

Mastech Digital, Inc.
Form 10-K
March 29, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2018

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

Commission File Number 001-34099

MASTECH DIGITAL, INC.

(Exact name of registrant as specified in its charter)

PENNSYLVANIA
(State or other jurisdiction of
incorporation or organization)

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

1305 Cherrington Parkway, Building 210, Suite 400

Moon Township, PA
(Address of principal executive offices)

15108
(Zip Code)

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

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

Title of each class	Name of exchange on which registered
Common Stock, \$.01 par value	NYSE American
Securities registered pursuant to Section 12(g) of the Act: None	

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

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

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The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2018 (based on the closing price on such stock as reported by NYSE American on such date) was \$31,758,000

The number of shares of the registrant's Common Stock, par value \$.01 per share, outstanding as of March 15, 2019 was 11,000,946 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement, prepared for the Annual Meeting of Shareholders scheduled for May 15, 2019 to be filed with the Commission, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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MASTECH DIGITAL, INC.

2018 FORM 10-K

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PART I

Forward-Looking Statements

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

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

changes in general U.S. and global economic conditions and economic conditions in the industries in which we operate;

our ability to retain existing clients and obtain new clients;

changes in competitive conditions;

our ability to introduce new service offerings;

availability of and retention of skilled technical employees and key personnel;

technological changes;

changes in accounting standards, rules and interpretations;

many of our contracts are terminable by clients without penalty;

changes in immigration laws, patterns and other factors related to visa holders;

liabilities and unanticipated developments resulting from litigations, regulatory investigations and similar matters;

fluctuations due to currency exchange rate variations;

changes in U.S. laws, rules and regulations, including the Internal Revenue Code;

changes in India's geopolitical environment, laws, rules and regulations;

the impact and success of new acquisitions; and

management's ability to identify and manage risks.

breach of our systems due to a cyber security attack.

ITEM 1. BUSINESS

Overview

Mastech Digital, Inc. (referred to in this report as Mastech Digital, Mastech, the Company, us, our or we) is a provider of Digital Transformation IT Services. The Company offers data management and analytics services; other digital transformation services around Salesforce.com and Digital Learning; and IT staffing services for both digital and mainstream technologies. Headquartered near Pittsburgh, Pennsylvania, we have approximately 1,300 consultants that provide services across a broad spectrum of industry verticals. From

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July 1986 through September 2008, we conducted our business as subsidiaries of iGATE Corporation (iGATE). We do not sell, lease or otherwise market computer software or hardware, and essentially 100% of our revenue is derived from the sale of data and analytics, IT staffing and digital transformation services.

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

Our IT staffing 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.

Our digital transformation services include staffing and project-based services around Salesforce.com and Digital Learning.

Sales and marketing of our services are handled by separate and distinct sales organizations within each of our two operating segments. Our data and analytic services are marketed through 1) account executives who largely focus on new business development; and 2) technical relationship managers who focus on growing strong relationships within existing clients. Both account executives and technical relationship managers reside in either the U.S. or Canada. Our IT staffing and digital transformation services are conducted through account executives across the U.S. who deploy a telesales model, supplemented with client visits. This cost-effective model is aimed at integrator and other staffing clients, with a need to supplement their abilities to attract highly-qualified temporary IT personnel. Additionally, we use a branch service sales model in select geographies within the U.S. The branch services model employs local sales and recruitment resources, aimed at establishing strong relationships with both clients and candidates. We recruit through global recruitment centers located in the U.S. and India that deliver a full range of recruiting and sourcing services. Our centers employ approximately 200 recruiters and sourcers that focus on recruiting U.S.-based candidates to service a geographically diverse client base in the U.S. Our ability to respond to client requests from our offshore recruiting centers, with investment in sourcing and recruiting processes, expanded search coverage, round-the-clock sourcing, and frequent candidate contact, gives us the ability to deliver high-quality candidates to our clients in a timely fashion.

History and Developments

Historically, we operated as the former Professional Services segment of iGATE. Mastech Digital, Inc. was incorporated in Pennsylvania as a wholly-owned subsidiary of iGATE on June 6, 2008 in anticipation of our spin-off from iGATE. On September 30, 2008, we spun-off from iGATE and began operating as an independent public company. Our operating subsidiaries have 32 years of history as reliable providers of IT staffing services.

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

differentiated recruiting pool when compared to many of our competitors.

