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

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended September 30, 2023

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

Commission File Number 001-34099

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**MASTECH DIGITAL, INC.**

(Exact name of registrant as specified in its charter)

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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

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

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

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

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

The number of shares of the registrant's Common Stock, par value \$.01 per share, outstanding as of October 31, 2023 was 11,599,138.

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**MASTECH DIGITAL, INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
**FOR THE QUARTER ENDED SEPTEMBER 30, 2023**

**TABLE OF CONTENTS**

	<u>Page</u>
PART 1	<u>3</u>
<a href="#">FINANCIAL INFORMATION</a>	
Item 1.	3
<a href="#">Financial Statements:</a>	
(a) <a href="#">Condensed Consolidated Statements of Operations (Unaudited) for the Three and Nine Months Ended September 30, 2023 and 2022</a>	3
(b) <a href="#">Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited) for the Three and Nine Months Ended September 30, 2023 and 2022</a>	4
(c) <a href="#">Condensed Consolidated Balance Sheets (Unaudited) as of September 30, 2023 and December 31, 2022</a>	5
(d) <a href="#">Condensed Consolidated Statements of Shareholders' Equity (Unaudited) for the Three and Nine Months Ended September 30, 2023 and 2022</a>	6
(e) <a href="#">Condensed Consolidated Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2023 and 2022</a>	7
(f) <a href="#">Notes to Condensed Consolidated Financial Statements (Unaudited)</a>	8
Item 2.	19
<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	
Item 3.	27
<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	
Item 4.	27
<a href="#">Controls and Procedures</a>	
PART II	28
<a href="#">OTHER INFORMATION</a>	
Item 1.	28
<a href="#">Legal Proceedings</a>	
Item 1A.	28
<a href="#">Risk Factors</a>	
Item 2.	28
<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	
Item 6.	29
<a href="#">Exhibits</a>	
<a href="#">SIGNATURES</a>	30

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Revenues	\$47,779	\$63,150	\$155,046	\$185,022
Cost of revenues	35,213	46,863	115,354	136,057
Gross profit	12,566	16,287	39,692	48,965
Selling, general and administrative expenses:				
Operating expenses	12,615	12,930	38,937	38,753
Employment-related claim, net of recoveries	—	—	3,100	—
Total selling, general and administrative expenses	12,615	12,930	42,037	38,753
Income (loss) from operations	(49)	3,357	(2,345)	10,212
Interest income (expense), net	148	(85)	232	(326)
Other income (expense), net	55	85	(32)	334
Income (loss) before income taxes	154	3,357	(2,145)	10,220
Income tax expense (benefit)	29	951	(358)	3,046
Net income (loss)	<u>\$ 125</u>	<u>\$ 2,406</u>	<u>\$ (1,787)</u>	<u>\$ 7,174</u>
Earnings (loss) per share:				
Basic	<u>\$ .01</u>	<u>\$ .21</u>	<u>\$ (.15)</u>	<u>\$ .62</u>
Diluted	<u>\$ .01</u>	<u>\$ .20</u>	<u>\$ (.15)</u>	<u>\$ .59</u>
Weighted average common shares outstanding:				
Basic	11,597	11,616	11,618	11,578
Diluted	11,968	12,084	11,618	12,082

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

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Net income (loss)	\$ 125	\$ 2,406	\$(1,787)	\$7,174
Other comprehensive income (loss):				
Foreign currency translation adjustments	(88)	(235)	(95)	(701)
Total other comprehensive gain (loss), net of taxes	(88)	(235)	(95)	(701)
Total comprehensive income (loss)	<u>\$ 37</u>	<u>\$ 2,171</u>	<u>\$(1,882)</u>	<u>\$6,473</u>

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

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

	September 30, 2023	December 31, 2022
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 15,881	\$ 7,057
Accounts receivable, net of allowance for uncollectible accounts of \$515 in 2023 and \$444 in 2022	24,841	33,603
Unbilled receivables	7,437	8,719
Insurance recovery	2,200	—
Prepaid and other current assets	5,859	3,795
Total current assets	<u>56,218</u>	<u>53,174</u>
Equipment, enterprise software, and leasehold improvements, at cost:		
Equipment	2,896	2,790
Enterprise software	4,185	4,185
Leasehold improvements	752	732
	<u>7,833</u>	<u>7,707</u>
Less – accumulated depreciation and amortization	<u>(5,824)</u>	<u>(5,042)</u>
Net equipment, enterprise software, and leasehold improvements	2,009	2,665
Operating lease right-of-use assets, net	4,418	3,886
Deferred financing costs, net	238	293
Non-current deposits	456	578
Goodwill, net of impairment	32,510	32,510
Intangible assets, net of amortization	13,694	15,773
Total assets	<u>\$ 109,543</u>	<u>\$ 108,879</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ —	\$ 1,100
Accounts payable	4,842	4,475
Accrued payroll and related costs	12,270	11,085
Current portion of operating lease liability	1,318	1,504
Other accrued liabilities	864	1,186
Deferred revenue	410	207
Total current liabilities	<u>19,704</u>	<u>19,557</u>
Long-term liabilities:		
Long-term operating lease liability, less current portion	3,054	2,294
Long-term accrued income taxes	69	105
Deferred income taxes	516	920
Total liabilities	<u>23,343</u>	<u>22,876</u>
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; 100,000,000 shares authorized and 13,307,919 shares issued as of September 30, 2023 and 13,269,118 shares issued as of December 31, 2022	133	133
Additional paid-in-capital	34,710	32,059
Retained earnings	57,766	59,553
Accumulated other comprehensive income (loss)	(1,650)	(1,555)
Treasury stock, at cost; 1,708,781 shares as of September 30, 2023 and 1,646,420 shares as of December 31, 2022	<u>(4,759)</u>	<u>(4,187)</u>
Total shareholders' equity	<u>86,200</u>	<u>86,003</u>
Total liabilities and shareholders' equity	<u>\$ 109,543</u>	<u>\$ 108,879</u>

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

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

	Common Stock	Additional Paid-in Capital	Accumulated Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances, December 31, 2022	\$ 133	\$ 32,059	\$ 59,553	\$(4,187)	\$ (1,555)	\$ 86,003
Net income	—	—	261	—	—	261
Other comprehensive gain, net of taxes	—	—	—	—	5	5
Stock-based compensation expense	—	835	—	—	—	835
Balances, March 31, 2023	<u>\$ 133</u>	<u>\$ 32,894</u>	<u>\$ 59,814</u>	<u>\$(4,187)</u>	<u>\$ (1,550)</u>	<u>\$ 87,104</u>
Net (loss)	—	—	(2,173)	—	—	(2,173)
Employee common stock purchases	—	150	—	—	—	150
Other comprehensive (loss), net of taxes	—	—	—	—	(12)	(12)
Stock-based compensation expense	—	842	—	—	—	842
Shares repurchased	—	—	—	(572)	—	(572)
Balances, June 30, 2023	<u>\$ 133</u>	<u>\$ 33,886</u>	<u>\$ 57,641</u>	<u>\$(4,759)</u>	<u>\$ (1,562)</u>	<u>\$ 85,339</u>
Net income	—	—	125	—	—	125
Other comprehensive (loss), net of taxes	—	—	—	—	(88)	(88)
Stock-based compensation expense	—	824	—	—	—	824
Balances, September 30, 2023	<u>\$ 133</u>	<u>\$ 34,710</u>	<u>\$ 57,766</u>	<u>\$(4,759)</u>	<u>\$ (1,650)</u>	<u>\$ 86,200</u>

