Mastech Holdings, Inc.
Form 10-Q
October 29, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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)

PENNSYLVANIA	**26-2753540**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1000 Commerce Drive, Suite 500

Pittsburgh, PA	**15275**
(Address of principal executive offices)	**(Zip Code)**

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

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

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

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	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 x

The number of shares of the registrant s Common Stock, par value $.01 per share, outstanding as of October 28, 2010 was 3,691,363.

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MASTECH HOLDINGS, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2010

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MASTECH HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues	$ 18,869	$ 17,249	$ 51,506	$ 55,482
Cost of revenues	15,230	14,067	41,428	45,053
Gross profit	3,639	3,182	10,078	10,429
Selling, general and administrative expenses	3,310	2,461	9,447	8,416
Income from operations	329	721	631	2,013
Interest income (expense), net	(5)	(5)	(16)	(12)
Other income (expense), net	1	(3)	(2)	(26)
Income before income taxes	325	713	613	1,975
Income tax expense	138	286	254	797
Net income	$ 187	$ 427	$ 359	$ 1,178
Earnings per share:				
Basic	$ .05	$ .12	$ .10	$ .33
Diluted	$ .05	$ .11	$ .10	$ .32
Weighted average common shares outstanding:				
Basic	3,691	3,607	3,667	3,607
Diluted	3,752	3,716	3,742	3,669

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

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MASTECH HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,930	$ 7,113
Accounts receivable, net of allowance for uncollectible accounts of $572 and $615, respectively	6,937	6,024
Unbilled receivables	2,709	1,208
Prepaid and other current assets	968	401
Deferred income taxes	223	312
Total current assets	16,767	15,058
Equipment, enterprise software, and leasehold improvements, at cost:		
Equipment	1,429	1,440
Enterprise software	675	675
Leasehold improvements	517	514
	2,621	2,629
Less accumulated depreciation	(2,466)	(2,469)
Net equipment, enterprise software, and leasehold improvements	155	160
Intangible assets, net	119	
Investment in unconsolidated affiliate	5	5
Goodwill	500	
Deferred income taxes	52	87
Total assets	$ 17,598	$ 15,310
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Short-term debt	$ 57	$
Accounts payable	1,771	1,653
Accrued payroll and related costs	3,481	2,179
Other accrued liabilities	140	221
Deferred revenue	83	5
Total current liabilities	5,532	4,058
Long-term debt	68	
Commitments and contingencies (Note 9)		
Total liabilities	5,600	4,058

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 September 30, 2010 and 3,621,716 shares outstanding as of December 31, 2009	37	36
Additional paid-in capital	9,916	9,530
Retained earnings	2,045	1,686
Total shareholders equity	11,998	11,252
Total liabilities and shareholders equity	$ 17,598	$ 15,310

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

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MASTECH HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Nine Months ended September 30,	
	2010	**2009**
OPERATING ACTIVITIES:		
Net income	$ 359	$ 1,178
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	120	196
Bad debt (credit) expense	(50)	100
Stock-based compensation expense	223	214
Deferred income taxes, net	124	46
Loss in unconsolidated affiliate		19
Working capital items:		
Accounts receivable and unbilled receivables	(1,598)	1,370
Prepaid and other current assets	(397)	81
Accounts payable	58	(220)
Accrued payroll and related costs	1,186	642
Accrued income taxes	(127)	(3)
Other accrued liabilities	(108)	93
Deferred revenue	78	(13)
Net cash flows provided by (used in) operating activities	(132)	3,703
INVESTING ACTIVITIES:		
Acquisition of Curastat, Inc., (net of cash acquired and the issuance of contingent earn-out debt)	(1,145)	
Capital expenditures	(70)	(131)
Distribution from unconsolidated affiliate		15
Net cash flows (used in) investing activities	(1,215)	(116)
FINANCING ACTIVITIES:		
Proceeds from the exercise of stock options	178	
Reduction in excess tax benefits related to stock options	(14)	
Net cash flows provided by financing activities	164	
Net change in cash and cash equivalents	(1,183)	3,587
Cash and cash equivalents, beginning of period	7,113	4,361
Cash and cash equivalents, end of period	$ 5,930	$ 7,948