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

During 2010, we made two strategic moves designed to enhance and expand our service offerings. In January 2010, we acquired Curastat, Inc., an Arizona-based specialized healthcare staffing organization. This acquisition, along with the creation of Mastech Healthcare, Inc., expanded our service offerings into the healthcare staffing space. Also in January 2010, we sold our brokerage staffing business, thus focusing on our IT and healthcare staffing operations.

In August 2013, we sold our healthcare staffing operations to focus entirely on our core IT staffing business.

During the fourth quarter of 2014, we established a technology center to evaluate practice opportunities for high-demand IT skill-sets and emerging technologies. In 2015, we embarked on our first technology practice, Salesforce.com.

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

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

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

In 2018, we expanded our Master Data Management and Big Data Services offerings within our Data and Analytics Services segment.

Recent Developments

On July 24, 2018, the Company's Board of Directors declared a two-for-one stock split of the Company's common stock. The Board determined that this action was in the best interest of the Company after a review of the Company's current financial position, business outlook and share trading patterns. The record date for the stock split was August 13, 2018. Shareholders of record as of the close of business on the record date received one new share of common stock of the Company for every share that they owned on such date. The distribution of the new shares was made on August 24, 2018. The earnings per share calculations and share data for all periods presented have been recast to reflect the impact of the stock split on outstanding shares.

Operating Segments

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

Inc.

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Data and Analytics Services

Our Data and Analytics Services segment is the result of our acquisition of the services business of InfoTrellis, Inc., a Canada-based organization with locations in Toronto, Canada, Austin, TX and Chennai, India. The acquisition was completed in July 2017, and the resulting business segment is marketed as Mastech InfoTrellis, a brand that combines the attributes of both Mastech Digital and InfoTrellis, Inc. This segment provides specialized capabilities in delivering data management and analytics services to customers globally. Our business offers project-based consulting services in the areas of Master Data Management, Enterprise Data Integration, Big Data, Analytics and Digital Transformation, all of which can be delivered using onsite and offshore resources. In 2018, we expanded our capabilities in Master Data Management and Big Data aimed at broadening our reach within these two important service offerings.

Sales and Marketing

Marketing for Mastech InfoTrellis occurs in an integrated way, through a combination of pull-marketing and push-marketing methods. Pull-marketing occurs when content is generated in different forms and marketed digitally to the target groups encouraging inquiries from business prospects. Targeted webinars are also conducted on topics that are relevant to our customers' business and may therefore result in potential business conversations. Outbound or push-based marketing occurs by circulating emails and placing telephone calls to business prospects, thereby soliciting inquiries and striking conversations for new business development.

Mastech InfoTrellis' business leaders, principals and sales personnel establish relationships with C-level executives and/or technology decision makers within client organizations. Being among the original thought leaders in the Master Data Management space, the executives of Mastech InfoTrellis are situated in an ideal position to solicit business through prospects' key executives.

Our sales cycle usually commences once a prospective customer recognizes there is a challenge around its data management processes. Our sales team then collaborates with the principals in Mastech InfoTrellis and customizes a solution for the prospect. We provide a demonstration of a proposed solution to the prospective customer, after which the customer typically signs a master services agreement to implement the proposed solution. For those technology programs that we deliver, we generally invoice on a monthly basis or based on agreed-upon project milestones.

Projects are usually awarded on a time and material basis or on a fixed-cost basis.

Project Delivery

Mastech InfoTrellis' project management is implemented using a Global Delivery Model that combines leadership, resourcing and execution across the U.S., Canada and India. All of the principals and sales personnel of Mastech InfoTrellis are based across the U.S., and Canada. The principals are key leaders at Mastech InfoTrellis who steer clients throughout the data management programs. Our principals have extensive experience in successfully delivering multiple data management projects to different business verticals. After a project commences, a delivery team is established to execute the program. This delivery team contains a blend of resources from North America and India. All projects follow our proprietary SMART Methodology.

