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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

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

Commission File Number 001-34099

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

PENNSYLVANIA **(State or other jurisdiction of incorporation or organization)**	**26-2753540** **(I.R.S. Employer Identification No.)**
1305 Cherrington Parkway, Building 210, Suite 400 **Moon Township, Pennsylvania** **(Address of principal executive offices)**	**15108** **(Zip Code)**

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 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	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☒
		Emerging growth company	☐

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

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

The number of shares of the registrant's Common Stock, par value $.01 per share, outstanding as of July 31, 2018 was 5,477,300.

MASTECH DIGITAL, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2018

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues	$44,894	$35,086	$88,227	$68,186
Cost of revenues	34,002	28,009	67,074	54,900
Gross profit	10,892	7,077	21,153	13,286
Selling, general and administrative expenses:				
Operating expenses	7,803	6,095	15,626	11,901
Impairment of goodwill	7,738	—	7,738	—
Revaluation of contingent consideration liability	(9,106)	—	(9,106)	—
Total selling, general and administrative expenses	6,435	6,095	14,258	11,901
Income from operations	4,457	982	6,895	1,385
Interest income (expense), net	(615)	(107)	(1,088)	(209)
Other income (expense), net	8	1	(31)	22
Income before income taxes	3,850	876	5,776	1,198
Income tax expense	1,033	180	1,579	301
Net income	$ 2,817	$ 696	$ 4,197	$ 897
Earnings per share:				
Basic	$ .52	$ .15	$ .77	$ .20
Diluted	$ .51	$ .15	$ .76	$ .20
Weighted average common shares outstanding:				
Basic	5,463	4,536	5,462	4,517
Diluted	5,571	4,576	5,553	4,563

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$ 2,817	$ 696	$ 4,197	$ 897
Other comprehensive income (loss):				
Net unrealized gain on interest rate swap contracts	48	1	170	12
Foreign currency translation adjustments	(119)	—	(161)	—
Total pretax net unrealized gain (loss)	(71)	1	9	12
Income tax expense	13	—	44	5
Total other comprehensive gain (loss), net of taxes	(84)	1	(35)	7
Total comprehensive income	$ 2,733	$ 697	$ 4,162	$ 904

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

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

	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 747	$ 2,478
Accounts receivable, net of allowance for uncollectible accounts of $408 in 2018 and $398 in 2017	25,045	22,876
Unbilled receivables	10,360	7,786
Prepaid and other current assets	1,131	1,533
Total current assets	37,283	34,673
Equipment, enterprise software, and leasehold improvements, at cost:		
Equipment	1,451	1,395
Enterprise software	1,869	1,986
Leasehold improvements	463	365
	3,783	3,746
Less – accumulated depreciation and amortization	(1,581)	(1,847)
Net equipment, enterprise software, and leasehold improvements	2,202	1,899
Deferred income taxes	188	468
Non-current deposits	364	255
Goodwill	28,106	35,844
Intangible assets, net	24,084	25,465
Total assets	$92,227	$ 98,604
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 4,384	$ 4,003
Accounts payable	3,561	5,028
Accrued payroll and related costs	9,129	8,969
Other accrued liabilities	2,064	1,679
Deferred revenue	98	430
Total current liabilities	19,236	20,109
Long-term liabilities:		
Long-term debt, less current portion, net	33,382	34,149
Contingent consideration liability	8,019	17,125
Long-term accrued income taxes	68	68
Total liabilities	60,705	71,451
Commitments and contingent liabilities (Note 5)		
Shareholders' equity:		
Preferred Stock, no par value; 20,000,000 shares authorized; none outstanding	—	—
Common Stock, par value $.01; 125,000,000 shares authorized and 6,287,473 shares issued as of June 30, 2018 and 6,281,235 as of December 31, 2017	63	63
Additional paid-in-capital	20,531	20,304
Retained earnings	15,120	10,923
Accumulated other comprehensive income (loss)	(18)	17
Treasury stock, at cost; 821,923 shares as of June 30, 2018 and 820,636 as of December 31, 2017	(4,174)	(4,154)
Total shareholders' equity	31,522	27,153
Total liabilities and shareholders' equity	$92,227	$ 98,604

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

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

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
OPERATING ACTIVITIES:		
Net income	$ 4,197	$ 897
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	1,514	506
Bad debt expense	10	—
Interest amortization of deferred financing costs	48	19
Stock-based compensation expense	225	215
Deferred income taxes, net	280	28
Impairment of goodwill	7,738	—
Revaluation of contingent consideration liability	(9,106)	—
Loss on disposition of fixed assets	7	4
Working capital items:		
Accounts receivable and unbilled receivables	(4,753)	(1,434)
Prepaid and other current assets	528	(755)
Accounts payable	(1,467)	1,277
Accrued payroll and related costs	160	81
Other accrued liabilities	385	(186)
Deferred revenue	(332)	(154)
Net cash flows provided by (used in) operating activities	(566)	498
INVESTING ACTIVITIES:		
Payment for non-current deposits	(109)	(15)
Capital expenditures	(443)	(397)
Net cash flows (used in) investing activities	(552)	(412)
FINANCING ACTIVITIES:		
Borrowings on revolving credit facility, net	1,543	557
(Repayments) on term loan facility	(1,906)	(900)
Payment of deferred financing costs	(71)	—
Purchase of treasury stock	(20)	(7)
Proceeds from the exercise of stock options	2	68
Net cash flows (used in) financing activities	(452)	(282)
Effect of exchange rate changes on cash and cash equivalents	(161)	—
Net change in cash and cash equivalents	(1,731)	(196)
Cash and cash equivalents, beginning of period	2,478	829
Cash and cash equivalents, end of period	$ 747	$ 633

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

MASTECH DIGITAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(Unaudited)

1. Description of Business and Basis of Presentation:

Basis of Presentation

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

Description of Business

We are a provider of Digital Transformation IT Services.

Our portfolio of offerings includes data management and analytics services; other digital transformation services such as Salesforce.com, SAP HANA, and Digital Learning services; and IT staffing services that span across digital and mainstream technologies.

Reflective of our recent acquisition of the services division of Canada-based InfoTrellis, Inc., we have added specialized capabilities in delivering data management and analytics services to our customers globally. This business offers project-based consulting services in the areas of Master Data Management, Enterprise Data Integration, Big Data and Analytics, and Digital Transformation, with such services delivered using on-site and offshore resources.

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.

Accounting Principles

The accompanying Financial Statements have been prepared by management in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and applicable rules and regulations of the Securities and Exchange Commission (the “SEC”). Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for complete consolidated financial statements. In the opinion of management, all adjustments, consisting principally of normal recurring adjustments, considered necessary for a fair presentation have been included. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the Financial Statements and the accompanying notes. Actual results could differ from these estimates. These Financial Statements should be read in conjunction with the Company’s audited consolidated financial statements and accompanying notes for the year ended December 31, 2017, included in our Annual Report on Form 10-K filed with the SEC on March 23, 2018. Additionally, our operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results that can be expected for the year ending December 31, 2018 or for any other period.

Principles of Consolidation

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

Critical Accounting Policies

Please refer to Note 1 “Summary of Significant Accounting Policies” of the Consolidated Financial Statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations–Critical Accounting Policies and Estimates” in our Annual Report on Form 10-K for the year ended December 31, 2017 for a more detailed discussion of our significant accounting policies and critical accounting estimates. There were no material changes to these critical accounting policies during the six months ended June 30, 2018.

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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 Services and IT Staffing Services.

2. Revenue from Contracts with Customers

As of January 1, 2018, the Company adopted Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers," using the modified retrospective method. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those services. The implementation of the new standard had no impact on the measurement of recognition of revenue of prior periods and we expect the impact of this new standard to be immaterial to us on an ongoing basis. Additional disclosures have been added in accordance with the ASU.

The Company recognizes revenue on time-and-material 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 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 recognizes revenue on fixed price contracts 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 sales, general and administrative expenses.