  

	Common Stock	Additional Paid-in Capital	Accumulated Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances, December 31, 2021	\$ 131	\$ 28,250	\$ 50,841	\$(4,187)	\$ (607)	\$ 74,428
Net income	—	—	2,332	—	—	2,332
Other comprehensive (loss), net of taxes	—	—	—	—	(147)	(147)
Stock-based compensation expense	—	526	—	—	—	526
Stock options exercised	2	891	—	—	—	893
Balances, March 31, 2022	<u>\$ 133</u>	<u>\$ 29,667</u>	<u>\$ 53,173</u>	<u>\$(4,187)</u>	<u>\$ (754)</u>	<u>\$ 78,032</u>
Net income	—	—	2,436	—	—	2,436
Employee common stock purchases	—	199	—	—	—	199
Other comprehensive (loss), net of taxes	—	—	—	—	(319)	(319)
Stock-based compensation expense	—	752	—	—	—	752
Stock options exercised	—	430	—	—	—	430
Balances, June 30, 2022	<u>\$ 133</u>	<u>\$ 31,048</u>	<u>\$ 55,609</u>	<u>\$(4,187)</u>	<u>\$ (1,073)</u>	<u>\$ 81,530</u>
Net income	—	—	2,406	—	—	2,406
Employee common stock purchases	—	(10)	—	—	—	(10)
Other comprehensive (loss), net of taxes	—	—	—	—	(235)	(235)
Stock-based compensation expense	—	776	—	—	—	776
Balances, September 30, 2022	<u>\$ 133</u>	<u>\$ 31,814</u>	<u>\$ 58,015</u>	<u>\$(4,187)</u>	<u>\$ (1,308)</u>	<u>\$ 84,467</u>

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

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

	Nine Months Ended September 30,	
	2023	2022
<b>OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (1,787)	\$ 7,174
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:		
Depreciation and amortization	2,943	3,251
Bad debt expense	—	50
Interest amortization of deferred financing costs	55	55
Stock-based compensation expense	2,501	2,054
Deferred income taxes, net	(405)	496
Operating lease assets and liabilities, net	68	(355)
Loss on disposition of fixed assets	1	—
Long term accrued income taxes	(36)	(20)
Working capital items:		
Accounts receivable and unbilled receivables	10,044	(7,097)
Insurance recovery	(2,200)	—
Prepaid and other current assets	(2,081)	57
Accounts payable	370	877
Accrued payroll and related costs	1,192	1,388
Other accrued liabilities	(323)	(192)
Deferred revenue	203	6
Net cash flows provided by (used in) operating activities	<u>10,545</u>	<u>7,744</u>
<b>INVESTING ACTIVITIES:</b>		
Recovery of (payment for) non-current deposits	119	24
Capital expenditures	(213)	(819)
Net cash flows provided by (used in) investing activities	<u>(94)</u>	<u>(795)</u>
<b>FINANCING ACTIVITIES:</b>		
(Repayments) on term loan facility	(1,100)	(10,900)
Proceeds from the issuance of common shares	150	189
Purchase of treasury stock	(572)	—
Proceeds from the exercise of stock options	—	1,323
Net cash flows provided by (used in) financing activities	<u>(1,522)</u>	<u>(9,388)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(105)</u>	<u>(701)</u>
Net change in cash and cash equivalents	8,824	(3,140)
Cash and cash equivalents, beginning of period	7,057	6,622
Cash and cash equivalents, end of period	<u>\$15,881</u>	<u>\$ 3,482</u>

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

**MASTECH DIGITAL, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2023 AND 2022**  
**(Unaudited)**

**1. Description of Business and Basis of Presentation:**

***Basis of Presentation***

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

***Description of Business***

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

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

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

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

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

***Accounting Principles***

The accompanying Financial Statements have been prepared by management in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and applicable rules and regulations of the Securities and Exchange Commission (the “SEC”). Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for complete consolidated financial statements. In the opinion of management, all adjustments, consisting principally of normal recurring adjustments, considered necessary for a fair presentation have been included. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the Financial Statements and the accompanying notes. Actual results could differ from these estimates. These Financial Statements should be read in conjunction with the Company’s audited consolidated financial statements and accompanying notes for the year ended December 31, 2022, included in our Annual Report on Form 10-K filed with the SEC on March 27, 2023. Additionally, our operating results for the three and nine months ended September 30, 2023, are not necessarily indicative of the results that can be expected for the year ending December 31, 2023, or for any other period.

***Principles of Consolidation***

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



### ***Critical Accounting Policies***

Please refer to Note 1 “Summary of Significant Accounting Policies” of the Consolidated Financial Statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates” in our Annual Report on Form 10-K for the year ended December 31, 2022, for a more detailed discussion of our significant accounting policies and critical accounting estimates. There were no material changes to these critical accounting policies during the nine months ended September 30, 2023.

### ***Segment Reporting***

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

## **2. Revenue from Contracts with Customers**

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

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

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

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

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

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

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

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

## [Table of Contents](#)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(Amounts in thousands)		(Amounts in thousands)	
<b>Data and Analytics Services Segment</b>				
Time-and-material Contracts	\$ 5,888	\$ 6,524	\$ 19,027	\$ 19,568
Fixed-price Contracts	2,150	3,552	7,179	11,910
<b>Subtotal Data and Analytics Services</b>	<b>\$ 8,038</b>	<b>\$ 10,076</b>	<b>\$ 26,206</b>	<b>\$ 31,478</b>
<b>IT Staffing Services Segment</b>				
Time-and-material Contracts	\$ 39,741	\$ 53,074	\$ 128,840	\$ 153,544
Fixed-price Contracts	—	—	—	—
<b>Subtotal IT Staffing Services</b>	<b>\$ 39,741</b>	<b>\$ 53,074</b>	<b>\$ 128,840</b>	<b>\$ 153,544</b>
<b>Total Revenues</b>	<b>\$ 47,779</b>	<b>\$ 63,150</b>	<b>\$ 155,046</b>	<b>\$ 185,022</b>

For the three months ended September 30, 2023, the Company had one client (CGI =21.1%) that exceeded 10% of total revenues. For the nine months ended September 30, 2023, the Company had the same one client (CGI = 23.7%) that exceeded 10% of total revenues. For the three months ended September 30, 2022, the Company had one client (CGI =23.7%) that exceeded 10% of total revenues. For the nine months ended September 30, 2022, the Company had the same one client (CGI = 21.3%) that exceeded 10% of total revenues.

