

Mastech Holdings, Inc.
Form 10-K
March 17, 2011
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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, 2010

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

Commission File Number 001-34099

MASTECH HOLDINGS, 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.)

1000 Commerce Drive, Suite 500

Pittsburgh, PA
(Address of principal executive offices)

15275
(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 AMEX

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark 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 a 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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2010 (based on the closing price on such stock as reported by NYSE Amex on such date) was \$4,964,887.

The number of shares of the registrant's Common Stock, par value \$.01 per share, outstanding as of February 28, 2011 was 3,691,356 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement, prepared for the Annual Meeting of Shareholders scheduled for May 11, 2011 to be filed with the Commission, are incorporated by reference into Part III of this report.

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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 term under the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and involve certain risk, 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, and similar expressions are intended to identify such forward-looking statements. You should not rely solely on the forward-looking statements and should consider all uncertainties and risk 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. 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 skilled technical employees;

technological changes;

changes in accounting standards, rules and interpretations;

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

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

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

the impact of new acquisitions; and

management's ability to identify and manage risks.

ITEM 1. BUSINESS

Overview

Mastech Holdings, Inc. (referred to in this report as "Mastech", the "Company", "us", "our" or "we") is a provider of IT and specialized healthcare staffing services. Headquartered in Pittsburgh, Pennsylvania, we have approximately 500 consultants that provide services across a broad spectrum of industry verticals. From 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 100% of our revenue is derived from the sale of staffing services.

Our IT staffing business combines technical expertise with business process experience to deliver a broad range of services within business intelligence / data warehousing; web services; enterprise resource planning & customer resource management; and eBusiness solution. We work with businesses and institutions with significant IT spending and recurring staffing needs. We also support smaller organizations with their project focused temporary IT staffing requirements.

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Sales and marketing of our IT staffing business is conducted through account executives within two sales channels (wholesale and retail). Much of these efforts employ a cost-effective telesales model, supplemented with selective travel and client visits. The wholesale channel consists of system integrators and other IT staffing firm clients, with a need to supplement their abilities to attract highly-qualified temporary technical computer personnel. The retail channel focuses on clients that are end-users of staffing services. This channel includes our branch services operations, which focuses on clients that are end users of staffing services in select geographies within the U.S. The branch services model employs local sales and recruitment, aimed at establishing strong relationships with both clients and candidates. The balance of the retail channel consists primarily of end users who have retained a third party to provide vendor management services (a managed service provider or MSP) and to centralize the consultant hiring process.

Our healthcare staffing business provides specialized healthcare professionals to hospitals and other healthcare facilities. Our specialized professionals include surgical nurses, occupational and physical therapists and locum tenens physicians. These service offerings utilize sales and recruitment models focused on establishing long lasting relationships with both clients and candidates.

We recruit through Global Recruiting Centers located in the U.S. and India that deliver a full range of recruiting and sourcing services. Our centers employ approximately 60 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 due to our offshore recruiting capabilities, with investment in sourcing and recruiting processes, expanding 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 Development

Historically, we operated as the former Professional Services segment of iGATE Corporation (iGATE). Mastech Holdings, Inc. was incorporated in Pennsylvania as a wholly-owned subsidiary of iGATE on June 6, 2008 in anticipation of our spin-off from iGATE. On September 30, 2008, we spun-off from iGATE and began operating as an independent public company. Our operating subsidiaries have 25 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 2000 s, the demand for IT professionals cooled 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, the Company retooled its recruiting model to focus on the recruitment of U.S.-based IT talent. Given the Company s 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 the Company access to a larger and differentiated recruiting pool compared to many of our competitors.

In 2003, the Company launched its offshore Global Recruitment Center model in an effort to meet an increase in industry demand with lower cost recruiting resources. Over the last seven years, the Company has made significant investment in these centers to improve infrastructure, processes and effectiveness. Additionally, in recent years we have made key investments in our domestic recruitment structure, primarily to support our branch services operations within the IT retail channel.

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

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Our Business

Our revenues are principally generated from contract staffing services that are provided on a time and material basis. Typically, we 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 terms 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. Contractual consultant specific details, such as billable rates, are documented as an annex to the agreement type that is chosen by the client.

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 terms of our agreement. Typical credit terms require our invoices to be paid within 30 days from receipt by the client.

While our primary focus is on contract staffing 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 primarily on businesses and institutions with significant budgets and recurring staffing needs. We constantly look to develop relationships with new clients. In addition, we continuously work to penetrate our existing client relationships to deeper levels.

Our marketing is conducted through account executives within three sales channels (IT wholesale, IT retail and specialized healthcare). Our IT consultants and their skill sets can be marketed within both IT sales channels. There are numerous occasions where a consultant will end a project within one channel and immediately start a new project within the other channel. When a consultant is on paid bench (between projects) account executives from both IT sales channels have the ability to market the consultant within their respective client base.

The wholesale IT channel consists of system integrators and other IT staffing firm customers with a need to supplement their abilities to attract highly-qualified temporary technical computer personnel. Revenues from this channel represented 64% of our total revenues in 2010. Over the last several years, more of our IT revenues have come from the wholesale channel as a percentage of total revenues. Most of our strategic relationships in this channel are established at the vice president / sales director level. Account executives generally are responsible for expanding existing client relationships. We supplement these marketing activities through our sales organization in India, whose account executives target smaller IT staffing clients within the wholesale channel. Generally, these account executives call (telesales) on potential new customers within an assigned U.S. territory.

Our retail IT channel focuses on customers that are end-users of IT staffing services. Revenues from this channel represented 27% of our total revenues in 2010. 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. Account executives are paired with recruiters and both receive incentive-based

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compensation based on revenue generation activities using a localized sales and recruitment model. Within the retail channel, many end users of IT staffing services have retained 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 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.

Our healthcare channel consists of hospitals and healthcare facility clients with a need to supplement their existing staff of nurses, therapists and physicians. Revenues from this channel represented 8% of our total revenues in 2010. Account executives at our healthcare operations call on, and meet with, both existing and prospective clients within an assigned geographic territory. Account executives work closely with local recruiters to match available candidates with outstanding client needs.

Permanent placement activity can be generated from all three of our sales channels. However, such opportunities are largely by-products of conducting our core staffing business. During 2010, permanent placement fees were approximately 1% of total revenues.

Recruiting

We operate seven global recruiting centers located in the U.S. and three in India that deliver a full range of recruiting and sourcing services. Our centers employ approximately 60 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, expanding 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 have continued to invest in leading technologies and recruitment tools to enhance efficiency. For example, we use web-based tools to expand the reach of our candidate searches. We also employ a state-of-the art applicant tracking system that has proprietary toolkits and job board / internet interfacing capabilities, resulting in further operational efficiencies.

We have access to a large and differentiated recruiting pool due to our brand recognition with both W-2 hourly 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 an equal balance of H1-B and W-2 hourly employees. We believe that this balanced mix allows us to tap a broader candidate pool than our primary competition.

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Technology Focus of our IT Operations

We provide technologies and maintain strategic relationships with industry leaders, such as IBM and Oracle, in many high demand areas. Our IT staffing services are concentrated in the following areas:

SOA / Web Services	ERP / CRM / PILC	BI / DW	eBusiness Solutions
SOA architecture	End-to-end implementation	Assessment	Development of e-Commerce portals (B2B / B2C / B2E)
Business process analysis and redesign	ERP program management	ETL	Integration of e-Commerce portals with backend applications
Modeling using rational unified process (RUP)	Business process analysis and redesign	Enterprise data warehousing / customized data warehousing / data marts	Legacy systems integration
End-to-end implementation	Gap analysis	Balanced scorecards	Architecture enhancement development
Web Services development	Configuration, customization and implementation	Data mining	Application framework development
Migration from legacy interfaces	Maintenance, production support and help desk	Business process re-engineering	Package implementation
	Upgrades	Enterprise data modeling	Testing and database administration
	Enhancements new functionality, new modules	Metadata management	
		Data stewardship	
	Application integration		

Service Oriented Architecture (SOA) and Web Services

Our SOA / Web Services practice is built on successful client work with Web Services, enterprise integration projects, and SOA-specific client engagements. The mission of the SOA / Web Services practice is to provide clients with the framework and resources to consolidate and integrate numerous technologies in the most cost-effective manner possible. We work with our partners to develop methods that identify service function points that should be bundled into specific services.