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, Data and 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Amounts in millions)		(Amounts in millions)	
Data and Analytics Services Segment				
Time-and-material Contracts	$ 4.8	$ —	$ 10.4	$ —
Fixed-price Contracts	1.3	—	2.3	—
Subtotal Data and Analytics Services	**$ 6.1**	**$ —**	**$ 12.7**	**$ —**
IT Staffing Services Segment				
Time-and-material Contracts	$ 38.8	$ 35.1	$ 75.5	$ 68.1
Fixed-price Contracts	—	—	—	0.1
Subtotal IT Staffing Services	**$ 38.8**	**$ 35.1**	**$ 75.5**	**$ 68.2**
Total Revenues	**$ 44.9**	**$ 35.1**	**$ 88.2**	**$ 68.2**

For the three months ended June 30, 2018, the Company had one client that exceeded 10% of total revenue (CGI = 13.3%). For the six months ended June 30, 2018, the Company had one client that exceeded 10% of total revenue (CGI = 12.7%). For the three months ended June 30, 2017, the Company had two clients that exceeded 10% of total revenue (CGI = 13.4% and Accenture = 11.0%). For the six months ended June 30, 2017, the Company had one client that exceeded 10% of total revenue (CGI = 13.3%).

The Company's top ten clients represented approximately 49% and 49% of total revenues for the three months ended June 30, 2018 and 2017, respectively. For the six months ended June 30, 2018 and 2017, the Company's top ten clients represented approximately 48% and 48% of total revenues, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Amounts in millions)		(Amounts in millions)	
United States	$ 43.6	$ 35.1	$ 85.6	$ 68.2
Canada	0.8	—	1.9	—
India and Other	0.5	—	0.7	—
Total	**$ 44.9**	**$ 35.1**	**$ 88.2**	**$ 68.2**

3. Business Combinations

On July 7, 2017, Mastech Digital, Inc., through its wholly-owned subsidiaries Mastech InfoTrellis, Inc., Mastech InfoTrellis Digital, Ltd., Mastech Digital Data, Inc. and Mastech Digital Private Limited (collectively, the "Company Entities"), entered into two Asset Purchase Agreements and a Share Purchase Agreement (collectively, the "Purchase Agreements") to acquire substantially all of the assets comprising the consulting services business in the areas of master data management, data integration and big data (the "Acquired Business") of InfoTrellis Inc., InfoTrellis, Inc. and 2291496 Ontario Inc., including all outstanding shares of InfoTrellis India Private Limited (collectively, "InfoTrellis"). The aforementioned transaction was closed on July 13, 2017.

Under the terms of the Purchase Agreements, the Company Entities paid at the closing of the acquisition $35.75 million in cash, less certain working capital adjustments which totaled $861,000. The Purchase Agreements also provided for contingent consideration of $19.25 million in deferred cash payments, with up to $8.25 million payable if the EBIT of the Acquired Business for the 12-month period beginning on August 1, 2017 (the "Actual Year 1 EBIT") equals $10.0 million and up to $11.0 million payable if the EBIT of the Acquired Business for the 12-month period beginning on August 1, 2018 (the "Actual Year 2 EBIT") equals $10.7 million. The deferred amount payments are subject to adjustments under the terms of the Purchase Agreements based upon, among other items, the amount of the Actual Year 1 EBIT and the amount of the Actual Year 2 EBIT.

To fund the acquisition, the Company entered into a new credit agreement on July 13, 2017 (the "Credit Agreement") with PNC Bank, National Association, as administrative agent, swing loan lender and issuing lender, PNC Capital Markets LLC, as sole lead arranger and sole book runner, and certain financial institutions party thereto as lenders. Prior to the Company entering into the April 20, 2018 amendment described below, the Credit Agreement provided for a total aggregate commitment of $65.0 million, consisting of (i) a revolving credit facility in an aggregate principal amount not to exceed $27.5 million, subject to increases to an aggregate amount not to exceed $37.5 million upon satisfaction of certain conditions; (ii) a $30.5 million term loan facility; and (iii) a $7.0 million delayed draw term loan facility to be used exclusively toward contingent consideration payments. In addition, the Company entered into Securities Purchase Agreements with Ashok Trivedi and Sunil Wadhwani (collectively, the "Investors") on July 7, 2017 pursuant to which the Company issued and sold an aggregate 857,144 shares (the "Shares") of its common stock, par value $0.01 per share (the "Common Stock"), to the Investors on July 13, 2017 for $6.0 million in aggregate gross proceeds (the "Private Placement Transactions"). The Company used the proceeds from the Private Placement Transactions to fund a portion of the cash paid at the closing of the acquisition.

On April 20, 2018, we entered into an amendment to the Credit Agreement. This amendment: (i) reduced the aggregate commitment amount of the revolving credit facility from $27.5 million to $22.5 million, which amount is subject to increase to an aggregate commitment amount not exceeding $32.5 million upon satisfaction of certain conditions; (ii) increased the aggregate commitment amount of the swing loan subfacility under the revolving credit facility from $3.0 million to $5.0 million; and (iii) amended the financial covenant in the Credit Agreement related to the Company's leverage ratio (as defined in the Credit Agreement) by increasing the maximum permitted leverage ratio for each of the fiscal quarters ending on or prior to September 30, 2019. Our desired results of entering into this amendment were to increase our financial flexibility; lower our unused line fees and improve the mechanics of how we manage our cash balances.

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 July 13, 2017 closing date:

(in thousands)	Amounts
Cash purchase price at closing	$35,750
Working capital adjustments	(861)
Estimated payout of contingent consideration (1)	17,125
Total Fair Value of Consideration	$52,014

(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 $17.1 million.

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

(in thousands)	Amounts
Cash balances on hand	$ 341
Sale of common stock in a private placement transactions	6,000
Term loan debt facility	30,500
Revolving line of credit	9,000
Payoff of previous credit facility	(10,091)
Cash paid at Closing	$ 35,750

The preliminary allocation of the purchase price was based on estimates of the fair value of assets acquired and liabilities assumed as of July 13, 2017, 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 fair value of net assets acquired is as follows:

(in thousands)	Amounts
Current Assets	**$ 6,909**
Fixed Assets and Other	**215**
Identifiable intangible assets:	
Client relationships	16,671
Covenant not-to-compete	761
Trade name	1,221
Technology	1,209
Total identifiable intangible assets	**19,862**
Goodwill	**27,417**
Current liabilities	**(2,389)**
Net Assets Acquired	**$52,014**

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 $2.0 million of transaction costs related to the acquisition in 2017. For the three and six months ended June 30, 2018, the Company reversed transaction costs of $140,000 that did not materialize. This credit expense related to investment banker fees that were tied to the contingent consideration liability. For the three and six months ended June 30, 2017, the Company incurred transaction costs of $265,000.

Included in the Condensed Consolidated Statement of Operations for the three and six months ended June 30, 2018 are revenues of $6.1 million and $12.7 million, respectively, and net income of $0.7 million and $1.6 million, respectively, applicable to the InfoTrellis operations acquired on July 13, 2017.

The following reflects the Company's unaudited pro forma results had the results of InfoTrellis been included for all periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Amounts in thousands)		(Amounts in thousands)	
Revenue	$ 44,894	$ 39,789	$ 88,227	$ 78,502
Net income	$ 2,817	$ 747	$ 4,197	$ 1,601
Earnings per share-diluted	$ 0.51	$ 0.13	$ 0.76	$ 0.29

The information above does not reflect all of the operating efficiencies or inefficiencies that may have resulted from the InfoTrellis acquisition in those periods prior to such 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.

During the three and six months ended June 30, 2018, the Company revalued the contingent consideration liability after determining that relevant conditions for the payment of such liabilities were unlikely to be fully satisfied. The revaluation resulted in a $9.1 million reduction to the contingent consideration liability which is reflected in selling, general and administrative expenses.

Additionally, the revaluation of contingent consideration prompted the Company to perform a quantitative impairment test as of June 30, 2018, related to the InfoTrellis acquisition. Based on the results of this testing, the Company recorded a $7.7 million impairment associated with the carrying amount of goodwill related to the InfoTrellis acquisition. Accordingly, for the three and six months ended June 30, 2018, the Company incurred a goodwill impairment charge of $7.7 million which is reflected in selling, general and administrative expenses.

4. Goodwill and Other Intangible Assets, net

Goodwill related to our June 15, 2015 acquisition of Hudson Global Resources Management's U.S. IT staffing business' ("Hudson IT") totaled $8.4 million. Goodwill related to our July 13, 2017 acquisition of the services division of InfoTrellis totaled $27.4 million. During the three and six month period ended June 30, 2018, the Company recorded a goodwill impairment related to the InfoTrellis acquisition of $7.7 million.