The Company's top ten clients represented approximately 52% and 54% of total revenues for the three months ended September 30, 2023 and 2022, respectively. For the nine months ended September 30, 2023 and 2022, the Company's top ten clients represented approximately 54% and 53% 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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(Amounts in thousands)		(Amounts in thousands)	
United States	\$ 46,778	\$ 61,704	\$ 151,798	\$ 180,519
Canada	627	1,038	2,159	3,187
India and Other	374	408	1,089	1,316
<b>Total revenues</b>	<b>\$ 47,779</b>	<b>\$ 63,150</b>	<b>\$ 155,046</b>	<b>\$ 185,022</b>

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

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

Declines in 2023 revenues in our Data and Analytics Services segment, compared to expectations, was viewed as a triggering event for impairment testing in the third quarter of 2023. Accordingly, we performed an interim quantitative impairment test for our Data and Analytics Services segment. The interim impairment test did not result in an impairment during the third quarter, however, further declines in revenue could have a negative impact on the implied fair value of goodwill and may result in a goodwill impairment charge in a subsequent period.

## Table of Contents

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 September 30, 2023, and December 31, 2022:

(Amounts in thousands)	As of September 30, 2023			
	Amortization Period (In Years)	Gross Carrying Value	Accumulative Amortization	Net Carrying Value
<b>IT Staffing Services:</b>				
Client relationships	12	\$ 7,999	\$ 5,527	\$ 2,472
Covenant-not-to-compete	5	319	319	—
Trade name	3	249	249	—
<b>Data and Analytics Services:</b>				
Client relationships	12	19,641	9,367	10,274
Covenant-not-to-compete	5	1,201	1,025	176
Trade name	5	1,711	1,515	196
Technology	7	1,979	1,403	576
<b>Total Intangible Assets</b>		<b>\$ 33,099</b>	<b>\$ 19,405</b>	<b>\$ 13,694</b>

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

Amortization expense for the three and nine-month periods ended September 30, 2023 totaled \$693,000 and \$2.1 million, respectively and is included in selling, general and administrative expenses in the Condensed Consolidated Statement of Operations. For the three and nine-month periods ended September 30, 2022, amortization expense was \$791,000 and \$2.4 million, respectively.

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

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

#### 4. Leases

The Company rents certain office facilities and equipment under noncancelable operating leases. As of September 30, 2023, approximately 96,000 square feet of office space is utilized for our sales and recruiting offices, delivery centers, and corporate headquarters. All of our leases are classified as operating leases. The average initial lease term is 4.8 years. Several leases have an option to renew, at our sole discretion, for an additional term. Our present lease terms range from less than one year to 3.9 years with a weighted average of 3.5 years. Leases with an initial term of twelve months or less are not recorded on the balance sheet.

## [Table of Contents](#)

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

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
	(in thousands)	
<b>Assets:</b>		
Long-term operating lease right-of-use assets	\$ 4,418	\$ 3,886
<b>Liabilities:</b>		
Short-term operating lease liability	\$ 1,318	\$ 1,504
Long-term operating lease liability	3,054	2,294
Total Liabilities	\$ 4,372	\$ 3,798

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

	<u>Amount as of</u> <u>September 30, 2023</u> (in thousands)
2023 (for remainder of year)	\$ 380
2024	1,408
2025	1,225
2026	1,220
2027	535
Thereafter	—
Total	\$ 4,768
Less: Imputed interest	(396)
Present value of operating lease liabilities	\$ 4,372

The weighted average discount rate used to calculate the present value of future lease payments was 4.9%.

We recognize rent expense for these leases on a straight-line basis over the lease term. Rental expense for the three and nine months ended September 30, 2023 totaled \$0.4 million and \$1.2 million, respectively. Rental expense for the three and nine months ended September 30, 2022 totaled \$0.4 million and \$1.3 million, respectively.

Total cash paid for lease liabilities for the three and nine months ended September 30, 2023 totaled \$0.4 million and \$1.2 million, respectively. Total cash paid for lease liabilities for the three and nine months ended September 30, 2022 totaled \$0.4 million and \$1.3 million, respectively.

New leases entered into during the three and nine months ended September 30, 2023 totaled \$1.7 million and \$1.7 million, respectively. New leases entered into during the three and nine months ended September 30, 2022 totaled \$0 and \$0.5 million, respectively. New leases are considered non cash transactions.

In August 2023, the Company renegotiated and extended an operating lease for 39,875 square feet of office space in Noida, India. Lease payments will approximate \$1.9 million through the extension period which ends August 30, 2027.

In October 2023, the Company renegotiated and extended an operating lease for 11,495 square feet of office space in Moon Township, Pennsylvania. Lease payments will approximate \$1.3 million through the extension period which ends September 29, 2029.

## 5. Commitments and Contingencies

In December 2022, the Company received a demand letter from the attorney of a former employee who resigned from his employment with the Company in November 2022. Among other allegations in the letter, this former employee has asserted various employment-related claims against the Company, including a claim of wrongful termination. For the three and nine months ended September 30, 2023, the Company incurred \$225,000 and \$1.2 million, respectively, of professional service fees related to this matter. Additionally, the Company recorded a \$3.1 million loss reserve, net of recoveries in the second quarter of 2023, with respect to an estimated settlement. During the third quarter, we settled this claim and, under the terms of the settlement agreement with this former employee, we paid the settlement amount. The exact terms of the settlement agreement are to remain confidential; however, the settlement amount, net of expected recoveries, was fully reserved in the second quarter of 2023 and is included in Selling, General and Administrative expenses in the Condensed Consolidated Statement of Operations included in this quarterly report on Form 10-Q.

## [Table of Contents](#)

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

### **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 and W-2 hourly employees. Employees may contribute a percentage of eligible compensation to the Retirement Plan, subject to certain limits under the Code. The Company did not provide for any matching contributions for the three and nine months ended September 30, 2023, and 2022.

### **7. Stock-Based Compensation**

In 2008, the Company adopted a Stock Incentive Plan (as amended from time to time, the "Plan") which provided that up to 5,400,000 shares of the Company's common stock, par value \$0.01 per share ("Common Stock") should be allocated for issuance to directors, officers and key personnel. Grants under the Plan may be made in the form of stock options, stock appreciation rights, performance shares or stock awards.

During the three months ended September 30, 2023, the Company granted no shares under the Plan. During the three months ended September 30, 2022, the Company granted zero restricted share units and 250,000 stock options under the Plan.

During the nine months ended September 30, 2023, the Company granted 19,924 restricted share units and 125,000 stock options, with an average strike price of \$11.24, under the Plan. During the nine months ended September 30, 2022, the Company granted 13,979 restricted share units and 650,000 stock options, at a weighted average strike price of \$17.00, under the Plan. As of September 30, 2023, there were 505,000 shares of Common Stock available for grants under the Plan.

