuring and other related expenses; and
- become subject to intellectual property litigation or other litigation.

Acquisitions of technology companies and assets are inherently risky and subject to many factors outside of our control and no assurance can be given that our recently completed or future acquisitions will be successful and will not materially adversely affect our business, operating results, or financial condition. Failure to manage and successfully integrate acquisitions could materially harm our business and operating results.

***Our revenues are highly concentrated, and the loss of a significant client would adversely affect our business and revenues.***

Our revenues are highly dependent on clients located in North America, as well as clients concentrated in certain industries. Economic slowdowns, changes in law and other restrictions or factors that affect the economic health of these industries may affect our business. For the year ended December 31, 2021, approximately 48% of our revenues were derived from our top ten clients. Consequently, if our clients reduce or postpone their spending significantly, this may lower the demand for our services and negatively affect our revenues and profitability. Further, any significant decrease in the rate of economic growth may reduce the demand for our services and negatively affect our revenues and profitability.

We have in the past, and may in the future, derive a significant portion of our revenues from a relatively limited number of clients. These contracts are terminable without penalty, as are most of our contracts. The loss of any significant client or major project, or an unanticipated termination of a major project, could result in the loss of substantial anticipated revenues.

***Our leverage could materially and adversely affect our financial condition or operating flexibility and prevent us from fulfilling our obligations under our Credit Agreement.***

At December 31, 2021, we had outstanding borrowings of \$13.1 million under our Credit Agreement with PNC Bank and certain other financial institution lenders (the "Credit Agreement"), which amount consists of \$13.1 million of outstanding borrowings under the term loan and no outstanding borrowings under the revolving credit facility. Our level of indebtedness could have important consequences on our future operations, including the following:

- increasing the risk that we cannot satisfy our payment or other obligations under our outstanding debt, which may result in defaults;
- subjecting us to increased sensitivity to interest rate increases on our outstanding indebtedness, which could cause our debt service obligations to increase significantly;
- reducing the availability of our cash flows to fund working capital, capital expenditures, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;

- limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and general economic conditions;
- placing us at a competitive disadvantage to our competitors that have less debt or are less leveraged; and
- increasing our vulnerability to the impact of adverse economic and industry conditions.

In addition, we may incur additional indebtedness in the future and, if we incur new debt or other liabilities, the related risks that we face could intensify.

Our ability to make required payments or to refinance our indebtedness depends on our future performance, which will be affected by financial, business and economic conditions and other factors, many of which are not within our control. If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital, or restructure or refinance our indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. In addition, the terms of existing or future debt agreements and other factors may restrict us from pursuing any of these alternatives.

If we are in default under our Credit Agreement due to our inability to make the required payments, or if we otherwise fail to comply with the financial and other covenants contained therein, all of our debt thereunder could be accelerated and the lenders under our Credit Agreement could be permitted to foreclose on our assets securing such debt.

***The covenants in our Credit Agreement impose restrictions that may limit our operating and financial flexibility.***

The Credit Agreement contains 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 and contingent liabilities, loans and investments, distributions, leases, asset sales, stock repurchases and mergers and acquisitions. These covenants and limitations may limit our ability to, among other things:

- create, incur or assume liens;
- make investments and loans;
- create, incur, assume or guarantee additional indebtedness;
- engage in mergers, acquisitions, consolidations, sale-leasebacks and other similar transactions;
- pay dividends, or redeem or repurchase our capital stock;
- alter the business that we conduct;
- engage in certain transactions with officers, directors and affiliates;
- prepay, redeem or purchase other indebtedness;
- enter into certain agreements; and
- make material changes to accounting and reporting practices.

Operating results below current levels or other adverse factors, including increases in interest rates, could result in us being unable to comply with certain covenants contained in our Credit Agreement. If we violate these covenants and are unable to obtain waivers, our debt under the Credit Agreement would be in default, could be accelerated and could permit our lenders to foreclose on our assets securing the debt thereunder. If the indebtedness is accelerated, we may not be able to repay our debt or borrow sufficient funds to refinance it. Even



if we are able to obtain new financing, it may not be on commercially reasonable terms or on terms that are acceptable to us. If our debt is in default for any reason, our cash flows, operating results, or financial condition could be materially and adversely affected. In addition, complying with these covenants may also cause us to take actions that may make it more difficult for us to successfully execute our business strategy and compete against companies that are not subject to such restrictions.

***We must keep pace with the rapid technological changes that characterize the IT and data and analytics industries and our failure to do so could result in lower demand for services.***

The IT staffing and data analytics services industries are characterized by rapid technological change, evolving industry standards, changing client preferences and new product introductions. Our success will depend in part on our ability to keep pace with industry developments. There can be no assurance that we will be successful in addressing these developments on a timely basis or that, if these developments are addressed, we will be successful in the marketplace. In addition, there can be no assurance that products or technologies developed by others will not render our services noncompetitive or obsolete. Our failure to address these developments could have a material adverse effect on our business, operating results and financial condition.

A significant number of organizations are attempting to migrate their IT business applications to advanced technologies, such as cloud services, data scientists, mobility, and social analytics. As a result, our ability to remain competitive depends on several factors, including our ability to develop, train and hire employees with skills in advanced technologies. Our failure to hire, train and retain employees with such skills could have a material adverse impact on our future revenues.

***Our “preferred vendor” contracts generally result in lower margins. In addition, we may not be able to maintain “preferred vendor” status with existing clients or obtain that status with new clients, which may lead to a decrease in the volume of business we obtain from these clients.***

In our IT Staffing Services segment, we are party to several “preferred vendor” contracts, and we are seeking additional similar contracts in order to obtain new or additional business from large and medium-sized clients. Clients enter into these contracts to reduce their number of vendors and obtain better pricing in return for a potential increase in the volume of business to the preferred vendor. While these contracts are expected to generate higher volumes, they generally carry lower margins. Although we attempt to lower costs to maintain margins, there can be no assurance that we will be able to sustain margins on such contracts. In addition, the failure to be designated as a preferred vendor, or the loss of such status, may preclude us from providing services to existing or potential clients, except as a subcontractor, which could have a material adverse effect on the volume of business obtained from such clients.

***Our success depends upon the maintenance and protection of our intellectual property rights and processes, and any substantial costs incurred protecting such rights and processes may decrease our operating margins.***

Our success depends in part upon certain methodologies and tools we use in designing, developing and implementing application systems and other proprietary intellectual property rights. We rely upon a combination of nondisclosure and other contractual arrangements and trade secrets, copyright and trademark laws to protect our proprietary rights and the proprietary rights of third parties from whom we license intellectual property. We enter into confidentiality agreements with our employees and limit distribution of proprietary information. There can be no assurance that the steps we take in this regard will be adequate to deter misappropriation of proprietary information or that we will be able to detect unauthorized use and take appropriate steps to enforce our intellectual property rights. In the event of an unfavorable resolution of a dispute over our intellectual property rights, we may incur substantial costs or liabilities, which would decrease our operating margins.

***Our business is certified as a minority-owned business, and loss of that certification may impact our ability to gain new customers or expand our business with existing customers.***

We are a large minority-owned staffing and data analytics services firm and have been certified as minority-owned by the National Minority Supplier Development Council (the “NMSDC”). NMSDC certification has helped us to expand our business with existing clients as well as obtain new customers. While we cannot quantify the effect of the loss of this status, its loss could adversely affect our ability to expand our business or cause us to lose existing business.

Because the NMSDC certification relies in large part upon Messrs. Wadhvani and Trivedi maintaining their positions as the collective majority holders of our common stock, any decrease in their collective ownership may jeopardize our status as a minority-owned business. There can be no assurance that Messrs. Wadhvani and Trivedi will maintain their majority position in the Company.

***Existing and potential customers may consider outsourcing their IT requirements to foreign countries, which could have an adverse effect on our ability to obtain new customers or retain existing customers.***

In the past years, more companies started to use low-cost offshore outsourcing centers to perform technology-related work. Should this shift towards moving technology-related work to offshore outsourcing centers continue, our business, operating results and financial condition could be adversely affected.

***We may be subject to liability to clients arising from our engagements.***

Many of our engagements involve projects that are critical to the operations of our clients’ businesses and provide benefits that may be difficult to quantify. Although we attempt to contractually limit our liability for damages arising from errors, mistakes, omissions or negligent acts in rendering our services, there can be no assurance that our attempts to limit liability will be successful. Our failure or inability to meet a client’s expectations in the performance of our services could result in a material adverse change to the client’s operations and, therefore, could give rise to claims against us or damage our reputation, adversely affecting our business, operating results and financial condition.

***Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.***

In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners, and personally identifiable information of our customers and employees, in our data center and on our networks. The secure processing, maintenance and transmission of this information is critical to our operations and business strategy. In response to the pandemic, our move to a work-from-home business model may heighten risks of security breaches. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, and regulatory penalties, disrupt our operations and the services we provide to customers, and damage our reputation, and cause a loss of confidence in our services, which could adversely affect our operating results and competitive position. We maintain cyber risk insurance, but this insurance may not be sufficient to cover all of our losses from any breaches of our networks.

***We depend on the proper functioning of our information systems.***

We are dependent on the proper functioning of information systems in operating our business. Critical information systems are used in every aspect of our daily operations, perhaps most significantly, in the

identification and matching of staffing resources to client assignments and in the client billing and consultant or vendor payment functions. Our information systems may not perform as expected and are vulnerable to damage or interruption including natural disasters, fire or casualty theft, technical failures, terrorist acts, cybersecurity breaches, power outages, telecommunications failures, physical or software intrusions, computer viruses, employee errors or other events. Failure or interruption of our critical information systems may require significant additional capital and management resources to resolve, which could have a material adverse effect on our business. Additionally, many of our information technology systems and networks are cloud-based or managed by third parties, whose future performance and reliability we cannot control. The risk of a cyber-attack or security breach on a third party carries the same risks to us as those associated with our internal systems. There can be no assurance that such parties will not experience cybersecurity breaches that could adversely affect our employees, customers and businesses or that our audit or diligence processes will successfully deter or prevent such breach.

***If our clients are subjected to cyber-attacks or data security breaches, it may result in damage to our business and the disclosure of our confidential information.***

In addition to cybersecurity threats posed directly against us, our clients' information systems are also vulnerable to an increasing threat of continually evolving cybersecurity risks. There is no guarantee that our clients have implemented procedures that are adequate to safeguard against all data security breaches. The failure of our clients to adequately safeguard against data security breaches could have a material adverse effect on our business and operations. The theft and/or breach of our clients' data security could cause the disclosure and/or loss of our confidential information and data and result in significant costs. In addition, any cybersecurity damage to the networks or computer systems used by us or our clients could result in a claim for substantial damages against us and significant reputational harm, regardless of our responsibility for the failure.

***If our insurance costs increase significantly, these incremental costs could negatively affect our financial results.***

We purchase various insurance policies to limit or transfer certain risks inherent in our operations. These costs largely relate to obtaining and maintaining professional and general liability insurance policies. If the costs of carrying these insurance policies increase significantly, due to poor claims history or changes in market conditions, this could have an adverse impact on our profitability and financial condition.

***Any disruption in the supply of power, IT infrastructure and telecommunications lines to our facilities could disrupt our business process or subject us to additional costs.***

Any disruption in basic infrastructure, including the supply of power, could negatively impact our ability to provide timely or adequate services to our clients. We rely on a number of telecommunication services and other infrastructure providers to maintain communications between our various facilities and clients. Telecommunications networks are subject to failures and periods of service disruption which can adversely affect our ability to maintain active voice and data communications among our facilities and with our clients. This could disrupt our business process or subject us to additional costs, materially adversely affecting our business, results of operations and financial condition.

***Our inability to successfully recover should we experience a disaster or other business continuity problem could cause material financial loss, loss of human capital, regulatory actions, reputational harm or legal liability.***

Should we experience a disaster or other business continuity problem, such as an earthquake, hurricane, terrorist attack, pandemic, security breach, power loss, telecommunications failure or other natural or man-made disaster, our continued success will depend, in part, on the availability of our personnel, our office

facilities, and the proper functioning of our computer, telecommunication and other related systems and operations. In such an event, we could experience near-term operational challenges with regard to particular areas of our operations. In particular, our ability to recover from any disaster, pandemic or other business continuity problem will depend on our ability to protect our technology infrastructure against damage from business continuity events that could have a significant disruptive effect on our operations. We could potentially lose client data or experience material adverse interruptions to our operations or delivery of services to our clients in a disaster. A disaster or pandemic, on a significant scale or affecting certain of our key operating areas within or across regions, or our inability to successfully recover should we experience a disaster, pandemic or other business continuity problem, could materially interrupt our business operations and cause material financial loss, loss of human capital, regulatory actions, reputational harm, damaged client relationships or legal liability. For example, the COVID-19 pandemic and governmental actions taken to curtail the spread of the virus during 2020 and 2021 had a material impact on our employees, customers and third-party providers and impacted the level of economic activity. Any such disaster or other business continuity problem could have a material adverse impact on our revenues and profitability.

***Risks posed by climate change may materially increase our compliance costs and adversely impact our profitability.***

Climate change vulnerability is posing new threats and opportunities in the global economy. Climate change and measures adopted to address it can affect us, our clients and suppliers in myriad ways, depending on the nature and location of the businesses, the near-term capital expenditure needs, the regulatory environments where they operate and their strategic plans. Generally, climate risks and opportunities for companies and their investors fall into four categories:

- Physical risk from climate change;
- Regulatory risks and opportunities related to existing or proposed greenhouse gas (“GHG”) emissions limits;
- Indirect regulatory risks and opportunities related to products or services from high emitting companies; and
- Litigation risks for emitters of greenhouse gases.

Unmitigated climate change is likely to have severe physical impacts on companies with exposed assets or business operations, including Mastech Digital. Major environmental risks and liabilities can significantly impact future earnings. To the extent we are unable to comply with applicable regulations related to climate change, and such failure to comply results in material increases in compliance costs or litigation expenses, those costs or expenses will have an adverse effect on our profitability.

***Our success depends upon retaining the services of its management team and key operating employees.***

We are highly dependent on our management team and expect that continued success will depend largely upon their efforts, expertise and abilities. The loss of the services of any key executive for any reason could have a material adverse effect on our business. To attract and retain executives and other key employees in a competitive marketplace, we must provide a competitive compensation package, including cash-based and equity-based compensation. The loss or any sustained attrition of our key operating employees could have a material adverse effect on our business, including our ability to establish and maintain client, consultant and candidate, professional and technical relationships.

## **Risks Related to Governmental Regulations, Laws and Taxation**

***Government regulation of H1-B visas may materially affect our workforce and limit our supply of qualified IT professionals, or increase our cost of securing workers.***

We recruit IT professionals on a global basis and, therefore, must comply with the immigration laws in the countries in which we operate, particularly the U.S. As of December 31, 2021, approximately 26% of our workforce was working under Mastech Digital sponsored H1-B temporary work permits. Statutory law limits the number of new H1-B petitions that may be approved in a fiscal year, and if we are unable to obtain H1-B visas for our employees in sufficient quantities or at a sufficient rate for a significant period of time, our business, operating results and financial condition could be adversely affected. Additionally, legislation could be enacted limiting H1-B visa holders' employment with staffing and data analytics companies, which could result in reduced revenues and/or a higher cost of recruiting.

In recent years, the vast majority of our H1-B hires were not subject to the annual quota limiting H1-B visas because they were already in the U.S. under H1-B visa status with other employers. As a result, the negative impact on recruiting due to the exhaustion of recent H1-B quotas was not substantial. However, the subject of H1-B visas has recently become a major political discussion point and there are indications that the entire H1-B visa program may be significantly overhauled. If a new or revised H1-B visa program is implemented, there could be elements of the new/revised H1-B visa program that may not be advantageous to our business model thus adversely impacting our business, operating results or financial condition.

***Reclassification of our independent contractors by tax or regulatory authorities could have a material adverse effect on our business model and/or could require us to pay significant retroactive wages, taxes and penalties.***

We utilize individuals to provide certain services in connection with our business as qualified third-party independent contractors rather than as direct employees. Heightened state and federal scrutiny of independent contractor relationships could adversely affect us given that we utilize independent contractors to perform certain services. An adverse determination related to the independent contractor status of these subcontracted personnel could result in substantial taxes or other liabilities to us, which could result in a material adverse effect upon our business.

***Restrictions on immigration or unjustified or discriminatory enforcement of immigration laws could increase our cost of doing business, cause us to change the way we conduct our business or otherwise disrupt our operations.***

The success of our business is dependent on our ability to recruit IT and data and analytics professionals and to mobilize them to meet our clients' needs. Immigration laws in the countries in which we operate are subject to legislative changes, as well as variations in the standards of application and enforcement due to political forces and economic conditions. It is difficult to predict the political and economic events that could affect immigration laws, or the restrictive impact they could have on obtaining or renewing work visas for our professionals.

Immigration change continues to attract significant attention in the public arena and in the current U.S. administration and Congress. If new immigration legislation is enacted in the U.S. or in the other jurisdictions in which we do business, such legislation may contain provisions that could make it more difficult or costly for us to recruit and retain IT professionals, and to a lesser extent data and analytics professionals. Additionally, there is uncertainty as to the position the U.S. will take with respect to immigration under the Biden administration or any new administration. As a result, we may incur additional costs to run our business or may have to change the way we conduct our operations, either of which could have a material adverse effect on our business, operating results and financial condition. Also, if the enforcement of immigration laws by governmental authorities is unjustified or discriminatory, such enforcement could have the effect of disrupting our workforce.

***The U.S. Congress and Biden administration may make substantial changes to fiscal, tax, and other federal policies that may adversely affect our business.***

In 2017, U.S. Congress and the Trump administration made substantial changes to U.S. policies, which included comprehensive corporate and individual tax reform. In addition, the Trump administration called for significant changes to U.S. trade, healthcare, immigration and government regulatory policy. With the transition to the Biden administration in early 2021, changes to U. S. policy have occurred and further U.S. policy changes are possible, if not likely. Changes to U.S. policy implemented by the U.S. Congress or the Biden administration may impact, among other things, the U.S. and global economy, international trade relations, unemployment, immigration, healthcare, taxation, the U.S. regulatory environment, inflation and other areas. Although we cannot predict the impact, if any, of these changes to our business, they could adversely affect our business. Until we know what policy changes are made and how those changes impact our business and the business of our competitors over the long term, we will not know if, overall, we will benefit from them or be negatively affected by them.