The impairment was attributable to a lower recovery in revenues from levels present at closing. Based upon the business performance subsequent to the acquisition date through June 30, 2018, we reduced our near term outlook and lowered our revenue projections from original expectations. Also, we factored into our current assessment of discounted cash flows, additional investments to the sales organization and other necessary investments which were not initially considered. This revised outlook resulted in a goodwill impairment of $7.7 million during the second quarter of 2018.

The following table provides information regarding changes in the Company's goodwill for the periods ended June 30, 2018 and December 31, 2017.

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	Six Months Ended June 30, 2018	Twelve Months Ended December 31, 2017
	(Amounts in thousands)	
Beginning balance	$ 35,844	$ 8,427
Goodwill recorded	—	27,417
Impairment	(7,738)	—
Ending balance	$ 28,106	$ 35,844

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 June 30, 2018 and December 31, 2017:

		June 30, 2018		
(Amounts in thousands)	Amortization Period (In Years)	Gross Carrying Value	Accumulative Amortization	Net Carrying Value
IT staffing services:				
Client relationships	12	$ 7,999	$ 2,028	$ 5,971
Covenant-not-to-compete	5	319	194	125
Trade name	3	249	249	—
Data and analytics services:				
Client relationships	12	16,671	1,330	15,341
Covenant-not-to-compete	5	761	146	615
Trade name	5	1,221	233	988
Technology	7	1,209	165	1,044
Total Intangible Assets		**$ 28,429**	**$ 4,345**	**$ 24,084**

		December 31, 2017		
(Amounts in thousands)	Amortization Period (In Years)	Gross Carrying Value	Accumulative Amortization	Net Carrying Value
IT staffing services:				
Client relationships	12	$ 7,999	$ 1,694	$ 6,305
Covenant-not-to-compete	5	319	162	157
Trade name	3	249	211	38
Data and analytics services:				
Client relationships	12	16,671	636	16,035
Covenant-not-to-compete	5	761	70	691
Trade name	5	1,221	112	1,109
Technology	7	1,209	79	1,130
Total Intangible Assets		**$ 28,429**	**$ 2,964**	**$ 25,465**

Amortization expense for the three and six month periods ended June 30, 2018 was $689,000 and $1.4 million, respectively, and is included in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations. For the three and six month periods ended June 30, 2017, amortization expense was $204,000 and $407,000, respectively.

The estimated aggregate amortization expense for intangible assets for the years ending December 31, 2018 through 2022 is as follows:

	Years Ended December 31,				
	2018	2019	2020	2021	2022
	(Amounts in thousands)				
Amortization expense	$2,727	$2,689	$2,654	$2,625	$2,443

5. Commitments and Contingencies

Lease Commitments

The Company rents certain office space and equipment under non-cancelable leases which provide for future minimum rental payments. In May 2018, the Company entered into a three-year office lease in Chennai, India to replace a previous lease commitment which expired. The aggregate lease commitment on the new facility totaled $0.8 million. Except for the Chennai lease, total lease commitments have not materially changed from the amounts disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Contingencies

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

6. 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 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 under the Code at the acquisition date, the Company provides a matching contribution of 50% of the first 6% of the participant's contributed pay, subject to vesting based on the combined tenure with Hudson and Mastech Digital. For all other employees, the Company did not provide for any matching contributions for the six months ended June 30, 2018 and 2017. Mastech Digital's total contributions to the Retirement Plan for the three and six months ended June 30, 2018 related to the former Hudson IT employees totaled approximately $22,000 and $43,000, respectively. Mastech Digital's total contributions to the Retirement Plan for the three and six months ended June 30, 2017 related to the former Hudson IT employees totaled approximately $24,000 and $54,000, respectively.

7. Stock-Based Compensation

In 2008, the Company adopted a Stock Incentive Plan (the "Plan") which, as amended, provides that up to 1,400,000 shares of the Company's Common Stock shall be allocated for issuance to directors, officers and key personnel. On May 16, 2018, the Plan was further amended to increase the number of shares of common stock that may be issued pursuant to the Plan by 400,000 shares, to a total of 1,800,000. Grants under the Plan can be made in the form of stock options, stock appreciation rights, performance shares or stock awards. During the three months ended June 30, 2018, the Company granted no shares under the Plan. During the six months ended June 30, 2018, the Company granted 12,690 restricted share units and 90,000 stock options at a strike price of $14.92. During the three and six months ended June 30, 2017, the Company granted no shares under the Plan. As of June 30, 2018 and December 31, 2017, there were 429,000 shares and 132,000, respectively available for future grant under the Plan.

Stock-based compensation expense for the three months ended June 30, 2018 and 2017 was $120,000 and $108,000, respectively, and for the six months ended June 30, 2018 and 2017 was $225,000 and $215,000, respectively. Stock-based compensation expense is included in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

During the three and six months ended June 30, 2018, the Company issued 5,125 shares and 6,238 shares, respectively, related to the vesting of restricted stock and the exercise of stock options. During the three and six months ended June 30, 2017, the Company issued 94,138 shares related to the vesting of restricted stock and the exercise of stock options.

8. 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"). Prior to the Company entering into the April 20, 2018 amendment described below, the Credit Agreement provided for a total aggregate commitment of $65 million, consisting of (i) a revolving credit facility (the "Revolver") in an aggregate principal amount not to exceed $27.5 million (subject to increase by up to an additional $10 million upon satisfaction of certain conditions); (ii) a $30.5 million term loan facility (the "Term Loan"); and a (iii) $7.0 million delayed draw term loan facility (the "Delayed Draw Term Loan"), as more fully described in Exhibit 10.1 to the Company's Form 8-K, filed with the SEC on July 19, 2017.

The Revolver expires in July 2022 and includes a letter of credit sublimit in the aggregate amount not to exceed $5.0 million and, prior to giving effect to the April 20, 2018 amendment described below, included a swing loan sublimit in the aggregate amount not to exceed $3.0 million. 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.

On April 20, 2018, we entered into an amendment to our Credit Agreement dated as of July 13, 2017. This amendment: (i) reduced the aggregate commitment amount of the Revolver from $27.5 million to $22.5 million, which amount is subject to increase to an aggregate commitment amount not exceeding $32.5 million upon satisfaction of certain conditions; (ii) increased the aggregate commitment amount of the swing loan subfacility under the Revolver from $3.0 million to $5.0 million; and (iii) amended the financial covenant in the Credit Agreement related to the Company's leverage ratio (as defined in the Credit Agreement) by increasing the maximum permitted leverage ratio for each of the fiscal quarters ending on or prior to September 30, 2019. Our desired results of entering into this amendment were to increase our financial flexibility; lower our unused line fees and improve the mechanics of how we manage our cash balances. Additional details of the amendment are contained in our current report on Form 8-K filed with the Securities and Exchange Commission on April 25, 2018.

Amounts borrowed under the Term Loan are required to be repaid in consecutive quarterly installments commencing on October 1, 2017 through and including July 1, 2022 and on the maturity date of July 13, 2022. The principal amount of each quarterly installment payable on the Term Loan equals the product of $30.5 million, multiplied by (i) 3.125% for quarterly installments due on October 1, 2017 through and including July 1, 2018; (ii) 3.75% for quarterly installments payable on October 1, 2018 through and including July 1, 2021; and (iii) 5.00% for quarterly installments payable on October 1, 2021 through and including the maturity date, with the maturity date payment equal to the outstanding amount of the loan on that date. The Delayed Draw Term Loan may be used through the date of the final contingent consideration payment (referred to as the final "Deferred Amount Payment" in the Credit Agreement) on no more than two separate occasions in borrowing multiples of $1.0 million up to the lesser of contingent consideration earned or $7.0 million. Amounts borrowed under the Delayed Draw Term Loan will be payable in consecutive quarterly installments commencing on the first payment date after disbursement of such borrowings. The principal amount of each quarterly installment payable of each Delayed Draw Term Loan equals the product of the original balance of such Loan, multiplied by (i) 3.75% for quarterly installments due on October 1, 2018 through and including July 1, 2021; and (ii) 5.00% for quarterly installments payable on October 1, 2021 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, the Term Loan and the Delayed Draw 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) an adjusted London Interbank Offered Rate ("LIBOR"), 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 Loan and Delayed Term Loan borrowings. The applicable margin on the adjusted LIBOR is between 1.50% and 2.25% on Revolver borrowings and between 2.75% and 3.50% on Term Loan and Delayed Term Loan borrowings. A 20 to 30 basis point per annum commitment fee on the unused portion of the Revolver and the Delayed Draw Term Loan 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 June 30, 2018, 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 amendment to the Credit Agreement, the Company paid commitment fees and incurred deferred financing costs totaling $506,000, which were capitalized and are being amortized as interest expense over the life of the facility. Debt financing costs of $418,000 and $395,000 (net of amortization) as of June 30, 2018 and December 31, 2017, respectively, are presented as reductions in long-term debt in the Company's Condensed Consolidated Balance Sheets.