Stock-based compensation expense for the three months ended September 30, 2023 and 2022 was \$824,000 and \$776,000, respectively, and for the nine months ended September 30, 2023, and 2022 was \$2.5 million and \$2.1 million, respectively. Stock-based compensation expense is included in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

During the three and nine months ended September 30, 2023, the Company issued zero and 17,804 shares, respectively, related to the grant of restricted share units and the exercise of stock options. During the three and nine months ended September 30, 2022, the Company issued zero and 133,932 shares, respectively, related to the grant of restricted share units and the exercise of stock options.

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

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

During the three months ended September 30, 2023 and 2022, there were no shares issued under the Stock Purchase Plan. During the nine months ended September 30, 2023, and 2022, there were 17,890 shares and 15,765 shares issued under the Employee Stock Purchase Plan, at a share price of \$8.40 and \$12.63, respectively. Stock-based compensation expense related to the Stock Purchase Plan for the three months ended September 30, 2023, and 2022 totaled \$10,000 and \$11,000, respectively. Stock-based compensation expense related to the Stock Purchase Plan for the nine months ended September 30, 2023, and 2022 totaled \$78,000 and \$81,000, respectively, and is included in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations for the nine months ended September 30, 2023, and 2022. As of September 30, 2023, there were 474,675 shares of Common Stock available for purchases under the Employee Stock Purchase Plan.

## **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”). The Credit Agreement, as amended, provides for a total aggregate commitment of \$53.1 million, consisting of (i) a revolving credit facility (the “Revolver”) in an aggregate principal amount not to exceed \$40 million and (ii) a \$13.1 million term loan facility (the “Term Loan”), as more fully described in Exhibit 10.1 to the Company’s Form 8-Ks filed with the SEC on July 19, 2017, April 25, 2018 and October 7, 2020, and Exhibit 10.2 to the Form 8-K/A filed with the SEC on January 4, 2022. Additionally, the facility includes an accordion feature for additional borrowing of up to \$20 million upon satisfaction of certain conditions.

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

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

Borrowings under the Revolver and the Term Loan, which may be made at the Company’s election, bear interest at either (a) the higher of PNC’s prime rate or the federal funds rate plus 0.50%, plus an applicable margin determined based upon the Company’s senior leverage ratio or (b) the Bloomberg Short-Term Bank Yield Index (“BSBY”), plus an applicable margin determined based upon the Company’s senior leverage ratio. The applicable margin on the base rate is between 0.50% and 1.25% on Revolver borrowings and between 1.75% and 2.50% on Term Loan borrowings. The applicable margin on the BSBY is between 1.50% and 2.25% on Revolver borrowings and between 2.75% and 3.50% on Term Loan borrowings. A 20 to 30-basis point per annum commitment fee on the unused portion of the Revolver 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 September 30, 2023, the Company was in compliance with all applicable provisions of the Credit Agreement.

In connection with securing the commitments under the Credit Agreement and the April 20, 2018, October 1, 2020, and December 29, 2021, amendments to the Credit Agreement, the Company paid a commitment fee and incurred deferred financing costs totaling \$975,000, which were capitalized and are being amortized as interest expense over the life of the Credit Agreement. Deferred financing costs of \$238,000 and \$293,000 (net of amortization) as of September 30, 2023, and December 31, 2022, respectively, are presented as long-term assets in the Company’s Consolidated Balance Sheets.

As of September 30, 2023, and December 31, 2022, the Company’s outstanding borrowings under the Revolver totaled zero dollars; and unused borrowing capacity available was approximately \$24.8 million and \$31.8 million, respectively. The Company’s outstanding borrowings under the Term Loan were zero dollars and \$1.1 million at September 30, 2023, and December 31, 2022, respectively.

[Table of Contents](#)

**9. Income Taxes**

The components of income (loss) before income taxes, as shown in the accompanying Financial Statements, consisted of the following for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(Amounts in thousands)		(Amounts in thousands)	
Income (loss) before income taxes:				
Domestic	\$ (211)	\$ 3,950	\$ (3,205)	\$ 11,123
Foreign	365	(593)	1,060	(903)
Income (loss) before income taxes	<u>\$ 154</u>	<u>\$ 3,357</u>	<u>\$ (2,145)</u>	<u>\$ 10,220</u>

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

The provision (benefit) for income taxes, as shown in the accompanying Financial Statements, consisted of the following for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(Amounts in thousands)		(Amounts in thousands)	
Current provision (benefit):				
Federal	\$ (88)	\$ 806	\$ (271)	\$ 1,836
State	(9)	187	25	446
Foreign	93	(55)	238	(4)
Total current provision (benefit)	<u>\$ (4)</u>	<u>\$ 938</u>	<u>\$ (8)</u>	<u>\$ 2,278</u>
Deferred provision (benefit):				
Federal	25	12	(377)	496
State	7	(7)	(91)	118
Foreign	4	(60)	64	(118)
Total deferred provision (benefit)	<u>36</u>	<u>(55)</u>	<u>(404)</u>	<u>496</u>
Change in valuation allowance	(3)	68	54	272
Total provision (benefit) for income taxes	<u>\$ 29</u>	<u>\$ 951</u>	<u>\$ (358)</u>	<u>\$ 3,046</u>

The reconciliation of income taxes computed using the statutory U.S. income tax rate and the provision (benefit) for income taxes for the three and nine months ended September 30, 2023 and 2022 were as follows (amounts in thousands):

	Three Months Ended September 30, 2023		Three Months Ended September 30, 2022	
Income taxes computed at the federal statutory rate	\$ 33	21.0%	\$ 705	21.0%
State income taxes, net of federal tax benefit	(2)	(1.2)	168	5.0
Excess tax expense (benefit) from stock options/restricted shares	—	—	19	0.6
Difference in income tax rate on foreign earnings/other	1	0.9	(9)	(0.3)
Change in valuation allowance	(3)	(1.9)	68	2.0
	<u>\$ 29</u>	<u>18.8%</u>	<u>\$ 951</u>	<u>28.3%</u>

	<u>Nine Months Ended September 30, 2023</u>		<u>Nine Months Ended September 30, 2022</u>	
Income taxes computed at the federal statutory rate	\$ (450)	(21.0)%	\$ 2,146	21.0%
State income taxes, net of federal tax benefit	(74)	(3.5)	554	5.4
Excess tax expense (benefit) from stock options/restricted shares	40	1.9	10	0.1
Difference in income tax rate on foreign earnings/other	72	3.4	64	0.6
Change in valuation allowance	54	2.5	272	2.7
	<u>\$ (358)</u>	<u>(16.7)%</u>	<u>\$ 3,046</u>	<u>29.8%</u>

We evaluate deferred income taxes quarterly to determine if valuation allowances are required or should be adjusted. GAAP accounting guidance requires us to assess whether valuation allowances should be established against deferred tax assets based on all available evidence, both positive and negative, using a “more likely than not” standard. Our assessment considers, among other things, the nature of cumulative losses, forecast of future profitability, the duration of statutory carry-forward periods and tax planning alternatives. At September 30, 2023, our valuation allowance was comprised of balances within locations of Singapore, Ireland and the United Kingdom. The valuation allowance balances at these locations totaled \$613,000 and \$559,000 as of September 30, 2023, and December 31, 2022, respectively, and reflect net operating losses which may not be realizable in the future. In the third quarter of 2022, the Company decided to close the Singapore and Ireland operations.