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Our consultants work to provide our clients with a framework that better utilizes the technologies running across the enterprise. Our business process experts work hand-in-hand with technical consultants to streamline and maximize the value of its clients' systems and interfaces.

Enterprise Solutions including Enterprise Resource Planning (ERP), Customer Relationship Management (CRM) & Package Implementation Life Cycle (PILC)

Our Enterprise Solutions practice helps clients design and implement Enterprise Resource Planning and Customer Relationship software. We have expertise in assisting clients at all stages of an enterprise solutions life cycle, resulting in long lasting relationships.

The Enterprise Solutions Life Cycle includes the following phases:

Project Initiation Phase

Definition Phase

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Development Phase

Deployment Phase

Support Phase

We have completed numerous projects in the ERP space, which range from the implementation of stock systems to fully customized applications. Our consultants are well versed in the leading ERP solutions, including SAP, PeopleSoft, Oracle Applications and JD Edwards and their functional experience crosses many disciplines including the following areas:

Finance and Accounting

Inventory and Purchasing

Project Billing and Costing, Sales, Distribution and Services

Manufacturing (including Planning)

Marketing and Call Center Support

Product Data Management and Data Warehousing

Supply Chain Management

Human Capital Solutions

Customer Relations Management

Business Intelligence and Data Warehousing

We have expanded our value proposition to clients by developing a Business Intelligence and Data Warehousing practice that provides technical and functional expertise. Our Business Intelligence and Data Warehousing practice specializes in helping clients navigate enterprise-wide IT infrastructure, utilizing best practices to create a roadmap for realizing the full benefits of their investment. This practice is comprised of technical and functional consultants who work with clients to achieve the following objectives:

- 1) Increase data accuracy and consistency:

Define consistent data definitions and data standards

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Develop metadata to drive data cleansing and aid user understanding

- 2) Provide the right data to the right people at the right time:

Provide users with complete and easy access to all data

Design a model that focuses on database performance

Add additional elements and aggregations to improve analysis and modeling

- 3) Increase productivity and flexibility.

- 4) Access data through central solution:

Design models based on analysis requirements of the customer to improve productivity

Access to the data warehouses using the standard tool set

Provide flexible and modular architecture to meet changing business needs

- 5) Reduce complexity:

Decommission redundant systems

Transition reporting and analysis

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e-Business Solutions

We have a long history of being a leading provider of Web-based consulting services. Our consultants have worked on some of the largest and most prestigious eCommerce applications in existence today. Our Web development practice provides services at every stage of Web development, including business process assessment, software selection, implementation expertise and post-implementation support services. We offer a full range of certified Web professionals including engagement managers, project managers, data/technical architects, business analysts and technical developers. We have a proven track record and expertise in the following Web technologies:

1) Microsoft technologies (Net, MS Web Services, IIS, MTS and others)

2) Java and related technologies including:

J2EE

IBM Websphere

WebLogic

Apache

Open Source software

XML-based technology

N-tier architecture applications

Web-enabling existing applications

Specialized Focus of Healthcare Operations

Our healthcare staffing services are focused on the following specific areas:

Surgical nurses

Physical therapists

Occupational therapists

Speech therapists

Locum Tenens physicians

Geographic Presence & Industry Verticals

All of our 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 states. Our geographical concentration tends to track major client locations, such as California, Texas, Pennsylvania and the Washington, D.C. area for our IT operations; and Illinois, Arizona and New Mexico for our healthcare operations.

We provide our IT services across a broad spectrum of industry verticals including: Automotive, Consumer Products, Education, Financial Services, Government, Healthcare, Manufacturing, Retail, Technology, Telecommunications, Transportation and Utilities. Below is a breakdown of our IT billable consultant base by industry as of December 31, 2010:

Healthcare: 23%	Telecom: 8%
Technology: 22%	Retail: 6%
Financial Services: 18%	Other: 13%
Government: 10%	

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Clients

Our client-base consists of large, medium-sized and small companies that span across multiple industry verticals. IBM and Tek Systems are our top two clients representing 19.1% and 10.3% of total 2010 revenues, respectively. Our services to IBM and Tek Systems generally supplement their needs for IT professionals to staff end-client projects. Approximately 57% of our total revenues were generated from our top ten clients during 2010.

Employees

At December 31, 2010, we had approximately 460 U.S. employees and 70 employees offshore. 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. Most of our salaried employees are H1-B technical visa holders. We enjoy a good reputation within the H1-B visa community, which allows us to tap a very broad candidate pool. Most 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.

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 and higher benefit costs during the fourth quarter.

Our Competitive Position

We operate in a highly competitive and fragmented industry, with low barriers to entry. We compete 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. Many of our competitors are significantly larger and have greater financial resources in comparison to the Company. We believe that the principal competitive factors for securing and building client business relationships are driven by our ability to precisely comprehend our clients' requirements in the way of skills and abilities and by providing highly qualified consultants who are motivated to meet or exceed our clients' expectations. We must be able to do this efficiently to provide speed to market with pricing that is competitive and represents value to both our clients and our consultants. The principal competitive factors in attracting qualified personnel are compensation, availability, location and quality of projects and schedule flexibility. We believe that many of the professionals included in our database may also pursue other employment opportunities. Therefore, our responsiveness to the needs of these professionals is an important factor in our ability to be successful.

Our Strengths

We believe our strengths compared to industry peers include:

Established client base

Our client base consists of large, medium-sized and small companies that span across multiple industry verticals. Long-standing relationships with corporate clients, blue-chip IT integrators and MSPs are a core component of our future growth strategy. These relationships, coupled with our consistently low customer attrition rate, reflect our focus and commitment to our customers.

Operational excellence

In the staffing services business, operational excellence largely relates to a firm's ability to effectively recruit high quality talent. Our offshore recruitment operations 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.

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Attractive financial profile

We have historically enjoyed higher operating margins than our industry peers due to our low cost telesales and offshore recruiting models. These business models allow us to quickly adjust our cost structure 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.

Experienced management team

Our management team, comprised of business leaders with deep industry experience, is a unique blend of executives with significant Mastech experience and others who have held leadership roles at many of our industry peers. We believe that this mix of talent allows us to capitalize on the positives of our existing business model and at the same time improve our service offerings and long term strategy for future growth.

Human resources model focused on employees

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 below industry averages.

Expertise in high-demand IT skills

We have substantial expertise in certain IT skills including: enterprise resource planning and customer resource management; service oriented architecture and web services; business intelligence and data warehousing; and web development. We also have the capacity to take advantage of the demand and growth in these sectors, as we are well positioned in terms of scale, technical capabilities, and client base. In addition, we have relationships with industry leaders such as IBM and Oracle, who are among the leading providers of such services.

Minority-owned status

We are a large minority-owned staffing firm and 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 clients and potential clients, particularly in the government and public sector segments, where projects dollars are specifically earmarked for diversity spending.

Reportable Financial Segments

The Company, which aggregates its IT and healthcare operating segments based on the nature of services, has one reportable segment in accordance with ASC Topic 280 Disclosures About Segments of an Enterprise and Related Information .