Service Offerings

Mastech InfoTrellis' technology offerings can be categorized into five major service categories:

Master Data Management
Enterprise Data Integration
Big Data
Analytics
Digital Transformation

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Under these five categories, Mastech InfoTrellis provides the following services:

- | | |
|---------------------------|--------------------|
| Needs Assessment | Performance Tuning |
| Program Roadmap | Production Support |
| Solution Architecture | Health Check |
| Design and Implementation | Solution Upgrade |

Technology Focus

Mastech InfoTrellis has expertise across a broad range of technology skill sets and platforms as part of its five key offerings, including the following:

Master Data Management

- Informatica Intelligent Master Data Management
- Informatica Product 360
- IBM InfoSphere Master Data Management
- Reference Data Management
- Infa Stack Solutions

Data Governance & Enterprise Data Integration

- | | |
|--|------------------------------------|
| Collibra Data Governance | Informatica Hybrid Cloud |
| IBM InfoSphere Information Analyzer | Informatica Data Quality |
| IBM Information Integration Server | SAP PI |
| Informatica Intelligent Data Integration | Microsoft Integration Technologies |

Big Data & Analytics

- | | |
|--|---|
| Customer 360 | IBM Big Data Solutions Apache Hadoop
Hortonworks |
| AllSight Customer Intelligence Management System | Amazon Redshift Cloud Data Warehouse |
| Big Data Analytics Hub | Analytics models in R/Python |
| | Predictive and Prescriptive modeling |
| | Data Lakes Development |

- Informatica Intelligent Data Integration

Digital Transformation

- Omni-channel enablement
- Marketing Automation
- Data Visualization

Mastech InfoTrellis helps customers in strategizing, implementing and supporting programs across these technologies and platforms.

Geographic and Vertical Focus

Most of Mastech InfoTrellis customers are located in the U.S. and Canada, however, we do have customers globally as well in Europe, the Middle East and in the Asia-Pacific region. The target clients are largely corporations with revenues exceeding \$500 million. The average project value generally ranges between \$500,000 to \$3 million depending on the construction of the agreement. From a vertical perspective, customers in

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the financial services, retail, healthcare, manufacturing and government segments are significant users of our services. Below is a breakdown of customer revenue percentages for each industry vertical in 2018:

Retail	25%	Manufacturing	16%
Financial Services	22%	Government	10%
Healthcare	16%	Other	11%

IT Staffing Services

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

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

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

Sales and Marketing

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

Selling is conducted through account executives utilizing a sales model which is desirable to our clients' needs. For clients with a need to supplement their own abilities to attract highly-qualified temporary IT personnel and prefer a low-touch sales model, such as integrator and staffing clients, we generally deploy a centralized telesales model, complemented with client visits. We supplement these domestic sales efforts through our sales organization in India, whose account executives target smaller IT staffing clients utilizing a cost-effective offshore telesales model. For end-user clients, who typically prefer a higher-touch sales model, we generally utilize a branch service model which deploys sales and recruitment resources locally, or regionally, in select geographies within the U.S. Account executives generally are responsible for a combination of new business development efforts and expanding existing

client relationships. Account executives at our branch operations call on, and meet with, potential new customers and are also responsible for maintaining existing client relationships within their geographic territory. These account executives are paired with recruiters and both receive incentive compensation based on revenue generation activities using a localized sales and recruitment model.

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

Permanent placement activities are largely by-products of conducting our core contract staffing business. During 2018, permanent placement fees continued to represent less than 1% of total revenues.

Recruiting

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

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

In 2016, we closed our offshore recruitment office in Bangalore, India and concentrated all of our offshore recruitment efforts exclusively in NOIDA, a town near New Delhi. In late 2014, we significantly expanded our offshore recruitment offices in NOIDA which gave us the ability to nearly double our recruiter seats. This facility provides our offshore organization with state-of-the-art infrastructure and workforce amenities to attract top-quality recruiters and sourcers. This centralized offshore facility also affords us the ability to improve operational efficiencies compared to operating two offshore facilities.

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

Technology Focus of our IT Staffing and Digital Transformation Services

Our staffing delivery teams, spread across the U.S. and India, are segmented by technologies, allowing us to reach deep and wide in our understanding of technology domains. The delivery teams work in an integrated manner to provide quality IT talent with a faster turnaround time than many of our competitors. We have long-standing engagements with marquee brands such as Salesforce.com, Inc., Oracle Corporation, Accenture PLC and other premier global enterprises across various industries.