As of June 30, 2018 and December 31, 2017, the Company's outstanding borrowings under the Revolver totaled $10.6 million and $9.0 million, respectively; and unused borrowing capacity available was approximately $12 million and $13 million, respectively. The Company's outstanding borrowings under the term loan were $27.6 million and $29.5 million at June 30, 2018 and December 31, 2017, respectively. The Company believes the eligible borrowing base on the Revolver will not fall below current outstanding borrowings for a period of time exceeding one year and has classified the $10.6 million net outstanding debt balance at June 30, 2018, as long-term.

9. Income Taxes

The components of income before income taxes, as shown in the accompanying Financial Statements, consisted of the following for the three and six months ended June 30, 2018 and, 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Amounts in thousands)		(Amounts in thousands)	
Income before income taxes:				
Domestic	$ 1,820	$ 727	$ 3,117	$ 924
Foreign	2,030	149	2,659	274
Income before income taxes	$ 3,850	$ 876	$ 5,776	$ 1,198

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

The provision for income taxes, as shown in the accompanying Financial Statements, consisted of the following for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Amounts in thousands)		(Amounts in thousands)	
Current provision:				
Federal	$ 239	$ 95	$ 563	$ 162
State	89	15	179	23
Foreign	408	51	579	93
Total current provision	736	161	1,321	278
Deferred provision:				
Federal	109	17	76	20
State	29	2	20	3
Foreign	159	—	162	—
Total deferred provision	297	19	258	23
Total provision for income taxes	$ 1,033	$ 180	$ 1,579	$ 301

The Tax Cut and Jobs Act of 2017 (the "Tax Act") enacted on December 22, 2017 introduced significant changes to U.S. income tax law. Effective 2018, the Tax Act reduced the U.S. statutory tax rate from 34% to 21% and created new taxes on certain foreign-sourced earnings and certain intercompany payments. We have not fully completed our accounting for the income tax effects of the Tax Act. As discussed in the SEC Staff Accounting Bulletin No. 118, the accounting for the Tax Act should be completed within one year from the Tax Act enactment. During the six months ended June 30, 2018, we have made no adjustments to the provisional amounts recorded at December 31, 2017. Any adjustments to the provisional amounts recorded at December 31, 2017 will be reflected upon the completion of our accounting for the Tax Act.

The reconciliation of income taxes computed using the statutory U.S. income tax rate and the provision for income taxes for the three and six months ended June 30, 2018 and 2017 were as follows (amounts in thousands):

	Three Months Ended June 30, 2018		Three Months Ended June 30, 2017	
Income taxes computed at the federal statutory rate	$ 809	21.0%	$ 298	34.0%
State income taxes, net of federal tax benefit	118	3.1	33	3.8
Excess tax benefit from stock options/restricted shares	(10)	(0.3)	(155)	(17.7)
Difference in income tax rate on foreign earnings/other	116	3.0	4	0.4
	$ 1,033	26.8%	$ 180	20.5%

	Six Months Ended June 30, 2018		Six Months Ended June 30, 2017	
Income taxes computed at the federal statutory rate	$ 1,213	21.0%	$ 407	34.0%
State income taxes, net of federal tax benefit	199	3.4	42	3.5
Excess tax benefit from stock options/restricted shares	(12)	(0.2)	(155)	(12.9)
Difference in income tax rate on foreign earnings/other	179	3.1	7	0.5
	$ 1,579	27.3%	$ 301	25.1%

A reconciliation of the beginning and ending amounts of unrecognized tax benefits related to uncertain tax positions, including interest and penalties, are as follows:

(Amounts in thousands)	Six Months Ended June 30, 2018
Balance as of December 31, 2017	$ 95
Additions related to current period	—
Additions related to prior periods	—
Reductions related to prior periods	—
Balance as of June 30, 2018	$ 95

Although it is difficult to anticipate the final outcome of these uncertain tax positions, the Company believes that the total amount of unrecognized tax benefits could be reduced by approximately $40,000 during the next twelve months due to the expiration of the statutes of limitation.

10. 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, the Company pays interest at a fixed rate of 1.99% and receives interest at a variable rate equal to the daily U.S. LIBOR on a notional amount of $15,000,000. 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 Condensed 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. Prior to July 13, 2017, the Company had outstanding interest-rate swap contracts related to term loan borrowings under the Company's previous credit agreement. The fair value of the interest-rate swap contracts at June 30, 2018 and December 31, 2017 was an asset of $179,000 and $9,000, respectively, and is reflected in the Condensed Consolidated Balance Sheets as other current assets.

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The effect of derivative instruments on the Condensed Consolidated Statements of Operations and Comprehensive Income are as follows (in thousands):

Derivatives in ASC Topic 815 Cash Flow Hedging Relationships	Amount of Gain / (Loss) recognized in OCI on Derivatives (Effective Portion)	Location of Gain / (Loss) reclassified from Accumulated OCI to Income (Expense) (Effective Portion)	Amount of Gain / (Loss) reclassified from Accumulated OCI to Income (Expense) (Effective Portion)	Location of Gain / (Loss) reclassified in Income (Expense) on Derivatives (Ineffective Portion/Amounts excluded from effectiveness testing)	Amount of Gain / (Loss) recognized in Income (Expense) on Derivatives (Ineffective Portion/Amounts excluded from effectiveness testing)
For the Three Months Ended June 30, 2018:					
Interest-Rate Swap Contract	$ 48	Interest Expense	$ (2)	Interest Expense	$ —
For the Six Months Ended June 30, 2018:					
Interest-Rate Swap Contract	$ 170	Interest Expense	$ (16)	Interest Expense	$ —
For the Three Months Ended June 30, 2017:					
Interest-Rate Swap Contract	$ 1	Interest Expense	$ (4)	Interest Expense	$ —
For the Six Months Ended June 30, 2017:					
Interest-Rate Swap Contract	$ 12	Interest Expense	$ (10)	Interest Expense	$ —

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

	June 30, 2018		December 31, 2017	
Derivative Instruments	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest-Rate Swap Contracts	Other Current Assets	$ 179	Other Current Assets	$ 9

The estimated amount of pretax losses as of June 30, 2018 that is expected to be reclassified from other comprehensive income (loss) into earnings within the next 12 months is approximately ($10,000).

11. 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.

At June 30, 2018 and December 31, 2017, the Company carried the following financial assets (liabilities) at fair value measured on a recurring basis (in thousands):

(Amounts in thousands)	Fair Value as of June 30, 2018 Level 1	Level 2	Level 3	Total
Interest-Rate Swap Contracts	$ —	$ 179	$ —	$ 179
Contingent Consideration Liability	$ —	$ —	$ (8,019)	$ (8,019)

(Amounts in thousands)	Fair Value as of December 31, 2017 Level 1	Level 2	Level 3	Total
Interest-Rate Swap Contracts	$ —	$ 9	$ —	$ 9
Contingent Consideration Liability	$ —	$ —	$(17,125)	$(17,125)

The fair value of interest rate swap contracts are 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. During the three months ended June 30, 2018, the Company revalued the contingent consideration liability related to the InfoTrellis acquisition after determining that relevant conditions for payment of such liabilities were unlikely to be fully satisfied. The revaluation resulted in a $9.1 million reduction to the contingent consideration liability related to the InfoTrellis acquisition.

The following table provides information regarding changes in the Company’s contingent consideration liability for the periods ended June 30, 2018 and December 31, 2017.

	Six Months Ended June 30, 2018	Twelve Months Ended December 31, 2017
	(Amounts in thousands)	
Beginning balance	$ 17,125	$ —
Contingent consideration liability incurred	—	17,125
Payments made	—	—
Revaluations	(9,106)	—
Ending balance	$ 8,019	$ 17,125

At June 30, 2018 and December 31, 2017, the Company carried the following financial assets (liabilities) at fair value measured on a non-recurring basis (in thousands):

(Amounts in thousands)	Fair Value as of June 30, 2018 Level 1	Level 2	Level 3	Total
Goodwill	$ —	$ —	$28,106	$28,106

(Amounts in thousands)	Fair Value as of December 31, 2017 Level 1	Level 2	Level 3	Total
Goodwill	$ —	$ —	$35,844	$35,844

During the three and six month period ended June 30, 2018, the Company recorded a goodwill impairment related to the InfoTrellis acquisition of $7.7 million.