The Separation from iGATE

Until September 30, 2008, Mastech was a wholly-owned subsidiary of iGATE. The spin-off by iGATE of its staffing services business became effective on September 30, 2008 through a distribution of 100% of the common stock of the Company to the holders of record of iGATE s common stock (the Distribution). iGATE received an opinion of its tax counsel, Reed Smith, LLP, substantially to the effect that the Distribution should qualify under Section 355(a) of the Internal Revenue Code as a tax-free distribution for U.S. federal income tax purposes. The opinion was based on, among other things, certain assumptions and representations as to factual matters made by iGATE and us which, if incorrect or inaccurate in any material respect, would jeopardize the conclusions reached by counsel in its opinion. Refer to Item 1A Risk Factors of Part I for additional details on the tax risks associated with the spin-off from iGATE.

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The financial statements in this Annual Report on Form 10-K for the periods ended after the Distribution are presented on a consolidated basis and include the accounts of Mastech and its wholly-owned subsidiaries. The financial statements for the periods presented before the Distribution are presented on a combined basis and represent those entities that were ultimately transferred to Mastech as part of the spin-off. The assets and liabilities presented have been reflected on a historical basis, as such assets and liabilities were owned by iGATE prior to the Distribution. It is important to note that the financial statements for the periods presented before the Distribution do not include all of the actual expenses that would have been incurred had Mastech operated as a stand-alone entity during the periods presented and do not reflect Mastech's combined results of operations, financial position, and cash flows had Mastech been a stand-alone company during the periods presented. The results of operations, financial position, and cash flows for periods before the Distribution are not necessarily indicative of the results that may be expected for any other future period as a result of the presentation described above.

We entered into agreements with iGATE prior to the spin-off which may impact our business in future periods, including:

Separation and Distribution Agreement

This agreement defines our ongoing relationship with iGATE following the spin-off, and provides for cross-indemnities, principally designed to place financial responsibility for the obligations and liabilities of our business with us and financial responsibility for the obligations and liabilities of iGATE's retained businesses with iGATE.

Tax Sharing Agreement

The tax sharing agreement sets forth the rights and obligations of iGATE and us with respect to (i) taxes imposed on our respective businesses both prior to and after the spin-off; and (ii) taxes and liabilities that could be imposed as a result of a final determination that is inconsistent with the anticipated tax-free treatment under the Internal Revenue Code of the spin-off transaction. For a more detailed discussion of the provisions in the tax sharing agreement refer to Note 11 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Available Information

Our headquarters are located at 1000 Commerce Drive, Suite 500, Pittsburgh, Pennsylvania 15275, and our telephone number is (412) 787-2100. The Company's website is www.mastech.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 Investor Relations 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 in each of the noted risk categories: (i) Risks Relating to Our Business; and (ii) Risks Relating to Our Separation from iGATE. 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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Risks Relating to Our Business

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

The IT and specialized healthcare staffing services industry is 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, applications software firms, service groups of computer equipment companies, specialized interest 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 our markets, and 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 needs. There can be no assurance that we will compete successfully with existing or new competitors in the staffing services markets.

Lack of success in recruitment and retention of IT and healthcare 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 specialized healthcare 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 or 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 IT recruiting 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 IT 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 immigration may materially affect our workforce and limit our supply of qualified IT professionals.

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, 2010, approximately 45% of our U.S. IT workforce was working under Mastech 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 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 another employer. As a result, the negative impact on recruiting due to the exhaustion of recent H1-B quotas was not substantial. However, unless Congress increases the annual H1-B quota, the pool of H1-B workers in the U.S., who were charged against previous years' quotas, will decline. Such a development would make H1-B worker recruiting more difficult. Absent positive legislation, in the long-term, the pool of available H1-B workers in the U.S. that are not subject to the annual quota may eventually be substantially limited. A limitation of H1-B workers could decrease our revenues if we are not able to recruit enough domestic workers to provide sufficient numbers of IT professionals to our clients.

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Negative economic conditions in the U.S. may adversely affect demand for our services.

All of our revenues are generated from clients located in the U.S. Our business depends on the overall demand for information technology and healthcare professionals and on the economic health of our clients. Weak economic conditions may force companies to reduce their staffing 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 retail and healthcare sales channels, many larger users of staffing services are employing Managed Service Providers (MSP) 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 larger users of staffing services continue to employ more MSPs, the relationship between us and those larger users may be primarily conducted through MSPs, in which case we may have difficulty maintaining those client relationships because the MSP model uses an MSP as an intermediary between the staffing service provider and the user, and reduces our direct contact with the user.

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

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

unexpected changes in regulatory environments;

foreign currency fluctuations;

tariffs and other trade barriers;

difficulties in managing international operations; and

the burden of complying with a wide variety of foreign laws and regulations.

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

The rupee may increase in value relative to the dollar, increasing our costs. Although we do not receive revenue from abroad, we maintain a significant portion of our IT recruiting workforce in India, and those employees are paid in rupees. Therefore, any increase in the value of the rupee versus the dollar would increase our expenses, which could have a material adverse effect on our business, operating results and financial condition.

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

South Asia has, from time to time, experienced instances of civil unrest and hostilities among neighboring countries, such as between India and Pakistan and even within India. There have been military confrontations along the India-Pakistan border from time to time. The potential for hostilities between the two countries is high due to past terrorist incidents in India, troop mobilizations along the border, and the geopolitical situation in the region. Military activity or terrorist attacks in the future could influence the Indian economy by disrupting

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communications and making travel more difficult. This, in turn, could have a material adverse effect on our business, operating results and financial condition.

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

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

Our quarterly operating results may be subject to significant variations.

Our revenues and operating results have historically been subject to significant variations from quarter to quarter depending on a number of factors, including the timing and number of client projects commenced and completed during the quarter, the number of working days in a quarter, employee hiring and attrition, and utilization rates during the quarter. We recognize revenues on time-and-materials projects as the services are performed. Because a percentage of Mastech's operating costs are relatively fixed, variations in revenues may cause significant variations in operating results.

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

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

a failure to agree on the terms of the acquisition or investment;

incompatibility between us and the management of the company which we wish to acquire or invest;

competition from other potential acquirers;

a lack of capital to make the acquisition or investment; or

the unwillingness of the company to partner with us.

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

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

Our revenues are highly dependent on clients located in the U.S., as well as clients concentrated in certain industries. Economic slowdowns, changes in U.S. law and other restrictions or factors that affect the economic health of these industries may affect our business. For the year ended December 31, 2010, approximately 57% of our revenues were derived from our top ten clients. Consequently, if our clients reduce or postpone their spending significantly, this may lower the demand for our services and negatively affect our revenues and profitability. Further, any significant decrease in the rate of economic growth in the U.S. may reduce the demand for our services and negatively affect our revenues and profitability.

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We have in the past derived, and may in the future derive, a significant portion of our revenues from a relatively limited number of clients. Our two largest clients, IBM and TEK Systems, accounted for approximately 19% and 10% of our 2010 revenues, respectively. Both of these contracts are terminable without penalty, as are most of our assignments. The loss of any significant client or major project, or an unanticipated termination of a major project, could result in the loss of substantial anticipated revenues.

We must keep pace with the rapid technological changes that characterize the IT and healthcare industries and our failure could result in lower demand for services.

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

A significant number of organizations are attempting to migrate their IT business applications to advanced technologies. As a result, our ability to remain competitive will be dependent on several factors, including our ability to develop, train and hire employees with skills in advanced technologies. Our failure to hire, train and retain employees with such skills could have a material adverse impact on our future revenues.

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

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

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

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

Substantial changes in healthcare reform or reimbursement trends could impact our pricing and reduce our revenues in our healthcare staffing business.