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

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MASTECH HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND 2009

(Unaudited)

1. Description of Business and Basis of Presentation:

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

Description of Business

We are a provider of IT and specialized healthcare staffing services. Our IT staffing business delivers a broad range of services within Business Intelligence / Data Warehousing; Web Services; Enterprise Resource Planning & Customer Resource Management; and eBusiness Solutions segments. We provide our services across various industry verticals including: Automotive; Banking; Consumer Products; Education; Finance; Government; Healthcare; Insurance; Manufacturing; Pharmaceutical; Retail; Technology; Telecommunications; Transportation; and Utilities to primarily large and medium-sized organizations. Our healthcare staffing business provides healthcare professionals to hospitals and other healthcare facilities.

Basis of Presentation

The accompanying Unaudited Condensed Consolidated Financial Statements (the Financial Statements) have been prepared by management in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and applicable rules and regulations of the Securities and Exchange Commission (the SEC). Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for complete consolidated financial statements. In the opinion of management, all adjustments, consisting principally of normal recurring adjustments, considered necessary for a fair presentation have been included. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from these estimates. These financial statements should be read in conjunction with the Company s audited consolidated financial statements and accompanying notes for the year ended December 31, 2009, included in our Annual Report on Form 10-K filed with the SEC on March 8, 2010. Additionally, our operating results for the three months and nine months ended September 30, 2010 are not necessarily indicative of the results that can be expected for the year ending December 31, 2010 or for any other period.

Principles of Consolidation

The Condensed Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation. The Company utilizes the equity method of accounting, as prescribed by The Accounting Standards Codification (ASC) Topic 323 The Equity Method of Accounting for Investments in Common Stock , when it is able to exercise significant management influence over the entity s operations, which generally occurs when Mastech has an ownership interest of between 20% and 50% in an entity. For investments in which the Company does not exercise significant management influence, generally when Mastech has an ownership interest of less than 20%, the Company utilizes the cost method of accounting.

2. Goodwill and Intangible Assets

The carrying value of goodwill related to the January, 2010 acquisition of Curastat, Inc. totaled $500,000.

Identifiable intangible assets related to the acquisition of Curastat, Inc. are comprised of trade name, non-compete covenants and customer relationships. The changes in the carrying value during the nine months ended September 30, 2010 were as follows (in thousands):

	Amounts
Intangible assets as of January 2, 2010	$ 150
Amortization	(31)
Intangible assets as of September 30, 2010	$ 119

Amortization expense related to identifiable intangible assets was $31,000 for the nine month period ended September 30, 2010.

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MASTECH HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2010 AND 2009

(Unaudited)

Future estimated annual amortization is as follows (in thousands):

	Amounts
Remainder of 2010	$ 11
2011	42
2012	42
2013	12
2014	12
	$ 119

3. Income Taxes

The components of income before income taxes, as shown in the accompanying Condensed Consolidated Financial Statements, consisted of the following for the three months and nine months ended September 30, 2010 and 2009, respectively:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Amounts in Thousands)		(Amounts in Thousands)	
Income before income taxes:				
Domestic	$ 325	$ 713	$ 613	$ 1,975
Foreign				
Income before income taxes	$ 325	$ 713	$ 613	$ 1,975

The provision for income taxes, as shown in the accompanying Condensed Consolidated Financial Statements, consisted of the following for the three months and nine months ended September 30, 2010 and 2009, respectively:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Amounts in Thousands)		(Amounts in Thousands)	
Current provision (benefit) :				
Federal	$ 67	$ 138	$ 113	$ 737

State	8	(2)	17	14
Total current provision	75	136	130	751
Deferred provision (benefit):				
Federal	52	111	104	(17)
State	11	39	20	63
Total deferred provision	63	150	124	46
Total provision for income taxes	$ 138	$ 286	$ 254	$ 797

The reconciliation of income taxes computed using the statutory U.S. income tax rate and the provision for income taxes for the three months and nine months ended September 30, 2010 and 2009, respectively, were as follows (amounts in thousands):