***Adverse results in tax audits or interpretations of tax laws could have an adverse impact on our business.***

We are subject to periodic federal, state and local tax audits for various tax years. We also need to comply with new, evolving or revised tax laws and regulations. The Tax Cuts and Jobs Act of 2017 continues to require interpretation, and the Biden administration has indicated that it intends to modify key aspects of the tax code, which could materially affect our tax obligations and effective tax rate. Although we attempt to comply with all taxing authority regulations, adverse findings or assessments made by taxing authorities as the result of an audit could have a material adverse effect on our business, results of operations and financial condition.

***Requirements of the Affordable Care Act may continue to increase our employee benefits costs and could negatively affect our operating results, cash flows and financial condition if such costs aren't recovered with increases in client bill rates.***

We provide healthcare coverage to our U.S.-based employees that are subject to the Affordable Care Act ("ACA"). Additional provisions of the ACA and the compliance of such may result in higher overall costs to the Company, which could have a negative impact on our operating results, cash flows and financial condition.

**Risks Related to Economic and Financial Conditions**

***We make estimates and assumptions in connection with the preparation of our consolidated financial statements and any changes to those estimates and assumptions could adversely affect our financial results.***

Our financial statements have been prepared in accordance with U.S. generally accepted accounting principles. The application of these principles require us to make estimates and assumptions about certain items and future events that may affect our reported financial statements and our accompanying disclosure with respect to, among other things, revenue recognition, purchase accounting fair value measurements, contingent consideration and taxation related items. We base our estimates on historical experience and on various other assumptions that we believe are reasonable at the time they are made. These estimates and assumptions involve the use of judgment and can be subject to uncertainties, some of which are beyond our control. If our estimates or the assumptions underlying such estimates are incorrect, actual results may differ materially from our estimates and we may need to, among other things, revise revenues or recognize additional charges that could adversely impact our results of operations and our financial condition.

***Negative economic conditions in North America may adversely affect demand for our services.***

Approximately 99% of our revenues are generated from clients located in North America. Our business depends on the overall demand for IT and data and analytics professionals and on the economic health of our clients. Weak economic conditions may force companies to reduce their IT staffing and data and analytics budgets and adversely affect demand for our services, thus reducing our revenues.



***Our industries are highly competitive and fragmented, which may limit our ability to increase our prices for services.***

The IT staffing services and data analytics services industries are highly competitive and served by numerous global, national, regional and local firms. Primary competitors include participants from a variety of market segments, including the major consulting firms, systems consulting and implementation firms, U.S.-based staffing services companies, data and analytics service companies, applications software firms, service groups of computer equipment companies, specialized consulting firms, programming companies and temporary staffing firms. Many of these competitors have substantially greater financial, technical and marketing resources and greater name recognition than we have. There are relatively few barriers to entry into many of our markets, and as such we may face additional competition from new entrants into our markets. In addition, there is a risk that clients may elect to increase their internal resources to satisfy their staffing and data and analytics needs. There can be no assurance that we will compete successfully with existing or new competitors in the staffing and data analytics services markets.

***Regional conflicts in South Asia could adversely affect the Indian economy, disrupt our operations and cause our business to suffer.***

South Asia has, from time to time, experienced instances of civil unrest and hostilities among neighboring countries, such as between India and Pakistan, India and China, and even within India. There have been military confrontations along the India-Pakistan and India-China borders from time to time. The potential for hostilities between India and Pakistan is high due to past terrorist incidents in India, troop mobilizations along the border, and the geopolitical situation in the region. Military activity or terrorist attacks in the future could influence the Indian economy by disrupting communications and making travel more difficult. This, in turn, could have a material adverse effect on our business, operating results and financial condition.

***Wage costs in India may increase, which may reduce our operating margins and reduce a competitive advantage of ours.***

Our wage costs in India have historically been significantly lower than wage costs in the U.S. for comparably skilled professionals, and this has been one of our competitive advantages with respect to the costs of our Indian recruiting and delivery offices. However, wage increases in India may prevent us from sustaining this competitive advantage and may negatively affect our operating margins. We may need to increase the levels of our employee compensation more rapidly than in the past to retain talent. Unless we are able to continue to increase the efficiency and productivity of our employees, wage increases in the long term may reduce our overall margins.

***Negative economic or business conditions brought on by a global health pandemic, epidemic or outbreak may adversely affect demand for our services.***

Our business depends on the overall demand for IT and data and analytics professionals and on the economic health of our clients. Our business could be adversely affected by the effects of the COVID-19 virus or another pandemic, epidemic or outbreak on the economic and business climate. For example, the spread of the COVID-19 virus and the efforts taken to control its spread may cause companies to reduce their staffing and data and analytics budgets and adversely affect demand for our services, thus reducing our revenues. Furthermore, the impact of the COVID-19 virus outbreak and the actions taken to curtail the spread of the virus could disrupt or materially impair the ability of our clients to operate their businesses. Any such disruption or impairment could lower the demand for our services, result in collection issues on our outstanding accounts receivable and have a material adverse impact on our revenues and profitability.

***If our clients are adversely affected by climate change or related compliance costs, this may reduce their spending and demand for our services, leading to a decrease in revenue.***

In addition to emissions and climate change risks posed directly to Mastech Digital, we also have clients in varied industries such as healthcare, consumer products, manufacturing, technology, and retail, among others. Some of the clients may be significantly affected by climate change resulting in greater physical risk. This may lead to a reduction of demand and loss of business from such clients, which would impact our business, results of operations and financial condition.

## **Risks Related to Our Stock**

***The price of our common stock may fluctuate substantially, and your investment may decline in value.***

The market price of our common stock may be highly volatile and may fluctuate substantially due to many factors, including:

- actual or anticipated fluctuations in our results of operations;
- variance in our financial performance from the expectations of market analysts;
- conditions and trends in the end markets we serve, and changes in the estimation of the size and growth rate of these markets;
- our ability to integrate acquisitions;
- announcements of significant contracts by us or our competitors;
- changes in our pricing policies or the pricing policies of our competitors;
- restatements of historical financial results and changes in financial forecasts;
- loss of one or more of our significant customers;
- legislation;
- changes in market valuation or earnings of our competitors;
- the trading volume of our common stock;
- the trading of our common stock on multiple trading markets, which takes place in different currencies and at different times; and
- general economic conditions.

***Our ownership is highly concentrated in two individuals and the interests of those individual shareholders may not coincide with yours.***

Sunil Wadhwani and Ashok Trivedi, co-founders of the Company, beneficially own approximate 60% of Mastech Digital's outstanding common stock. Accordingly, Messrs. Wadhwani and Trivedi together have sufficient voting power to elect all the members of the Board of Directors and to effect transactions without the approval of our other shareholders, except for those limited transactions that require a supermajority vote under our bylaws or articles of incorporation. The interests of Messrs. Wadhwani and Trivedi may from time to time diverge from our interests. Mastech Digital's Audit Committee consists of independent directors and addresses certain potential conflicts of interest and related party transactions that may arise between us and our directors, officers or our other affiliates. However, there can be no assurance that any conflicts of interest will be resolved in our favor.

***Our results of operations and share price could be adversely affected if we are unable to maintain effective internal controls.***

Internal controls related to the operation of our business are critical to our ability to provide accurate financial statements and an appropriate internal control environment. We are required to provide a report from

management on our internal controls over financial reporting that includes an assessment of the effectiveness of these controls. Internal control over financial reporting has inherent limitations, including human error, the possibility that controls could be circumvented or become inadequate because of changing conditions. Because of these limitations, internal control over financial reporting might not prevent or detect all misstatements or fraud. Also, while the Company remediated over the course of the 2021 fiscal year two material weaknesses identified in 2020, the completion of this remediation does not provide assurance that the Company's remediation or other controls will continue to operate properly. Furthermore, management's report on the Company's internal controls over financial reporting was not subject to attestation by the Company's independent registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this Annual Report on Form 10-K. If we cannot maintain and execute adequate internal control over financial reporting or implement necessary new or improved controls that provide reasonable assurance of the reliability of our financial reporting and preparation of our financial statements for external use, we could suffer harm of our reputation, fail to meet our public reporting requirements on a timely basis, be unable to properly report our financial results, or be required to restate our financial statements, which could result in the loss of investor confidence and may adversely impact our stock price.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

Information regarding the principal properties leased by us and our subsidiaries as of December 31, 2021 is set forth below:

<u>Location</u>	<u>Principal Use</u>	<u>Occupying Business Segment</u>	<u>Approximate Square Footage</u>
Moon Township, Pennsylvania . . .	Corporate headquarters, executive, human resources, sales, recruiting, marketing and finance	IT Staffing	11,500
Waltham, Massachusetts . . . . .	Sales office	IT Staffing	1,700
Chicago, Illinois . . . . .			2,300
	Executive, sales and recruiting	IT Staffing	
Atlanta, Georgia . . . . .	Executive, sales and marketing	Data and Analytics	2,700
Toronto, Canada . . . . .	Human resources, sales, marketing and delivery	Data and Analytics	3,800
NOIDA, India . . . . .	Sales and recruiting office	IT Staffing	39,900
Chennai, India . . . . .	Sales and delivery center	Data and Analytics	35,400

## ITEM 3. 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 4. MINE SAFETY DISCLOSURES

Not applicable.

## **PART II**

### **ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is traded on the NYSE American under the symbol "MHH". We began trading "regular way" on the former American Stock Exchange ("AMEX") on October 1, 2008.

On March 1, 2022, we had 84 registered holders of record of our common stock. This figure excludes an estimate of the indeterminate number of beneficial holders whose shares may be held by brokerage firms and clearing agencies. We currently do not pay recurring dividends on our common stock.

Currently, we do not have an active share repurchase program. However, we do from time to time purchase shares to satisfy employee tax obligations related to the vesting of restricted shares, in accordance with the Company's Stock Incentive Plan provisions. During 2021 and 2020, the Company did not purchase any shares to satisfy such employee tax obligations.

In October 2018, the Board of Directors of the Company approved the Mastech Digital, Inc. 2019 Employee Stock Purchase Plan (the "Stock Purchase Plan"). The Stock Purchase Plan is intended to meet the requirements of Section 423 of the Code and required the approval of the Company's shareholders to be qualified under Section 423 of the Code. On May 15, 2019, the Company's shareholders approved the Stock Purchase Plan. Under the 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 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. For the year ended December 31, 2021 and December 31, 2020, stock purchases under the Stock Purchase Plan totaled 23,492 and 20,459 shares at an average purchase price of \$12.84 and \$10.91, respectively. At December 31, 2021, there were 515,549 shares available for purchase under the Plan.

### **ITEM 6. RESERVED**

### **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*This Management's Discussion and Analysis should be read in conjunction with our Consolidated Financial Statements and accompanying Notes included in this Annual Report on Form 10-K.*

*This Management's Discussion and Analysis contains forward-looking statements that involve risks, uncertainties, and assumptions as described under the heading "Forward-Looking Statements" included in Part I of this Annual Report on Form 10-K. Our actual results could differ materially from those anticipated by these forward-looking statements as a result of many factors, including those discussed under "Item 1A. Risk Factors" and elsewhere in this Annual Report on Form 10-K.*

#### **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 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 enhances 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.

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.

### **Economic Trends and Outlook**

Generally, our business outlook is highly correlated to general North American economic conditions, particularly with respect to our IT Staffing Services segment. 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 in 2010 through 2019 activity levels improved. However, as economic conditions 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 that 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 roll-out of vaccination programs and signs of economic improvement, however, the proliferation of COVID-19 variants have caused some uncertainty and disruption in the global markets. As we enter 2022, we are hopeful that both COVID-19-related concerns and economic uncertainty subside and conditions improve throughout the year.

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”). 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 MSP’s 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 2022.

### **Results of Operations**

We operate in two reporting segments – Data and Analytics Services and IT Staffing Services. The 2020 results of operations for our Data and Analytics Services segment include the operating results of AmberLeaf from the October 1, 2020 acquisition date through December 31, 2020.

Below is a tabular presentation of revenues and gross profit margins by segment for the periods discussed:

**Revenues & Gross Margin by Segment**  
(Revenues in millions)

<u>Revenues</u>	<u>Years Ended December 31,</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Data and Analytics Services .....	\$ 38.3	\$ 30.2	\$ 26.7
IT Staffing Services .....	183.7	163.9	166.9
<b>Total Revenues .....</b>	<b>\$222.0</b>	<b>\$194.1</b>	<b>\$193.6</b>
<u>Gross Margin %</u>			
Data and Analytics Services .....	48.4%	50.5%	46.7%
IT Staffing Services .....	22.3%	22.1%	21.3%
<b>Total Gross Margin % .....</b>	<b>26.8%</b>	<b>26.6%</b>	<b>24.8%</b>

Below is a tabular presentation of operating expenses by sales and marketing operations, amortization of acquired intangible assets, acquisition transaction expenses, revaluation of contingent consideration and general and administrative categories for the periods discussed:

**Selling, General & Administrative (“S,G&A”) Expense Details**  
(Amounts in millions)

	<u>Years Ended December 31,</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
<b><u>Data and Analytics Services Segment</u></b>			
Sales and Marketing .....	\$ 6.2	\$ 4.9	\$ 3.4
Operations .....	2.6	1.9	1.0
Amortization of Acquired Intangible Assets .....	2.5	2.1	2.0
Acquisition Transaction Expenses .....	0.1	0.6	(0.1)
Revaluation of Contingent Consideration .....	(2.9)	—	(6.1)
General & Administrative .....	4.5	3.0	2.5
<b>Subtotal Data and Analytics Services .....</b>	<b>\$13.0</b>	<b>\$12.5</b>	<b>\$ 2.7</b>
<b><u>IT Staffing Services Segment</u></b>			
Sales and Marketing .....	\$ 7.8	\$ 7.1	\$ 8.6
Operations .....	9.1	8.1	10.2
Amortization of Acquired Intangible Assets .....	0.7	0.7	0.7
General & Administrative .....	11.2	9.7	8.8
<b>Subtotal IT Staffing Services .....</b>	<b>\$28.8</b>	<b>\$25.6</b>	<b>\$28.3</b>
<b>Total S,G&amp;A Expenses .....</b>	<b>\$41.8</b>	<b>\$38.1</b>	<b>\$31.0</b>

**2021 Compared to 2020**

***Revenues***

Revenues for the year ended December 31, 2021 totaled \$222.0 million, compared to \$194.1 million for the year ended December 31, 2020. This 14% increase in total revenues reflected revenue growth of 27% (approximately 11% organic) in our Data and Analytics Services segment and a 12% revenue increase in our IT



Staffing Services segment. In our Data and Analytics Services segment, activity levels improved from COVID-impacted market conditions in 2020. However, in 2021 we continued to see some client reluctance to start new projects, albeit on a much smaller scale than in 2020. Bookings in 2021 approximated \$55 million, a marked improvement over 2020 and pipeline opportunities were elevated from a year ago as well. Revenue growth in our IT Staffing Services segment reflected a 198-consultant increase during the year compared to a 104-consultant decline in 2020. We ended 2021 with 1,261 consultants-on-billing versus 1,063 consultants-on-billing at year-end 2020. Our average IT staffing bill rate for 2021 totaled \$75.66 per hour compared to \$76.60 per hour in 2020. This bill rate decrease was due to lower rates on new assignments and was reflective of the type of skill-sets that we deployed. Permanent placement / fee revenues totaled \$1.2 million in 2021, up over 60% from a year ago.

In both 2021 and 2020, we had one client that exceeded 10% of total revenues (CGI = 15.0% in both periods, respectively). Our top ten clients represented 48% of total revenues in 2021 compared to 47% of total revenues in 2020.

### ***Gross Margin***

Gross profit increased to \$59.4 million in 2021 compared to \$51.5 million in 2020, an increase of 15% on a year-over-basis. Gross profit as a percentage of revenue totaled 26.8% in 2021 compared to 26.6% in 2020. The improvement in our gross margin percentage largely reflected a favorable mix of revenues between our D&A and IT Staffing segments. In our Data and Analytics Services segment, gross margins declined by 210-basis points from a record 50.5% in 2020. This decrease in margins reflected a lower margin profile in our acquired AmberLeaf business. Gross margins in our IT Staffing Services segment were 22.3% in 2021 compared to 22.1% in 2020. This 20-basis point improvement was largely due to better margins on new assignments and higher permanent placement revenues in 2021.

### ***Selling, General and Administrative (“S,G&A”) Expenses***

S,G&A expenses in 2021 totaled \$41.8 million and represented 18.8% of total revenues, compared to \$38.1 million or 19.6% of revenues in 2020. When excluding acquisition transaction expenses; the revaluation of contingent consideration; and the amortization of acquired intangible assets, adjusted S,G&A expenses related to operations, as a percentage of revenues was 18.6% in 2021 versus 17.9% in 2020. The increase in S,G&A as a percentage of revenues excluding these items was largely due to investments made to our Data and Analytics Services segment.

Fluctuations within S,G&A expense components during 2021 compared to 2020 included the following:

- Sales expense was \$2.0 million higher in 2021 compared to the previous year. In the Data and Analytics Services segment sales expense increased by \$1.3 million in 2021 due to investments made to the sales organization of \$0.7 million and \$0.6 million related to the consolidation of AmberLeaf’s sales expense. IT staffing sales expense increased by \$0.7 million due to austerity measures implemented in the 2020 period, which were unwound in 2021.
- Operations expense increased by \$1.7 million compared to 2020. Approximately \$0.7 million reflected investments made to the delivery organization of our Data and Analytics Services segment – including an upgraded and expanded facility in Chennai, India. Operations expense in the IT Staffing Services segment increased by \$1.0 million in 2021, largely due to higher recruitment staff and other variable expenses – both reflective of higher activity levels in the current year.
- Amortization of acquired intangible assets was \$3.2 million in 2021 versus \$2.8 million in 2020. The increase related to amortization associated with the AmberLeaf acquisition.
- Acquisition transaction expense was \$0.1 million in 2021 and \$0.6 million in 2020. The 2021 expense was related to an acquisition opportunity that was halted by us. The 2020 acquisition transaction expenses related to the AmberLeaf acquisition.