The healthcare industry in the U.S. is subject to extensive and complex federal and state laws and regulations. Because we provide services on a contract basis and are paid directly by our hospital and healthcare

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facility clients, we are not directly impacted by Medicare, Medicaid and managed care reimbursement policy changes. Nevertheless, reimbursement changes in government programs, particularly Medicare and Medicaid, can and do indirectly affect the demand and the prices paid for our services.

We may not be able to replace our existing credit facility which is set to expire on October 15, 2011.

Our \$10 million credit facility expires on October 15, 2011. There can be no guarantee that we will be able to replace this facility, or that a replacement facility would provide the same terms and conditions that we currently enjoy. Without a credit facility, our financial flexibility to make certain investments would be impaired.

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

Sunil Wadhvani and Ashok Trivedi, co-founders of iGATE, own approximately 55% of Mastech's outstanding common stock. Accordingly, Messrs. Wadhvani and Trivedi together have sufficient voting power to elect all the members of the Board of Directors and to effect transactions without the approval of our other shareholders, except for those limited transactions that require a supermajority vote under our bylaws or articles of incorporation. The interests of Messrs. Wadhvani and Trivedi may from time to time diverge from our interests. Mastech's Audit Committee consists of independent directors and addresses certain potential conflicts of interest and related party transactions that may arise between us and our directors, officers or our other affiliates. However, there can be no assurance that any conflicts of interest will be resolved in our favor.

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

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

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

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

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

The impact of medical malpractice and other claims asserted against us could subject us to substantial liabilities.

In recent years, hospitals and healthcare facilities are subject to an increasing number of legal actions alleging malpractice or related legal claims. Because our temporary healthcare professionals provide medical

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care at such facilities, claims may be brought against us and our healthcare professionals relating to such malpractice assertions. In some instances, we are contractually required to indemnify our clients against claims arising from the performance of our healthcare professionals. While we maintain insurance coverage for these types of claims, there can be no assurance that our coverage will be sufficient to cover all claims against us, and we may be exposed to substantial liabilities.

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

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

Physical risk from climate change

Regulatory risks and opportunities related to existing or proposed green house gas (GHG) emissions limits

Indirect regulatory risks and opportunities related to products or services from high emitting companies

Litigation risks for emitters of greenhouse gases

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

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

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

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

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

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

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

Table of Contents**Risks Relating to Our Separation from iGATE**

If the Distribution receives unfavorable tax treatment, then we, our shareholders, or iGATE may be subject to U.S. federal income taxes.

If the Distribution, together with certain related transactions, were to fail to qualify as tax-free for U.S. federal income tax purposes, then we, our shareholders, or iGATE may be subject to U.S. federal income taxes. Prior to the Distribution, iGATE received an opinion of Reed Smith LLP, tax counsel to iGATE, substantially to the effect that the Distribution should qualify as a tax-free Distribution within the meaning of Section 355(a) of the Code (which condition iGATE may waive in its sole discretion). The opinion was based on, among other things, certain assumptions and representations as to factual matters made by iGATE and us which, if incorrect or inaccurate in any material respect, would jeopardize the conclusions reached by counsel in its opinion. In addition, the Reed Smith opinion will not be binding on the Internal Revenue Service (IRS) or the courts, and the IRS may assert a position contrary to the opinion, and a court may agree with the IRS 's position.

If the Distribution were to fail to qualify as a tax-free transaction, each iGATE shareholder who received Mastech common stock in the Distribution generally would be treated as having received a taxable Distribution in an amount equal to the fair market value of Mastech 's common stock received (including any fractional share sold on behalf of the shareholder) on the Distribution date. That Distribution would be taxable as a dividend to the extent of the shareholder 's ratable share of iGATE 's current and accumulated earnings and profits (as increased to reflect any current income, including any gain recognized by iGATE on the taxable Distribution). The balance, if any, of the Distribution would be treated as a non-taxable return of capital to the extent of the iGATE shareholder 's tax basis in its iGATE stock with any remaining amount being taxed as capital gain. In addition, iGATE would recognize a gain in an amount equal to the excess of the fair market value of the common stock distributed to iGATE shareholders over iGATE 's adjusted tax basis in such common stock. Pursuant to the terms of the Tax Sharing Agreement, in the event the Distribution were to fail to qualify as a tax-free transaction and such failure was not the result of actions taken after the Distribution by iGATE or any of its subsidiaries or shareholders, we would be responsible for all taxes imposed on iGATE as a result thereof.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Information regarding the principal properties leased by us and our subsidiaries as of December 31, 2010 is set forth below:

Location	Principal Use	Approximate Square Footage
Pittsburgh, Pennsylvania	Corporate headquarters, executive, human resources, sales, recruiting, marketing and finance	11,200
Phoenix, Arizona	Sales and recruiting office	2,800
Dallas, Texas	Sales and recruiting office	2,600
Fremont, California	Sales and recruiting office	2,600
Reston, Virginia	Sales and recruiting office	700
Chicago, Illinois	Sales and recruiting office	400
Houston, Texas	Sales and recruiting office	300
Bangalore, India	Recruiting office	1,400
Chennai, India	Recruiting office	1,100

In addition to the properties listed above, the Company leases several executive suites on a month-to-month basis. These small offices are utilized by the Company 's remote sales personnel to conduct business with local clients.

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ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. RESERVED

Table of Contents**PART II****ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

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

The following table sets forth, for the periods indicated, the range of high and low closing sale prices of the common stock of Mastech during the calendar quarters indicated.

Common Stock Market Price	High	Low
2010:		
Fourth Quarter	\$ 4.22	\$ 2.99
Third Quarter	3.80	3.00
Second Quarter	4.50	3.07
First Quarter	4.88	3.82
2009:		
Fourth Quarter	\$ 5.55	\$ 4.54
Third Quarter	4.72	2.79
Second Quarter	3.80	1.88
First Quarter	2.40	1.47
2008:		
Fourth Quarter (commencing October 1, 2008)	\$ 7.60	\$ 1.05

On February 28, 2011, we had 125 registered holders of record of our Common Stock. This figure excludes an estimate of the indeterminate number of beneficial holders whose shares may be held by brokerage firms and clearing agencies.

We currently do not pay dividends on our common stock.

On December 23, 2010, the Company announced a share repurchase program of up to 750,000 shares of the Company's common stock over a two year period. Repurchases under the program may be made through open market purchases or privately negotiated transactions in accordance with applicable securities laws. No shares were purchased under this program in 2010.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

Mastech spun-off from iGATE on September 30, 2008. The financial data in this Annual Report on Form 10-K is presented on a combined basis for periods preceding the spin-off and on a consolidated basis subsequent to the Distribution. The financial information for the periods prior to the Distribution do not include all of the actual expenses that would have been incurred had Mastech been a stand-alone entity during the periods presented and do not reflect Mastech's combined results of operations, financial position and cash flows had the Company been a stand-alone entity during the periods presented. Thus, our selected historical financial data is not necessarily indicative of our future financial position, future results of operations or future cash flows.

You should read the information set forth below in conjunction with our Consolidated Financial Statements and accompanying Notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Annual Report on Form 10-K.