	Three Months Ended September 30, 2010		Three Months Ended September 30, 2009	
Income taxes computed at the federal statutory rate	$ 114	35.0%	$ 250	35.0%
State income taxes, net of federal tax benefit	19	5.9	37	5.2
Other net	5	1.6	(1)	(0.1)
	$ 138	42.5%	$ 286	40.1%

	Nine Months Ended September 30, 2010		Nine Months Ended September 30, 2009	
Income taxes computed at the federal statutory rate	$ 215	35.0%	$ 691	35.0%
State income taxes, net of federal tax benefit	37	6.1	77	3.9
Other net	2	0.3	29	1.5
	$ 254	41.4%	$ 797	40.4%

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MASTECH HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2010 AND 2009

(Unaudited)

4. Employee Benefit Plan

The Company provides an Employee Retirement Savings Plan (the Retirement Plan) under Section 401(k) of the Internal Revenue Code of 1986, as amended (the Code) that covers substantially all U.S. based salaried employees. Employees may contribute a percentage of eligible compensation to the Plan, subject to certain limits under the Code. The Retirement Plan does not provide for any Company matching contributions.

5. Mastech Stock Incentive Plan

In 2008, the Company adopted a Stock Incentive Plan (the Plan) which provides that up to 800,000 shares of the Company s common stock shall be allocated for issuance to directors, officers and key personnel. Grants under the Plan can be made in the form of stock options, stock appreciation rights, performance shares or stock awards. During the nine months ended September 30, 2010, stock options totaling 25,000 were granted under this Plan at an exercise price of $4.70. No grants under the Plan were made during the three month period ended September 30, 2010. During the three months ended September 30, 2009, stock options totaling 201,500 were granted under the Plan at a weighted average price of $2.91. At September 30, 2010, 96,620 shares remained unissued and available for awards under the Plan.

6. Stock-Based Compensation

Stock-based compensation expense for the three months ended September 30, 2010 and 2009 was $65,000 and $82,000, respectively, and for the nine months ended September 30, 2010 and 2009 was $223,000 and $214,000, respectively. Stock-based compensation expense is included in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

During the three and nine months ended September 30, 2010, the Company issued 4,450 and 69,647 shares, respectively, related to the exercise of stock options. No shares were issued during the nine months ended September 30, 2009.

7. Transactions with Former Parent

The Company transacts with its former parent and its former parent s affiliates (collectively referred to as Former Parent or iGATE), as indicated below.

Sublease with the Former Parent

The Company leased office space from iGATE under a sublease arrangement that expired on April 30, 2009. The Company paid rent under this sublease totaling $95,000 for the nine months ended September 30, 2009.

Arms-length Transactions with the Former Parent s Affiliate

iGATE Global Solutions provides the Company offshore contractors and IT support services. These services are provided under negotiated agreements between the parties. For the three months ended September 30, 2010 and 2009, the Company paid iGATE Global Solutions $270,000 and $141,000, respectively, for such services provided. For the nine months ended September 30, 2010 and 2009, the Company paid $629,000 and $603,000 for such services, respectively.

The Company provides iGATE Global Solutions with IT consultants from time-to-time on a negotiated basis. For the nine months ended September 30, 2009, the Company recognized revenues from these services of $26,000. No revenues were recognized for the nine months ended September 30, 2010.

Accounts Receivable and Accounts Payable with the Former Parent

At September 30, 2010 and 2009, the Company had accounts payable balances of $159,000 and $96,000, respectively, due to its Former Parent. At September 30, 2009, the Company had a non-trade receivable of $76,000 due from iGATE included in prepaid and other current assets.

8. Revenue Concentration

For the three months ended September 30, 2010, the Company had two clients that exceeded 10% of total revenue (IBM = 19.5% and TEK Systems = 10.5%) and two clients that exceeded 10% of total revenue for the three months ended September 30, 2009 (IBM = 18.5%, TEK Systems = 12.3%).

For the nine months ended September 30, 2010, the Company had two clients that exceeded 10% of total revenue (IBM = 19.0% and TEK Systems = 10.3%) as compared to three clients for the nine months ended September 30, 2009 (IBM = 16.9%, TEK Systems = 11.9% and Kaiser Permanente = 10.5%).