IT Staffing Digital Technologies

Recognizing that a new breed of IT professionals, who are adept in digital technologies are in high demand, we enhanced our recruitment capabilities to focus on digital technology skill sets. Today, Mastech Digital provides its

clients with the ability to secure skill sets that encompass social, mobile, analytics, cloud-based

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technologies and automation. IT staffing for digital technologies is growing much faster than mainstream technologies, a trend that is expected to continue into the future. Digital technologies include the following areas:

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

IT Staffing Mainstream Technologies

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

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

Digital Transformation Services

Our Digital Transformation Services focus on providing solutions for CRM on the cloud through Salesforce.com and using digital methods to enhance organizational learning.

Salesforce.com: Mastech Digital has experience and exposure in building the most efficient roadmap for implementation, integration and upgrades of Salesforce.com solutions. Our expertise across the Salesforce.com product suite delivers value that contributes to the digital transformation of our client's enterprise-including deployment of Sales Cloud, Service Cloud, Marketing Cloud, Force.com based applications and integration with our mainstream and ERP systems. We were recently recognized as a registered consulting partner of Salesforce.com, lending more credibility to our practice.

Digital Learning Services: Our Digital Learning practice provides custom training programs for different organizational needs. With rich experience and proven success in handling several learning and performance engagements across industries, Mastech Digital's team combines digital and physical modes of learning methods to ensure unified organizational behavior and augmented performance across teams. Mastech Digital's Learning Paradigm consists of Web-based Learning, Mobile Learning, Social Learning, Hybrid Learning and Virtual Learning.

Geographic Presence & Industry Verticals

All of our IT staffing services revenues are generated from services provided in the U.S. We market our services on a national basis and have the ability to provide services in all 50 U.S. States. Our geographical concentration tends to

track major client locations, such as California, Texas, Pennsylvania, Florida and Massachusetts, and in large metropolitan areas such as Chicago, New York City and Washington, D.C.

We provide these services across a broad spectrum of industry verticals including: financial services, government, healthcare, manufacturing, retail, technology, telecommunications, education and transportation.

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Below is a breakdown of our IT Staffing billable consultant base by industries that represented at least 4% of our billable consultants as of December 31, 2018:

Financial Services	44%	Government	8%
Telecom	10%	Manufacturing	4%
Healthcare	8%	Technology	4%
		Other	22%

Mastech Digital, Inc.*Employees*

At December 31, 2018, we had approximately 1,100 North American employees and 400 employees offshore, in addition to over 180 subcontracted professionals. None of our employees are subject to collective bargaining agreements governing their employment with our Company. We employ our consultants on both an hourly and salary basis. A large portion of our salaried employees are H1-B visa holders. We enjoy a good reputation within the H1-B visa community, which allows us to access a very broad candidate pool. The majority of our hourly employees are U.S. citizens. On average, we maintain a balanced composition of salaried and hourly employees. We believe that our employee relations are good.

Intellectual Property Rights

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

Seasonality

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

Our Competitive Position

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

We believe that the principal competitive factors for securing and building client relationships are driven by the ability to precisely comprehend client requirements and by providing highly-qualified personnel who are motivated to meet or exceed a client's expectations. We must be able to do this efficiently to provide speed to market with pricing that is competitive and represents value to our clients. The principal competitive factors in attracting qualified personnel are

compensation, availability, location and quality of projects and schedule flexibility. We believe that many of the professionals included in our database may also pursue other employment opportunities. Therefore, our responsiveness to the needs of these professionals is an important factor in our ability to be successful.

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Our Strengths

We believe our strengths compared to industry peers include:

Established client base

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

Operational excellence

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

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

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

Minority-owned status

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

Attractive financial profile

We have historically enjoyed a lower operating cost structure than our industry peers due to our low cost telesales in our IT Staffing Services segment and our offshore delivery models in both of our operating segments. These business models are cost-effective and allow us to quickly adjust our costs to changes in our business environment. Our blue-chip client base has ensured high quality accounts receivable and a strong and predictable cash flow conversion metric.

Expertise in high-demand digital transformation IT skills

We have substantial expertise in certain advanced technology IT skills including: cloud, mobile, data & analytics, social media, artificial intelligence/machine learning; Salesforce.com; and digital learning. We also have the capacity

to take advantage of demand growth in these sectors, as we are well positioned in terms of scale, technical capabilities, and client base.

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Experienced management team

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

Business leaders of our data and analytics services business were part of the original thought leaders in Master Data Management space, which lends significant credibility to this segment's service offerings.

Reportable Financial Segments

The Company has two reportable segments in accordance with Accounting Standards Codification (ASC) Topic 280 Disclosures about Segments of an Enterprise and Related Information. Refer to Note 17 Business Segments and Geographic Information to our Consolidated Financial Statements included in Item 8 herein for information about our two reportable segments.