	Years Ended December 31,				
	2010	2009	2008	2007	2006
	(Amounts in thousands, except per share data)				
Income Statement Data:					
Revenues	\$ 71,788	\$ 71,062	\$ 96,650	\$ 104,693	\$ 111,416
Gross profit	14,070	13,427	18,322	22,075	25,354
Operating expense	13,006	11,106	14,160	16,016	17,824
Other income/(expense), net	(26)	(49)	(2)	82	72
Income before income taxes	1,038	2,272	4,160	6,141	7,602
Income tax expense (a)	375	875	638	701	662
Net income (a)	\$ 663	\$ 1,397	\$ 3,522	\$ 5,440	\$ 6,940
Earnings per share:					
Basic (a) (b)	\$.18	\$.39	\$.98	\$ 1.51	\$ 1.92
Diluted (a) (b)	\$.18	\$.38	\$.98	\$ 1.51	\$ 1.92
Weighted average common shares outstanding:					
Basic (b)	3,673	3,608	3,607	3,607	3,607
Diluted (b)	3,746	3,706	3,611	3,607	3,607
Balance Sheet Data:					
Cash and cash equivalents	\$ 6,334	\$ 7,113	\$ 4,361	\$ 1,524	\$ 5,378
Working capital	11,578	11,000	8,936	7,022	10,876
Total liabilities	6,049	4,058	5,294	6,429	9,029
Total assets	18,397	15,310	14,697	14,265	20,658
Shareholders' equity / invested equity	12,348	11,252	9,403	7,836	11,629
Factors that Materially Affect Comparability					

(a) Prior to the Distribution, our operating results were included in iGATE's consolidated U.S. income tax return. Historically, we derived certain tax benefits as a result of being included in this consolidated tax return which would not be available to us as a stand-alone entity. Accordingly, our post-distribution effective tax rate is materially greater than those shown in the historical financial statements for the pre-distribution periods presented.

(b) For all periods prior to September 30, 2008 (the date of our spin-off from iGATE), basic and diluted earnings per share were computed utilizing the common stock outstanding at September 30, 2008.

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

Overview

We are a domestic provider of IT and specialized healthcare staffing services to mostly large and medium-sized organizations. From July 1986 until our September 30, 2008 spin-off, we conducted our business as subsidiaries of iGATE. We do not sell, lease or otherwise market any computer software or hardware, and 100% of our revenues are derived from the sale of information technology and specialized healthcare staffing services.

On January 2, 2010, we acquired Curastat, Inc., an Arizona-based provider of specialized healthcare staffing services. This acquisition furthers our growth and service offering diversification strategies by providing an entry point into the specialized healthcare staffing space. During 2010, we expanded these operations geographically and added to our portfolio of service offerings. This acquisition is more fully discussed in Note 2, Acquisition, to the Consolidated Financial Statements contained in Item 8 of this Form 10-K.

On January 11, 2010, the Company sold its brokerage operations service offerings (operated under the name Global Financial Services of Nevada), as more fully discussed in Note 17, Divestiture of our Brokerage Operations Service Offerings to the Consolidated Financial Statements contained in Item 8 of this Form 10-K.

Economic Trends and Outlook

Generally, our business outlook is highly correlated to general U.S. economic conditions. During periods of increasing employment and economic expansion, demand for our services tends to increase. Conversely, during periods of contracting employment and / or a slowing domestic economy, demand for our services tends to decline. As the economy slowed during the last half of 2007 and recessionary conditions emerged in 2008 and during much of 2009, we saw less demand for IT staffing services. During the second half of 2009, we began to see signs of market stabilization and a modest pick-up in activity levels within certain sales channels and technologies. During 2010, market conditions continued to strengthen over the course of the year and activity levels within most of our sales channels progressively improved. As we enter 2011, we are encouraged by U.S. economic expansion and some improvement in the job markets. However, modest job growth to date and high unemployment levels are still troubling data points for our industry.

In addition to tracking general U.S. economic conditions, a large portion of our revenues are generated from a limited number of clients (see Item 1A, the Risk Factor entitled Our revenues are highly concentrated, and the loss of a significant client would adversely affect our business and revenues). Accordingly, our trends and outlook are additionally impacted by the prospects and well-being of these specific clients. By way of illustration, during the second half of 2006, while general U.S. economic conditions were positive, we experienced a decline in billable headcount and negative sequential quarterly revenue growth due to client-specific conditions at two of our larger clients. This account concentration factor may result in our results of operations deviating from the prevailing U.S. economic trends from time to time.

In recent years, a larger portion of our revenues have come from our wholesale IT sales channel, which consists largely of strategic relationships with systems integrators and other staffing organizations. This channel tends to carry lower gross margins, but provides higher volume opportunities. Should this trend in our business mix continue, it is likely that our overall gross margins will decline. Within our retail IT sales channel, many larger users of IT staffing services are employing Managed Service Providers (MSP) to manage their contractor spending in an effort to drive down overall costs. Should the trend towards utilizing the MSP model continue, it is likely that our gross margins will be pressured in the future.

Table of Contents**Results of Operations**

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

Revenue & Gross Margin by Sales Channel

(Amounts in millions)

Revenue	Years Ended December 31,		
	2010	2009	2008
Wholesale IT Channel	\$ 46.2	\$ 37.5	\$ 46.0
Retail IT Channel	19.6	28.0	38.7
Specialized Healthcare	5.7		
Brokerage Operations		5.4	11.5
Permanent Placements / Fees*	0.3	0.2	0.4
Total Revenues	\$ 71.8	\$ 71.1	\$ 96.6
Gross Margins			
Wholesale IT Channel	19.0%	18.6%	18.3%
Retail IT Channel	20.9%	19.5%	20.0%
Specialized Healthcare	16.3%		
Brokerage Operations		14.9%	15.3%
Permanent Placements / Fees*	100.0%	100.0%	100.0%
Total Gross Margin %	19.6%	18.9%	19.0%

* Permanent Placement / Fees are generated from clients within all three of our existing sales channels.

In order to minimize the impact of the industry trends mentioned above on our operating margin, the Company will need to continue lowering its operating cost structure as a percentage of total revenue through innovation and greater efficiencies. Investments in our global recruitment centers, offshore telesales group, and technological improvements, coupled with continued cost rationalization efforts, should provide us with a cost-effective platform in which to deliver our services.

Below is a tabular presentation of operating expenses by sales, operations and general and administrative categories for the periods discussed:

Selling, General & Administrative (S,G&A) Expense Details

(Amounts in millions)

	Years Ended December 31,		
	2010	2009	2008
Sales and Marketing	\$ 4.3	\$ 3.6	\$ 4.7
Operations (HR & Recruiting)	3.9	2.6	4.3
General & Administrative	4.8	4.9	5.2
Total S,G&A Expenses	\$ 13.0	\$ 11.1	\$ 14.2

2010 Compared to 2009

Revenue

Revenue for the year ended December 31, 2010 totaled \$71.8 million, compared to \$71.1 million for the year ended December 31, 2009. Revenues generated from our newly acquired specialized healthcare business

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largely offset the revenue decline related to the January 2010 divestiture of our brokerage operations service offerings. Our IT staffing revenues increased modestly in 2010 over 2009. However, we did achieve sequential quarterly revenue growth during the last three quarters of 2010 as demand for our IT staffing services continued to strengthen over the course of the year. Our IT billable consultant headcount at December 31, 2010 increased by approximately 20% to 456-consultants, compared to 379-consultants at December 31, 2009.

Revenues from our wholesale IT channel in 2010 increased by approximately 23% from 2009, as activity levels at our integrator clients improved significantly. Retail IT channel revenues declined by 30% in 2010 compared to a year earlier. This steep decline reflects a significantly lower level of billable consultants entering 2010 compared to the consultant base that we had at the start of 2009. It should be noted that for the full year 2010, our billable consultant headcount in this channel grew modestly. However, this growth was not enough to offset the impact of a significantly lower consultant base in which we entered 2010. Healthcare staffing revenues totaled \$5.7 million in 2010. Despite challenging market conditions in the healthcare space, we were able to grow revenues sequentially during the last two quarters of 2010 via geographical expansion and enhancements made to our service offerings. Permanent placement / fee revenues increased by approximately \$100,000 in 2010, compared to 2009, and largely reflect improvements in job growth during 2010.