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MASTECH HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2010 AND 2009

(Unaudited)

The Company s top ten clients represented approximately 56% and 63% of total revenues for the nine months ended September 30, 2010 and 2009, respectively.

9. Commitments and Contingencies

Lease Commitments

The Company rents certain office space and equipment under non-cancelable leases which provides for future minimum rental payments. Total lease commitments have not materially changed from the amounts disclosed in the Company s 2009 Annual Report on Form 10-K.

Contingencies Commitments

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

10. Earnings Per Share

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

For the three months ended September 30, 2010 and 2009, the computation of diluted earnings per share does not include 251,000 and 76,000 stock options, respectively, as the effect of their inclusion would have been anti-dilutive. For the nine months ended September 30, 2010 and 2009, 246,000 and 236,000 stock options, respectively, were not included in the computation of earnings per share.

11. Acquisition

On January 2, 2010, the Company acquired all of the outstanding stock of Curastat, Inc. (Curastat), an Arizona-based provider of specialized healthcare staffing services. The acquisition furthers our growth strategy and diversification into the specialized healthcare staffing space. The Condensed Consolidated Financial Statements reflect the acquisition of Curastat, effective January 2, 2010, under the purchase method of accounting. The total costs of the acquisition have been allocated to the assets acquired and the liabilities assumed based upon their estimated fair values as of the date of the acquisition. The estimated purchase price totaled $1,270,000, and includes a contingent earn-out component, which ranges from -0- to $226,000 based on EBITDA levels generated in 2010 and 2011. The estimated purchase price, which includes $125,000 of estimated contingent earn-out debt, exceeded the fair value of the acquired net assets and accordingly $500,000 was allocated to goodwill, all of which is deductible for tax purposes. The purchase price allocation for Curastat is as follows:

(in thousands)	Amounts
Current assets	$ 808
Fixed assets	14

Acquired intangible assets	150
Goodwill	500
Current liabilities assumed	(202)
	$ 1,270

The acquired intangible assets are as follows:

(in thousands)	**Amounts**
Trade name	$ 50
Non-compete covenants	40
Customer relationships	60
	$ 150

The above intangible assets have definite lives, with a weighted-average amortization period of 3.6 years (3 years for trade name and non-compete covenants and 5 years for customer relationships).

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MASTECH HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2010 AND 2009

(Unaudited)

12. Subsequent Events

None. The Company has performed a review of events subsequent to the balance sheet date.

13. Divestiture of GFS

On January 11, 2010, the Company sold its brokerage operations unit, Global Financial Services of Nevada (GFS). The sale was a stock transaction for contingent cash consideration made between the Company and William Gorman, former vice president of the brokerage operations unit.

Revenues for the three and nine month periods ending September 30, 2009 were $790,000 and $5.2 million, respectively. Operating income for the same periods were immaterial.

14. Recently Issued Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued ASU No. 2009-13 for *Revenue recognition-multiple deliverable revenue arrangements* . The ASU provides amendments to the criteria in Revenue recognition multiple element arrangements for separating 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 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 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with our audited consolidated financial statements and accompanying notes for the year ended December 31, 2009, included in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission (SEC) on March 8, 2010.

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements about future events, future performance, plans, strategies, expectations, prospects, competitive environment and regulations. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words, may , will , expect , anticipate , believe , estimate , plan , intend or the negative of these terms or similar in this quarterly report on Form 10-Q. We have based these forward-looking statements on our current views with respect to future events and financial performance. Our actual financial performance could differ materially from those projected in the forward-looking statements due to the inherent uncertainty of estimates, forecasts and projections and our financial performance may be better or worse than anticipated. Given these uncertainties, you should not put undue reliance on any forward-looking statements. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed under Risk Factors , Forward-Looking Statements and elsewhere in our 2009 Annual Report on Form 10-K. Forward-looking statements represent our estimates and assumptions only as of the date that they were made. We do not undertake any duty to update forward-looking statements and the estimates and assumptions associated with them, after the date of this quarterly report on Form 10-Q, except to the extent required by applicable securities laws.

Website Access to SEC Reports:

The Company s website is www.mastech.com. The Company s 2009 Annual Report on Form 10-K, current reports on Form 8-K and all other reports filed with the SEC, are available free of charge on the Investor Relations page. The website is updated as soon as reasonably practical after such reports are filed electronically with the SEC.