- The revaluation of a contingent consideration liability totaled a credit of \$2.9 million in 2021 related to the AmberLeaf acquisition. No contingent consideration revaluations occurred in 2020.
- General & administrative expenses increased by \$3.0 million in 2021 compared to 2020. Our Data and Analytics Services segment was responsible for \$1.5 million of this increase due to higher executive leadership and stock-based compensation expenses, as well as the consolidation of a full year of AmberLeaf in 2021. The IT Staffing Services segment had higher general and administrative expenses in 2021 of \$1.5 million compared to the austerity-impacted levels of 2020 due to higher stock-based compensation expense, additional administrative staff and the unwinding of austerity measures from 2020.

### ***Other Income / (Expense) Components***

In 2021, other income / (expense) consisted of interest expense of (\$675,000) and foreign exchange losses of (\$49,000). In 2020, other income / (expense) consisted of interest expense of (\$866,000) and foreign exchange gains of \$96,000. The decline in interest expense was largely due to lower average outstanding borrowings. Net foreign exchange losses in 2021 compared to 2020 reflected exchange rate variations between the Indian rupee and the Canadian dollar compared to the U.S. dollar.

### ***Income Tax Expense***

Income tax expense for 2021 was \$4.7 million and represented an effective tax rate on pre-tax income of 27.6% compared to \$2.8 million in 2020, which represented an effective tax rate on pre-tax income of 21.9%. The lower 2020 effective tax rate was largely due to excess tax benefits related to the exercise of stock options and the vesting of restricted shares.

## **2020 Compared to 2019**

### ***Revenues***

Revenues for the year ended December 31, 2020 totaled \$194.1 million, compared to \$193.6 million for the year ended December 31, 2019. This slight increase in revenues reflected revenue growth of 13% (approximately 6% organic) in our Data and Analytics Services segment and a 2% revenue decline in our IT Staffing Services segment. In our Data and Analytics Services segment, existing client projects continued largely uninterrupted, resulting in revenue growth during the year. However, the pandemic clearly impacted new assignments and pipeline opportunities with project start delays, which resulted in curtailed revenue growth in 2020. Revenue declined in our IT Staffing Services segment resulting in a 104-consultant decline during the year, as we ended 2020 with 1,063 consultants-on-billing. This decline in IT Staffing Services segment revenues was the direct result of the COVID-19 pandemic and its impact on activity levels and early assignment ends, particularly in the first-half of the year. Our average IT staffing bill rate for 2020 increased to \$76.60 per hour compared to \$74.97 per hour in 2019 — an increase of about 2%. This bill rate increase was primarily the result of our continued focus on advanced technology skill-sets.

In both 2020 and 2019, we had one client that exceeded 10% of total revenues (CGI = 15.0% and 11.3%, respectively). Our top ten clients represented 47% of total revenues in 2020 compared to 45% of total revenues in 2019.

### ***Gross Margin***

Gross profit increased to \$51.5 million in 2020 compared to \$48.0 million in 2019. Gross profit as a percentage of revenue totaled 26.6% in 2020 compared to 24.8% in 2019. The improvement in our gross margin percentage reflected margin expansion in both of our business segments. In our Data and Analytics Services segment, gross margins increased by 380-basis points to a record 50.5%. This increase was due to higher-valued

assignments, improved utilization and very little reimbursable travel expense revenues due to the pandemic (pass-through revenues with no gross margin content). Gross margins in our IT Staffing Services segment were 22.1% in 2020 compared to 21.3% in 2019. This 80-basis point improvement was largely due to better margins on new assignments and reflected our continued focus on advanced technology skill-sets.

### ***Selling, General and Administrative (“S,G&A”) Expenses***

S,G&A expenses in 2020 totaled \$38.1 million and represented 19.6% of total revenues, compared to \$31.0 million or 16.0% of revenues in 2019. When excluding acquisition transaction expenses; the revaluation of contingent consideration; goodwill impairment; and the amortization of acquired intangible assets, adjusted S,G&A expenses related to operations, as a percentage of revenues was 17.9% in 2020 versus 17.8% in 2019. The slight increase in S,G&A as a percentage of revenues excluding these items was largely due to investments made to our Data and Analytics Services segment, including expenses related to the integration of the AmberLeaf business following the acquisition.

Fluctuations within S,G&A expense components during 2020 compared to 2019 included the following:

- Sales expense was flat compared to the previous year. In the Data and Analytics Services segment sales expense increased by \$1.5 million in 2020 due to investments made to the sales organization of \$1.2 million and \$0.3 million related to integrating the AmberLeaf sales expense. IT staffing sales expense declined by \$1.5 million in 2020 due to austerity measures and lower activity-based expenses.
- Operations expense decreased by \$1.2 million compared to 2019. Expense reductions in the IT Staffing Services segment totaled \$2.1 million largely due to austerity measures around recruiting staff and lower activity-based expenses. Partially offsetting these declines were increases of \$0.9 million related to investments made to our Data and Analytics Services segment in the areas of delivery and analytics.
- Amortization of acquired intangible assets was \$2.8 million in 2020 versus \$2.7 million in 2019. The slight increase related to amortization associated with the AmberLeaf acquisition.
- Acquisition transaction expenses were \$0.6 million in 2020 and reflected transaction expenses related to the AmberLeaf acquisition. This compared to negative transaction expense of \$0.1 million in 2019 related to a reversal of investment banking fees due to the contingent consideration in the InfoTrellis acquisition not being earned.
- The revaluation of a contingent consideration liability totaled a credit of \$6.1 million in 2019 related to the InfoTrellis acquisition. No contingent consideration revaluations occurred in 2020.
- General & administrative expenses increased by \$1.4 million in 2020 compared to 2019. Our Data and Analytics Services segment was responsible for \$0.5 million of this increase due to higher executive leadership compensation expense, stock-based compensation expenses and the AmberLeaf acquisition and integration in 2020, partially offset by lower travel expense. The IT Staffing Services segment had higher general and administrative expenses in 2020 of \$0.9 million due to higher stock-based compensation expense, event costs (incurred pre-COVID-19 in January and February 2020) and outside services expense, partially offset by lower travel expense.

### ***Other Income / (Expense) Components***

In 2020, other income / (expense) consisted of interest expense of (\$866,000) and foreign exchange gains of \$96,000. In 2019, other income / (expense) consisted of interest expense of (\$1.8 million) and foreign exchange gains of \$11,000. The decline in interest expense was due to lower average outstanding borrowings resulting from debt repayments made during the year and a lower effective interest rate. Net foreign exchange gains in 2020 and 2019 largely reflected exchange rate variations between the Indian rupee and the Canadian dollar compared to the U.S. dollar.

### ***Income Tax Expense***

Income tax expense for 2020 was \$2.8 million and represented an effective tax rate on pre-tax income of 21.9% compared to \$4.1 million in 2019, which represented an effective tax rate on pre-tax income of 26.8%. The lower 2020 effective tax rate was largely due to excess tax benefits related to the exercise of stock options and the vesting of restricted shares.

### **Liquidity and Capital Resources**

#### ***Financial Conditions and Liquidity***

At December 31, 2021, we had outstanding bank debt, net of cash balances on hand, of \$6.5 million and approximately \$32.4 million of borrowing capacity under our existing credit facility. During 2021, our outstanding bank debt, net of cash balances on hand, declined by approximately \$3.3 million, despite investments in operating working capital of \$12 million and capital expenditures of \$1.9 million – largely due to facility upgrades to our Chennai delivery center and upgrades to our IT Systems environment. The increase in operating working capital levels reflected higher revenues in 2021 and the repayment of \$2.3 million related to the COVID-19 payroll tax deferment program. (See Note 8 for further details).

Historically, we have funded our business needs with cash generation from operating activities. In the data and analytics services and IT staffing services industries, investment in operating working capital levels (defined as current assets excluding cash and cash equivalents minus current liabilities, excluding short-term borrowings) is a significant use of cash. Controlling our operating working capital levels by closely managing our accounts receivable balance is an important element of cash preservation. Our accounts receivable “days sales outstanding” measurement (“DSO”) was 61-days at year-end 2021 and 60-days at year-end 2020. The slightly higher DSO measurement in 2021 is due to a higher DSO measurement in our solution-based data and analytics business. As data and analytics revenues increase as a percentage of total revenues, we would expect a natural increase in our overall DSO measurement.

Cash provided by operating activities, our cash and cash equivalent balances on hand at December 31, 2021 and current availability under our existing credit facility are expected to be adequate to fund our business needs over the next 12 months, absent any major acquisition-related activities.

Below is a tabular presentation of cash flow activities for the periods discussed:

<u>Cash Flows Activities</u>	<u>Years Ended December 31,</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
	(Amounts in millions)		
Operating activities .....	\$ 5.2	\$21.2	\$ 16.1
Investing activities .....	(2.1)	(9.6)	(0.9)
Financing activities .....	(4.1)	(6.7)	(13.4)

#### ***Operating Activities***

Cash provided by (used in) operating activities for the years ended December 31, 2021, 2020 and 2019 totaled \$5.2 million, \$21.2 million and \$16.1 million, respectively. In 2021, cash flows from operating activities included net income of \$12.2 million, non-cash charges of \$4.7 million and increases in operating working capital of (\$11.7 million). In 2020, cash flows from operating activities included net income of \$9.9 million, non-cash charges of \$4.0 million and reductions in operating working capital of \$7.3 million. In 2019, cash flows from operating activities included net income of \$11.1 million, non-cash charges of (\$0.1 million) and reductions in operating working capital of \$5.1 million. The 2021 increase in operating working capital reflected higher accounts receivable due to higher revenue levels and a \$2.3 million repayment of the COVID-19 payroll tax deferment program. The 2020 reduction in operating working capital was due to lower accounts receivable,

reflecting revenue declines in the second half of the year and \$4.6 million related to the COVID-19 payroll tax deferment program. The 2019 decline in operating working capital was reflective of the resolution of cash conversion disruptions related to our 2018 Cloud-based ERP platform implementation.

We would expect operating working capital levels to increase should revenue grow in 2022. Accordingly, an increase in operating working capital would result in a reduction in cash generated from operating activities. We believe DSO's will remain at current levels or increase marginally should data and analytics revenues grow disproportionately to total revenues. Additionally, the \$4.6 million payroll tax deferment in 2020 will require a final payment of \$2.3 million in 2022, which will negatively impact cash flows from operating activities in 2022.

### ***Investing Activities***

Cash (used in) investing activities for the years ended December 31, 2021, 2020 and 2019 totaled (\$2.1 million), (\$9.6 million) and (\$0.9 million), respectively. In 2021, cash (used in) investing activities consisted of (\$1.9 million) of capital expenditures and (\$0.2 million) of non-current deposits (office lease deposits). In 2020, cash (used in) investing activities related to the acquisition of AmberLeaf of (\$9.3 million) and capital expenditures of (\$0.3 million). In 2019, cash (used in) investing activities included capital expenditures of (\$1.0 million), partially offset by \$0.1 million of recoveries of non-current deposits. In 2021, capital expenditures were largely related to system upgrade expenditures and improvements to our data and analytics delivery center in Chennai, India.

### ***Financing Activities***

In 2021, cash (used in) financing activities totaled (\$4.1 million) and included debt repayments of (\$4.4 million) and the payment of deferred financing costs of (\$0.2 million) related to our credit facility amendment, partially offset by proceeds from the exercise of stock options and the issuance of common stock related to the Company's employee stock purchase plan of \$0.5 million. In 2020, cash (used in) financing activities totaled (\$6.7 million) and consisted of debt repayments, net of term-loan refinancing associated the AmberLeaf acquisition of (\$8.0 million) and the payment of deferred financing costs of (\$0.3 million), partially offset by \$1.4 million proceeds from the exercise of stock options and the issuance of common stock of \$0.2 million. In 2019, cash (used in) financing activities totaled (\$13.4 million) and largely consisted of net debt repayments of (\$13.6 million), partially offset by \$0.2 million of proceeds from the issuance of common stock.

### ***"Shelf" Registration Statement***

In 2020, we put into place an effective shelf registration statement that allows us to offer and sell common stock, preferred stock, debt and other securities, either individually or in combination, up to a total dollar amount of \$35 million in one or more offerings. These securities may be issued, from time to time, at our discretion based on our needs and market conditions. We believe that this shelf registration statement currently provides us flexibility with regard to potential financings that we may undertake when market conditions permit or as our financial condition may require. As of the date of this Form 10-K, we have not completed any offerings under our shelf registration statement, and we make no assurance that we can or will issue and sell any securities under our shelf registration statement.

Other than the factors discussed in this section and the potential further impacts of the pandemic on our business, we are not aware of any other trends, demands or commitments that would materially affect liquidity or our financial resources.

### ***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. 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 would increase our cost of borrowings.

### ***Seasonality***

Our operations are generally not affected by seasonal fluctuations. However, our consultants' billable hours are affected by national holidays and vacation patterns. Accordingly, we typically 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.

### **Critical Accounting Policies and Estimates**

Certain accounting policies are particularly important to the portrayal of our financial position, results of operations and cash flows and require the application of significant judgment by management, and as a result, are subject to an inherent degree of uncertainty. In applying these policies, our management uses judgment to determine the appropriate assumptions to be used in the determination of certain estimates. These estimates are based on our historical experience, terms of existing contracts, observances of industry trends and other available information from outside sources, as appropriate. The following explains our most critical accounting policies. See the Notes to the Consolidated Financial Statements, contained in Item 8, of this Annual Report on Form 10-K for a complete description of our significant accounting policies.

#### ***Revenue Recognition***

The Company recognizes revenue on time-and-material over time contracts 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 historically on average represent less than 2% of total revenues. Revenue is earned when the Company's consultants are working on projects. 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 recognizing revenue. 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.



### ***Accounts Receivable and Allowance for Uncollectible Accounts***

The Company extends credit to clients based upon management's assessment of their creditworthiness. A substantial portion of the Company's revenue, and the resulting accounts receivable, are from Fortune 1000 companies, major systems integrators and other staffing organizations. The Company does not generally charge interest on delinquent accounts receivable.

Unbilled receivables represent amounts recognized as revenues based on services performed and, in accordance with the terms of the client contract, will be invoiced in a subsequent period.

Accounts receivable are reviewed periodically to determine the probability of loss. The Company records an allowance for uncollectible accounts when it is probable that the related receivable balance will not be collected based on historical collection experience, client-specific collection issues, and other matters the Company identifies in its collection monitoring.

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

Identifiable intangible assets are recorded at fair value as of the closing date when acquired in a business combination. Identifiable intangible assets related to acquisitions consisted of client relationships, covenants not-to-compete, trade names and technology, which are being amortized using the straight-line method over their estimated useful lives ranging from three years to twelve years, as more fully described in Note 3 "Business Combinations" and Note 4 "Goodwill and Other Intangible Assets, net" to the Notes to the Consolidated Financial Statements.

Excess purchase price over the fair value of net tangible assets and identifiable intangible assets acquired 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 reporting unit over its fair market value.

We review goodwill and intangible assets for impairment annually as of October 1<sup>st</sup> or more frequently if events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. The impairment test is performed at the reporting unit (business segment) level. Determination of recoverability is based on the lowest level of identifiable estimated future discounted cash flows resulting from use of the assets and their eventual disposition. Measurement of any impairment loss is based on the excess carrying value of the reporting unit over their fair market value.

In conducting our annual impairment testing, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (more than 50%) that the estimated fair value of a reporting unit is less than its carrying amount. If not, no further goodwill impairment testing is required. If it is more likely than not that a reporting unit's fair value is less than its carrying amount, we are then required to perform a quantitative impairment test. We also may elect not to perform the qualitative assessment, and instead, proceed directly to the quantitative impairment test.

### ***Leases***

Leases Right-of-use ("ROU") assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Since most of the Company's leases do not have an implicit borrowing rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Our leases may include options allowing us in our sole discretion to extend or terminate the lease, and when it is reasonably certain that we will exercise those options, we will include those periods in our lease term. Variable costs, such as payments for insurance and tax payments, are expensed when the obligation for those payments is incurred.

### ***Business Combinations***

The Company accounts for acquisitions in accordance with guidance found in ASC 805, *Business Combinations* (“ASC 805”). This guidance requires consideration given (including contingent consideration), assets acquired and liabilities assumed to be valued at their fair market values at the acquisition date. The guidance further provides that: (1) in-process research and development will be recorded at fair value as an indefinite-lived intangible asset; (2) acquisition-related transaction costs will generally be expensed as incurred; (3) restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date; and (4) changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will effect income tax expense.

ASC 805 requires that any excess purchase price over fair value of assets acquired (including identifiable intangibles) and liabilities assumed be recognized as goodwill. Additionally, any excess fair value of acquired net assets over acquisition consideration results in a bargain purchase gain. Prior to recording a gain, the acquiring entity must reassess whether all acquired assets and assumed liabilities have been identified and must perform re-measurements to verify that the consideration paid, assets acquired and liabilities assumed have all been properly valued.

The AmberLeaf financial results are included in the Company’s Consolidated Financial Statements from the October 1, 2020 acquisition date.

### ***Stock-Based Compensation***

Effective October 1, 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, executive management and key personnel. Grants under the Plan can be made in the form of stock options, stock appreciation rights, performance shares or stock awards. The Plan is administered by the Compensation Committee of the Board of Directors. Stock options are granted at an exercise price equal to the closing share price of the Company’s common stock at the grant date and generally vest over a three to five-year period.

In October 2018, the Board of Directors of the Company approved the Mastech Digital, Inc. 2019 Employee Stock Purchase Plan (the “Stock Purchase Plan”). The Stock Purchase Plan is intended to meet the requirements of Section 423 of the Code and required the approval of the Company’s shareholders to be qualified under Section 423 of the Code. On May 15, 2019, the Company’s shareholders approved the Stock Purchase Plan. Under the 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 Stock Purchase Plan. The purchase price per share is 85% of the lesser of (1) 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 accounts for stock-based compensation expense in accordance with ASC Topic 718 “*Share-based Payments*” which requires us to measure all share-based payments based on their estimated fair value and recognize compensation expense over the requisite service period. The fair value of our stock options and shares issued under the Company’s Stock Purchase Plan is determined at the date of grant using the Black-Scholes option pricing model.

### ***Income Taxes***

The Company records an estimated liability for income and other taxes based on what management determines will likely be paid in the various tax jurisdictions in which we operate. Management uses its best judgment in the determination of these amounts. However, the liabilities ultimately realized and paid are dependent on various matters, including the resolution of the tax audits in the various affected tax jurisdictions,

and may differ from the amounts recorded. An adjustment to the estimated liability would be recorded through income in the period in which it becomes probable that the amount of the actual liability differs from the amount recorded.