12. Shareholders’ Equity

The Company purchases shares to satisfy employee tax obligations related to its Stock Incentive Plan. During the three and six months ended June 30, 2018, the Company purchased 1,287 shares at a share price of $16.02 to satisfy employee tax obligations related to the vesting of restricted stock. During the three and six months ended June 30, 2017, the Company purchased 1,159 shares at a share price of $6.42 to satisfy employee tax obligations related to the vesting of restricted stock.

13. Earning Per Share

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

For the three and six months ended June 30, 2018, there were 90,000 anti-dilutive stock options excluded from the computation of diluted earnings per share. For the three and six months ended June 30, 2017, there were 250,000 anti-dilutive stock options excluded from the computation of diluted earnings per share.

14. 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 Toronto, Canada and Austin, Texas and a global delivery center in Chennai, India. Project-based delivery reflects a combination of on-site resources and offshore resources out of the Company's delivery center in Chennai. Assignments are secured on both a time and material and fixed price basis.

The IT staffing services segment offers staffing services in digital and mainstream technologies; digital transformation services focused on providing CRM on the cloud through Salesforce.com; driving IT efficiencies through SAP HANA; and using digital methods to enhance organizational learning. These services are marketed using a common sales force and delivered via our global recruitment center. While the vast majority of our assignments are based on time and materials, we do have the capabilities to deliver our digital transformation services on a fixed price basis.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Amounts in thousands)		(Amounts in thousands)	
Revenues:				
Data and analytics services	$ 6,083	$ —	$12,655	$ —
IT staffing services	38,811	35,086	75,572	68,186
Total revenues	$44,894	$ 35,086	$88,227	$ 68,186
Gross Margin %:				
Data and analytics services	42.2%	—	43.3%	—
IT staffing services	21.4%	20.2%	20.7%	19.5%
Total gross margin %	24.3%	20.2%	24.0%	19.5%
Segment operating income:				
Data and analytics services	$ 1,411	$ —	$ 3,186	$ —
IT staffing services	2,227	1,451	3,583	2,057
Subtotal	3,638	1,451	6,769	2,057
Acquisition transaction expenses	140	(265)	140	(265)
Revaluation of contingent consideration liability	9,106	—	9,106	—
Goodwill impairment	(7,738)	—	(7,738)	—
Amortization of acquired intangible assets	(689)	(204)	(1,382)	(407)
Interest expenses and other, net	(607)	(106)	(1,119)	(187)
Income before income taxes	$ 3,850	$ 876	$ 5,776	$ 1,198

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

	At June 30, 2018	At June 30, 2017
	(Amounts in thousands)	
Total assets:		
Data and analytics services	$ 45,201	$ —
IT staffing services	47,026	41,309
Total assets	$ 92,227	$ 41,309

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Amounts in thousands)		(Amounts in thousands)	
United States	$ 43,536	$ 35,086	$ 85,553	$ 68,186
Canada	838	—	1,923	—
India and Other	520	—	751	—
Total revenues	$ 44,894	$ 35,086	$ 88,227	$ 68,186

15. Recently Issued Accounting Standards

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers," which provides for a single five-step model to be applied to all revenue contracts with customers. The new guidance also requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to customer contracts. The Company adopted the new guidance on January 1, 2018, using the modified retrospective method, with no impact on its 2017 and 2018 financial statements. The cumulative effect of initially applying the new guidance had no impact on the opening balance of retained earnings as of January 1, 2018. The Company does not expect the new guidance to have a material impact on its financial statements in future periods. Additional disclosures have been included in Note 2 in accordance with the requirements of the new guidance.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10)—Recognition and Measurement of Financial Assets and Financial Liabilities", which amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This amendment requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under the equity method of accounting or those that result in consolidation of the investee). This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We adopted this ASU on January 1, 2018 with no material impact on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15 "Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments". Current GAAP either is unclear or does not include specific guidance on eight specific cash flow classification issues included in the amendments in this ASU. The ASU addresses these cash flow issues with the objective of reducing the existing diversity in practice. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted this ASU on January 1, 2018 with no material impact on its consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting". Entities have defined the term "modification" in a broad manner resulting in diversity in modification accounting practice. The amendments in this ASU provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The amendments in this ASU are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company adopted this ASU on January 1, 2018 with no material impact on its consolidated financial statements.

In March 2018, the FASB issued ASU 2018-05, “Income Taxes (Topic 740); Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118”. This ASU provides accounting and disclosure guidance relating to the Tax Cuts and Jobs Act pursuant to the issuance of SEC Staff Accounting Bulletin No. 118. The guidance allows a company to report provisional amounts when reasonable estimates are determinable for certain income tax effects relating to the Act. These provisional amounts may give rise to new current or deferred taxes based on certain provisions within the Act, as well as adjustments to existing current or deferred taxes that existed prior to the Act’s enactment date. In the fourth quarter of 2017, the Company incurred an estimated one-time, non-cash charge of $372,000 related to the enactment of the Act. The charge related to the re-measurement of the Company’s deferred tax assets arising from a lower U.S. corporate tax rate of $294,000 and a $78,000 charge related to a one-time transition tax applicable to the new dividend exemption system related to foreign earnings. The provisional estimates recorded at December 31, 2017 were not adjusted during the six months ended June 30, 2018. Any adjustments will be reflected upon completion of our accounting for the Tax Act within one year from the Tax Act enactment.

Recent Accounting Pronouncements not yet adopted

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)”. The main difference between the current requirement under GAAP and ASU 2016-02 is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases. ASU 2016-02 requires that a lessee recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term (other than leases that meet the definition of a short-term lease). ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018 and early adoption is permitted. We are currently assessing the potential impact of ASU 2016-02 and expect adoption will have a material impact on our consolidated financial condition and results of operations. Contractual obligations on lease arrangements as of June 30, 2018 approximated $3.3 million.

In January 2017, the FASB issued ASU 2017-04, “Intangibles – Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment”, which removes the requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. Under this ASU, a goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for annual and interim periods beginning January 1, 2020, with early adoption permitted, and applied prospectively. We do not expect ASU 2017-04 to have a material impact on our financial statements.

In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging (Topic 815); Targeted Improvements to Accounting for Hedging Activities”. The amendments in this ASU better align an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To meet that objective, the amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early application is permitted in any interim period after issuance of the ASU. The Company does not expect this ASU to have a material impact on its financial statements.

In February 2018, the FASB issued ASU 2018-02, “Income Statement – Reporting Comprehensive Income (Topic 220); Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income”. The amendments in this ASU allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Act and will improve the usefulness of information reported to financial statement users. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted in any interim period after issuance of the ASU. The Company does not expect this ASU to have a material impact on its financial statements.

In June 2018, the FASB issued ASU 2018-07, “Compensation – Stock Compensation (Topic 718); Improvements to Nonemployee Share-Based Payment Accounting”. The amendments in this ASU improve the accounting of nonemployee share-based payments issued to acquire goods and services used in an entity’s operations. Nonemployee share-based payment awards within the scope of Topic 718 are measured at the grant-date fair value of the equity instruments that an entity is obligated to issue when the good has been delivered or the service has been rendered. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted in any interim period after issuance of the ASU. 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.

16. Subsequent Event

On July 24, 2018, the Company's Board of Directors declared a two-for-one stock split of the Company's common stock. The record date for the stock split is August 13, 2018. Shareholders of record as of the close of business on the record date will receive one new share of common stock of the Company for every share that they own on such date. The Company expects that this distribution of the new shares will be made on August 24, 2018. The Board determined that this action was in the best interest of the Company after a review of the Company's current financial position, business outlook and share trading patterns.

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

You should read the following discussion in conjunction with our audited consolidated financial statements and accompanying notes for the year ended December 31, 2017, included in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission ("SEC") on March 23, 2018.