Overview:

We are a provider of IT and specialized healthcare staffing services. From July 1986 through September 2008, we conducted our business as subsidiaries of 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 Solutions segments. We provide our services across various industry verticals including: Automotive; Banking; Consumer Products; Education; Finance; Government; Healthcare; Insurance; Manufacturing; Pharmaceutical; Retail; Technology; Telecommunications; Transportation; and Utilities to primarily large and medium-sized organizations. Our healthcare staffing unit provides specialized healthcare professionals to hospitals and other healthcare facilities.

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The Company operates as a single reportable segment. Accordingly, no segment related disclosures are presented. However, the Company tracks and evaluates its revenues and gross profits by four distinct sales channels: Wholesale IT; Retail IT; Specialized Healthcare and Permanent Placements / Fees. Our wholesale IT channel consists of system integrators and other IT staffing firms with a need to supplement their abilities to attract highly-qualified temporary technical computer personnel. Our retail IT channel focuses on clients that are end-users of IT staffing services. Within the retail channel are end-user clients that have retained a third party to provide vendor management services, commonly known in the industry as Managed Service Providers. The specialized healthcare channel clients consist of hospitals and other healthcare facilities that utilize our staffing professionals.

Critical Accounting Policies:

Our critical accounting policies are described in Note 1 Summary of Significant Accounting Policies of the notes to our audited Consolidated Financial Statements, included in our 2009 Annual Report on 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 experienced 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 the first nine months of 2010, we have seen some encouraging improvements in business activity levels. However, the weak U.S. job market and high unemployment 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. Accordingly, our trends and outlook are impacted by the prospects and well-being of these specific clients. This account concentration factor may result in our results of operations deviating from the prevailing U.S. economic trends from time to time.

In recent years, a larger portion of our IT revenues have come from our wholesale 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 be pressured. Within our retail 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. The impact of this shift towards the MSP model has been lower gross margins. Should this trend towards utilizing the MSP model continue, it is likely that our gross margins will be pressured in the future.

Results of Operations for the Three Months Ended September 30, 2010 as Compared to the Three Months Ended September 30, 2009:

Revenues:

Revenues for the three months ended September 30, 2010 totaled $18.9 million, compared to $17.2 million for the corresponding three month period in 2009. This 9.4% year-over-year revenue increase reflects a growing level of IT billable consultants during the 2010 period as well as revenues from our January 2010 healthcare acquisition. Billable IT headcount during the three months ended September 30, 2010 increased by 67 consultants to 474 consultants, which compares favorably to our 437 billable consultant-base at September 30, 2009. The increase in billable consultant headcount for the three months ended September 30, 2010 represents the third consecutive quarter of expansion and was largely responsible for our 11.5% sequential improvement in revenues during the three months ended September 30, 2010 as compared to the previous quarter.

Below is a tabular presentation of revenues by sales channel for the three months ended September 30, 2010 and 2009, respectively:

Revenues (Amounts in Millions)	Three months ended September 30, 2010	Three months ended September 30, 2009

Wholesale IT Channel	$	12.6	$	9.8
Retail IT Channel		4.8		6.6
Specialized Healthcare		1.4		
Brokerage Operations				0.8
Permanent Placements / Fees		0.1		
Total revenues	$	18.9	$	17.2

Revenues from our wholesale IT channel increased by approximately 29% for the three month period ended September 30, 2010 compared to the corresponding 2009 period. Significantly higher revenues generated from our integrator clients and modest increases

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from staffing clients were responsible for this improvement. Retail IT channel revenues were down approximately 27% during the three months ended September 30, 2010 compared to the period one-year earlier, with declines at many of our financial services clients and at several MSP clients. Revenues from our newly acquired specialized healthcare business more than offset the loss of revenues that were generated in 2009 by our divested brokerage operations unit. Permanent placement / fee revenues were approximately $0.1 million during the three month period ended September 30, 2010.