Management determines the Company's income tax provision using the asset and liability method. Under this method, deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. The Company measures deferred tax assets and liabilities using enacted tax rates in effect for the year in which we expect to recover or settle the temporary differences. The effect of a change in tax rates on deferred taxes is recognized in the period that the change is enacted. The Company evaluates its deferred tax assets and records a valuation allowance when, in management's opinion, it is more likely than not that some portion or all of the deferred tax assets will not be realized. As of December 31, 2021 and 2020, the Company provided a valuation allowance of \$311,000 and \$179,000, respectively, related to the uncertainty of the realization of foreign net operating losses ("NOL").

The Tax Cuts and Jobs Act of 2017 created a new requirement that certain income earned by foreign subsidiaries, known as global intangible low-tax income ("GILTI"), must be included in the gross income of their U.S. shareholder. The FASB allows an accounting policy election of either recognizing deferred taxes for temporary differences expected to reverse as GILTI in future years or recognizing such taxes as a current-period expense when incurred. We have elected to treat the tax effect of GILTI as a current-period expense as incurred.

The Company accounts for uncertain tax positions in accordance with ASC Topic 740-10, "*Accounting for Uncertainty in Income Taxes*". Accordingly, the Company has reported a liability for unrecognized tax benefits resulting from uncertain tax positions taken, or expected to be taken, in a tax return. As of December 31, 2021 and 2020, the Company provided \$0 for uncertain tax positions, including interest and penalties, related to various federal and state income tax matters.

### ***Contingent Consideration Liability***

In connection with the AmberLeaf acquisition, the Company has an obligation to pay consideration that is contingent upon the achievement of specified revenue growth and EBITA margin objectives. As of the acquisition date, the Company recorded a contingent consideration liability of \$2.9 million representing the estimated fair value of the contingent consideration that is expected to be paid. The fair value of the contingent consideration liability was estimated by utilizing a probability weighted simulation model to determine the fair value of contingent consideration.

In connection with the InfoTrellis acquisition, the Company had an obligation to pay consideration that was contingent upon the achievement of specified earnings before interest and taxes objectives ("EBIT"). As of the acquisition date, the Company recorded a contingent consideration liability representing the estimated fair value of the contingent consideration that was expected to be paid. The fair value of the contingent consideration liability was estimated by utilizing a probability weighted simulation model to determine the fair value of contingent consideration.

We re-measured this liability and recorded changes in the fair value when it was more likely than not that the future payments had changed. Increases or decreases in the fair value of contingent consideration can result from changes in timing and amounts of revenue and earnings estimates.

In 2021, the Company revalued the contingent consideration liability related to the AmberLeaf acquisition after determining that relevant conditions for payment of such liability were likely not to be satisfied. The revaluation resulted in a \$2.9 million reduction to the contingent consideration liability. In 2019, the Company revalued the contingent consideration liability of the InfoTrellis acquisition after determining that relevant conditions for payment of such liability were not satisfied. The revaluation resulted in a \$6.1 million reduction to the contingent consideration liability. No contingent consideration revaluation was recorded in 2020. Both of

these credits are reflected in selling, general and administrative expenses in the Company's Consolidated Statements of Operations, in Item 8, herein. No contingent consideration liability remained outstanding as of December 31, 2021.

#### ***Derivative Instruments and Hedging Activities—Interest Rate Swap Contracts***

Concurrent with the Company's borrowings on July 13, 2017 under its new credit facility, the Company entered into an interest-rate swap to convert the debt's variable interest rate to a fixed rate of interest. These swap contracts, which matured on April 1, 2021, have been designated as a cash flow hedging instrument and qualified as effective hedges at inception under ASC Topic 815 "Derivatives and Hedging". These contracts are recognized on the balance sheet at fair value. The effective portion of the changes in fair value on these contracts is recorded in other comprehensive income (loss) and is reclassified into the Consolidated Statements of Operations as interest expense in the same period in which the underlying transaction affects earnings.

With respect to derivatives designated as hedges, the Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking such transactions. The Company evaluates hedge effectiveness at the time a contract is entered into and on an ongoing basis. If a swap contract is deemed ineffective, the change in the fair value of the derivative is recorded in the Consolidated Statement of Operations as interest expense.

#### ***Foreign Currency Translation***

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 currency of the Company's Indian and European subsidiaries is their local currency. 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.

#### ***Recently Issued Accounting Standards***

Recent accounting pronouncements are described in Note 1 to the Consolidated Financial Statements contained in Item 8, herein.

### **ITEM 7A. 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***

At December 31, 2021, we had outstanding borrowings of \$13.1 million under our Credit Agreement with PNC Bank and certain other financial institution lenders (the "Credit Agreement")—Refer to Note 6—"Credit Facility" in the Notes to Consolidated Financial Statements, included in Item 8 herein. A hypothetical 10% increase in interest rates on our variable debt outstanding at December 31, 2021 would have an increase in our annual interest expense of approximately \$40,000. As of December 31, 2021, the Company has no interest-rate hedge vehicles outstanding.

LIBOR has been discontinued after 2021. In March 2020, the FASB issued authoritative guidance, which provides optional expedients and exceptions for applying GAAP to contract modifications, hedging relationships, and other transactions that reference LIBOR and are affected by reference rate reform if certain criteria are met. Entities may adopt the provisions of the new standard as of the beginning of the reporting period when the election is made between March 12, 2020 through December 31, 2022. We adopted this standard effective January 1, 2021 using the prospective method, and utilized the optional expedients for cash flow hedges.

### ***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 currency of the Company's Indian and European subsidiaries is their local currency. 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 would not have had a material impact on our consolidated financial statements. As our international operations grow, we will continue to evaluate and reassess our approach to managing the risks relating to fluctuations in currency rates.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The financial statements and supplementary data required by this item are filed as part of this Annual Report on Form 10-K. See Index to Consolidated Financial Statements on page 41 of this Annual Report on Form 10-K.

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The accompanying Consolidated Financial Statements of Mastech Digital, Inc. and subsidiaries have been prepared by management, which is responsible for their integrity and objectivity. The statements have been prepared in conformity with accounting principles generally accepted in the United States of America and necessarily include amounts based on management's best estimates and judgments.

The Company's Consolidated Financial Statements for the year ended December 31, 2021 have been audited by UHY LLP, an Independent Registered Public Accounting Firm. The Audit opinion is on page 42 of this Annual Report on Form 10-K.

The Board of Directors pursues its responsibility for the Company's financial reporting and accounting practices through its Audit Committee, all of the members of which are independent directors. The Audit Committee's duties include recommending to the Board of Directors the Independent Registered Public Accounting Firm to audit the Company's financial statements, reviewing the scope and results of the independent accountants' activities and reporting the results of the committee's activities to the Board of Directors. The Independent Registered Public Accounting Firm has met with the Audit Committee in the presence of management representatives to discuss the results of their audit work. Additionally, the Independent Registered Public Accounting Firm has direct access to the Audit Committee.

Vivek Gupta  
President and Chief Executive Officer

John J. Cronin, Jr.  
Chief Financial Officer



**MASTECH DIGITAL, INC.**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Shareholders and the Board of Directors of**  
Mastech Digital, Inc.

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Mastech Digital, Inc. and Subsidiaries (the "Company") as of December 31, 2021 and 2020, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes and Schedule II, Valuation and Qualifying Accounts listed in the index at item 15(2) (collectively referred to as the "financial statements"). In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mastech Digital, Inc. and Subsidiaries at December 31, 2021 and 2020, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### **Critical Audit Matter**

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to an account or disclosure that is material to the financial statements and (2) involved especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

#### Critical Audit Matter – Valuation of Goodwill

As discussed in Notes 1 and 4 to the financial statements, the Company evaluates goodwill for impairment on an annual basis as of October 1 or more frequently if events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. The goodwill balance as of December 31, 2021, was \$32.5 million. The Company considers potential impairment by comparing the fair value of a reporting unit to its carrying value. Fair value is estimated by management using a discounted cash flow model.

We identified goodwill impairment as a critical audit matter because of the significant judgments made by management to estimate the fair value of the reporting units. This required a high degree of auditor judgment and an increased extent of effort, including our need to involve valuation specialists, when performing audit procedures to evaluate the reasonableness of inputs into the discounted cash flow model driven by management's estimates and assumptions. Significant management estimates include forecasts for revenue, gross profit, long-term growth rates, and discount rates.

#### How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures performed to evaluate the reasonableness of management's estimates and assumptions included assessing the methodologies used by the Company and testing the significant assumptions used in the quantitative models. We compared forecasts prepared by management to historical revenues and gross profit to evaluate the reasonableness of the assumptions and to evaluate management's ability to accurately forecast future revenues and gross profit. We evaluated historical trends in assessing the reasonableness of growth rate assumptions and performed sensitivity analyses of certain significant assumptions to evaluate the changes in the fair value of the reporting units that would result from changes in these assumptions. We performed procedures to verify the mathematical accuracy of the calculations used by management. We involved our valuation specialists to assist us in identifying the significant assumptions underlying the models, assessing the rationale and supporting documents related to these assumptions, and determining the appropriateness and reasonableness of the methodologies employed. Furthermore, we assessed the appropriateness of the disclosures in the financial statements.

/s/ UHY LLP

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We have served as the Company's auditor since 2008.

Farmington Hills, Michigan  
March 14, 2022

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

	<b>At December 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 6,622	\$ 7,677
Accounts receivable, net of allowance for uncollectible accounts of \$375 in 2021 and \$413 in 2020	34,153	22,036
Unbilled receivables	9,240	10,098
Prepaid and other current assets	3,890	1,346
Total current assets	53,905	41,157
Equipment, enterprise software, and leasehold improvements, at cost:		
Equipment	2,356	1,931
Enterprise software	3,753	2,730
Leasehold improvements	842	563
	6,951	5,224
Less – accumulated depreciation and amortization	(3,913)	(3,253)
Net equipment, enterprise software, and leasehold improvements	3,038	1,971
Operating lease right-of-use assets	4,894	3,286
Deferred income taxes	—	796
Non-current deposits	595	396
Goodwill, net of impairment	32,510	32,510
Intangible assets, net of amortization	18,760	21,930
Total assets	<u>\$113,702</u>	<u>\$102,046</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 4,400	\$ 4,400
Accounts payable	4,954	2,589
Accrued payroll and related costs	14,240	12,374
Current portion of operating lease liability	1,479	1,079
Other accrued liabilities	1,227	1,051
Deferred revenue	544	478
Total current liabilities	26,844	21,971
Long-term liabilities:		
Long-term debt, less current portion, net	8,334	12,875
Contingent consideration liability	—	2,882
Long-term operating lease liability, less current portion	3,706	2,325
Long-term accrued income taxes	125	165
Deferred income taxes	265	—
Long-term payroll tax liabilities	—	2,295
Total liabilities	39,274	42,513
Commitments and contingent liabilities (Note 9)		
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 13,112,202 shares issued as of December 31, 2021 and 13,039,893 shares issued as of December 31, 2020	131	130
Additional paid-in-capital	28,250	25,509
Retained earnings	50,841	38,620
Accumulated other comprehensive income (loss)	(607)	(539)
Treasury stock, at cost; 1,646,420 shares as of December 31, 2021 and as of December 31, 2020	(4,187)	(4,187)
Total shareholders' equity	74,428	59,533
Total liabilities and shareholders' equity	<u>\$113,702</u>	<u>\$102,046</u>

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

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

	Years Ended December 31,		
	2021	2020	2019
Revenues .....	\$222,012	\$194,101	\$193,574
Cost of revenues .....	162,568	142,562	145,593
Gross profit .....	59,444	51,539	47,981
Selling, general and administrative expenses: .....			
Operating expenses .....	44,716	38,136	37,063
Revaluation of contingent consideration liability .....	(2,882)	—	(6,069)
Total selling, general and administrative expenses .....	41,834	38,136	30,994
Income from operations .....	17,610	13,403	16,987
Interest income (expense), net .....	(675)	(866)	(1,779)
Other income (expense), net .....	(49)	96	11
Income before income taxes .....	16,886	12,633	15,219
Income tax expense .....	4,665	2,772	4,074
Net income .....	<u>\$ 12,221</u>	<u>\$ 9,861</u>	<u>\$ 11,145</u>
Earnings Per Share: .....			
Basic .....	<u>\$ 1.07</u>	<u>\$ .87</u>	<u>\$ 1.01</u>
Diluted .....	<u>\$ 1.02</u>	<u>\$ .83</u>	<u>\$ .99</u>
Weighted average common shares outstanding: .....			
Basic .....	<u>11,436</u>	<u>11,292</u>	<u>11,029</u>
Diluted .....	<u>12,007</u>	<u>11,950</u>	<u>11,232</u>

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

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

	Years Ended December 31,		
	2021	2020	2019
Net income .....	\$12,221	\$9,861	\$11,145
Other comprehensive income (loss):			
Net unrealized gain (loss) on interest rate swap contracts .....	35	8	(149)
Foreign currency translation adjustments .....	(94)	(187)	(129)
Total pretax net unrealized (loss) .....	(59)	(179)	(278)
Income tax expense (benefit) .....	9	2	(39)
Total other comprehensive (loss), net of taxes .....	(68)	(181)	(239)
Total comprehensive income .....	<u>\$12,153</u>	<u>\$9,680</u>	<u>\$10,906</u>

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



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

	Common Stock	Additional Paid-in Capital	Accumulated Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (loss)	Total Shareholders' Equity
Balances, December 31, 2018 . . . . .	\$126	\$20,829	\$17,614	\$(4,174)	\$(119)	\$34,276
Net income . . . . .	—	—	11,145	—	—	11,145
Employee common stock purchases . . . . .	1	167	—	—	—	168
Other comprehensive (loss), net of taxes . . . . .	—	—	—	—	(239)	(239)
Stock-based compensation expense . . . . .	—	936	—	—	—	936
Stock options exercised . . . . .	—	7	—	—	—	7
Purchase of treasury stock . . . . .	—	—	—	(13)	—	(13)
Balances, December 31, 2019 . . . . .	<u>\$127</u>	<u>\$21,939</u>	<u>\$28,759</u>	<u>\$(4,187)</u>	<u>\$(358)</u>	<u>\$46,280</u>
Net income . . . . .	—	—	9,861	—	—	9,861
Employee common stock purchases . . . . .	—	222	—	—	—	222
Other comprehensive (loss), net of taxes . . . . .	—	—	—	—	(181)	(181)
Stock-based compensation expense . . . . .	—	2,021	—	—	—	2,021
Stock options exercised . . . . .	<u>3</u>	<u>1,327</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,330</u>
Balances, December 31, 2020 . . . . .	<u>\$130</u>	<u>\$25,509</u>	<u>\$38,620</u>	<u>\$(4,187)</u>	<u>\$(539)</u>	<u>\$59,533</u>
Net income . . . . .	—	—	12,221	—	—	12,221
Employee common stock purchases . . . . .	—	301	—	—	—	301
Other comprehensive (loss), net of taxes . . . . .	—	—	—	—	(68)	(68)
Stock-based compensation expense . . . . .	—	2,212	—	—	—	2,212
Stock options exercised . . . . .	<u>1</u>	<u>228</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>229</u>
Balances, December 31, 2021 . . . . .	<u>\$131</u>	<u>\$28,250</u>	<u>\$50,841</u>	<u>\$(4,187)</u>	<u>\$(607)</u>	<u>\$74,428</u>

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

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

	Years Ended December 31,		
	2021	2020	2019
<b>OPERATING ACTIVITIES:</b>			
Net income	\$ 12,221	\$ 9,861	\$ 11,145
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,979	3,589	3,434
Bad debt expense	130	—	80
Interest amortization / write-off of deferred financing costs	82	284	104
Stock-based compensation expense	2,212	2,021	936
Deferred income taxes, net	1,061	(1,821)	1,322
Revaluation of contingent consideration liability	(2,882)	—	(6,069)
Operating lease assets and liabilities, net	173	18	100
Loss on disposition of fixed assets	9	4	—
Long-term accrued income taxes	(40)	(20)	(19)
Working capital items:			
Accounts receivable and unbilled receivables	(11,389)	2,133	5,648
Prepaid and other current assets	(2,544)	251	(386)
Accounts payable	2,365	(1,613)	(100)
Accrued payroll and related costs	(429)	6,287	174
Other accrued liabilities	202	91	(264)
Deferred revenue	66	146	(21)
Net cash flows provided by operating activities	<u>5,216</u>	<u>21,231</u>	<u>16,084</u>
<b>INVESTING ACTIVITIES:</b>			
Acquisition of AmberLeaf (net of cash acquired and issuance of contingent consideration)	—	(9,345)	—
Recovery of (payments for) non-current deposits	(199)	9	135
Capital expenditures	(1,895)	(298)	(1,014)
Proceeds from the sale of fixed assets	10	—	—
Net cash flows (used in) investing activities	<u>(2,084)</u>	<u>(9,634)</u>	<u>(879)</u>
<b>FINANCING ACTIVITIES:</b>			
(Repayments) borrowing on revolving credit facility, net	—	(9,551)	(3,976)
Borrowing on term loan facility	—	17,500	—
(Repayments) on term loan facility	(4,400)	(15,969)	(9,575)
Proceeds from the issuance of common stock	301	222	168
Payment of deferred financing costs	(223)	(246)	—
Purchase of treasury stock	—	—	(13)
Proceeds from the exercise of stock options	229	1,330	7
Net cash flows (used in) financing activities	<u>(4,093)</u>	<u>(6,714)</u>	<u>(13,389)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(94)</u>	<u>(187)</u>	<u>(129)</u>
Net change in cash and cash equivalents	<u>(1,055)</u>	<u>4,696</u>	<u>1,687</u>
Cash and cash equivalents, beginning of period	<u>7,677</u>	<u>2,981</u>	<u>1,294</u>
Cash and cash equivalents, end of period	<u>\$ 6,622</u>	<u>\$ 7,677</u>	<u>\$ 2,981</u>
<b>SUPPLEMENTAL DISCLOSURE:</b>			
Cash payments for interest expense	<u>\$ 623</u>	<u>\$ 779</u>	<u>\$ 1,780</u>
Cash payments for income taxes	<u>\$ 3,831</u>	<u>\$ 2,681</u>	<u>\$ 2,634</u>

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

**MASTECH DIGITAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies:**

**Basis of Presentation**

References in this Annual Report on Form 10-K 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 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.