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements about future events, future performance, plans, strategies, expectations, prospects, competitive environment and regulations. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words, "may", "will", "expect", "anticipate", "believe", "estimate", "plan", "intend" or the negative of these terms or similar expressions in this quarterly report on Form 10-Q. We have based these forward-looking statements on our current views with respect to future events and financial performance. Our actual financial performance could differ materially from those projected in the forward-looking statements due to the inherent uncertainty of estimates, forecasts and projections and our financial performance may be better or worse than anticipated. Given these uncertainties, you should not put undue reliance on any forward-looking statements. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed under "Risk Factors", "Forward-Looking Statements" and elsewhere in our Annual Report on Form 10-K for the year ended December 31, 2017. Forward-looking statements represent our estimates and assumptions only as of the date that they were made. We do not undertake any duty to update forward-looking statements and the estimates and assumptions associated with them, after the date of this quarterly report on Form 10-Q, except to the extent required by applicable securities laws.

Website Access to SEC Reports:

The Company's website is www.mastechdigital.com. The Company's Annual Report on Form 10-K for the year ended December 31, 2017, current reports on Form 8-K and all other reports filed with the SEC, are available free of charge on the Investors page. The website is updated as soon as reasonably practical after such reports are filed electronically with the SEC.

Critical Accounting Policies

Please refer to Note 1 "Summary of Significant Accounting Policies" of the Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations–Critical Accounting Policies and Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2017 for a more detailed discussion of our significant accounting policies and critical accounting estimates. There were no material changes to these critical accounting policies during the six months ended June 30, 2018.

Overview:

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

Our portfolio of offerings include data management and analytics services; other digital transformation services such as Salesforce.com, SAP HANA, and Digital Learning services; and IT staffing services.

With the July 13, 2017 acquisition of InfoTrellis, we now 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 delivered largely on a project basis with on-site and off-shore resources. These capabilities and expertise were acquired through our recent acquisition of InfoTrellis. 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; education; and transportation. Within each reporting segment we evaluate our revenues and gross profits largely by sales channel responsibility. In the past, we have disclosed revenues and gross profits by client type (wholesale clients and retail clients). Management's emphasis on the breakdown of wholesale and retail client types has diminished over the last year as gross margin opportunities within each client type has changed considerably as the Company has focused on digital technologies. Today, our analysis within our two reporting segments is multi-purposed and includes technologies employed, client relationships, and sales channel accountability.

Economic Trends and Outlook:

Generally, our business outlook is highly correlated to general North American economic conditions. During periods of increasing employment and economic expansion, demand for our services tends to increase. Conversely, during periods of contracting employment and / or a slowing domestic economy, demand for our services tends to decline. As the economy slowed during the second half of 2007 and recessionary conditions emerged in 2008 and during much of 2009, we experienced less demand for our staffing services. During the second half of 2009, we began to see signs of market stabilization and a modest pick-up in activity levels within certain sales channels and technologies and in 2010, market conditions continued to strengthen over the course of the year. In 2011 through 2013, activity levels continued to trend up in most technologies and sales channels. During 2014 and 2015, we continued to see a steady flow of solid activity in our contract staffing business; however, tightness in the supply side (skilled IT professionals) of our business during these years negatively impacted our new assignment successes. Solid activity levels in our contract staffing business continued during 2016 and 2017, however, recruitment challenges remained due to the tightness in the supply of skilled IT professionals. During the first half of 2018, we were encouraged by job growth in the U.S and an expanding global economy, as well as potential stimulus associated with the Tax Cut and Jobs Act of 2017. We believe that supply side pressures will persist in both of our business segments, but view market conditions as generally positive.

In addition to tracking general U.S. economic conditions, a large portion of our revenues is generated from a limited number of clients. Accordingly, our trends and outlook are impacted by the prospects and well-being of these specific clients. This "account concentration" factor may cause our results of operations to deviate from the prevailing U.S. economic trends from time to time.

Within the IT staffing business many larger users of these services are employing third-party managed service providers "MSP" to manage their contractor spending in an effort to drive down overall costs. This trend towards utilizing the MSP model may pressure gross margins in the future.

Results of Operations for the Three Months Ended June 30, 2018 as Compared to the Three Months Ended June 30, 2017:

InfoTrellis Acquisition

As described above, since the July 13, 2017 closing of the InfoTrellis acquisition, we have operated in two reporting segments – Data and Analytics Services; and IT Staffing Services. Our results of operations for periods prior to July 13, 2017 do not include any financial data for our Data and Analytics Services segment and are therefore not fully comparable to our results of operations for periods subsequent to the InfoTrellis acquisition.

Revenues:

Revenues for the three months ended June 30, 2018 totaled $44.9 million compared to $35.1 million for the corresponding three month period in 2017. This 28% year-over-year revenue increase reflected the July 13, 2017 acquisition of InfoTrellis' data management and analytics services business and 11% growth in our IT staffing segment. For the three months ended June 30, 2018, the Company had one client that exceeded 10% of total revenue (CGI = 13.3%). For the three months ended June 30, 2017, the Company had two clients that exceeded 10% of total revenue (CGI = 13.4% and Accenture = 11.0%). The Company's top ten clients represented approximately 49% and 49% of total revenues for the three months ended June 30, 2018 and 2017, respectively.

Below is a tabular presentation of revenues by reportable segment for the three months ended June 30, 2018 and 2017, respectively:

Revenues (Amounts in millions)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017
Data and Analytics Services	$ 6.1	$ —
IT Staffing Services	38.8	35.1
Total revenues	$ 44.9	$ 35.1

Revenues from our Data and Analytics Services segment totaled $6.1 million in the second quarter ended June 30, 2018, compared to $6.6 million in the previous quarter ended March 31, 2018. The sequential revenue decline from the previous quarter reflected the completion of several material projects. Despite the lower revenues, activity levels during the second quarter of 2018 continued to be strong and several new assignments were booked during the quarter.

Revenues from our IT Staffing Services segment totaled $38.8 million in the three months ended June 30, 2018 compared to $35.1 million during the corresponding 2017 period. This 11% organic increase reflected a higher level of billable consultants during the three months ended June 30, 2018, partially offset by a lower average bill rate. Billable consultant headcount at June 30, 2018 totaled 1,078-consultants compared to 968-consultants one-year earlier. Increased demand for our staffing services and improved efficiencies at our global recruitment center were largely responsible for this improvement. Our average bill rate decreased during the three months ended June 30, 2018 to $72.85 / per hour compared to $73.77 / per hour in the corresponding period of 2017. The decrease in our average bill rate was largely due to lower rates on new assignments during the second quarter of 2018 and is reflective of the types of skill-sets that we deployed. Permanent placement / fee revenues were approximately $0.2 million during the quarter, which was well ahead of last year's performance.

Gross Margins:

Gross profits in the second quarter of 2018 totaled $10.9 million, compared to $7.1 million in the second quarter of 2017. Gross profit as a percentage of revenue was 24.3% for the three month period ended June 30, 2018 compared to 20.2% during the same period of 2017. This 410-basis point improvement reflected the consolidation of the financial results of our Data and Analytics Services segment, which has a gross margin profile that is materially higher than our IT staffing segment and a 120-basis point improvement in our IT Staffing Services segment's gross margin performance.

Below is a tabular presentation of gross margin by reporting segment for the three months ended June 30, 2018 and 2017, respectively:

Gross Margin	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017
Data and Analytics Services	42.2%	— %
IT Staffing Services	21.4	20.2
Total gross margin	24.3%	20.2%

Gross margins from our Data and Analytics Services segment were 42.2% of revenues during the second quarter of 2018. This compares to gross margins of 44.3% in the previous quarter ended March 31, 2018. The margin decline from the previous quarter reflected a cost overrun on a fixed price project which had a negative impact of 260 basis points on this segment's overall gross margin performance in second quarter of 2018.

Gross margins from our IT Staffing Services segment were 21.4% in the second quarter of 2018 compared to 20.2% during the corresponding quarter of 2017. This 120-basis point increase was due to better gross margins on assignment secured during the first half of 2018 and higher direct hire revenues / fees, when compared to the corresponding quarter of 2017.