During the three months ended September 30, 2010, we had two clients that represented more than 10% of total revenues (IBM = 19.5% and TEK Systems = 10.5%). During the three months ended September 30, 2009, we had two clients that represented more than 10% of total revenues (IBM = 18.5% and TEK Systems = 12.3%). For the three months ended September 30, 2010 and 2009, our top ten clients represented approximately 58% of total revenues.

Gross Margin:

Gross profit as a percentage of revenue increased to 19.3% for the three month period ending September 30, 2010 compared to 18.4% for the three month period a year earlier. Gross margins continue to show signs of stabilization in general, and expansion within certain technologies, during the three month period ending September 30, 2010. Additionally, lower bench costs and high permanent placement / fee revenues favorably impacted our overall gross margin performance during the quarter.

Below is a tabular presentation of gross margin by sales channel for the three months ended September 30, 2010 and 2009, respectively:

Gross Margin	Three months ended September 30, 2010	Three months ended September 30, 2009
Wholesale IT Channel	18.8%	18.4%
Retail IT Channel	20.6	18.3
Specialized Healthcare	15.5	
Brokerage Operations		16.0
Permanent Placements / Fees	100.0	100.0
Total gross margin	19.3%	18.4%

Wholesale IT channel gross margins increased by 40 basis points for the three months ended September 30, 2010 compared to 2009. This improvement reflects a favorable client mix between higher margin integrator clients and lower margin staffing clients, as well as lower bench costs. Retail IT gross margins were up 230 basis points during the three months ended September 30, 2010 compared to 2009 due primarily to pricing improvements on new assignments at MSP clients.

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

SG&A expenses for the three months ended September 30, 2010 totaled $3.3 million or 17.5% of revenues, compared to $2.5 million or 14.3% of revenues for the three months ended September 30, 2009. The increase in SG&A as a percentage of revenues reflects investments made in our healthcare and IT sales and recruiting organizations during the last several quarters. Fluctuations within SG&A expense components during the 2010 period compared to a year earlier included the following:

Sales expense increased in the 2010 period by $0.4 million due to investments made to enhance and expand our branch office network and higher levels of variable compensation expense.

Recruiting expense increased in the 2010 period by $0.4 million due to investments made in our domestic recruitment organization, expansion of our offshore global recruitment centers and higher variable compensation expense.

General and administrative expense was flat in the 2010 period compared to 2009, with no major variations among expense categories.

Other Income / (Expense) Components:

Other Income / (Expense) for the three months ended September 30, 2010 consisted of net interest expense of $5,000 and a foreign exchange gain of $1,000. For the three months ended September 30, 2009, Other Income / (Expense) consisted of net interest expense of $5,000 and a $3,000 loss related to a joint venture.

Income Tax Expense:

Income tax expense for the three months ended September 30, 2010 totaled $138,000, representing an effective tax rate on pre-tax income of 42.5%, compared to $286,000, which represented a 40.1% effective tax rate on pre-tax income for the three months ended September 30, 2009. The increase reflects higher state income taxes in the 2010 period.

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Results of Operations for the Nine Months Ended September 30, 2010 as Compared to the Nine Months Ended September 30, 2009:

Revenues:

Revenues for the nine months ended September 30, 2010 totaled $51.5 million, compared to $55.5 million for the corresponding period in 2009. This 7.2% year-over-year revenue decline largely reflects lower average levels of IT billable consultants during the 2010 period and the divestiture of our brokerage operations business in January of 2010. Most of the IT billable consultant decline occurred during the last half of 2009. For the nine months ending September 30, 2010, IT billable consultant headcount increased by 95 consultants compared to a 38 consultant decline during the nine months ended September 30, 2009.

Below is a tabular presentation of revenues by sales channel for the nine months ended September 30, 2010 and 2009, respectively:

Revenues (Amounts in Millions)	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Wholesale IT Channel	$ 32.4	$ 28.1
Retail IT Channel	14.7	22.1
Specialized Healthcare	4.2	
Brokerage Operations		5.2
Permanent Placements / Fees	0.2	0.1
Total revenues	$ 51.5	$ 55.5

Revenues from our wholesale IT channel increased by approximately 15% for the nine month period ended September 30, 2010 compared to the corresponding 2009 period. Higher revenues generated from our integrator clients more than offset a decline from staffing clients. Retail IT channel revenues were down approximately 33% during the nine months ended September 30, 2010 compared to the period one-year earlier, with significant declines at many of our financial services clients and several MSP clients. Revenues from our newly acquired specialized healthcare business partially offset the loss of revenues that were generated by our divested brokerage operations unit during the 2009 period. Permanent placement / fee revenues were approximately $0.2 million in the nine month period ended September 30, 2010 compared to $0.1 million in the corresponding 2009 period.