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

## 10. Shareholders’ Equity

On February 8, 2023, the Company announced that the Board of Directors authorized a share repurchase program of up to 500,000 shares of the Company’s common stock over a two-year period. Repurchases under the program may occur from time to time in the open market, through privately negotiated transactions, through block purchases or other purchase techniques, or by any combination of such methods, and the program may be modified, suspended, or terminated at any time at the discretion of the Board of Directors. During the three months ended September 30, 2023, the Company did not repurchase any shares of common stock. During the nine months ended September 30, 2023, the Company repurchased 62,361 shares of common stock at an average price of \$9.15 per share under this program.

Additionally, the Company makes stock purchases from time to time to satisfy employee tax obligations related to its Stock Incentive Plan. The Company did not purchase any shares to satisfy employee tax obligations during the nine months ended September 30, 2023 and 2022.

## 11. Earnings (Loss) Per Share

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

For the three months ended September 30, 2023, there were 1,473,000 anti-dilutive stock options excluded from the computation of diluted earnings per share. For the nine months ended September 30, 2023, all stock options and restricted shares were anti-dilutive and excluded from the computation of diluted (loss) per share. For the three and nine months ended September 30, 2022, there were 644,000 and 549,000 anti-dilutive stock options excluded from the computation of diluted earnings per share.

## 12. Business Segments and Geographic Information

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

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



## [Table of Contents](#)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(Amounts in thousands)		(Amounts in thousands)	
<b>Revenues:</b>				
Data and Analytics Services	\$ 8,038	\$ 10,076	\$ 26,206	\$ 31,478
IT Staffing Services	39,741	53,074	128,840	153,544
Total revenues	<u>\$47,779</u>	<u>\$ 63,150</u>	<u>\$155,046</u>	<u>\$185,022</u>
<b>Gross Margin %:</b>				
Data and Analytics Services	45.8%	39.6%	43.1%	42.8%
IT Staffing Services	22.4%	23.2%	22.0%	23.1%
Total gross margin %	<u>26.3%</u>	<u>25.8%</u>	<u>25.6%</u>	<u>26.5%</u>
<b>Segment operating income (loss):</b>				
Data and Analytics Services	\$ (832)	\$ 826	\$ (2,393)	\$ 2,615
IT Staffing Services	1,476	3,892	5,227	10,542
Subtotal	644	4,718	2,834	13,157
Amortization of acquired intangible assets	(693)	(791)	(2,079)	(2,375)
Employment-related claim, net of recoveries	—	—	(3,100)	—
Reserve for cyber-security breach	—	(450)	—	(450)
Severance expense	—	(120)	—	(120)
Interest expenses, FX gains/losses and other, net	203	—	200	8
Income (loss) before income taxes	<u>\$ 154</u>	<u>\$ 3,357</u>	<u>\$ (2,145)</u>	<u>\$ 10,220</u>

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

	September 30, 2023	December 31, 2022
	(Amounts in thousands)	
<b>Total assets:</b>		
Data and Analytics Services	\$ 51,845	\$ 54,544
IT Staffing Services	57,698	54,335
Total assets	<u>\$ 109,543</u>	<u>\$ 108,879</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(Amounts in thousands)		(Amounts in thousands)	
United States	\$ 46,778	\$ 61,704	\$151,798	\$180,519
Canada	627	1,038	2,159	3,187
India and Other	374	408	1,089	1,316
Total revenues	<u>\$ 47,779</u>	<u>\$ 63,150</u>	<u>\$155,046</u>	<u>\$185,022</u>

**13. Recently Issued Accounting Standards**

***Recently Adopted Accounting Pronouncements***

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

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

## **ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

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

### ***Website Access to SEC Reports:***

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

### ***Critical Accounting Policies***

Please refer to Note 1 “Summary of Significant Accounting Policies” of the Consolidated Financial Statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations–Critical Accounting Policies and Estimates” in our Annual Report on Form 10-K for the year ended December 31, 2022 for a more detailed discussion of our significant accounting policies and critical accounting estimates. There were no material changes to these critical accounting policies during the nine months ended September 30, 2023.

### ***Employment-Related Claims Against the Company***

In December 2022, the Company received a demand letter from the attorney of a former employee who resigned from his employment with the Company in November 2022. Among other allegations in the letter, this former employee has asserted various employment-related claims against the Company, including a claim of wrongful termination. For the three and nine months ended September 30, 2023, the Company incurred \$225,000 and \$1.2 million, respectively, of professional service fees related to this matter. Additionally, the Company recorded a \$3.1 million loss reserve, net of recoveries in the second quarter of 2023, with respect to an estimated settlement. During the third quarter, we settled this claim and, under the terms of the settlement agreement with this former employee, we paid the settlement amount. The exact terms of the settlement agreement are to remain confidential; however, the settlement amount, net of expected recoveries, was fully reserved in the second quarter of 2023 and is included in Selling, General and Administrative expenses in the Condensed Consolidated Statement of Operations included in this quarterly report on Form 10-Q.

**Overview:**

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

Our portfolio of offerings includes data management and analytics services, other digital transformation services, such as digital learning services, and IT Staffing Services.

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

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

**Data and Analytics:**

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

**Economic Trends and Outlook:**

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

## [Table of Contents](#)

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

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

Recent growth in advanced technologies (social, cloud, analytics, mobility, automation) is providing opportunities within our IT Staffing Services segment. However, supply side challenges have proven to be acute with respect to many of these technologies. We believe these challenges will remain in the remainder of 2023 and likely into 2024.

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

### **Results of Operations for the Three Months Ended September 30, 2023 as Compared to the Three Months Ended September 30, 2022:**

#### *Revenues:*

Revenues for the three months ended September 30, 2023 totaled \$47.8 million, compared to \$63.2 million for the corresponding three-month period in 2022. This 24% year-over-year revenue decline reflected a 20% decrease in our Data and Analytics Services segment and a 25% decline in our IT Staffing Services segment. For the three months ended September 30, 2023, the Company had one client that had revenues in excess of 10% of total revenues (CGI = 21.1%). For the three months ended September 30, 2022, the Company had the same one client that had revenues in excess of 10% of total revenues (CGI = 23.7%). The Company’s top ten clients represented approximately 52% and 54% of total revenues for the three months ended September 30, 2023 and 2022, respectively.