Selling, General and Administrative ("S,G&A") Expenses:

Below is a tabular presentation of operating expenses by sales, operations, amortization of acquired intangible assets, several material items and general and administrative categories for the three months ended June 30, 2018 and 2017, respectively:

S,G&A Expenses (Amounts in millions)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017
Data and Analytics Services Segment		
Sales and Marketing	$ 0.6	$ —
Operations	0.1	—
Amortization of Acquired Intangible Assets	0.5	—
Revaluation of Contingent Consideration	(9.1)	—
Goodwill Impairment	7.7	—
General & Administrative	0.5	—
Subtotal Data and Analytics Services	**$ 0.3**	**$ —**
IT Staffing Services Segment		
Sales and Marketing	$ 2.1	$ 2.1
Operations	2.2	2.1
Amortization of Acquired Intangible Assets	0.2	0.2
General & Administrative	1.6	1.7
Subtotal IT Staffing Services	**$ 6.1**	**$ 6.1**
Total S,G&A Expenses	**$ 6.4**	**$ 6.1**

S,G&A expenses for the three months ended June 30, 2018 totaled $6.4 million, compared to $6.1 million for the three months ended June 30, 2017. The June 30, 2018 period benefited from a revaluation of contingent consideration, partially offset by a goodwill impairment charge – both in the Data and Analytics business segment. Excluding these two items and the amortization of acquired intangible assets, S,G&A expense as a percentage of total revenues would have been 15.8% for the second quarter 2018 compared to 16.8% for the corresponding period in 2017. Fluctuations within S,G&A expense components during the second quarter of 2018, compared to the second quarter of 2017, included the following:

- Sales expense increased by $0.6 million in the 2018 period compared to 2017. The entire increase was related to the acquisition of our Data and Analytics Services segment in July 2017. Sales expense in our IT Staffing Services segment was largely flat on a year-over-year basis.
- Operations expense increased by $0.2 million in the 2018 period compared to 2017 primarily related to our new Data and Analytics Services segment and higher visa process fees in our IT Staffing Services segment.
- Amortization of acquired intangible assets was $0.5 million higher in the 2018 period compared to 2017. This entire increase reflected the amortization related to the acquisition of our Data and Analytics Services segment.
- Revaluation of contingent consideration and a goodwill impairment charge, which netted to a $1.4 million credit to S,G&A expense in the second quarter of 2018 was responsible for a variance from the corresponding period in 2017.
- General and administrative expense increased by $0.4 million in the 2018 period compared to 2017. Approximately $0.5 million was related to our new Data and Analytics Services segment. In our IT Staffing Services segment, higher bonus accruals and professional service fees were responsible for a $0.2 million variance from the 2017 quarter. Partially offsetting these amounts were lower transaction expenses of $0.3 million in the 2018 quarter compared to the 2017 quarter.

Other Income / (Expense) Components:

Other Income / (Expense) for the three months ended June 30, 2018 consisted of interest expense of ($615,000), foreign exchange gains of $15,000 and a loss on the disposition of fixed assets of ($7,000). For the three months ended June 30, 2017, Other Income / (Expense) consisted of interest expense of ($107,000) and foreign exchange gains of $1,000. The higher level of interest expense was due to increased borrowings to fund the acquisition of our Data and Analytics Services segment.

Income Tax Expense:

Income tax expense for the three months ended June 30, 2018 totaled $1.0 million, representing an effective tax rate on pre-tax income of 26.8%, compared to $180,000 for the three months ended June 30, 2017, which represented a 20.5% effective tax rate on pre-tax income. The higher effective tax rate in the 2018 period largely reflected excess tax benefits related to stock options and restricted shares which favorably impacted our income tax rate in the second quarter of 2017, partially offset by a lower statutory U.S. federal income tax rate in the second quarter of 2018 associated with the Tax Cut and Jobs Act of 2017.

Results of Operations for the Six Months Ended June 30, 2018 as Compared to the Six Months Ended June 30, 2017:

Revenues:

Revenues for the six months ended June 30, 2018 totaled $88.2 million compared to $68.2 million for the corresponding six month period in 2017. This 29% year-over-year revenue increase reflected the July 13, 2017 acquisition of InfoTrellis' data management and analytics services business and 11% growth in our IT staffing segment. For the six months ended June 30, 2018, the Company had one client that exceeded 10% of total revenue (CGI = 12.7%). For the six months ended June 30, 2017, the Company had one client that exceeded 10% of total revenue (CGI = 13.3%). For the six months ended June 30, 2018 and 2017, the Company's top ten clients represented approximately 48% and 48% of total revenues, respectively.

Below is a tabular presentation of revenues by reportable segment for the six months ended June 30, 2018 and 2017, respectively:

Revenues (Amounts in millions)	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Data and Analytics Services	$ 12.7	$ —
IT Staffing Services	75.5	68.2
Total revenues	$ 88.2	$ 68.2

Revenues from our Data and Analytics Services segment totaled $12.7 million during the six months ended June 30, 2018. During the six months ended June 30, 2017, there were no revenues in this segment since the acquisition of the Data and Analytics Services segment occurred in July 2017. Activity levels during the first half of 2018 have been robust and the Company has successfully secured a number of new assignments. In the second quarter of 2018 the business experienced several material project ends.

Revenues from our IT Staffing Services segment totaled $75.5 million during the six months ended June 30, 2018 compared to $68.2 million during the corresponding 2017 period. This 11% organic increase reflected a higher level of billable consultants in the second quarter of 2018, partially offset by a lower average billing rate. Increased demand for our staffing services and improved efficiencies at our global recruitment center were largely responsible for this improvement. Permanent placement / fee revenues were approximately $0.4 million during the six months ended June 30, 2018 which was approximately double the amount of fee revenues generated in the corresponding period of 2017.

Gross Margins:

Gross profits during the six months ended June 30, 2018 totaled $21.2 million, compared to $13.3 million during the first six months of 2017. Gross profit as a percentage of revenue was 24.0% for the six month period ending June 30, 2018 compared to 19.5% during the same period of 2017. This 450-basis point improvement reflected the consolidation of the financial results of our Data and Analytics Services segment in the 2018 period, which has a gross margin profile that is materially higher than our IT staffing segment, and a 120-basis point improvement in our IT Staffing Services segment's gross margins.

Below is a tabular presentation of gross margin by reporting segment for the six months ended June 30, 2018 and 2017, respectively:

Gross Margin	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Data and Analytics Services	43.3%	— %
IT Staffing Services	20.7	19.5
Total gross margin	24.0%	19.5%

Gross margins from our Data and Analytics Services segment were 43.3% of revenues during the six months ended June 30, 2018. The acquisition of the data and analytics services segment occurred in July 2017.

Gross margins from our IT Staffing Services segment were 20.7% in the six months ended June 30, 2018 compared to 19.5% during the corresponding period of 2017. This 120-basis point increase was due to better gross margins on assignments secured during the first half of 2018 and higher direct hire revenues / fees, when compared to the corresponding period of 2017. The higher margins also reflects our focus on advance technology skill-sets.

Selling, General and Administrative ("S,G&A") Expenses:

Below is a tabular presentation of operating expenses by sales, operations, amortization of acquired intangible assets, several material items and general and administrative categories for the six months ended June 30, 2018 and 2017, respectively:

S,G&A Expenses (Amounts in millions)	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Data and Analytics Services Segment		
Sales and Marketing	$ 1.2	$ —
Operations	0.2	—
Amortization of Acquired Intangible Assets	1.0	—
Revaluation of Contingent Consideration	(9.1)	—
Goodwill Impairment	7.7	—
General & Administrative	0.9	—
Subtotal Data and Analytics Services	**$ 1.9**	**$ —**
IT Staffing Services Segment		
Sales and Marketing	$ 4.2	$ 4.2
Operations	4.3	4.2
Amortization of Acquired Intangible Assets	0.4	0.4
General & Administrative	3.5	3.1
Subtotal IT Staffing Services	**$ 12.4**	**$ 11.9**
Total S,G&A Expenses	**$ 14.3**	**$ 11.9**

S,G&A expenses for the six months ended June 30, 2018 totaled $14.3 million compared to $11.9 million for the six months ended June 30, 2017. The 2018 period benefited by a revaluation of contingent consideration, partially offset by a goodwill impairment charge – both in the Data and Analytics Services business segment. Excluding these two items and the amortization of acquired intangible assets, S,G&A as a percentage of total revenues would have been 16.1% for the six months ended June 30, 2018 compared to 16.9% for the corresponding period in 2017. Fluctuations within S,G&A expense components during the six months ended June 30, 2018, compared to the corresponding period in 2017, included the following:

- Sales expense increased by $1.2 million in the 2018 period compared to 2017. The entire increase was related to the acquisition of our Data and Analytics Services segment in July 2017. Sales expense in our IT Staffing Services segment was largely flat on a year-over-year basis.
- Operations expense increased by $0.3 million in the 2018 period compared to 2017, of which $0.2 million was related to the acquisition of our Data and Analytics Services segment and $0.1 million was due to higher visa processing fees in our IT Staffing Services segment.
- Amortization of acquired intangible assets was $1.0 million higher in the 2018 period compared to 2017. This entire increase reflected the amortization related to the acquisition of our Data and Analytics Services segment.
- Revaluation of contingent consideration and a goodwill impairment charge, which netted to a $1.4 million credit to expense in the 2018 period was responsible for a variance from the corresponding period in 2017.
- General and administrative expense increased by $1.3 million in the 2018 period compared to 2017. Approximately $0.9 million was related to our new Data and Analytics Services segment. Our IT Staffing Services segment had higher general and administrative expenses in the 2018 period compared to the 2017 period of $0.4 million due to the following: higher bonus accruals of $0.3 million; higher professional services fees of $0.2 million; and higher travel and other expenses of $0.2 million, partially offset by lower transaction expenses of $0.3 million in the 2018 period compared to the 2017 period.