During the nine months ended September 30, 2010, the Company had two clients that exceeded 10% of total revenues (IBM =19.0% and TEK Systems = 10.3%). During the nine months ended September 30, 2009, we had three clients that exceeded 10% of total revenue (IBM = 16.9%, TEK Systems = 11.9% and Kaiser Permanente = 10.5%). For the 2010 period, our top ten clients represented approximately 56% of total revenues compared to 63% of total revenue in the corresponding 2009 period.

Gross Margin:

Gross profit as a percentage of revenue increased to 19.6% for the nine month period ending September 30, 2010 compared to 18.8% for the nine month period a year earlier. Gross margins in 2010 benefited from a favorable mix of business within our wholesale IT channel (more revenues generated from integrator clients as compared to staffing clients). Additionally, the divestiture of our lower margin brokerage operations unit, lower bench costs and higher permanent placement revenues contributed to our gross margin improvement.

Below is a tabular presentation of gross margin by sales channel for the nine months ended September 30, 2010 and 2009, respectively:

Gross Margin	Nine months ended September 30, 2010	Nine months ended September 30, 2009

Wholesale IT Channel	19.1%	18.4%
Retail IT Channel	20.6	19.7
Specialized Healthcare	15.9	
Brokerage Operations		14.5
Permanent Placements / Fees	100.0	100.0
Total gross margin	19.6%	18.8%

Wholesale IT channel gross margins increased by 70 basis points for the nine months ended September 30, 2010 compared to 2009. This improvement reflects a favorable client mix between higher margin integrator clients and lower margin staffing clients. Retail IT gross margins were up 90 basis points during the nine months ended September 30, 2010 compared to 2009, as pricing stabilized on new assignments throughout the 2010 period.

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

SG&A expenses for the nine months ended September 30, 2010 totaled $9.4 million or 18.3% of revenues, compared to approximately $8.4 million or 15.2% of revenues for the nine months ended a year earlier. The increase in SG&A as a percentage of revenue reflects investments made in our healthcare and IT sales and recruiting organizations. Fluctuations within SG&A expense components during the 2010 period compared to a year earlier included the following:

Sales expense increased in the 2010 period by $0.5 million due to investments made to enhance and expand our branch office network as well as higher levels of variable compensation expense.

Recruiting expense increased by $0.7 million during 2010, largely due to investments made in our domestic recruitment organization, expansion of our offshore recruitment centers, and higher variable compensation expense.

General and administrative expense was $0.2 million lower in 2010 compared to the 2009 period. The 2009 period included $0.4 million of severance expense related to leadership changes and a bad debt expense of $0.1 million. Excluding these charges from the 2009 period, 2010 general and administrative expenses were approximately $0.3 million higher than during the 2009 period and reflected investments in healthcare and IT leadership personnel, as well as higher variable compensation expense.

Other Income / (Expense) Components:

Other Income / (Expense) for the nine months ended September 30, 2010 consisted of net interest expense of $16,000 and a foreign exchange loss of $2,000. For the nine months ended September 30, 2009, Other Income / (Expense) consisted of net interest expense of $12,000, a $18,000 loss on a joint venture, and $8,000 of foreign exchange losses.

Income Tax Expense:

Income tax expense for the nine months ended September 30, 2010 totaled $254,000, representing an effective tax rate on pre-tax income of 41.4%, compared to $797,000, representing an effective tax rate on pre-tax income of 40.4% during the corresponding 2009 period. Slightly higher state income taxes in the 2010 period were responsible for this year s higher effective tax rate.

Liquidity and Capital Resources:

At September 30, 2010, we had $5.9 million of cash and equivalents. 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 $7.5 million as of September 30, 2010.