Government Regulation

We recruit IT professionals on a global basis from time to time and, therefore, must comply with the immigration laws in the countries in which we operate. As of December 31, 2018, approximately 37% of our workforce were working under Mastech Digital sponsored H1-B temporary work permits. Statutory law limits the number of new H1-B petitions that may be approved in a fiscal year. Legislation could be enacted limiting H1-B visa holders' employment with staffing companies. In recent years, the vast majority of our H1-B hires were not subject to the annual quota limiting H1-B visas because they were already in the U.S. under H1-B visa status with other employers. Additionally, the U.S. Congress has recently considered, and may consider in the future, extensive changes to U.S. immigration laws regarding the admission of high-skilled temporary and permanent workers. Such changes, if enacted, may impact the types of H1-B temporary work permits that may be granted or the number of available H1-B temporary work permits, which in turn may have a negative impact on our revenues and profits.

Available Information

Our headquarters are located at 1305 Cherrington Parkway, Building 210, Suite 400, Moon Township, Pennsylvania 15108, and our telephone number is (412) 787-2100. The Company's website is www.mastechdigital.com. Our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to these reports are available free of charge by accessing the Investors page of the Company's website as soon as reasonably practical after such reports are filed with the Securities and Exchange Commission (the SEC).

ITEM 1A. RISK FACTORS

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

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

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

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

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

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

Government regulation of H-1B visas may materially affect our workforce and limit our supply of qualified IT professionals, or increase our cost of securing workers.

We recruit IT professionals on a global basis and, therefore, must comply with the immigration laws in the countries in which we operate, particularly the U.S. As of December 31, 2018, approximately 37% of our workforce was working under Mastech Digital sponsored H1-B temporary work permits. Statutory law limits the number of new H1-B petitions that may be approved in a fiscal year, and if we are unable to obtain H1-B visas for our employees in sufficient quantities or at a sufficient rate for a significant period of time, our business, operating results and financial condition could be adversely affected. Additionally, legislation could be enacted limiting H1-B visa holders employment with staffing and data analytics companies, which could result in reduced revenues and/or a higher cost of recruiting.

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

business, operating results or financial condition.

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

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

Immigration reform continues to attract significant attention in the public arena and in the current U.S. administration and Congress. If new immigration legislation is enacted in the U.S. or in the other jurisdictions in which we do business, such legislation may contain provisions that could make it more difficult or costly for us to recruit and retain IT professionals, and to a lesser extent data and analytics professionals. Additionally, there is uncertainty as to the position the U.S. will take with respect to immigration under the Trump administration. As a result, we may incur additional costs to run our business or may have to change the way we conduct our operations, either of which could have a material adverse effect on our business, operating results and financial condition. Also, we cannot be assured that the enforcement of immigration laws by governmental authorities will not disrupt our workforce.

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

In 2017, U.S. Congress and the Trump administration made substantial changes to U.S. policies, which included comprehensive corporate and individual tax reform. In addition, the Trump administration has called for significant changes to U.S. trade, healthcare, immigration and government regulatory policy. Some of the called-for changes would require Congressional approval, while others have already been, and may in the future be carried out unilaterally by the executive branch of the U.S. government. To the extent the U.S. Congress or Trump administration implements changes to U.S. policy, those changes may impact, among other things, the U.S. and global economy, international trade relations, unemployment, immigration, healthcare, the U.S. regulatory environment, inflation and other areas. Although we cannot predict the impact, if any, of these changes to our business, they could adversely affect our business. Until we know what policy changes are made and how those changes impact our business and the business of our competitors over the long term, we will not know if, overall, we will benefit from them or be negatively affected by them.

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

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

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

Within our IT staffing segment, many large users of staffing services are employing MSPs to manage their contractor expenses in an effort to drive down overall costs. The impact of this shift towards the MSP model has been to lower our gross margins. Should this trend towards utilizing the MSP model continue, it is likely that our gross margins will be pressured in the future. In addition, if large users of staffing services continue to employ MSPs, the relationship between us and those large users may be primarily conducted through MSPs, in which case we may have difficulty

maintaining those client relationships because the MSP model uses the MSP as an intermediary between the staffing service provider and the end-user, and reduces our direct contact with the end-user.

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