Reflective of our 2017 acquisition of the services division of Canada-based InfoTrellis, Inc., we have added specialized capabilities in delivering data and analytics services to our customers globally. This business 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 expands our 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 business 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. During 2021, we were encouraged by the global roll-out of vaccination programs and signs of improving economic conditions. However, the proliferation of COVID-19 variants have caused some uncertainty and disruption in the global markets during 2021. As we enter 2022, we are hopeful that both COVID-19 related concerns and economic uncertainty subsides and conditions improve.

**Accounting Principles**

The Company’s Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

**Principles of Consolidation**

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

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Actual results could differ from these estimates.

### **Cash and Cash Equivalents**

Cash and cash equivalents are defined as cash and highly liquid debt investments with maturities of three months or less when purchased. Cash equivalents are stated at cost, which approximates market value.

### **Accounts Receivable and Unbilled Receivables**

The Company extends credit to clients based upon management's assessment of their creditworthiness. A substantial portion of the Company's revenue, and the resulting accounts receivable, are from Fortune 1000 companies, major systems integrators and other staffing organizations. The Company does not generally charge interest on delinquent accounts receivable.

Unbilled receivables represent amounts recognized as revenues based on services performed and, in accordance with the terms of the client contract, will be invoiced in a subsequent period.

See Note 2 "Revenue from Contracts with Customers" for further details.

### **Allowance for Uncollectible Accounts**

Accounts receivable are reviewed periodically to determine the probability of loss. The Company records an allowance for uncollectible accounts when it is probable that the related receivable balance will not be collected based on historical collection experience, client-specific collection issues, and other matters the Company identifies in its collection monitoring.

The Allowance for Uncollectible Accounts was \$375,000 and \$413,000 at December 31, 2021 and 2020, respectively. There were \$130,000, \$0 and \$80,000 of bad debt expense charges for the years ended December 31, 2021, 2020 and 2019, respectively, which amounts are reflected in the Consolidated Statements of Operations.

### **Equipment, Enterprise Software and Leasehold Improvements**

Equipment, enterprise software and leasehold improvements are stated at historical cost. The Company provides for depreciation using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of (a) the remaining term of the lease or (b) the estimated useful life of the improvements. Repairs and maintenance, which do not extend the useful life of the respective assets, are charged to expense as incurred. Upon disposal, assets and related accumulated depreciation are removed from the Company's accounts and the resulting gains or losses are reflected in the Company's Consolidated Statement of Operations.

The estimated useful lives of depreciable assets are primarily as follows:

Laptop Computers . . . . .	18 months
Equipment . . . . .	3-5 years
Enterprise Software . . . . .	3-5 years

The Company capitalizes certain external and internal computer software and software development costs incurred during the application development stage. The application development stage generally includes software design and configuration, coding, testing and installation activities. Capitalized costs include only external direct cost of material and services consumed in developing or obtaining internal-use software, and payroll and payroll-related costs for employees who are directly associated with and devote time to the internal-use software project. Capitalization of such costs ceases no later than the point at which the project is substantially complete and ready for its intended use. Training and maintenance costs are expensed as incurred, while upgrades and enhancements are capitalized if it is probable that such expenditures will result in additional functionality.

The Company implemented new enterprise software applications to its backbone systems environment. The Company has capitalized \$2.4 million related to this endeavor for which the core system was placed in service on July 1, 2018. The Company started amortizing these costs commencing with this go-live implementation date. During 2021, the Company capitalized \$1.0 million related to an expanded implementation of its enterprise software application to its Data and Analytics business segment, which is expected to be completed in 2022.

Depreciation and amortization expense related to fixed assets totaled \$809,000, \$799,000 and \$746,000 for the years ended December 31, 2021, 2020 and 2019, respectively.

### **Goodwill and Intangible Assets**

Identifiable intangible assets are recorded at fair value as of the closing date when acquired in a business combination. Identifiable intangible assets related to acquisitions consisted of client relationships, covenants not-to-compete, trade names and technology, which are being amortized using the straight-line method over their estimated useful lives ranging from three years to twelve years, as more fully described in Note 3 “Business Combinations” and Note 4 “Goodwill and Other Intangible Assets, net” to the Notes to the Consolidated Financial Statements.

Excess purchase price over the fair value of net tangible assets and identifiable intangible assets acquired 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 reporting unit over its fair market value.

We review goodwill and intangible assets for impairment annually as of October 1<sup>st</sup> or more frequently if events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. The impairment test is performed at the reporting unit level. Determination of recoverability is based on the lowest level of identifiable estimated future discounted cash flows resulting from use of the assets and their eventual disposition. Measurement of any impairment loss is based on the excess carrying value of the reporting unit over their fair market value.

In conducting our annual impairment testing, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (more than 50%) that the estimated fair value of a reporting unit is less than its carrying amount. If not, no further goodwill impairment testing is required. If it is more likely than not that a reporting unit’s fair value is less than its carrying amount, we are then required to perform a quantitative impairment test. We also may elect not to perform the qualitative assessment, and instead, proceed directly to the quantitative impairment test.

In 2021, 2020 and 2019, we performed quantitative impairment tests related to our June 2015 acquisition of Hudson Global Resources Management, Inc.’s U.S. IT staffing business (“Hudson IT”). The results of each of these testing’s indicated no impairment associated with the carrying amount of goodwill.

Additionally in 2021, 2020 and 2019, we performed quantitative impairment tests related to our Data and Analytics segment which includes the July 2017 acquisition of InfoTrellis and the October 2020 acquisition of AmberLeaf. The results of each of these testing’s indicated no impairment associated with the carrying amount of goodwill.

### **Business Combinations**

The Company accounts for acquisitions in accordance with guidance found in ASC 805, *Business Combinations* (“ASC 805”). This guidance requires consideration given (including contingent consideration), assets acquired and liabilities assumed to be valued at their fair market values at the acquisition date. The guidance further provides that: (1) in-process research and development will be recorded at fair value as an

indefinite-lived intangible asset; (2) acquisition-related transaction costs will generally be expensed as incurred; (3) restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date; and (4) changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will effect income tax expense.

ASC 805 requires that any excess purchase price over fair value of assets acquired (including identifiable intangibles) and liabilities assumed be recognized as goodwill. Additionally, any excess fair value of acquired net assets over acquisition consideration results in a bargain purchase gain. Prior to recording a gain, the acquiring entity must reassess whether all acquired assets and assumed liabilities have been identified and must perform re-measurements to verify that the consideration paid, assets acquired and liabilities assumed have all been properly valued.

The AmberLeaf financial results are included in the Company's Consolidated Financial Statements from the date of the acquisition of October 1, 2020.

### **Leases**

Leases Right-of-use ("ROU") assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Since most of the Company's leases do not have an implicit borrowing rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Our leases may include options allowing us in our sole discretion to extend or terminate the lease, and when it is reasonably certain that we will exercise those options, we will include those periods in our lease term. Variable costs, such as payments for insurance and tax payments, are expensed when the obligation for those payments is incurred.

### **Income Taxes**

The Company records an estimated liability for income and other taxes based on what management determines will likely be paid in the various tax jurisdictions in which we operate. Management uses its best judgment in the determination of these amounts. However, the liabilities ultimately realized and paid are dependent on various matters, including the resolution of the tax audits in the various affected tax jurisdictions, and may differ from the amounts recorded. An adjustment to the estimated liability would be recorded through income in the period in which it becomes probable that the amount of the actual liability differs from the amount recorded.

Management determines the Company's income tax provision using the asset and liability method. Under this method, deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. The Company measures deferred tax assets and liabilities using enacted tax rates in effect for the year in which we expect to recover or settle the temporary differences. The effect of a change in tax rates on deferred taxes is recognized in the period that the change is enacted. The Company evaluates its deferred tax assets and records a valuation allowance when, in management's opinion, it is more likely than not that some portion or all of the deferred tax assets will not be realized. As of December 31, 2021 and 2020, the Company provided a valuation allowance of \$311,000 and \$179,000, respectively, related to the uncertainty of the realization of foreign net operating losses ("NOL").

The Tax Cuts and Jobs Act of 2017 ("TCJA") created a new requirement that certain income earned by foreign subsidiaries, known as global intangible low-tax income ("GILTI"), must be included in the gross income of their U.S. shareholder. The FASB allows an accounting policy election of either recognizing deferred taxes for temporary differences expected to reverse as GILTI in future years or recognizing such taxes as a current-period expense when incurred. We have elected to treat the tax effect of GILTI as a current-period expense as incurred.



The Company accounts for uncertain tax positions in accordance with ASC Topic 740-10, “*Accounting for Uncertainty in Income Taxes*”. Accordingly, the Company has reported a liability for unrecognized tax benefits resulting from uncertain tax positions taken, or expected to be taken, in a tax return. As of December 31, 2021 and 2020, the Company provided \$0 and \$0 for uncertain tax positions, including interest and penalties, related to various federal and state income tax matters.

The Company’s 2018 federal income tax return was audited by the Internal Revenue Service (“IRS”) in 2021 with no adjustment to our original filing. In 2019, the Company and the IRS agreed to certain adjustments related to the Company’s 2015 and 2016 income tax returns. The impact of this settlement on the Company’s tax provision in 2019 was not material.

### **Deferred Financing Costs**

The Company capitalizes expenses directly related to securing its credit facilities. These deferred costs are amortized as interest expense over the term of the underlying facilities. Unamortized deferred financing costs are included as reductions in the long-term debt in the Consolidated Balance Sheets.

### **Contingent Consideration Liability**

In connection with the AmberLeaf acquisition, the Company has an obligation to pay consideration that is contingent upon the achievement of specified revenue growth and EBITA margin objectives. As of the acquisition date, the Company recorded a contingent consideration liability of \$2.9 million representing the estimated fair value of the contingent consideration that is expected to be paid. The fair value of the contingent consideration liability was estimated by utilizing a probability weighted simulation model to determine the fair value of contingent consideration.

In connection with the InfoTrellis acquisition, the Company had an obligation to pay consideration that was contingent upon the achievement of specified earnings before interest and taxes objectives (“EBIT”). As of the acquisition date, the Company recorded a contingent consideration liability representing the estimated fair value of the contingent consideration that was expected to be paid. The fair value of the contingent consideration liability was estimated by utilizing a probability weighted simulation model to determine the fair value of contingent consideration.

We re-measured this liability and recorded changes in the fair value when it was more likely than not that the future payments had changed. Increases or decreases in the fair value of contingent consideration can result from changes in timing and amounts of revenue and earnings estimates.

In 2021, the Company revalued the contingent consideration liability related to the AmberLeaf acquisition after determining that relevant conditions for payment of such liability were likely not to be satisfied. The revaluation resulted in a \$2.9 million reduction in the contingent consideration liability. In 2019, the Company revalued the contingent consideration liability of the InfoTrellis acquisition after determining that relevant conditions for payment of such liability were not satisfied. The revaluation resulted in a \$6.1 million reduction to the contingent consideration liability. No contingent consideration revaluation was recorded in 2020. Both of these credits are reflected in selling, general and administrative expenses in the Company’s Consolidated Statements of Operations, in Item 8, herein. No contingent consideration liability remained outstanding as of December 31, 2021.

### **Segment Reporting**

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

## **Revenue Recognition**

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 total revenues. Revenue is earned when the Company's consultants are working on projects. 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 recognizing revenue. 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.

## **Stock-Based Compensation**

Effective October 1, 2008, the Company adopted a Stock Incentive Plan (the "Plan") which, as amended, provides that up to 4,900,000 shares (adjusted for the 2018 two-for-one stock split) of the Company's common stock shall be allocated for issuance to directors, executive management and key personnel. Grants under the Plan can be made in the form of stock options, stock appreciation rights, performance shares or stock awards. The Plan is administered by the Compensation Committee of the Board of Directors. Stock options are granted at an exercise price equal to the closing share price of the Company's common stock at the grant date and generally vest over a three to five-year period.

In October 2018, the Board of Directors of the Company approved the Mastech Digital, Inc. 2019 Employee Stock Purchase Plan (the "Stock Purchase Plan"). The Stock Purchase Plan is intended to meet the requirements of Section 423 of the Code and required the approval of the Company's shareholders to be qualified under Section 423 of the Code. On May 15, 2019, the Company's shareholders approved the Stock Purchase Plan. Under the 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 Stock Purchase Plan. The purchase price per share is 85% of the lesser of (1) 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 accounts for stock-based compensation expense in accordance with ASC Topic 718 "*Share-based Payments*" which requires us to measure all share-based payments based on their estimated fair value and recognize compensation expense over the requisite service period. The fair value of our stock options and shares issued under the Company's Stock Purchase Plan is determined at the date of grant using the Black-Scholes option pricing model.

### **Treasury Stock**

The Company maintained a stock repurchase program which expired on December 22, 2016. Under the program, the Company made treasury stock purchases in the open market, subject to market conditions and normal trading restrictions. Upon expiration, the program was not extended by the Company's Board of Directors. Additionally, the Company makes stock purchases from time to time to satisfy employee tax obligations related to its Stock Incentive Plan. At December 31, 2021 and 2020, the Company held 1.6 million shares in its treasury at a cost of approximately \$4.2 million.

### **Comprehensive Income**

Comprehensive income as presented in the Consolidated Statements of Comprehensive Income consists of net income, unrealized gains or losses, net of tax, on cash flow hedging transactions and foreign currency translation adjustments.

### **Derivative Instruments and Hedging Activities – Interest Rate Swap Contracts**

Concurrent with the Company's borrowings on July 13, 2017 under its new credit facility, the Company entered into an interest-rate swap to convert the debt's variable interest rate to a fixed rate of interest. These swap contracts, which matured on April 1, 2021, have been designated as cash flow hedging instruments and qualified as effective hedges at inception under ASC Topic 815, "Derivatives and Hedging". These contracts are recognized on the balance sheet at fair value. The effective portion of the changes in fair value on these contracts is recorded in other comprehensive income (loss) and is reclassified into the Consolidated Statements of Operations as interest expense in the same period in which the underlying transaction affects earnings.

With respect to derivatives designated as hedges, the Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking such transactions. The Company evaluates hedge effectiveness at the time a contract is entered into and on an ongoing basis. If a swap contract is deemed ineffective, the change in the fair value of the derivative is recorded in the Consolidated Statement of Operations as interest expense.

### **Foreign Currency Translation**

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 currency of the Company's Indian and European subsidiaries is their local currency. 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.

### **Earnings Per Share**

Basic earnings per share are computed using the weighted-average number of common shares outstanding during the period. Diluted earnings per share are computed using the weighted-average number of common shares outstanding during the period, plus the incremental shares outstanding assuming the exercise of dilutive stock options and the vesting of restricted shares and performance shares, calculated using the treasury stock method.

## **Recently Issued Accounting Standards**

### ***Recently Adopted Accounting Pronouncements***

In December 2019, the FASB issued ASU 2019-12, “Income Taxes (Topic 740)”. The amendments in this ASU simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and by clarifying and amending other areas of Topic 740. The amendments in this ASU are effective for annual and interim periods beginning after December 15, 2020. We adopted this ASU on January 1, 2021 with no material impact on our consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, “Reference Rate Reform (Topic 848)”. The amendments in this ASU provide optional guidance to ease the burden in accounting for contract modifications associated with the cessation of interbank offered rates, particularly LIBOR, as a result of reference rate reform. The amendments in this ASU are effective for annual and interim periods from the beginning of an interim period that includes or is subsequent to March 12, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020 through December 31, 2022. We adopted this ASU on January 1, 2021 with no material impact on our consolidated financial statements.

### ***Recent Accounting Pronouncements not yet adopted***

In October 2021, the FASB 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. Early adoption is permitted. The Company does not expect this ASU to have a material impact on its financial statements.

In November 2021, the FASB issued ASU 2021-10, “Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance”. The amendments in this ASU require annual disclosures to increase the transparency of government assistance received by a business entity including information about the nature of the government transactions, related accounting policy, the line items on the balance sheet and income statement that are affected, amounts applicable to each financial statement line item, and significant terms and conditions of the transactions, including commitments and contingencies. The amendments in this ASU are effective for annual periods beginning after December 15, 2021. Early adoption is permitted. The Company does not expect this ASU to have a material impact on its 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.

## **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 total 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’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.

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.

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 selling, general and administrative 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 customers globally. This business offers project-based consulting services in the areas of Master Data Management, Enterprise Data Integration, Big Data, Analytics and Digital Transformation, which can be delivered using onsite and offshore resources.

Our IT staffing business 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:

	Years Ended December 31,		
	2021	2020	2019
	(Amounts in thousands)		
<b>Data and Analytics Services Segment</b>			
Time-and-material Contracts .....	\$ 25,224	\$ 18,541	\$ 18,732
Fixed-price Contracts .....	13,115	11,685	7,931
<b>Subtotal Data and Analytics Services .....</b>	<b>\$ 38,339</b>	<b>\$ 30,226</b>	<b>\$ 26,663</b>
<b>IT Staffing Services Segment</b>			
Time-and-material Contracts .....	\$183,673	\$163,875	\$166,911
Fixed-price Contracts .....	—	—	—
<b>Subtotal IT Staffing Services .....</b>	<b>\$183,673</b>	<b>\$163,875</b>	<b>\$166,911</b>
<b>Total Revenues .....</b>	<b>\$222,012</b>	<b>\$194,101</b>	<b>\$193,574</b>

The Company had one client that exceeded 10% of total revenues in 2021, 2020 and 2019 (CGI = 15.0%, 15.0% and 11.3%, respectively). Additionally, CGI accounted for 19.5% and 11.7% of the Company's accounts receivable balance at December 31, 2021 and 2020, respectively.

The Company's top ten clients represented approximately 48%, 47% and 45% of total revenues in 2021, 2020 and 2019, respectively.

The following table presents our revenue from external customers disaggregated by geography, based on the work location of our customers:

	Years Ended December 31,		
	2021	2020	2019
	(Amounts in thousands)		
United States .....	\$214,379	\$189,890	\$188,710
Canada .....	4,543	3,603	2,918
India and Other .....	3,090	608	1,946
<b>Total .....</b>	<b><u>\$222,012</u></b>	<b><u>\$194,101</u></b>	<b><u>\$193,574</u></b>

### 3. Business Combinations

On October 1, 2020, Mastech Digital, Inc., through its wholly-owned subsidiary Mastech Digital Data, Inc., acquired all of the outstanding shares of AmberLeaf Partners, Inc. ("AmberLeaf"). Under the terms of the Share Purchase Agreement executed in connection with the AmberLeaf acquisition (the "Purchase Agreement"), the Company paid at the closing of the acquisition approximately \$9.7 million in cash. The Purchase Agreement also requires the Company to pay to the former shareholders of AmberLeaf up to \$4.5 million in deferred cash payments, which payments are contingent upon the AmberLeaf business achieving specific revenue growth and EBITDA margin targets. The amount of these deferred cash payments, if any, is based upon the revenue growth and EBITDA margins of the AmberLeaf business for the 12-month period beginning on January 1, 2021 and for the 12-month period beginning January 1, 2022, as described more fully in the Purchase Agreement.