IBM and TEK Systems represented 19.1% and 10.3% of 2010 revenues, respectively. During 2009, the same two clients represented 18.1% and 11.7% of total revenues, respectively. Our top ten clients represented approximately 57% of 2010 total revenues compared to 62% in 2009.

Gross Margin

Gross profit as a percentage of revenue increased to 19.6% in 2010 compared to 18.9% in 2009. Our 2010 gross margin performance reflected pricing stabilization, in general, and margin expansion within certain technologies. Additionally, higher placement fee revenues, the divestiture of our lower margin brokerage service offerings, and a favorable channel mix of business contributed to our 2010 gross margin improvement.

Wholesale IT channel gross margins increased by 40 basis points in 2010 compared to 2009. This improvement was due to a favorable revenue mix between integrator clients and low-margin staffing clients. In our retail IT channel, gross margins improved by 140 basis points. This improvement was due to higher margins at our branch operations, lower bench costs and higher skill-set resources being placed at many of our MSP clients, which carry better margin opportunities. These factors helped to offset the decline in gross margins generally attributable to client adoption of the MSP model. Healthcare gross margins totaled 16.3% in 2010, in what was considered to be a challenging market environment.

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

S,G&A expenses in 2010 totaled \$13.0 million, or 18.1% of revenues, compared to \$11.1 million, 15.6% of revenues in 2009. Our 2010 entry into healthcare staffing was responsible for \$1.7 million of this increase, partially offset by S,G&A savings of \$0.7 million from the divestiture of our brokerage operations business. The balance of the 2010 increase in S,G&A expenses reflect investments in our IT sales and recruitment organizations and higher variable expense components of our operating cost structure. These variable components tend to track activity and profitability levels and include expense categories such as commissions and bonuses, H1-B processing fees, travel and job board access fees.

Below is a variance analysis by expense category related to the \$1.9 million increase in S,G&A expense in 2010 compared to 2009:

Sales expense increased by \$0.7 million due to staff increases required to support our healthcare business and the expansion of our branch operations which approximated \$0.5 million and \$0.2 million in higher commission and management bonus expense.

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Recruiting expenses increased by \$1.3 million due to the following: staff increases of \$0.8 million to support both our domestic and offshore recruitment capabilities; higher commission and management bonus expense of \$0.2 million; higher H1-B processing and job board access fees of \$0.2 million; and increases in travel expenses of approximately \$0.1 million.

General and administrative expenses declined by \$0.1 million. Increases in management bonus expense of \$0.2 million and higher travel expense of \$0.1 million, were offset by \$0.4 million of lower severance expense. The severance expense incurred in 2009 largely related to the Company's leadership change.

Other Income / (Expense) Components

In 2010, other income / (expense) consisted of net interest expense of \$22,000 and foreign exchange losses of \$4,000. In 2009, other income / (expense) consisted of \$17,000 of net interest expense, a \$21,000 loss in an unconsolidated affiliate, and \$11,000 in foreign exchange losses.

Income Tax Expense

Income tax expense for 2010 was \$375,000, representing an effective tax rate on pre-tax income of 36.1%, compared to \$875,000 for 2009, which represented an effective tax rate on pre-tax income of 38.5%. The lower effective tax rate in 2010 reflects a lower aggregate state income tax rate, compared to 2009, and a favorable accrual adjustment related to our 2009 federal income tax return.

2009 Compared to 2008

Revenue

Revenues for the year ended December 31, 2009 totaled \$71.1 million, compared to \$96.6 million for the year ended December 31, 2008. This 26.4% decrease was due to a lower demand for IT staffing services during 2009 (down 22.7%) and a steep decline in activity levels in our brokerage operations business (down 53%). The March 2009 completion of a major brokerage operations assignment, coupled with very limited new order opportunities during the year, resulted in our brokerage operations billable headcount declining from 75-consultants at year-end 2008 to 8-consultants at year-end 2009. In light of this significant decline, coupled with brokerage operations not considered a core service offering, the Company sold the business to the former vice president of brokerage operations in January 2010, for contingent consideration.

Our IT billable consultant headcount at December 31, 2009 total 379-consultants, which was approximately 20% lower than the IT billable headcount of 475-consultants at December 31, 2008. Much of this billable headcount decline occurred during the fourth quarter (a loss of 58-consultants) and reflected a high level of project ends. Activity levels increased modestly over the second half of 2009. It should be noted that much of the billable headcount declines during the fourth quarter did not fully impact our revenues for that period as much of the decline occurred during the latter part of the quarter. Accordingly, the full impact of this headcount decline was reflected in our first quarter 2010 results.

Revenues from our wholesale IT channel in 2009 declined by 18.5% from 2008, largely due to steep declines from many of our staffing clients. Revenues from our integrator clients declined modestly during the year, and actually showed some growth during the last half of the year. Retail IT channel revenues declined by 27.6% during 2009, compared to 2008. Much of this decrease was with our financial services clients and with a major MSP account. Additionally, pricing pressures contributed to the revenue declines in 2009. Brokerage operations revenues were down 53.0% from 2008 and reflected the completion of a major assignment in March 2009 and very soft demand for brokerage operation services for much of the year. Permanent placement / fee revenues were approximately \$200,000 lower in 2009 compared to 2008 and was largely due to a deteriorating job market in the U.S. for much of 2009.

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IBM and Tek Systems represented 18.1% and 11.7% of 2009 total revenues, respectively. During 2008, IBM, Tek Systems and Wachovia Securities represented 14.9%, 12.7% and 10.7% of total revenues. Our top ten clients represented approximately 62% and 66% of total revenues in 2009 and 2008, respectively.

Gross Margin

Gross profit as a percentage of revenue decreased slightly to 18.9% in 2009 compared to 19.0% in 2008. Our gross margin performance reflected a number of offsetting factors. Industry-wide pricing pressures continued to persist, particularly during the first half of 2009. However, we were able to mitigate much of the impact through Company initiatives to rationalize and adjust resource costs in response to prevailing economic conditions. Additionally, lower fee revenues had a negative impact on 2009 gross margins, when compared to the previous year. This was largely off-set by a favorable channel mix of business, as less revenue came from our lower-margin brokerage operations unit in 2009.

Wholesale IT channel gross margins increased by 30 basis points in 2009 compared to 2008. This improvement was due to a favorable revenue mix between lower-margin staffing clients and integrator clients. In our retail IT channel, gross margins declined by 50 basis points due to pricing pressures from MSP clients, net of resource cost reductions. Brokerage operations margins were down 40 basis points in 2009 to 14.9%. Lack of demand for brokerage operation services resulted in lower pricing on the limited amount of new order opportunities.

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

S,G&A expense in 2009 totaled \$11.1 million, or 15.6% of revenues, compared to \$14.2 million or 14.7% of revenues in 2008. In 2009, we continued to institute austerity measures to align our cost structure with prevailing market conditions. These measures included the continuation of an employee salary and wage freeze, the elimination of 2009 bonuses, and adjustments to our employee benefit programs. In addition to these austerity measures, 2009 benefited from lower cost components that are variable in nature and tend to track activity and profitability levels, such as sales and recruiting commissions, H1-B processing fees and job board access fees. These expense components tend to decrease in challenging times and increase as business conditions turn favorable and activity levels increase.

Below is a variance analysis by expense category related to the \$3.1 million decline in S,G&A expenses in 2009 compared to 2008:

Sales expense decreased by \$1.1 million due a reduction in sales support staff, lower management bonuses, and reduced marketing expenditures.

Recruiting expense decreased by \$1.7 million. Staff reductions related to lower activity levels and improved recruitment efficiencies were responsible for \$0.9 million of this favorable variance. The balance of the variance was due to lower management bonuses, recruiter commissions, H1-B processing fees, and job board expenditures.