Below is a tabular presentation of revenues by reportable segment for the three months ended September 30, 2023 and 2022, respectively:

<u>Revenues (Amounts in millions)</u>	<u>Three Months Ended September 30, 2023</u>	<u>Three Months Ended September 30, 2022</u>
Data and Analytics Services	\$ 8.0	\$ 10.1
IT Staffing Services	39.8	53.1
Total revenues	<u>\$ 47.8</u>	<u>\$ 63.2</u>

Revenues from our Data and Analytics Services segment totaled \$8.0 million in the quarter ended September 30, 2023, compared to \$10.1 million in the corresponding quarter last year. This year-over-year decline of 20% reflected client spending reductions on several existing projects and assignment delays with respect to new orders. New bookings in the third quarter of 2023 totaled \$5.1 million, which were significantly below second quarter 2023 bookings due to award delays on assignments in which we received verbal commitments from the client.

Revenues from our IT Staffing Services segment totaled \$39.8 million in the three months ended September 30, 2023, compared to \$53.1 million during the corresponding 2022 period. This 25% year-over-year decrease reflected lower demand for our services, particularly with respect to financial services clients. Our financial services consultant base decreased from approximately 53% at December 31, 2022 to 44% at September 30, 2023. Total billable consultants declined by 49 during the 2023 third quarter compared to a decline of 83 in the 2023 second quarter. While this quarterly decline in billable headcount is a significant improvement from the previous quarter, it still had a negative impact on our revenue performance compared to the corresponding quarter of 2022. Billable consultants at September 30, 2023 totaled 992-consultants compared to 1,307-consultants one year earlier. Our average bill rate during the third quarter of 2023 was \$80.96 per hour compared to \$81.60 per hour in the third quarter of last year. This decrease in average bill rate was due to lower rates on new assignments during the 2023 period and was reflective of the types of skill sets that we deployed. Permanent placements / fee revenues were approximately \$0.2 million during the 2023 third quarter compared to \$0.5 million in the corresponding quarter of 2022.

## [Table of Contents](#)

### Gross Margins:

Gross profits in the third quarter of 2023 totaled \$12.6 million, compared to \$16.3 million in the third quarter of 2022. Gross profit as a percentage of revenue was 26.3% for the three-month period ended September 30, 2023, compared to 25.8% during the same period of 2022. This 50-basis point increase related to improved utilization in the Data and Analytics Services segment.

Below is a tabular presentation of gross margin by reporting segment for the three months ended September 30, 2023 and 2022, respectively:

<u>Gross Margin</u>	<u>Three Months Ended September 30, 2023</u>	<u>Three Months Ended September 30, 2022</u>
Data and Analytics Services	45.8%	39.6%
IT Staffing Services	22.4	23.2
Total gross margin	<u>26.3%</u>	<u>25.8%</u>

Gross margins from our Data and Analytics Services segment were 45.8% of revenues during the third quarter of 2023, compared to 39.6% of revenues during the third quarter of 2022. The margin improvement reflected higher utilization in the 2023 period. In the third quarter of 2022, we did not fully deploy our billable resources, which negatively impacted utilization. Additionally, we incurred a project cost-over-run of \$0.3 million on a fixed priced assignment during the 2022 period.

Gross margins from our IT Staffing Services segment were 22.4% in the third quarter of 2023, compared to 23.2% during the corresponding quarter of 2022. This 80-basis point decline was largely due to lower permanent placement fees and higher medical claims related to our self-insured healthcare program.

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

Below is a tabular presentation of operating expenses by expense category for the three months ended September 30, 2023 and 2022, respectively:

<u>SG&amp;A Expenses (Amounts in millions)</u>	<u>Three Months Ended September 30, 2023</u>	<u>Three Months Ended September 30, 2022</u>
<b><u>Data and Analytics Services Segment</u></b>		
Sales and Marketing	\$ 1.8	\$ 1.0
Operations	0.3	0.6
General & Administrative	2.4	1.6
<b>Subtotal Data and Analytics Services</b>	<b><u>\$ 4.5</u></b>	<b><u>\$ 3.2</u></b>
<b><u>IT Staffing Services Segment</u></b>		
Sales and Marketing	\$ 2.0	\$ 2.4
Operations	2.1	2.7
General & Administrative	3.3	3.3
<b>Subtotal IT Staffing Services</b>	<b><u>\$ 7.4</u></b>	<b><u>\$ 8.4</u></b>
Amortization of Acquired Intangible Assets	\$ 0.7	\$ 0.8
Reserve for cyber-security breach	—	0.4
Severance expense	—	0.1
<b>Total SG&amp;A Expenses</b>	<b><u>\$ 12.6</u></b>	<b><u>\$ 12.9</u></b>

SG&A expenses for the three months ended September 30, 2023 totaled \$12.6 million or 26.4% of total revenues, compared to \$12.9 million or 20.4% of total revenues for the three-months ended September 30, 2022. Excluding the amortization of acquired intangible assets in both periods and reserves for severance and a cyber-security breach in the 2022 quarter, SG&A expense as a percentage of total revenues was 25.0% and 18.4%, respectively.

## [Table of Contents](#)

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

- Sales expense increased by \$0.4 million in the 2023 period compared to the corresponding 2022 period. Approximately \$0.8 million related to our Data and Analytics Services segment, which reflected additional staff and higher variable compensation expense in the 2023 third quarter. Sales expense in our IT Staffing Services segment decreased by \$0.4 million, largely due to lower commissions, bonuses and other variable expenses.
- Operations expenses decreased by \$0.9 million in the 2023 period compared to the corresponding 2022 period. Operations expenses were down \$0.3 million in our Data and Analytics Services segment due to staff reductions. In our IT Staffing Services segment, operations expenses decreased by \$0.6 million and reflected reductions in recruitment staff and lower variable expenses related to our lower revenues.
- General and administrative expense increased by \$0.8 million in the 2023 period compared to the corresponding 2022 period. General and administrative expenses in our Data and Analytics Services segment increased by \$0.8 million due to higher executive leadership staff increases and higher professional service fees of \$0.2 million. In our IT Staffing Services segment, general and administrative expenses were flat as higher cyber-security-related initiatives were offset by lower bonus accruals.
- Amortization of acquired intangible assets was \$0.7 million in the 2023 period, compared to \$0.8 million in the corresponding 2022 period.
- Reserve for a cyber-security breach totaled \$0.4 million in the 2022 period, compared to no expense in 2023.
- Severance expense associated with the closure of operations in Singapore and Ireland, and the rationalization of our cost structure in the UK totaled \$0.1 million in the 2022 period, compared to no expense in 2023.

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

Other Income / (Expense) for the three months ended September 30, 2023 consisted of interest income of \$148,000 and foreign exchange gains of \$55,000. For the three months ended September 30, 2022, Other Income / (Expense) consisted of interest expense of (\$85,000) and foreign exchange gains of \$85,000. Higher cash balances on hand, no outstanding borrowings and a stronger U.S. dollar in the 2023 quarter were responsible for the favorable year-over-year variance from the 2022 period.