To fund the acquisition, on October 1, 2020 the Company entered into a Third Amendment (the "Third Amendment") to its Credit Agreement, as amended and dated April 20, 2018. The Third Amendment revised the Credit Agreement by, among other things, (1) increasing the aggregate commitment amount of the revolving credit facility to \$30 million (an increase of \$7.5 million); (2) providing for the Term Loan facility in the aggregate amount of \$17.5 million (an increase of \$10 million); (3) providing for an increase in the total commitment amount to the facility in an aggregate amount not to exceed \$15 million, upon the satisfaction of certain conditions; and (4) amending the financial covenant in the Credit Agreement related to the Company's Fixed Charge Coverage Ratio (as defined in the Credit Agreement) by increasing the minimum permitted Fixed Charge Coverage Ratio for each of the fiscal quarters ending on or after September 30, 2020.

The acquisition was accounted for using the acquisition method of accounting. The acquisition method of accounting requires that the assets acquired and liabilities assumed be measured at their fair value as of the closing date.

The following table summarizes the fair value of consideration for the acquired business on the October 1, 2020 closing date:

(in thousands)	Amounts
Cash purchase price at closing .....	\$ 9,664
Working capital adjustments .....	—
Estimated payout of contingent consideration (1) .....	2,882
<b>Total Fair Value of Consideration .....</b>	<b><u>\$12,546</u></b>



- (1) Based on a valuation conducted by an independent third party, the fair value of contingent consideration at the closing date was determined to be \$2.9 million. During 2021, the Company revalued the contingent consideration liability related to the AmberLeaf acquisition after determining that relevant conditions for payment of such liabilities were unlikely to be satisfied. The revaluation resulted in a \$2.9 million reduction to the contingent consideration liability.

The cash purchase price at closing was paid with funds obtained from the following sources:

<u>(in thousands)</u>	<u>Amounts</u>
Cash balances on hand . . . . .	\$ —
Increase in term loan debt facility . . . . .	10,000
Revolving line of credit . . . . .	(336)
<b>Cash Paid at Closing . . . . .</b>	<b><u>\$ 9,664</u></b>

The allocation of the purchase price was based on estimates of the fair value of assets acquired and liabilities assumed as of October 1, 2020, as set forth below. The excess purchase price over the fair values of the net tangible assets and identifiable intangible assets was recorded as goodwill, which includes value associated with the assembled workforce. Goodwill is expected to be largely deductible for tax purposes. The valuation of net assets acquired is as follows:

<u>(in thousands)</u>	<u>Amounts</u>
<b>Cash on hand . . . . .</b>	<b>\$ 319</b>
<b>Working capital assets, net of liabilities . . . . .</b>	<b>1,153</b>
<b>Identifiable intangible assets:</b>	
Client relationships . . . . .	2,970
Covenant not-to-compete . . . . .	440
Trade name . . . . .	490
Technology . . . . .	770
<b>Total identifiable intangible assets . . . . .</b>	<b>4,670</b>
<b>Goodwill . . . . .</b>	<b>6,404</b>
<b>Net Assets Acquired . . . . .</b>	<b><u>\$12,546</u></b>

The fair value of identifiable intangible assets has been estimated using the income approach through a discounted cash flow analysis. Specifically, the Company used the income approach through an excess earnings analysis to determine the fair value of client relationships. The value applied to the covenant not-to-compete was based on an income approach using a “with or without” analysis of this covenant in place. The trade name and technology were valued using the income approach—relief from royalty method. All identifiable intangibles are considered level 3 inputs under the fair value measurement and disclosure guidance.

The Company incurred \$650,000 of transaction expenses related to the acquisition in 2020 inclusive of the write-off of \$185,000 of deferred finance costs. In 2021, the company incurred \$140,000 of transaction expenses related to an acquisition opportunity that was halted by us. These expenses are included in selling, general and administrative expenses in the accompanying Consolidated Statement of Operations.

Included in the Consolidated Statement of Operations for year ended December 31, 2020 are revenues of \$2.4 million and a net loss of approximately \$0.4 million applicable to the Amber Leaf operations from our October 1, 2020 acquisition date through December 31, 2020.

The following reflects the Company's unaudited pro forma results had the results of AmberLeaf been included from January 1, 2018 for all periods presented:

	Years Ended December 31,		
	2021	2020	2019
	(Amounts in thousands, except per share data)		
Revenue .....	\$222,012	\$202,842	\$204,846
Net income .....	\$ 12,221	\$ 10,594	\$ 12,119
Earnings per share—diluted .....	\$ 1.02	\$ .89	\$ 1.08

The information above does not reflect all of the operating efficiencies or inefficiencies that may have resulted from the AmberLeaf acquisition in those periods prior to the acquisition. Therefore, the unaudited pro forma information above is not necessarily indicative of results that would have been achieved had the business been combined during all periods presented.

#### 4. Goodwill and Other Intangible Assets, net

Goodwill related to our June 15, 2015 acquisition of Hudson IT totaled \$8.4 million. Goodwill related to our July 13, 2017 acquisition of the services division of InfoTrellis totaled \$27.4 million. Goodwill related to our October 1, 2020 acquisition of AmberLeaf totaled \$6.4 million. During 2018, the Company recorded a goodwill impairment related to the InfoTrellis acquisition of \$9.7 million.

A reconciliation of the beginning and ending amounts of goodwill by operating segment for the three years ended December 31, 2021 is as follows:

	Years Ended December 31,		
	2021	2020	2019
	(Amounts in thousands)		
<b>IT Staffing Services:</b>			
Beginning balance .....	\$ 8,427	\$ 8,427	\$ 8,427
Goodwill recorded .....	—	—	—
Impairment .....	—	—	—
Ending balance .....	<u>\$ 8,427</u>	<u>\$ 8,427</u>	<u>\$ 8,427</u>

	Years Ended December 31,		
	2021	2020	2019
	(Amounts in thousands)		
<b>Data and Analytics Services:</b>			
Beginning balance .....	\$24,083	\$17,679	\$17,679
Goodwill recorded .....	—	6,404	—
Impairment .....	—	—	—
Ending balance .....	<u>\$24,083</u>	<u>\$24,083</u>	<u>\$17,679</u>

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 December 31, 2021 and 2020:

As of December 31, 2021				
(Amounts in thousands)	Amortization Period (In Years)	Gross Carrying Value	Accumulative Amortization	Net Carrying Value
<b>IT Staffing Services:</b>				
Client relationships .....	12	\$ 7,999	\$ 4,361	\$ 3,638
Covenant-not-to-compete .....	5	319	319	—
Trade name .....	3	249	249	—
<b>Data and Analytics Services:</b>				
Client relationships .....	12	19,641	6,503	13,138
Covenant-not-to-compete .....	5	1,201	788	413
Trade name .....	5	1,711	1,211	500
Technology .....	7	1,979	908	1,071
<b>Total Intangible Assets .....</b>		<b>\$33,099</b>	<b>\$14,339</b>	<b>\$18,760</b>

As of December 31, 2020				
(Amounts in thousands)	Amortization Period (In Years)	Gross Carrying Value	Accumulative Amortization	Net Carrying Value
<b>IT Staffing Services:</b>				
Client relationships .....	12	\$ 7,999	\$ 3,694	\$ 4,305
Covenant-not-to-compete .....	5	319	319	—
Trade name .....	3	249	249	—
<b>Data and Analytics Services:</b>				
Client relationships .....	12	19,641	4,866	14,775
Covenant-not-to-compete .....	5	1,201	548	653
Trade name .....	5	1,711	869	842
Technology .....	7	1,979	624	1,355
<b>Total Intangible Assets .....</b>		<b>\$33,099</b>	<b>\$11,169</b>	<b>\$21,930</b>

Amortization expense for the years ended December 31, 2021, 2020 and 2019 totaled \$3.2 million, \$2.8 million and \$2.7 million, respectively and is included in selling, general and administrative expenses in the Consolidated Statement of Operations.

The estimated aggregate amortization expense for intangible assets for the years ending December 31, 2022 through 2026 is as follows:

Years Ended December 31,					
	2022	2023	2024	2025	2026
(Amounts in thousands)					
Amortization expense .....	\$2,987	\$2,772	\$2,693	\$2,553	\$2,413

## 5. Cash and Cash Equivalents

The Company had cash and cash equivalents consisting of cash balances on hand and money market funds that totaled \$6.6 million at December 31, 2021 and \$7.7 million at December 31, 2020. There were no restrictions on the Company's cash balances during the periods presented.

## 6. 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 are required to be repaid in consecutive quarterly installments through and including the maturity date of October 1, 2024. The principal amount of each quarterly installment payable on the Term Loan equals \$1.1 million through and including the maturity date, with the maturity date payment equal to the outstanding amount of the loan on that date.

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 December 31, 2021, the Company was in compliance with all provisions under the facility.

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 \$366,000 and \$225,000 (net of amortization) as of December 31, 2021 and December 31, 2020, respectively, are presented as reductions in long-term debt in the Company's Consolidated Balance Sheets.

As of December 31, 2021 and 2020, the Company's outstanding borrowings under the Revolver totaled \$0 million and \$0 million, respectively; and unused borrowing capacity available was approximately \$32.4 million and \$22.0 million, respectively. The Company's outstanding borrowings under the term loan were \$13.1 million and \$17.5 million at December 31, 2021 and 2020, respectively. Additionally, under the Term Loan agreement there is a mandatory repayment requirement related to excess cash flows (as defined in the Credit Agreement) generated in a given fiscal year. This provision takes effect in first quarter of 2023 should the Company senior leverage ratio exceeds 1.50X.

As of December 31, 2021, the annual aggregate maturities of our outstanding debt (exclusive of deferred financing costs amortization) during each of the next five years are as follows:

	<u>Total Amount</u> (Amounts in thousands)
2022 .....	\$ 4,400
2023 .....	4,400
2024 .....	4,300
2025 .....	—
2026 .....	—
Total .....	<u>\$13,100</u>

## 7. Leases

The Company rents certain office facilities and equipment under noncancelable operating leases. As of December 31, 2021, approximately 97,000 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 four 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 5.2 years with a weighted average remaining term of 3.9 years. Leases with an initial term of twelve months or less are not recorded on the balance sheet.

Leases Right-of-use ("ROU") assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Since most of the Company's leases do not have an implicit borrowing rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Our leases may include options allowing us in our sole discretion to extend or terminate the lease, and when it is reasonably certain that we will exercise those options, we will include those periods in our lease term. Variable costs, such as payments for insurance and tax payments, are expensed when the obligation for those payments is incurred.

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

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
	(in thousands)	
<b>Assets:</b>		
Long-term operating lease right-of-use assets . . .	<u>\$4,894</u>	<u>\$3,286</u>
<b>Liabilities:</b>		
Short-term operating lease liability . . . . .	\$1,479	\$1,079
Long-term operating lease liability . . . . .	<u>3,706</u>	<u>2,325</u>
Total Liabilities . . . . .	<u>\$5,185</u>	<u>\$3,404</u>

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

	<u>Amount as of December 31, 2021</u>
	(in thousands)
2022 . . . . .	\$1,687
2023 . . . . .	1,639
2024 . . . . .	899
2025 . . . . .	629
2026 . . . . .	612
Thereafter . . . . .	<u>144</u>
Total . . . . .	\$5,610
Less: Imputed interest . . . . .	<u>(425)</u>
Present value of operating lease liabilities . . . . .	<u>\$5,185</u>

The weighted average discount rate used to calculate the present value of future lease payments was 4.2%.

We recognize rent expense for these leases on a straight-line basis over the lease term. Rental expense for the years ended December 31, 2021, 2020 and 2019 totaled \$1.8 million, \$1.6 million and \$1.6 million, respectively.

Total cash paid for lease liabilities for the years ended December 31, 2021, 2020 and 2019 totaled \$1.5 million, \$1.7 million and \$1.6 million, respectively.

New leases entered into during the years ended December 31, 2021, 2020 and 2019 totaled \$3.1 million, \$0.2 million and \$0.5 million, respectively, and are considered non cash transactions.

## 8. Long-Term Payroll Tax Liability

As allowed under the Coronavirus Aid, Relief and Economic Security (CARES) Act, the Company elected to defer payment of the employer's share of social security tax. As of December 31, 2021 and 2020, the balance of this liability is \$2.3 million and \$4.6 million, respectively. The Company paid \$2.3 million of the deferred amount in December 2021 and is required to repay the remaining \$2.3 million by December 31, 2022 which is reflected as part of current liabilities under the caption accrued payroll and related costs. As of December 31, 2021 and 2020, the long-term liability balance, under the caption long-term payroll tax liabilities, is \$0 and \$2.3 million, respectively.



## **9. Commitment and Contingencies**

In the ordinary course of business, the Company is 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.

## **10. 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 employees. Concurrent with the 2015 acquisition of Hudson IT, the Company expanded employee eligibility under the Retirement Plan to include all U.S.-based W-2 hourly employees. Employees may contribute a percentage of eligible compensation to the Retirement Plan, subject to certain limits under the Code. For Hudson IT employees enrolled in the Hudson Employee Retirement Savings Plan at the acquisition date, the Company provided a matching contribution of 50% of the first 6% of the participant’s contributed pay, subject to vesting based on their combined tenure with Hudson and Mastech. For all other employees, the Company did not provide for any matching contributions for the three years ended December 31, 2021. Effective January 1, 2020, the Company eliminated the 401(k) match for former Hudson IT employees. Mastech’s total contributions to the Retirement Plan related to the qualified Hudson IT employees totaled \$0, \$0 and \$55,000 for the three years ended December 31, 2021, 2020 and 2019, respectively.

## **11. Stock-Based Compensation**

Effective October 1, 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, executive management and key personnel. Grants under the Plan can be made in the form of stock options, stock appreciation rights, performance shares or stock awards. As of December 31, 2021, the Company had 3,836,000 outstanding and/or exercised stock options, 260,000 vested performance shares and 266,000 outstanding and/or released restricted stock units that were issued under the Plan. Thus, as of December 31, 2021, the Company has 538,000 shares available for future grants under the Plan.

The Plan is administered by the Compensation Committee of the Board of Directors. All grants awarded under the Plan are recommended by the Committee to the Board of Directors for approval. The exercise price of stock options is set on the grant date and is not to be less than the fair market value per share of our closing stock price on that date. Grants of stock options and restricted stock awards generally vest over a three to five-year period and options expire after ten years from the grant date. Performance shares vest upon the achievement of the performance criteria and approval by the Compensation Committee of the Board of Directors.

Following is a summary of the Company's stock option activity for the three years ended December 31, 2021:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Outstanding at December 31, 2018 .....	1,111,000	\$ 4.95
Granted .....	683,000	6.48
Exercised .....	(6,000)	1.18
Cancelled / forfeited .....	(67,000)	6.35
Outstanding at December 31, 2019 .....	1,721,000	5.52
Granted .....	800,000	15.49
Exercised .....	(305,000)	4.36
Cancelled / forfeited .....	(207,000)	8.04
Outstanding at December 31, 2020 .....	2,009,000	9.40
Granted .....	501,000	17.58
Exercised .....	(31,000)	7.34
Cancelled / forfeited .....	(438,000)	13.04
Outstanding at December 31, 2021 .....	<u>2,041,000</u>	<u>\$10.66</u>

As of December 31, 2021, the Company's outstanding "in the money" stock options using the year-end share price of \$17.07 had an aggregate intrinsic value of \$13.2 million. As of December 31, 2021, the intrinsic value of vested stock options totaled \$7.7 million. The total intrinsic value of options exercised during 2021, 2020 and 2019 totaled \$355,000, \$4.3 million and \$44,000, respectively. The measurement date fair value of stock options vested during 2021, 2020 and 2019 totaled \$2.1 million, \$655,000 and \$529,000, respectively.

The table below summarizes information regarding the Company's outstanding and exercisable stock options as of December 31, 2021:

<b>Range of Exercise Prices:</b>	<b>Options Outstanding</b>	<b>Weighted Average Remaining Contractual Life (in years)</b>	<b>Weighted Average Exercise Price</b>
\$0.01 to \$4.00 .....	355,000	4.2	\$ 3.56
\$4.01 to \$8.00 .....	717,000	7.0	6.68
\$8.01 to \$12.00 .....	—	—	—
\$12.01 to \$16.00 .....	628,000	8.2	15.49
\$16.01 to \$20.00 .....	341,000	9.6	17.55
	<u>2,041,000</u>	<u>7.3</u>	<u>\$10.66</u>

<b>Range of Exercise Prices:</b>	<b>Options Exercisable</b>	<b>Weighted Average Remaining Contractual Life (in years)</b>	<b>Weighted Average Exercise Price</b>
\$0.01 to \$4.00 .....	355,000	4.2	\$ 3.56
\$4.01 to \$8.00 .....	268,000	6.8	6.80
\$8.01 to \$12.00 .....	—	—	—
\$12.01 to \$16.00 .....	123,000	8.2	15.49
\$16.01 to \$20.00 .....	—	—	—
	<u>746,000</u>	<u>5.8</u>	<u>\$ 6.69</u>

Stock options of 501,000 units were issued during the year ended December 31, 2021, of which 491,000 vest over a four-year period and 10,000 vest over a one-year period. Stock options of 800,000 units were issued

during the year ended December 31, 2020, of which 750,000 vest over a four-year period and 50,000 vest over a one-year period. Stock options of 683,000 units were issued during the year ended December 31, 2019 and vest over a five-year period. The Company used the following average assumptions with respect to the Black-Scholes option pricing model for Mastech Digital stock options issued during 2021, 2020 and 2019.