General and administrative expense was \$0.3 million lower in 2009. Lower management bonuses, facility costs, bad debt expense, and insurance premiums were partially offset by higher severance costs in 2009 versus 2008.

Other Income / (Expense) Components

In 2009, other income/(expense) included net interest expense of \$17,000 compared to net interest income of \$67,000 in 2008. In 2009, we had \$32,000 of other expenses, which consisted of a \$21,000 loss in an unconsolidated affiliate and \$11,000 of foreign exchange losses. In 2008, other expense totaled \$69,000 and consisted of a \$46,000 loss in an unconsolidated affiliate and \$23,000 of foreign exchange losses.

Table of Contents**Income Tax Expense**

Income tax expense for 2009 was \$875,000, representing an effective tax rate on pre-tax income of 38.5%, compared to \$638,000 for 2008, which represented an effective tax rate on pre-tax income of 15.3%. As disclosed in the Notes to the Consolidated Financial Statements included elsewhere herein, prior to the Distribution, we had historically derived certain tax benefits as a result of being included in the iGATE consolidated U.S. tax return. During 2008, these benefits totaled approximately \$1.0 million. Excluding these benefits, which would not be available to us as a stand-alone company, our effective tax rate would have been 38.5% for 2008.

Liquidity and Capital Resources**Financial Condition and Liquidity**

At December 31, 2010, we had \$6.3 million of cash and equivalents, no outstanding debt, and a tangible net worth of \$11.9 million. This compares to \$7.1 million of cash and equivalents, no outstanding debt, and a tangible net worth of \$11.3 million at December 31, 2009. In addition to our cash balances, we have access to a revolving credit facility with \$10 million of maximum availability under which our borrowing base was \$8.1 million as of December 31, 2010. Our credit facility expires on October 15, 2011. It is management's intention to replace this facility with a new agreement on or before its expiration. This facility is more fully described in Note 7 to the Consolidated Financial Statements, included elsewhere herein.

Historically, we have funded our business needs with cash generated from operating activities. In the staffing services industry, investment in operating working capital levels (defined as current assets minus cash and cash equivalents and current liabilities) is a significant use of cash. Controlling our operating working capital levels by closely managing our accounts receivable balance is an important element of cash preservation. Our accounts receivable days sales outstanding (DSOs) measurement was 46 days at both December 31, 2010 and December 31, 2009. We believe that effectively managing our DSOs has been an important factor in maximizing our cash flows in recent years.

Cash provided by operating activities and our cash and cash equivalents balances on hand at December 31, 2010 are expected to be adequate to fund our business needs over the next 12 months, exclusive of any acquisition activities and activities related to our recently announced share repurchase program. Below is a tabular presentation of cash flow activities for the periods discussed:

Cash Flows Activities	Years Ended December 31,		
	2010	2009	2008
	(Amounts in millions)		
Operating activities	\$ 0.4	\$ 2.7	\$ 5.0
Investing activities	(1.3)	(0.2)	(0.2)
Financing activities	0.1	0.2	(2.0)

Operating Activities

Cash provided from operating activities for the years ended December 31, 2010, 2009 and 2008 totaled \$0.4 million, \$2.7 million and \$5.0 million, respectively. Factors contributing to cash flows during the 2010 period included net income of \$0.7 million, non-cash charges of \$0.5 million (principally related to stock-based compensation, depreciation and deferred taxes) and an increase in operating working capital of \$0.8 million. The increase in operating working capital reflects higher activity levels and revenue growth experienced in 2010 compared to levels that existed at year-end 2009. In 2009, cash flows from operating activities included net income of \$1.4 million, non-cash charges of \$0.7 million and a decrease in operating working capital of \$0.6 million. The decline in operating working capital was largely due to lower activity levels experienced during 2009. In 2008, cash flows from operating activities included net income of \$3.5 million, non-cash charges of \$0.9 million, and a decline in operating working capital requirements of \$0.6 million.

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We would expect operating working capital levels to increase should revenue growth continue in 2011. Such an increase would have a negative impact on cash generated from operating activities. We believe that DSO s are likely to remain in the 45-day range in 2011.

Investing Activities

Cash used in investing activities for the years ended December 31, 2010, 2009 and 2008 totaled approximately \$1.3 million, \$0.2 million and \$0.2 million, respectively. In 2010, the acquisition of Curastat, Inc. accounted for \$1.1 million and capital expenditures related to computer equipment and furniture and fixtures approximated \$0.2 million. In 2009 and 2008, capital expenditures, largely related to computer equipment, accounted for our uses of cash for investing activities.

We believe that investments in capital expenditures should continue to be within the \$0.2 million to \$0.3 million range to support our existing operations.

Financing Activities

In 2010, financing activities principally consisted of approximately \$0.1 million of net proceeds from stock option exercises. In 2009, financing activity generated \$0.2 million of cash flow related to excess tax benefits from share-based payments and proceeds from the exercise of stock options by our employees. Prior to our September 30, 2008 spin-off from iGATE, our financial resources had historically been managed by our former parent on a centralized basis. Our cash balances were transferred to iGATE regularly, and iGATE funded our cash as needed. In 2008, prior to the spin-off, we had net cash transfers to iGATE of \$2.0 million.

Contractual Obligations and Off-Balance Sheet Arrangements

We have financial commitments related to existing operating leases, primarily for office space that we occupy. Our commitments are as follows:

	Payments due by period (Amounts in thousands)				Total
	Less than 1 year	1 3 years	3 5 years	More than 5 years	
Contractual obligations					
Operating Leases	\$ 353	\$ 568	\$ 325	\$ -0-	\$ 1,246

We do not have any off-balance sheet arrangements.

Inflation

We do not believe that inflation had a significant impact on our results of operations for the periods presented. On an ongoing basis, we attempt to minimize any effects of inflation on our operating results by controlling operating costs and, whenever possible, seek to insure that billing rates reflect increases in costs due to inflation.

Seasonality

Our operations are generally not affected by seasonal fluctuations. However, our consultants billable hours are affected by national holidays and vacation patterns. Accordingly, we typically have lower utilization rates and higher benefit costs during the fourth quarter.

Critical Accounting Policies

Certain accounting policies are particularly important to the portrayal of our financial position, results of operations and cash flows and require the application of significant judgment by management, and as a result, are

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subject to an inherent degree of uncertainty. In applying these policies, our management uses judgment to determine the appropriate assumptions to be used in the determination of certain estimates. These estimates are based on our historical experience, terms of existing contracts, observances of industry trends and other available information from outside sources, as appropriate. The following explains our most critical accounting policies. See the Notes to the Consolidated Financial Statements, included elsewhere herein, for a complete description of our significant accounting policies.

Revenue Recognition

The Company recognizes revenue on time-and-material contracts as services are performed and expenses are incurred. Time-and-material contracts typically bill at an agreed upon hourly rate, plus out-of-pocket expense reimbursement. Out-of-pocket expense reimbursement amounts vary by assignment, but on average represent approximately 2% to 3% of total revenues. Revenue is earned when the Company's consultants are working on projects. Revenue recognition is negatively impacted by holidays and consultant vacation and sick days.

In certain situations related to client direct hire assignments, where the Company's fee is contingent upon the hired resource's continued employment with the client, revenue recognition is deferred until such employment conditions are satisfied.

Accounts Receivable and Allowance for Uncollectible Accounts

The Company extends credit to clients based upon management's assessment of their creditworthiness. A substantial portion of the Company's revenue, and the resulting accounts receivable, are from Fortune 1000 companies, major systems integrators and other staffing organizations.

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

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

Goodwill

Goodwill is the excess costs of acquired enterprises over the sum of the fair value amounts assigned to identifiable assets acquired, less the fair value of liabilities assumed. Goodwill is not amortized, but reviewed for impairment in accordance with ASC Topic 350 Intangibles, Goodwill and Other. The Company has elected to test for goodwill impairment on December 31 of each year.