### *Income Tax Expense (Benefit):*

Income tax expense for the three months ended September 30, 2023 totaled \$29,000, representing an effective tax rate on pre-tax income of 18.8% compared to \$1.0 million for the three months ended September 30, 2022, which represented a 28.3% effective tax rate on pre-tax income. The higher effective tax rate in the 2022 period largely reflected an increase in our valuation allowance related to foreign net operating losses in Singapore, Ireland and the UK. Additionally, the tax rate in 2023 reflected a benefit related to an adjustment for non-deductible meals and entertainment.

### ***Results of Operations for the Nine Months Ended September 30, 2023 as Compared to the Nine Months Ended September 30, 2022:***

#### *Revenues:*

Revenues for the nine months ended September 30, 2023 totaled \$155.0 million, compared to \$185.0 million for the corresponding nine-month period in 2022. This 16% year-over-year revenue decline reflected a 16% decrease in our IT Staffing Services segment and a 17% decline in our Data and Analytics Services segment. For the nine months ended September 30, 2023, the Company had one client that had revenues in excess of 10% of total revenues (CGI = 23.7%). For the nine months ended September 30, 2022, the Company had the same one client that had revenues in excess of 10% of total revenues (CGI = 21.3%). The Company's top ten clients represented approximately 54% and 53% of total revenues for the nine months ended September 30, 2023 and 2022, respectively.

Below is a tabular presentation of revenues by reportable segment for the nine months ended September 30, 2023 and 2022, respectively:

<b>Revenues (Amounts in millions)</b>	<b>Nine Months Ended September 30, 2023</b>	<b>Nine Months Ended September 30, 2022</b>
Data and Analytics Services	\$ 26.2	\$ 31.5
IT Staffing Services	128.8	153.5
Total revenues	<u>\$ 155.0</u>	<u>\$ 185.0</u>

## [Table of Contents](#)

Revenues from our Data and Analytics Services segment totaled \$26.2 million during the nine months ended September 30, 2023, compared to \$31.5 million in the corresponding nine-month period last year. The 17% year-over-year decline reflected client spending reductions on several existing projects and assignment delays on new orders.

Revenues from our IT Staffing Services segment totaled \$128.8 million in the nine months ended September 30, 2023, compared to \$153.5 million during the corresponding 2022 period. This 16% decline largely reflected a lower level of billable consultants due to lower demand for staffing services in the 2023 period.

### *Gross Margins:*

Gross profits in the nine months ended September 30, 2022 totaled \$39.7 million, compared to \$49.0 million during the corresponding 2022 period. Gross profit as a percentage of revenue was 25.6% for the nine-month period ended September 30, 2023, compared to 26.5% during the same period of 2022. This 90-basis point decline reflected lower gross margins in the IT Staffing Services segment.

Below is a tabular presentation of gross margin by reporting segment for the nine months ended September 30, 2023 and 2022, respectively:

<u>Gross Margin</u>	<u>Nine Months Ended September 30, 2023</u>	<u>Nine Months Ended September 30, 2022</u>
Data and Analytics Services	43.1%	42.8%
IT Staffing Services	22.0%	23.1%
Total gross margin	<u>25.6%</u>	<u>26.5%</u>

Gross margins from our Data and Analytics Services segment were 43.1% of revenues during the nine-month period ended September 30, 2023, compared to gross margins of 42.8% in the corresponding period of 2022. The margin improvement reflected better utilization rates during the first nine months of 2023.

Gross margins from our IT Staffing Services segment were 22.0% in the nine months ended September 30, 2023, compared to 23.1% during the corresponding period of 2022. This 110-basis point reduction was due to lower permanent placement revenues of \$0.9 million (70-basis point impact of GM%) and higher medical claims related to our self-insured healthcare program in the 2023 period.

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

Below is a tabular presentation of operating expenses by expense category for the nine months ended September 30, 2023 and 2022, respectively:

<u>SG&amp;A Expenses (Amounts in millions)</u>	<u>Nine Months Ended September 30, 2023</u>	<u>Nine Months Ended September 30, 2022</u>
<b><u>Data and Analytics Services Segment</u></b>		
Sales and Marketing	\$ 5.2	\$ 4.7
Operations	1.1	1.9
General & Administrative	7.4	4.4
<b>Subtotal Data and Analytics Services</b>	<b><u>\$ 13.7</u></b>	<b><u>\$ 11.0</u></b>
<b><u>IT Staffing Services Segment</u></b>		
Sales and Marketing	\$ 6.4	\$ 7.3
Operations	6.7	8.4
General & Administrative	10.0	9.2
<b>Subtotal IT Staffing Services</b>	<b><u>\$ 23.1</u></b>	<b><u>\$ 24.9</u></b>
Amortization of Acquired Intangible Assets	\$ 2.1	\$ 2.4
Reserve for Cyber-security Breach	—	0.4
Severance expense	—	0.1
Employment-related Claim, net of Recoveries	3.1	—
<b>Total SG&amp;A Expenses</b>	<b><u>\$ 42.0</u></b>	<b><u>\$ 38.8</u></b>



## [Table of Contents](#)

SG&A expenses for the nine months ended September 30, 2023 totaled \$42.0 million or 27.1% of total revenues, compared to \$38.8 million or 21.0% of total revenues for the nine months ended September 30, 2022. Excluding the employment-related claim in 2023, the reserve for a cyber-security breach and severance expense in 2022, and the amortization of acquired intangible assets in both periods, SG&A expense as a percentage of total revenues was 23.8% and 19.4%, respectively.

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

- Sales expense decreased by \$0.4 million in the 2023 period compared to the corresponding 2022 period. Sales expense in our Data and Analytics Services segment increased by \$0.5 million in the 2023 period and reflected lower variable compensation expense in the third quarter of 2022. Sales expense in our IT Staffing Services segment was lower by \$0.9 million due to lower variable compensation and other variable expense items.
- Operations expenses decreased by \$2.5 million in the 2023 period, compared to the corresponding 2022 period. In our Data and Analytics Services segment operations expenses decreased by \$0.8 million due to staff reductions and lower commission expense. Operations expenses in our IT Staffing Services segment declined by \$1.7 million and largely related to recruitment staff reductions and lower other variable expenses.
- General and administrative expense increased by \$3.8 million in the 2023 period compared to the corresponding 2022 period. General and administrative expense in our Data and Analytics Services segment increased by \$3.0 million due to executive leadership staff increases and higher professional services fees related to an employment claim of \$1.2 million. In our IT Staffing Services segment, general and administrative expense increased by \$0.8 million due to higher corporate-related expenses and an increase in cyber-security expenditures.
- Amortization of acquired intangible assets was \$2.1 million in 2023, compared to \$2.4 million in the 2022 period.
- Reserve for a cyber-security breach totaled \$0.4 million in the 2022, compared to no expense in 2023.
- Severance expense associated with the closure of operations in Singapore and Ireland, and the rationalization of our cost structure in the UK totaled \$0.1 million in the 2022 period, compared to no expense in 2023.
- Employment-related claim reserve, net of expected recoveries, totaled \$3.1 million in the 2023 period, compared to no expense in the corresponding 2022 period.