Historically, we have funded our business needs with cash generated from operating activities. Controlling our operating working capital levels by closely managing our accounts receivable balance is an important element of cash generation. At September 30, 2010, our accounts receivable days sales outstanding (DSO s) measurement was 49-days compared to 47-days a quarter ago. We expect cash provided by operating activities and our cash balances on hand to be adequate to fund our business needs during 2010, exclusive of acquisition activities.

Cash flows provided by (used in) operating activities:

Cash used in operating activities for the nine months ended September 30, 2010 was ($132,000) compared to cash provided of $3.7 million during the nine months ended September 30, 2009. Elements contributing to cash flows during the 2010 period included net income of $0.4 million, non-cash charges of $0.4 million, and increases in operating working capital of ($0.9) million. The increase in operating working capital reflects higher accounts receivable as we expanded our revenues during the three months ended September 30, 2010. Should we be successful in growing our revenues during the fourth quarter of 2010, we would expect additional increases in operating working capital. During the nine months ended September 30, 2009, elements of cash flows included net income of $1.2 million, non-cash charges of $0.7 million, and reductions in operating working capital of approximately $1.8 million. The reductions in operating working capital during the 2009 period reflect revenue

declines during the three months ended September 30, 2009.

Cash flows used in investing activities:

Cash used in investing activities for the nine months ended September 30, 2010 totaled $1.2 million compared to $116,000 for the nine months ended a year earlier. The acquisition of Curastat, Inc. accounted for this increase during 2010. Capital expenditures related to maintenance-type items totaled $70,000 for the nine months ended September 30, 2010 and $131,000 for the corresponding 2009 period. The 2009 period also included a $15,000 cash distribution from a joint venture which was discontinued in early 2009.

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Cash flows provided by financing activities:

Cash provided by financing activities for the nine months ended September 30, 2010 included $178,000 in proceeds from stock option exercises, offset by a $14,000 adjustment to excess tax benefits related to share-based payments. During the 2009 period, the Company did not engage in any financing activities.

Contractual Obligations and Off-Balance Sheet Arrangements:

We do not have any off-balance sheet arrangements.

The Company rents certain office space and equipment under non-cancelable leases which provides for future minimum rental payments. Total lease commitments have not materially changed from the amounts disclosed in the Company s 2009 Annual Report on Form 10-K filed with the SEC on March 8, 2010.

Inflation:

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

Seasonality:

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

Recently Issued Accounting Pronouncements:

In October 2009, the Financial Accounting Standards Board (FASB) issued ASU No. 2009-13 for *Revenue recognition-multiple deliverable revenue arrangements* . The ASU provides amendments to the criteria in Revenue recognition multiple element arrangements for separating 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 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 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Cash and cash equivalents are defined as cash and highly liquid investments with maturities of three months or less when purchased. Cash equivalents are stated at cost, which approximates market value. Our cash flow and earnings are subject to fluctuations due to exchange rate variations. Foreign currency risk exists by nature of our global recruitment 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 4: CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of Company management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures pursuant to the Securities Exchange Act of 1934 (Exchange Act) Rules 13a-15(b) and 15d-15(b). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective.

The certification required by Section 302 of the Sarbanes-Oxley Act of 2002 are filed as exhibits 31.1 and 31.2, respectively, to this quarterly report on Form 10-Q.

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Changes in Internal Control over Financial Reporting

There has been no change in Mastech s internal control over financial reporting that occurred during the third quarter that has materially affected, or is reasonably likely to materially affect the Company s internal control over financial reporting as of December 31, 2009.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors as previously disclosed in our 2009 Annual Report on Form 10-K, filed with the SEC on March 8, 2010.

ITEM 4. (REMOVED AND RESERVED)

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ITEM 6. EXHIBITS

(a) Exhibits

31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer is filed herewith.
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Financial Officer is filed herewith.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer is filed herewith.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by the Chief Financial Officer is filed herewith.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 29th day of October 2010.

MASTECH HOLDINGS, INC.

October 29, 2010

/s/ THOMAS B. MORAN
Thomas B. Moran
Chief Executive Officer

/s/ JOHN J. CRONIN, JR.
John J. Cronin, Jr.
Chief Financial Officer

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