Other Income / (Expense) Components:

Other Income / (Expense) for the six months ended June 30, 2018 consisted of interest expense of ($1.1 million), foreign exchange losses of ($24,000) and a loss on the disposition of fixed assets ($7,000). For the six months ended June 30, 2017, Other Income / (Expense) consisted of interest expense of ($209,000), foreign exchange gains of $26,000 and a loss on the disposition of fixed assets of ($4,000). The higher level of interest expense was due to increased borrowings to fund the acquisition of our Data and Analytics Services segment.

Income Tax Expense:

Income tax expense for the six months ended June 30, 2018 totaled $1.6 million, representing an effective tax rate on pre-tax income of 27.3%, compared to $301,000 for the six months ended June 30, 2017, which represented a 25.1% effective tax rate on pre-tax income. The higher effective tax rate in 2018 largely reflected excess tax benefits related to stock options and restricted shares which favorably impacted our income tax rate in the six months ended June 30, 2017, partially offset by a lower statutory U.S. federal income tax rate in the second quarter of 2018 associated with the Tax Cut and Jobs Act of 2017.

Liquidity and Capital Resources:

Financial Conditions and Liquidity:

At June 30, 2018, we had bank debt, net of cash balances on hand, of approximately $37 million and approximately $12 million of borrowing capacity under our existing credit facility.

Historically, we have funded our organic business needs with cash generated from operating activities. Controlling our operating working capital levels by closely managing our accounts receivable balance is an important element of cash generation. At June 30, 2018, our accounts receivable “days sales outstanding” (“DSOs”) measurement increased to 62-days, which is on the high end of our range and is expected to improve in the third quarter of 2018.

We believe that cash provided by operating activities, cash balances on hand and current availability under our credit facility will be adequate to fund our business needs and debt service obligations over the next twelve months.

Cash flows provided by (used in) operating activities:

Cash (used in) operating activities for the six months ended June 30, 2018 totaled ($0.6 million) compared to cash provided by operating activities of $0.5 million during the six months ended June 30, 2017. Elements of cash flows in the 2018 period were net income of $4.2 million, non-cash charges of $0.7 million, and an increase in operating working capital levels of ($5.5 million). During the six months ended June 30, 2017, elements of cash flows were net income of $0.9 million, non-cash charges of $0.8 million and an increase in operating working capital levels of ($1.2 million). The operating working capital increases in both 2018 and 2017 were in support of revenue growth (higher accounts receivable levels).

Cash flows (used in) investing activities:

Cash (used in) investing activities for the six months ended June 30, 2018 was ($0.6 million) compared to ($0.4 million) for the six months ended June 30, 2017. In 2018, capital expenditures totaled ($0.5 million), and we had a ($0.1 million) lease deposit related to our new office facility in Chennai, India. During the six months ended June 30, 2017, (cash used) in investing activities essentially consisted of capital expenditures.

Cash flows (used in) financing activities:

Cash (used in) financing activities for the six months ended June 30, 2018 totaled ($0.5 million) and consisted of net borrowings under our revolving credit facility of $1.5 million; ($1.9 million) of debt payments on our term loan facility; and ($0.1 million) of deferred financing costs associated with our credit facility amendment. Cash (used in) financing activities for the six months ended June 30, 2017 totaled ($0.3 million) and consisted of debt repayments on our term loan of ($0.9 million), partially offset by borrowings under our revolving credit facility of $0.5 million and proceeds of $0.1 million from the exercise of stock options.

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, seeking to ensure that billing rates are adjusted periodically to reflect increases in costs due to inflation.

Seasonality:

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

Recently Issued Accounting Standards:

Recent accounting pronouncements are described in Note 15 to the accompanying financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Our cash flow and earnings are subject to fluctuations due to exchange rate variations. Foreign currency risk exists by nature of our global recruitment and development centers. During 2012 through 2015, we attempted to limit our exposure to currency exchange fluctuations in the Indian rupee via the purchase of foreign currency forward contracts. The Company elected not to engage in currency hedging activities in 2016 to date given the likelihood of an environment of interest rate expansion in the United States, which management believes should have the impact of mitigating any material appreciation in the Indian rupee against the U.S. dollar.

Concurrent with the Company's July 13, 2017 borrowings of $39.5 million in support of the InfoTrellis acquisition, we 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, the Company pays interest at a fixed rate of 1.99% and receives interest at a variable rate equal to the daily U.S. LIBOR rate on a notional amount of $15 million. The swap contacts mature in monthly installments commencing on September 1, 2017. These swap contacts have been designed as cash flow hedging instruments.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

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

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 quarterly report on Form 10-Q.

Changes in Internal Control over Financial Reporting

There has been no change in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2018 that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting as of December 31, 2017.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on March 23, 2018.

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

A summary of our Common Stock repurchased during the quarter ended June 30, 2018 is set forth in the following table:

Period	Total Number of Shares Purchased (2)	Average Price per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under this Plan or Programs (1)
April 1, 2018 – April 30, 2018	—	—	—	—
May 1, 2018 – May 31, 2018	—	—	—	—
June 1, 2018 – June 30, 2018	1,287	$ 16.02	—	—
Total	1,287	$ 16.02	—	—

(1) As of June 30, 2018, the Company does not have a publicly announced repurchase program in place.

(2) All shares purchased above were to satisfy employee tax obligations related to the vesting of restricted stock under the Company’s Stock Incentive Plan.

ITEM 6. EXHIBITS

(a) Exhibits

10.1	Second Amendment to Credit Agreement, dated as of April 20, 2018, by and among Mastech Digital, 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 Form 8-K, filed with the Securities and Exchange Commission on April 25, 2018).
10.2	Second Amendment to Mastech Digital, Inc. Stock Incentive Plan (as amended and restated), dated May 16, 2018 (incorporated by reference to Exhibit 10.1 to Mastech Digital, Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 18, 2018).
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer is filed herewith.
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Financial Officer is filed herewith.
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 the Chief Executive Officer is furnished herewith.
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 the Chief Financial Officer is furnished herewith.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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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 10th day of August, 2018.

MASTECH DIGITAL, INC.

August 10, 2018

/s/ VIVEK GUPTA

Vivek Gupta
Chief Executive Officer

/s/ JOHN J. CRONIN, JR.

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

Exhibit 31.1

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

I, Vivek Gupta, certify that:

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

MASTECH DIGITAL, INC.

Date: August 10, 2018

/S/ VIVEK GUPTA

Vivek Gupta
Chief Executive Officer

Exhibit 31.2

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

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

1. I have reviewed this report on Form 10-Q of Mastech Digital, Inc.;

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

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

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

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

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

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

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

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

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

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

MASTECH DIGITAL, INC.

Date: August 10, 2018

/S/ JOHN J. CRONIN, JR.

John J. Cronin, Jr.
Chief Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report of Mastech Digital, Inc. (the “Company”) on Form 10-Q for the quarter ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Vivek Gupta, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ VIVEK GUPTA
Vivek Gupta
Chief Executive Officer

Date: August 10, 2018

Exhibit 32.2

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

In connection with the Quarterly Report of Mastech Digital, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John J. Cronin, Jr. Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ JOHN J. CRONIN, JR.

John J. Cronin, Jr.
Chief Financial Officer

Date: August 10, 2018