In the first step of goodwill impairment testing, we compare the fair value of the reporting unit, which is determined utilizing a discounted cash flow analysis, to the carrying value of the reporting unit's net assets at the measurement date. If the carrying value of the reporting unit exceeds the fair value, the second step of the goodwill impairment test must be performed. The second step of the goodwill impairment calculation requires an allocation of the estimated fair value of the reporting unit to all assets and liabilities as if the reporting unit had been acquired at the measurement date. The excess fair value determined in step 1 over the fair value of the assets and liabilities of the reporting unit is the implied value of goodwill. The carrying value of goodwill is then compared to the implied value of goodwill and any excess of carrying value over implied value is recognized as goodwill impairment.

Our annual impairment review process requires extensive use of accounting judgments and financial estimates, such as appropriate discount rates, growth rates and future cash flow assumptions. The Company's

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2010 goodwill impairment analysis resulted in a goodwill impairment of \$95,000, which is included in selling, general and administrative expenses in the Consolidated Statements of Operations.

Stock-Based Compensation

Effective October 1, 2008, the Company adopted a Stock Incentive Plan (the "Plan") that provides up to 800,000 shares of the Company's common stock shall be allocated for issuance to directors, executive management and key personnel. Grants under the Plan can be made in the form of stock options, stock appreciation rights, performance shares or stock awards. The Plan is administered by the Compensation Committee of the Board of Directors. All awards under the Plan as of December 31, 2010 have been in the form of stock options. Options are granted at an exercise price equal to the market value of the Company's common stock at the grant date and generally vest over a four year period.

We account for stock-based compensation expense in accordance with ASC Topic 718 "Share-based Payments" which requires us to measure all share-based payments based on their estimated fair value and recognize compensation expense over the requisite service period. The fair value of our stock options is determined at the date of grant using the Black-Scholes option pricing model. The assumptions associated with this option pricing model and other information related to our Stock Incentive Plan are more fully described in Note 10 to the Consolidated Financial Statements.

Income Taxes

Prior to our spin-off, we filed our federal tax return as part of iGATE's consolidated U.S. tax return. As previously noted, we received certain tax benefits from being included in iGATE's consolidated tax return, which we will not enjoy as a stand-alone company. The impact on our income tax expense related to such benefits is discussed above and disclosed in the Notes to the Consolidated Financial Statements, included elsewhere herein.

We determine our income tax provision using the asset and liability method. Under this method, deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. We measure deferred tax assets and liabilities using enacted tax rates in effect for the year in which we expect to recover or settle the temporary differences. The effect of a change in tax rates on deferred taxes is recognized in the period that the change is enacted. The Company evaluates its deferred tax assets and records a valuation allowance when, in management's opinion, it is more likely than not that some portion or all of the deferred tax assets will not be realized. For the periods presented, no valuation allowance has been provided, except as described below.

The Company accounts for uncertain tax positions in accordance with ASC Topic 740-10, "Accounting for Uncertainty in Income Taxes". Accordingly, the Company reports a liability for unrecognized tax benefits resulting from uncertain tax positions taken, or expected to be taken, in a tax return. As of December 31, 2010, the Company provided a liability of \$66,000 for uncertain tax positions, including interest and penalties, related to various federal and state income tax matters applicable to the periods subsequent to the Distribution. All periods subsequent to the distribution remain unaudited by federal and state income tax authorities.

Recently Issued Accounting Standards

In October 2009, the Financial Accounting Standards Board ("FASB") issued ASU No. 2009-13 "Revenue recognition-multiple deliverable revenue arrangements". The ASU provides amendments to the criteria for separating the consideration in multiple element arrangements. The amendments in this ASU establish a selling price hierarchy for determining the selling price of a deliverable. Further, the term *fair value* in the revenue guidance will be replaced with *selling price* to clarify that the allocation of revenue is based on entity-specific assumptions rather than assumptions of a market place participant. The amendments in this ASU will be effective

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prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Cash and cash equivalents are defined as cash and highly liquid investments with maturities of three months or less when purchased. Cash equivalents are stated at cost, which approximates market value. Our cash flows and earnings are subject to fluctuations due to exchange rate variations. Foreign currency risk exists by nature of our global recruitment centers. However, exposure to currency risk is not viewed to be material and, accordingly, we do not have any exchange rate hedges in place.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data required by this item are filed as part of this Form 10-K. See Index to Consolidated Financial Statements on page 32 of this Form 10-K.

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

The Company's Consolidated Financial Statements for the year ended December 31, 2010 have been audited by UHY LLP, an Independent Registered Public Accounting Firm, whose report thereon appears on page 33 of this Form 10-K.

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

Thomas B. Moran

President, Chief Executive Officer and Director

John J. Cronin, Jr.

Chief Financial Officer

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MASTECH HOLDINGS, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

BOARD OF DIRECTORS AND STOCKHOLDERS

Mastech Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Mastech Holdings, Inc. as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2010. We have also audited the accompanying Schedule II, Valuation and Qualifying Accounts for each of the years in the three-year period ended December 31, 2010. These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements and schedule referred to above present fairly, in all material respects, the financial position of Mastech Holdings, Inc. at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

Southfield, MI

March 17, 2011

Table of Contents**MASTECH HOLDINGS, INC.****CONSOLIDATED BALANCE SHEETS**

(Amounts in thousands, except share and per share data)

	At December 31,	
	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,334	\$ 7,113
Accounts receivable, net of allowance for uncollectible accounts of \$572 in 2010 and \$615 in 2009, respectively	8,057	6,024
Unbilled receivables	1,664	1,208
Prepaid and other current assets	1,395	401
Deferred income taxes	177	312
Total current assets	17,627	15,058
Equipment, enterprise software, and leasehold improvements, at cost:		
Equipment	1,465	1,440
Enterprise software	675	675
Leasehold improvements	544	514
	2,684	2,629
Less accumulated depreciation	(2,499)	(2,469)
Net equipment, enterprise software, and leasehold improvements	185	160
Intangible assets, net	93	
Investment in unconsolidated affiliate	5	5
Goodwill	405	
Deferred income taxes	82	87
Total assets	\$ 18,397	\$ 15,310
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 2,695	\$ 1,653
Accrued payroll and related costs	3,024	2,179
Other accrued liabilities	189	221
Deferred revenue	141	5
Total current liabilities	6,049	4,058
Total liabilities	6,049	4,058
Commitments and contingent liabilities (Note 8)		
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 3,691,363 shares outstanding as of December 31, 2010 and 3,621,716 shares outstanding as of December 31, 2009	37	36
Additional paid-in-capital	9,962	9,530
Retained earnings	2,349	1,686
Total shareholders' equity	12,348	11,252

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Total liabilities and shareholders' equity	\$ 18,397	\$ 15,310
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The accompanying notes are an integral part of these Consolidated Financial Statements.

Table of Contents**MASTECH HOLDINGS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

(Amounts in thousands, except per share data)

	Years Ended December 31,		
	2010	2009	2008
Revenues	\$ 71,788	\$ 71,062	\$ 96,650
Cost of revenues	57,718	57,635	78,328
Gross profit	14,070	13,427	18,322
Selling, general and administrative expenses	13,006	11,106	14,160
Income from operations	1,064	2,321	4,162
Interest income (expense), net	(22)	(17)	67
Other expense, net	(4)	(32)	(69)
Income before income taxes	1,038	2,272	4,160
Income tax expense	375	875	638
Net income	\$ 663	\$ 1,397	\$ 3,522
Earnings Per Share:			
Basic	\$.18	\$.39	\$.98
Diluted	\$.18		