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

Other Income / (Expense) for the nine months ended September 30, 2023 consisted of interest income of \$232,000 and foreign exchange losses of (\$32,000). For the nine months ended September 30, 2022, Other Income / (Expense) consisted of interest expense of (\$326,000) and foreign exchange gains of \$334,000. Currency fluctuations, cash balances on hand and no outstanding borrowings in the 2023 period were responsible for the favorable year-over-year variance.

### *Income Tax Expense:*

Income tax benefit for the nine months ended September 30, 2023 totaled \$358,000, representing an effective tax rate on pre-tax loss of 16.7% compared to income tax expense of \$3.0 million for the nine months ended September 30, 2022, which represented a 29.8% effective tax rate on pre-tax income. The higher effective tax rate in the 2022 period was due to higher state taxes and higher excess tax expense from stock options and restricted shares activity.

**Liquidity and Capital Resources:**

*Financial Conditions and Liquidity:*

As of September 30, 2023, we had cash balances on hand of \$15.9 million, no bank debt outstanding and approximately \$25 million of borrowing capacity under our existing credit facility.

Historically, we have funded our organic business needs with cash generated from operating activities. Controlling our operating working capital levels by closely managing our accounts receivable balance is an important element of cash generation. As of September 30, 2023, our accounts receivable “days sales outstanding” (“DSOs”) measurement improved by 1-day to 55-days from our June 30, 2023 measurement.

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

*Cash flows provided by (used in) operating activities:*

Cash provided by operating activities for the nine months ended September 30, 2023 totaled \$10.5 million compared to cash provided by operating activities of \$7.7 million during the nine months ended September 30, 2022. Elements of cash flows in the 2023 period were net loss of (\$1.8 million), non-cash charges of \$5.1 million, and a decrease in operating working capital levels of \$7.2 million. During the nine months ended September 30, 2022, elements of cash flows were net income of \$7.2 million, non-cash charges of \$5.5 million and an increase in operating working capital levels of (\$5.0 million). The operating working capital decline in 2023 reflected our lower revenues and a lower DSO measurement compared to revenue growth in the 2022 period.

*Cash flows (used in) investing activities:*

Cash (used in) investing activities for the nine months ended September 30, 2023 was (\$0.1 million) compared to (\$0.8 million) for the nine months ended September 30, 2022. In 2023, capital expenditures totaled (\$0.2 million), partially offset by the recovery of non-current deposits of \$0.1 million. In 2022, capital expenditures accounted for nearly all of our investing activities. Capital expenditures during the 2022 period were higher than in 2023 and largely related to system upgrades and transitioning our Data and Analytics Services segment to our Oracle Cloud platform.

*Cash flows (used in) financing activities:*

Cash (used in) financing activities for the nine months ended September 30, 2023 totaled (\$1.5 million) and consisted of (\$1.1 million) of term loan repayments and the purchase of treasury shares under our share repurchase program of (\$0.6 million), partially offset by \$0.2 million related to proceeds from the issuance of shares of common stock under the Employee Stock Purchase Plan. Cash (used in) financing activities for the nine months ended September 30, 2022 totaled (\$9.4 million) and consisted of (\$10.9 million) of term loan repayments, partially offset by \$1.5 million related to the issuance of common stock applicable to the Company’s Employee Stock Purchase Plan and 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, although economic uncertainty, including the concerns of our clients and other companies with respect to inflationary conditions in North America and elsewhere, has had and may continue to have an adverse impact on the demand for our services. On an ongoing basis, we attempt to minimize any effects of inflation on our operating results by controlling operating costs and, whenever possible, seek to ensure that billing rates reflect increases in costs due to inflation. However, high levels of inflation may result in higher interest rates which could increase our cost of borrowings.

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

*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 13 to the accompanying financial statements.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

***Interest Rates***

As of September 30, 2023, we had no outstanding borrowings under our Credit Agreement with PNC Bank — Refer to Note 8 – “Credit Facility” in the Notes to Condensed Consolidated Financial Statements, included herein.

***Currency Fluctuations***

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

**ITEM 4. CONTROLS AND PROCEDURES**

***Disclosure Controls and Procedures***

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

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

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

**Changes in Internal Control over Financial Reporting**

There were no changes in the Company's internal control over financial reporting during the quarter ended September 30, 2023 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

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

**ITEM 1A. RISK FACTORS**

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

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

A summary of our Common Stock repurchased during the quarter ended September 30, 2023 is set forth in the following table:

<u>Period</u>	<u>Total Number of Shares Purchased (1)</u>	<u>Average Price per Share (1)</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under this Plan or Programs (1)</u>
July 1, 2023 — July 31, 2023	—	\$ —	—	437,639
August 1, 2023 — August 31, 2023	—	\$ —	—	437,639
September 1, 2023 — September 30, 2023	—	\$ —	—	437,639
Total	—	\$ —	—	437,639

- (1) On February 8, 2023, the Company announced that the Board of Directors authorized a share repurchase program of up to 500,000 shares of Common Stock over a two-year period. Repurchases under the program may occur from time to time in the open market, through privately negotiated transactions, through block purchases or other purchase techniques, or by any combination of such methods, and the program may be modified, suspended or terminated at any time at the discretion of the Board of Directors. The Company did not repurchase any shares of its Common Stock during the quarter ended September 30, 2023.

## Table of Contents

### **ITEM 6. EXHIBITS**

#### (a) Exhibits

31.1	<a href="#"><u>Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer is filed herewith.</u></a>
31.2	<a href="#"><u>Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Financial Officer is filed herewith.</u></a>
32.1	<a href="#"><u>Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by the Chief Executive Officer is furnished herewith.</u></a>
32.2	<a href="#"><u>Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by the Chief Financial Officer is furnished herewith.</u></a>
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.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 10th day of November, 2023.

November 13, 2023

MASTECH DIGITAL, INC.

/s/ VIVEK GUPTA

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**Vivek Gupta**  
**Chief Executive Officer**

/s/ JOHN J. CRONIN, JR.

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

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

I, Vivek Gupta, certify that:

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

MASTECH DIGITAL, INC.

Date: November 13, 2023

/S/ VIVEK GUPTA

**Vivek Gupta**  
**Chief Executive Officer**

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

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

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

MASTECH DIGITAL, INC.

Date: November 13, 2023

/S/ JOHN J. CRONIN, JR.

**John J. Cronin, Jr.**  
**Chief Financial Officer**



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

In connection with the Quarterly Report of Mastech Digital, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Vivek Gupta, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

/S/ VIVEK GUPTA

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Vivek Gupta

***Chief Executive Officer***

Date: November 13, 2023

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

In connection with the Quarterly Report of Mastech Digital, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John J. Cronin, Jr. Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

/S/ JOHN J. CRONIN, JR.

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John J. Cronin, Jr.

**Chief Financial Officer**

Date: November 13, 2023