	Years Ended December 31,		
	2021	2020	2019
<b>Stock option grants:</b>			
Weighted-average risk-free interest rate	0.6%	1.4%	2.4%
Weighted-average dividend yield	0.0%	0.0%	0.0%
Expected volatility	68.3%	52.7%	49.7%
Expected term (in years)	3.8	3.9	5.0
Weighted-average fair value	\$8.85	\$6.36	\$2.95

*Risk-free interest rate* – The risk-free rate for stock options granted during the period was determined by using a U.S. Treasury rate for the period that coincided with the expected term of the options.

*Expected dividend yield* – The Company did not contemplate a recurring dividend program. Accordingly, the dividend yield assumption used was 0.0%.

*Expected volatility* – Expected volatility was determined based on the historical volatility of Mastech Digital’s common stock.

*Expected term* – Mastech Digital’s expected term was based on the exercise history of our employees and the vesting term of our stock options.

Following is a summary of Mastech’s restricted stock activity for the three years ended December 31, 2021:

	Years Ended December 31,		
	2021	2020	2019
Beginning outstanding balance	30,843	33,285	34,380
Awarded	11,955	11,475	16,365
Released	(17,739)	(13,917)	(17,460)
Forfeited	—	—	—
Ending outstanding balance	<u>25,059</u>	<u>30,843</u>	<u>33,285</u>

The aggregate intrinsic value of restricted stock units outstanding at December 31, 2021 was \$428,000. The total intrinsic value of restricted shares released during 2021 totaled \$289,000.

In October 2018, the Board of Directors of the Company approved the Mastech Digital, Inc. 2019 Employee Stock Purchase Plan (the “Stock Purchase Plan”). The Stock Purchase Plan is intended to meet the requirements of Section 423 of the Code and had to be approved by the Company’s shareholders to be qualified. On May 15, 2019, the Company’s shareholders approved the Stock Purchase Plan. Under the 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 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.

During the year ended December 31, 2021 and December 31, 2020, the Company issued 23,492 and 20,459 shares under the Stock Purchase Plan at an average share of \$12.84 and \$10.91, respectively. At December 31, 2021, there were 515,549 shares available for purchases under the Plan.

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 per person. 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 plans is estimated by adding the fair value of 15% of one share of stock to the fair value of 85% 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.

Stock-based compensation expense of \$2.2 million, \$2.0 million and \$936,000 was recognized in the Consolidated Statements of Operations for the years ended December 31, 2021, 2020, and 2019, respectively. The Company has recognized related tax benefits associated with its stock-based compensation arrangements for the years ended December 31, 2021, 2020, and 2019 of \$622,000, \$590,000, and \$252,000, respectively. As of December 31, 2021, the total remaining unrecognized compensation expense related to non-vested stock options totaled \$5.6 million and the total remaining unrecognized compensation expense related to restricted stock units amounted to \$65,000 which will be amortized over the weighted-average remaining requisite service period of 0.4 years.

## 12. Income Taxes

The components of income before income taxes as shown in the accompanying Consolidated Statement of Operations, consisted of the following for the years ended December 31, 2021, 2020 and 2019:

	Years Ended December 31,		
	2021	2020	2019
	(Amounts in thousands)		
Income before income taxes:			
Domestic . . . . .	\$17,117	\$11,476	\$ 6,787
Foreign . . . . .	(231)	1,157	8,432
Income before income taxes . . . . .	<u>\$16,886</u>	<u>\$12,633</u>	<u>\$15,219</u>

The Company has foreign subsidiaries which generate revenues from foreign clients. Additionally, the Company has foreign subsidiaries which provide services to its 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 Consolidated Statement of Operations, consisted of the following for the years ended December 31, 2021, 2020 and 2019:

	Years Ended December 31,		
	2021	2020	2019
	(Amounts in thousands)		
Current provision:			
Federal .....	\$2,657	\$ 3,044	\$1,555
State .....	713	752	406
Foreign .....	234	797	751
Total current provision .....	<u>3,604</u>	<u>4,593</u>	<u>2,712</u>
Deferred provision (benefit):			
Federal .....	873	(1,340)	(13)
State .....	233	(327)	(4)
Foreign .....	(177)	(326)	1,372
Total deferred provision (benefit) .....	<u>929</u>	<u>(1,993)</u>	<u>1,355</u>
Change in valuation allowance .....	<u>132</u>	<u>172</u>	<u>7</u>
Total provision for income taxes .....	<u>\$4,665</u>	<u>\$ 2,772</u>	<u>\$4,074</u>

The reconciliation of income taxes computed using our statutory U.S. income tax rate and the provision for income taxes for the years ended December 31, 2021, 2020 and 2019 were as follows:

(Amounts in thousands)	Years Ended December 31,					
	2021		2020		2019	
Income taxes computed at the federal statutory rate .....	\$3,546	21.0%	\$2,653	21.0%	\$3,196	21.0%
State income taxes, net of federal tax benefit .....	962	5.7	602	4.7	404	2.7
Excess tax benefits from stock options/restricted shares .....	(82)	(0.5)	(920)	(7.3)	(9)	(0.1)
Charge for global intangible low-taxed income ("GILTI") .....	—	—	(20)	(0.2)	69	0.5
Difference in tax rate on foreign earnings/other .....	107	0.6	285	2.3	407	2.7
Change in valuation allowance .....	<u>132</u>	<u>0.8</u>	<u>172</u>	<u>1.4</u>	<u>7</u>	<u>—</u>
	<u>\$4,665</u>	<u>27.6%</u>	<u>\$2,772</u>	<u>21.9%</u>	<u>\$4,074</u>	<u>26.8%</u>

The components of the deferred tax assets and liabilities were as follows:

	<u>At December 31,</u>	
	<u>2021</u>	<u>2020</u>
	(Amounts in thousands)	
Deferred tax assets:		
Allowance for doubtful accounts	\$ 112	\$ 101
Accrued vacation and bonuses	419	457
Stock-based compensation expense	1,274	738
COVID-19 payroll tax deferment	628	1,207
Acquisition-related transaction costs	540	515
Net operating losses	311	179
Total deferred tax assets	<u>3,284</u>	<u>3,197</u>
Deferred tax liabilities:		
Prepaid expenses	233	217
Depreciation, intangibles and contingent consideration	3,005	2,005
Total deferred tax liabilities	<u>3,238</u>	<u>2,222</u>
Valuation allowance	<u>(311)</u>	<u>(179)</u>
Net deferred tax asset (liability)	<u>\$ (265)</u>	<u>\$ 796</u>

A reconciliation of the beginning and ending amounts of unrecognized tax benefits related to uncertain tax positions, including interest and penalties, for the three years ended December 31, 2021 is as follows:

	<u>Years Ended December 31,</u>		
<u>(Amounts in thousands)</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Unrecognized tax benefits, beginning balance	\$—	\$ 20	\$ 263
Additions related to current period	—	—	—
Additions related to prior periods	—	—	—
Reductions related to prior periods	—	(20)	(243)
Unrecognized tax benefits, ending balance	<u>\$—</u>	<u>\$—</u>	<u>\$ 20</u>

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 December 31, 2021, our valuation allowance was comprised of balances within locations of Singapore and the United Kingdom. The valuation allowance balances at these locations totaled \$311,000 and \$179,000 as of December 31, 2021 and 2020, respectively, and reflect net operating losses which may not be realizable in the future.

The IRS’s audit of the Company’s 2018 tax return was completed in the third quarter of 2021 with no adjustments to our original filing. The Company’s Canadian subsidiary for years 2018 and 2019 are currently under audit.

### 13. Derivative Instruments and Hedging Activities

#### *Interest Rate Risk Management*

Concurrent with the Company’s July 13, 2017 borrowings under its new credit facility, the Company entered into a 44-month interest-rate swap to convert the debt’s variable interest rate to a fixed rate of interest.



Under the swap contracts, which matured on April 1, 2021, the Company paid interest at a fixed rate of 1.99% and received interest at a variable rate equal to the daily U.S. LIBOR on an initial notional amount of \$15.0 million. Notional amounts were \$0 and \$8.1 million at December 31, 2021 and December 31, 2020, respectively. These swap contracts have been designated as cash flow hedging instruments and qualified as effective hedges at inception under ASC Topic 815, “Derivatives and Hedging”. These contracts are recognized on the balance sheet at fair value. The effective portion of the changes in fair value on these instruments is recorded in other comprehensive income (loss) and is reclassified into the Consolidated Statements of Operations as interest expense in the same period in which the underlying hedge transaction affects earnings. Changes in the fair value of interest-rate swap contracts deemed ineffective are recognized in the Consolidated Statements of Operations as interest expense. The fair value of the interest-rate swap contracts at December 31, 2021 and December 31, 2020 was \$0 and a liability of \$35,000, respectively, and is reflected in the Consolidated Balance Sheets as other current liabilities.

**The effect of derivative instruments on the Consolidated Statements of Operations and Comprehensive Income (“OCI”) for the year ended December 31, 2021 (in thousands):**

Derivatives in ASC Topic 815 Cash Flow Hedging Relationships	Amount of Gain / (Loss) recognized in OCI on Derivatives	Location of Gain / (Loss) reclassified from Accumulated OCI to Income	Amount of Gain / (Loss) reclassified from Accumulated OCI to Income	Location of Gain / (Loss) reclassified in Income on Derivatives	Amount of Gain / (Loss) recognized in Income on Derivatives
	(Effective Portion)	(Effective Portion)	(Effective Portion)	(Ineffective Portion/Amounts excluded from effectiveness testing)	
Interest-Rate Swap Contracts	\$35	Interest Expense	\$34	Interest Expense	\$—

**The effect of derivative instruments on the Consolidated Statements of Operations and Comprehensive Income (“OCI”) for the year ended December 31, 2020 (in thousands):**

Derivatives in ASC Topic 815 Cash Flow Hedging Relationships	Amount of Gain / (Loss) recognized in OCI on Derivatives	Location of Gain / (Loss) reclassified from Accumulated OCI to Income	Amount of Gain / (Loss) reclassified from Accumulated OCI to Income	Location of Gain / (Loss) reclassified in Income on Derivatives	Amount of Gain / (Loss) recognized in Income on Derivatives
	(Effective Portion)	(Effective Portion)	(Effective Portion)	(Ineffective Portion/Amounts excluded from effectiveness testing)	
Interest-Rate Swap Contracts	\$8	Interest Expense	\$121	Interest Expense	\$—

**Information on the location and amounts of derivative fair values in the Consolidated Balance Sheets (in thousands):**

Derivative Instruments	December 31, 2021		December 31, 2020	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest-Rate Swap Contracts . . . . .	Other Current Liabilities	\$—	Other Current Liabilities	\$35

The estimated amount of pretax income as of December 31, 2021 that is expected to be reclassified from other comprehensive income into earnings within the next 12 months is \$0.

#### 14. Shareholders’ Equity

The Company did not purchase any shares in 2021 and 2020 to satisfy employee tax obligations related to its Stock Incentive Plan.

## 15. Earnings per Share

The computation of basic earnings per share (“EPS”) is based on the Company’s net income divided by the weighted average number of common shares outstanding. Diluted earnings per share reflects the potential dilution that could occur if outstanding stock options and restricted share units were exercised / released. The dilutive effect of stock options and restricted share units were calculated using the treasury stock method.

For the years ended December 31, 2021, 2020 and 2019, there were 276,000, 0 and 518,000 anti-dilutive stock options that were excluded from the computation of diluted earnings per share, respectively.

The following table sets forth the denominators of the basic and diluted EPS computations:

(Amounts in thousands)	Years Ended December 31,		
	2021	2020	2019
Weighted-average shares outstanding:			
Basic .....	11,436	11,292	11,029
Stock options and restricted share units .....	571	658	203
Diluted .....	<u>12,007</u>	<u>11,950</u>	<u>11,232</u>

The following table sets forth the computation of basic EPS utilizing net income and the Company’s weighted-average common stock outstanding:

(Amounts in thousands, except per share data)	Years Ended December 31,		
	2021	2020	2019
Net income .....	\$12,221	\$ 9,861	\$11,145
Basic weighted-average shares outstanding .....	11,436	11,292	11,029
Basic EPS .....	<u>\$ 1.07</u>	<u>\$ .87</u>	<u>\$ 1.01</u>

The following table sets forth the computation of diluted EPS utilizing net income and the Company’s weighted-average common stock outstanding plus the weighted-average of stock options, restricted shares and performance shares:

(Amounts in thousands, except per share data)	Years Ended December 31,		
	2021	2020	2019
Net income .....	\$12,221	\$ 9,861	\$11,145
Diluted weighted-average shares outstanding .....	12,007	11,950	11,232
Diluted EPS .....	<u>\$ 1.02</u>	<u>\$ .83</u>	<u>\$ .99</u>

## 16. Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) for the years ended December 31, 2021, 2020 and 2019 were as follows:

<u>(in thousands)</u>	<u>Foreign Currency Translation Adjustments</u>	<u>Derivative Financial Instruments Designated as Cash Flow Hedges</u>	<u>Total</u>
Balance at December 31, 2018 .....	\$(197)	\$ 78	\$(119)
(Loss) arising during the period .....	(129)	(181)	(310)
Reclassification to earnings for gains realized .....	—	32	32
Income tax benefit .....	—	39	39
Net other comprehensive (loss) – year 2019 .....	(129)	(110)	(239)
Balance at December 31, 2019 .....	\$(326)	\$ (32)	\$(358)
(Loss) arising during the period .....	(187)	(113)	(300)
Reclassification to earnings for gains realized .....	—	121	121
Income tax (expense) .....	—	(2)	(2)
Net other comprehensive income (loss) – year 2020 .....	(187)	6	(181)
Balance at December 31, 2020 .....	\$(513)	\$ (26)	\$(539)
Gain (Loss) arising during the period .....	(94)	1	(93)
Reclassification to earnings for gains realized .....	—	34	34
Income tax (expense) .....	—	(9)	(9)
Net other comprehensive income (loss) – year 2021 .....	(94)	26	(68)
Balance at December 31, 2021 .....	\$(607)	\$ —	\$(607)

Generally, the assets and liabilities of foreign operations are translated into U.S. dollars using the current exchange rate. For those operations, changes in exchange rates generally do not affect cash flows; therefore, resulting translation adjustments are made in shareholders' equity rather than in net income.

See Note 13 for information regarding hedging activities.

## 17. Fair Value Measurements

The Company has adopted the provisions of ASC 820, “Fair Value Measurements and Disclosures” (“ASC 820”), related to certain financial and nonfinancial assets and liabilities. ASC 820 establishes the authoritative definition of fair value; sets out a framework for measuring fair value; and expands the required disclosures about fair value measurements. The valuation techniques required by ASC 820 are based on observable and unobservable inputs using the following three-tier hierarchy:

- Level 1 – Inputs are observable quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2 – Inputs are observable, other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are directly or indirectly observable in the marketplace.
- Level 3 – Inputs are unobservable that are supported by little or no market activity.

The following table summarizes the basis used to measure financial assets and (liabilities) at fair value on a recurring basis:

(Amounts in thousands)	Fair Value as of December 31, 2021			
	Level 1	Level 2	Level 3	Total
Interest-Rate Swap Contracts .....	\$—	\$—	\$ —	\$ —
Contingent consideration liabilities .....	\$—	\$—	\$ —	\$ —

(Amounts in thousands)	Fair Value as of December 31, 2020			
	Level 1	Level 2	Level 3	Total
Interest-Rate Swap Contracts .....	\$—	\$ (35)	\$ —	\$ (35)
Contingent consideration liabilities .....	\$—	\$—	\$(2,882)	\$(2,882)

The fair value of interest rate swap contracts is based on quoted prices for similar instruments from a commercial bank, and therefore, the fair value measurement is considered to be within Level 2.

The fair value of the contingent consideration liability was estimated by utilizing a probability weighted simulation model to determine the fair value of contingent consideration, and therefore, the fair value measurement is considered to be within Level 3.

In 2020, the Company incurred a \$2.9 million contingent consideration liability related to the AmberLeaf acquisition. In 2021 and 2019, the Company revalued the contingent consideration liability related to the AmberLeaf and InfoTrellis acquisitions after determining that relevant conditions for payment of such liabilities were not satisfied. The revaluation resulted in a \$2.9 million and \$6.1 million reduction to the contingent consideration liability in 2021 and 2019, respectively, which is reflected in selling and administrative expenses in the Company's Consolidated Statements of Operations, in Item 8 herein.

The following table provides information regarding changes in the Company's Level 3 fair values for the contingent consideration liability for the three years ended December 31, 2021:

	Years Ended December 31,		
	2021	2020	2019
	(Amounts in thousands)		
Beginning balance .....	\$ 2,882	\$ —	\$ 6,069
Contingent consideration incurred .....	0	2,882	—
Payments made .....	—	—	—
Revaluation .....	(2,882)	—	(6,069)
Ending balance .....	\$ —	\$2,882	\$ —

## 18. 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, London, Dublin and Singapore, 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 expands 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 learning services on a fixed price basis.

Below are the operating results of our reporting segments:

	Years Ended December 31,		
	2021	2020	2019
	(Amounts in thousands)		
Revenues:			
Data and Analytics Services . . . . .	\$ 38,339	\$ 30,226	\$ 26,663
IT Staffing Services . . . . .	183,673	163,875	166,911
Total revenues . . . . .	<u>\$222,012</u>	<u>\$194,101</u>	<u>\$193,574</u>
Gross Margin %:			
Data and Analytics Services . . . . .	48.4%	50.5%	46.7%
IT Staffing Services . . . . .	22.3%	22.1%	21.3%
Total gross margin % . . . . .	26.8%	26.6%	24.8%
Segment operating income:			
Data and Analytics Services . . . . .	\$ 5,310	\$ 5,455	\$ 5,495
IT Staffing Services . . . . .	12,728	11,388	8,001
Subtotal . . . . .	18,038	16,843	13,496
Amortization of acquired intangible assets . . . . .	(3,170)	(2,790)	(2,688)
Revaluation of contingent consideration liability . . . . .	2,882	—	6,069
Acquisition-related transaction expenses . . . . .	(140)	(650)	110
Interest expenses and other, net . . . . .	(724)	(770)	(1,768)
Income before income taxes . . . . .	<u>\$ 16,886</u>	<u>\$ 12,633</u>	<u>\$ 15,219</u>

Below is a reconciliation of total assets, depreciation and amortization and capital expenditures by segment:

Amounts in thousands	Total Assets			Depreciation & Amortization			Capital Expenditures		
	2021	2020	2019	2021	2020	2019	2021	2020	2019
Data and Analytics Services	\$ 56,634	\$ 55,792	\$41,527	\$2,662	\$2,245	\$2,078	\$1,692	\$193	\$ 203
IT Staffing Services . . . . .	57,068	46,254	49,057	1,317	1,344	1,356	203	105	811
Total . . . . .	<u>\$113,702</u>	<u>\$102,046</u>	<u>\$90,584</u>	<u>\$3,979</u>	<u>\$3,589</u>	<u>\$3,434</u>	<u>\$1,895</u>	<u>\$298</u>	<u>\$1,014</u>

Below is geographic information related to our revenues from external customers and fixed assets, net (equipment, enterprise software and leasehold improvements):

Amounts in thousands	Revenues			Equipment, Enterprise Software and Leasehold Improvements, net		
	2021	2020	2019	2021	2020	2019
United States . . . . .	\$212,356	\$189,890	\$188,710	\$2,221	\$1,613	\$2,095
Canada . . . . .	6,566	3,603	2,918	2	7	8
India and Other . . . . .	3,090	608	1,946	815	351	373
Total . . . . .	<u>\$222,012</u>	<u>\$194,101</u>	<u>\$193,574</u>	<u>\$3,038</u>	<u>\$1,971</u>	<u>\$2,476</u>

## **19. Related-Party Transaction**

During the third quarter of 2021, we purchased cybersecurity software licenses from CrowdStrike, Inc. for \$98,000. One of our Board members is a Board member of CrowdStrike Inc. The purchase was completed as an arm's length transaction.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **ITEM 9A. 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) and 15d-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 as of this date.

The certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 are filed as exhibits 31.1 and 31.2, respectively, to this Annual Report on Form 10-K.

### *Changes in internal control over financial reporting*

During the three months ended December 31, 2021, we were able to remediate the two prevalent material weaknesses identified in 2020: (1) management review controls designed to address risks associated with complex accounting matters that arise from significant routine and non-routine transactions related to goodwill impairment, business combinations, revenue recognition, share-based compensation, and income taxes; and (2) information technology general controls in the areas of change management, information security and IT operations applicable to a certain cloud-based environment, in place from our InfoTrellis acquisition, that did not operate effectively. The first material weakness was remediated through the hiring of several key financial managers and adopting stronger processes around each of our complex accounting matters. The second material weakness was remediated by migrating the InfoTrellis subsidiary, which was not operating effectively with respect to its IT operations and a certain system, to the Company's financial backbone environment, Oracle Cloud, effective October 1, 2021. The Company's 2021 evaluation and testing of its internal controls over financial reporting supported the above conclusions.

### *Management's Report on Internal Controls Over Financial Reporting*

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial



reporting includes the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements; providing reasonable assurance that receipts and expenditures of Company assets are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use, or disposition of company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become ineffective because of changes in conditions or that the degree of compliance with established policies or procedures may deteriorate.

The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2021. In making its assessment of internal control over financial reporting, management used the criteria described in the *Internal Control-Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO-2013"). Based upon this assessment, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2021 and the material weaknesses described in 2020 have been remediated.

This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this Annual Report on Form 10-K.

#### **ITEM 9B. OTHER INFORMATION**

None.

#### **ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

None.

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information required by this Item, not set forth below, is incorporated herein by reference from the Company's definitive proxy statement relating to the Annual Meeting of Shareholders scheduled for May 11, 2022, which will be filed with the Commission within 120 days after the close of the Company's fiscal year ended December 31, 2021 (the "Proxy Statement") under the headings "Proposal No. 1 – Election of Directors", "Executive Officers", "Delinquent Section 16(A) Reports" and "Board Committees and Meetings".

We have adopted a code of ethics applicable to all of our employees, including our principal executive officer, principal financial officer and principal accounting officer, titled Code of Conduct Policy. The Code of Conduct Policy is posted on the Company's website, [www.mastechdigital.com](http://www.mastechdigital.com) (under the "Corporate Governance" caption of the Investor Relations page). The Company intends to satisfy the disclosure requirement regarding certain amendments to, or waivers from, provisions of its code of ethics by posting such information on the Company's website.

### **ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item is incorporated by reference to the Proxy Statement under the headings "Compensation Discussion And Analysis", "Summary Compensation Table", "Grants Of Plan-Based Awards", "Outstanding Equity Awards At Fiscal Year-End", "Potential Payments Upon Termination Or Change In Control", "Option Exercises And Stock Vested" and "Director Compensation".

### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS**

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

The information required by this item is hereby incorporated by reference to the Proxy Statement under the heading "Equity Compensation Plan Information".

#### *Security Ownership of Certain Beneficial Owners and Management*

The information required by this item is hereby incorporated by reference to the Proxy Statement under the headings "Security Ownership of Certain Beneficial Owners and Management".

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this item is hereby incorporated by reference to the Proxy Statement under the headings "Board Committees and Meetings" and "Policies and Procedures for Approving Related Person Transactions".

### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this item is hereby incorporated by reference to the Proxy Statement under the heading "Independent Registered Public Accountants".

## **PART IV**

### **ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

#### *1. Financial Statements*

The following Consolidated Financial Statements of the registrant and its subsidiaries are included on pages 44 to 76 and the reports of Independent Registered Public Accounting Firm are included on pages 42 and 43 in this Annual Report on Form 10-K.

Reports of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets – December 31, 2021 and 2020.

Consolidated Statements of Operations – Years ended December 31, 2021, 2020 and 2019.

Consolidated Statements of Comprehensive Income – Years ended December 31, 2021, 2020 and 2019.

Consolidated Statements of Shareholders' Equity – Years ended December 31, 2021, 2020 and 2019.

Consolidated Statements of Cash Flows – Years ended December 31, 2021, 2020 and 2019.

Notes to Consolidated Financial Statements

#### *2. Consolidated Financial Statement Schedules*

The following Consolidated Financial Statement schedules shown below should be read in conjunction with the Consolidated Financial Statements on pages 44 to 76 in this Annual Report on Form 10-K. All other schedules are omitted because they are not applicable or not required or the required information is shown in the Consolidated Financial Statements or notes thereto.

The following items appear immediately on the following page:

Financial Statement Schedules:

Schedule II – Valuation and Qualifying Accounts for the years ended December 31, 2021, 2020 and 2019.

#### *3. Exhibits*

Exhibits required by Item 601 of Regulation S-K are listed in the Exhibit Index, which is incorporated herein by reference.

**MASTECH DIGITAL, INC.**  
**SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019**  
**(Amounts in thousands)**

	<u>Balance at beginning of period</u>	<u>Charged to expense (credited)</u>	<u>Acquisitions/ Recoveries/ (Write- offs)</u>	<u>Balance at end of period</u>
<b>Allowance for Doubtful Accounts:</b>				
Year ended December 31, 2021 .....	\$413	\$130	\$(168)	\$375
Year ended December 31, 2020 .....	338	—	75	413
Year ended December 31, 2019 .....	408	80	(150)	338

<b>Exhibit</b>	<b>(Index Description Exhibit)</b>
2.1	Asset Purchase Agreement, dated July 7, 2017, by and among Mahmood Abbas, Zahid Naeem, Sachin Wadhwa, InfoTrellis Inc. and Mastech InfoTrellis Digital, Ltd., incorporated by reference to Exhibit 2.1 to Mastech Digital, Inc.'s Current Report on Form 8-K, filed with the SEC on July 13, 2017
2.2	Asset Purchase Agreement, dated July 7, 2017, by and among Mahmood Abbas, Zahid Naeem, Sachin Wadhwa, InfoTrellis Inc. and Mastech InfoTrellis, Inc., incorporated by reference to Exhibit 2.2 to Mastech Digital, Inc.'s Current Report on Form 8-K, filed with the SEC on July 13, 2017
2.3	Share Purchase Agreement, dated July 7, 2017, by and amongst Mastech Digital Data, Inc., 2291496 Ontario Inc., InfoTrellis India Private Limited, Mastech Digital Private Limited and Kumaran Sasikanthan, incorporated by reference to Exhibit 2.3 to Mastech Digital, Inc.'s Current Report on Form 8-K, filed with the SEC on July 13, 2017
2.4	Share Purchase Agreement, dated October 1, 2020, by and among Mastech Digital Data, Inc., AmberLeaf Partners, Inc., and its shareholders, Lawrence F. Goldman and Don Steffen, incorporated by reference to Exhibit 10.1 to Mastech Digital, Inc.'s Current Report on Form 8-K, filed with the SEC on October 6, 2020
3.1	Amended and Restated Articles of Incorporation of Mastech Digital, Inc., incorporated by reference to Exhibit 3.1 to Mastech Digital, Inc.'s Current Report on Form 8-K filed with the SEC on September 12, 2016
3.2	Amended and Restated Bylaws of Mastech Digital, Inc., incorporated by reference to Exhibit 3.2 to Mastech Digital, Inc.'s Current Report on Form 8-K filed with the SEC on September 12, 2016
4.1	Form of Common Stock Certificate of Mastech Digital, Inc., incorporated by reference to Exhibit 4.1 to Mastech Digital, Inc.'s Annual Report on Form 10-K filed with the SEC on March 24, 2017
4.2	Amended and Restated Registration Rights Agreement, dated September 17, 2020, by and among Mastech Digital, Inc., Ashok Trivedi, in his individual capacity and as trustee of the Ashok K. Trivedi Revocable Trust, STP L.P., Edani L.P., Riveda L.P., Sunil Wadhwani, in his individual capacity and as trustee of The Revocable Declaration of Trust of Sunil Wadhwani, Wadhwani Partners No. 1 L.P. and Wadhwani Partners No. 2 L.P., incorporated by reference to Exhibit 10.1 to Mastech Digital, Inc.'s Current Report on Form 8-K filed with the SEC on September 22, 2020
4.3	Description of Securities Registered under Section 12 of the Securities Exchange Act of 1934, incorporated by reference to Exhibit 4.3 to Mastech Digital, Inc.'s Annual Report on Form 10-K filed with the SEC on March 30, 2020
10.1†	Mastech Digital, Inc.'s Stock Incentive Plan (as amended and restated), effective as of May 14, 2014, incorporated by reference to Exhibit 10.2 to Mastech Digital, Inc.'s Current Report on Form 8-K filed with the SEC on May 23, 2016
10.2†	Amendment to Mastech Digital, Inc.'s Stock Incentive Plan (as amended and restated), executed May 18, 2016, incorporated by reference to Exhibit 10.1 to Mastech Digital, Inc.'s Current Report on Form 8-K filed with the SEC on May 23, 2016
10.3†	Second Amendment to Mastech Digital, Inc.'s Stock Incentive Plan (as amended and restated), executed May 16, 2018, incorporated by reference to Exhibit 10.1 to Mastech Digital, Inc.'s Current Report on Form 8-K filed with the SEC on May 18, 2018
10.4†	Third Amendment to Mastech Digital, Inc.'s Stock Incentive Plan (as amended and restated), executed May 15, 2019, incorporated by reference to Exhibit 10.1 to Mastech Digital, Inc.'s Current Report on Form 8-K filed with the SEC on May 15, 2019

<b>Exhibit</b>	<b>(Index Description Exhibit)</b>
10.5†	Fourth Amendment to Mastech Digital, Inc.'s Stock Incentive Plan (as amended and restated), executed May 13, 2020, incorporated by reference to Exhibit 10.1 to Mastech Digital, Inc.'s Current Report on Form 8-K filed with the SEC on May 18, 2020
10.6	Credit Agreement, dated July 13, 2017, by and among Mastech Digital, Inc., certain subsidiaries of Mastech Digital, Inc., PNC Bank, National Association, as administrative agent, swing loan lender and issuing lender, PNC Capital Markets LLC, as sole lead arranger and sole bookrunner, and certain financial institutions party thereto as lenders, incorporated by reference to Exhibit 10.1 to Mastech Digital, Inc.'s Current Report on Form 8-K, filed with the SEC on July 19, 2017
10.7	First Amendment to Credit Agreement, dated November 2017, by and among Mastech Digital, Inc., PNC Bank, National Association, as administrative agent and a lender, and certain financial institutions party thereto as lenders, incorporated by reference to Exhibit 10.3 to Mastech Digital, Inc.'s Quarterly Report on Form 10-Q, filed with the SEC on May 11, 2018
10.8	Second Amendment to Credit Agreement, dated April 20, 2018, by and among Mastech Digital, Inc., PNC Bank, National Association, as administrative agent and a lender, and certain financial institutions party thereto as lenders, incorporated by reference to Exhibit 10.1 to Mastech Digital, Inc.'s Current Report on Form 8-K, filed with the SEC on April 25, 2018
10.9	Third Amendment to Credit Agreement and Joinder Agreement, dated as of October 1, 2020, by and among Mastech Digital, Inc., Mastech Digital Alliances, Inc., Mastech Digital Resourcing, Inc., Mastech Digital Data, Inc., Mastech InfoTrellis, Inc., Mastech InfoTrellis Digital, Ltd., Mastech Digital Services, Inc., Mastech Digital Solutions, Inc., Mastech Digital Consulting, Inc., Mastech Digital InfoTech, Inc., and AmberLeaf Partners, Inc., PNC Bank, National Association, and certain other financial institutions party thereto as lenders, and PNC Bank, National Association, in its capacity as administrative agent for the lenders thereto, incorporated by reference to Exhibit 10.1 to Mastech Digital, Inc.'s Current Report on Amendment No. 1 to Form 8-K, filed with the SEC on October 7, 2020
10.10	Fourth Amendment to Credit Agreement, dated December 29, 2021, by and among Mastech Digital, Inc., PNC Bank, National Association, as administrative agent and a lender, and certain financial institutions party thereto as lenders
10.11	Pledge Agreement, dated July 13, 2017, made by Mastech Digital, Inc. and certain subsidiaries of Mastech Digital, Inc., incorporated by reference to Exhibit 10.2 to Mastech Digital, Inc.'s Current Report on Form 8-K, filed with the SEC on July 19, 2017
10.12	Securities Purchase Agreement, dated July 7, 2017, by and between Mastech Digital, Inc. and Ashok Trivedi, as trustee of the Ashok K. Trivedi Revocable Trust, incorporated by reference to Exhibit 10.1 to Mastech Digital, Inc.'s Current Report on Form 8-K, filed with the SEC on July 13, 2017
10.13	Securities Purchase Agreement, dated July 7, 2017, by and between Mastech Digital, Inc. and Sunil Wadhwani, as trustee of The Revocable Declaration of Trust of Sunil Wadhwani, incorporated by reference to Exhibit 10.2 to Mastech Digital, Inc.'s Current Report on Form 8-K, filed with the SEC on July 13, 2017
10.14†	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 21, 2019



<b>Exhibit</b>	<b>(Index Description Exhibit)</b>
10.15†	Schedule A-6, dated March 9, 2022, 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 11, 2022
10.16†	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 21, 2019
10.17†	Schedule A-11, dated March 9, 2022, 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 11, 2022
10.18†	Executive Employment Agreement effective as of January 7, 2019, between Mastech InfoTrellis, Inc. and Paul Burton, incorporated by reference to Exhibit 10.2 to Mastech Digital, Inc.'s Current Report on Form 8-K filed with the SEC on March 15, 2021
10.19†	Schedule A-3, dated March 10, 2021, to Executive Employment Agreement effective as of January 7, 2019, between Mastech InfoTrellis, Inc. and Paul Burton, incorporated by reference to Exhibit 10.2 to Mastech Digital, Inc.'s Current Report on Form 8-K filed with the SEC on March 15, 2021
10.20	Lease Agreement, dated April 2, 2014, between PIBP 210 LLP and Mastech Digital, Inc., incorporated by reference to Exhibit 10.1 to Mastech Digital, Inc.'s Current Report on Form 8-K filed with the SEC on April 7, 2014
10.21	Lease Deed, made and executed on April 1, 2021, by and between Olympia Tech Park (Chennai) Private Limited and InfoTrellis India Private Limited, , incorporated by reference to Exhibit 10.4 to Mastech Digital, Inc.'s Quarterly Report on Form 10-Q, filed with the SEC on May 7, 2021
10.22†	Form of Restricted Stock Agreement under the Mastech Digital, Inc. Stock Incentive Plan (as amended and restated), incorporated by reference to Exhibit 10.9 to Mastech Digital, Inc.'s Annual Report on Form 10-K filed with the SEC on March 24, 2017
10.23†	Form of Non-Qualified Stock Option Agreement under the Mastech Digital, Inc. Stock Incentive Plan (as amended and restated), incorporated by reference to Exhibit 10.10 to Mastech Digital, Inc.'s Annual Report on Form 10-K filed with the SEC on March 24, 2017
10.24†	Mastech Digital, Inc. 2019 Employee Stock Purchase Plan, executed on May 15, 2019, incorporated by reference to Exhibit 10.2 to Mastech Digital, Inc.'s Current Report on Form 8-K filed with the SEC on May 15, 2019
10.25†	Summary of Director Compensation Arrangements
14.1	Mastech Digital, Inc.'s Code of Business Conduct and Ethics, as adopted on September 15, 2016, incorporated by reference to Exhibit 14.1 to Mastech Digital, Inc.'s Annual Report on Form 10-K filed with the SEC on March 24, 2017
21.1	List of Subsidiaries of Mastech Digital, Inc.
23.1	Consent of UHY LLP, Independent Registered Public Accounting Firm
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer

<b>Exhibit</b>	<b>(Index Description Exhibit)</b>
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Chief Executive Officer
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Chief Financial Officer
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline 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)
†	Designates the Company's management contracts or compensation plans or arrangements for its executive officers.
*	XBRL (eXtensible Business Reporting Language) information is furnished and not filed herewith.

## 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 14th day of March, 2022.

MASTECH DIGITAL, INC.

/s/ VIVEK GUPTA

**Vivek Gupta**  
*President and Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated and on this 14th day of March, 2022.

/s/ VIVEK GUPTA

**Vivek Gupta**  
*President, Chief Executive Officer and Director*  
*(Principal Executive Officer)*

/s/ JOHN J. CRONIN, JR.

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

/s/ SUNIL WADHWANI

**Sunil Wadhwani**  
*Co-Chairman of the Board of Directors, and Director*

/s/ ASHOK TRIVEDI

**Ashok Trivedi**  
*Co-Chairman of the Board of Directors, and Director*

/s/ GERHARD WATZINGER

**Gerhard Watzinger**  
*Director*

/s/ JOHN AUSURA

**John Ausura**  
*Director*

/s/ BRENDA GALILEE

**Brenda Galilee**  
*Director*







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