

Mastech Holdings, Inc.  
Form 10-Q  
July 31, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2013

**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**

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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  (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

The number of shares of the registrant's Common Stock, par value \$.01 per share, outstanding as of July 26, 2013 was 3,345,545.

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**MASTECH HOLDINGS, INC.**  
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**FOR THE QUARTER ENDED JUNE 30, 2013**  
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(Amounts in thousands, except per share data)

(Unaudited)

|  | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|--|--------------------------------|-----------|------------------------------|-----------|
|  | 2013                           | 2012      | 2013                         | 2012      |
| Revenues                                     | \$ 28,935                      | \$ 25,312 | \$ 55,940                    | \$ 49,766 |
| Cost of revenues                             | 23,479                         | 20,483    | 45,601                       | 40,477    |
| Gross profit                                 | 5,456                          | 4,829     | 10,339                       | 9,289     |
| Selling, general and administrative expenses | 4,190                          | 4,058     | 8,136                        | 7,922     |
| Income from operations                       | 1,266                          | 771       | 2,203                        | 1,367     |
| Interest income (expense), net               | (29)                           | (17)      | (54)                         | (33)      |
| Other income (expense), net                  | 33                             | (16)      | 45                           | (23)      |
| Income before income taxes                   | 1,270                          | 738       | 2,194                        | 1,311     |
| Income tax expense                           | 481                            | 280       | 830                          | 501       |
| Net income                                   | \$ 789                         | \$ 458    | \$ 1,364                     | \$ 810    |
| Earnings per share:                          |                                |           |                              |           |
| Basic  | \$ .24                         | \$ .14    | \$ .41                       | \$ .24    |
| Diluted                                      | \$ .23                         | \$ .14    | \$ .40                       | \$ .24    |
| Weighted average common shares outstanding:  |                                |           |                              |           |
| Basic  | 3,344                          | 3,158     | 3,343                        | 3,320     |
| Diluted                                      | 3,431                          | 3,269     | 3,427                        | 3,427     |

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

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**MASTECH HOLDINGS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

**(Amounts in thousands)**

**(Unaudited)**

|  | <b>Three Months Ended<br/>June 30,</b> |               | <b>Six Months Ended<br/>June 30,</b> |               |
|--|--|---------------|--------------------------------------|---------------|
|  | <b>2013</b>                            | <b>2012</b>   | <b>2013</b>                          | <b>2012</b>   |
| Net income   | \$ 789                                 | \$ 458        | \$ 1,364                             | \$ 810        |
| Other comprehensive income (loss):                           |  |               |                                      |               |
| Net unrealized gain/(loss) on cash flow hedges               | (109)                                  | 4             | (95)                                 | 4             |
| Income tax (expense)/benefit                                 | 42                                     | (2)           | 37                                   | (2)           |
| <b>Total other comprehensive income (loss), net of taxes</b> | <b>\$ (67)</b>                         | <b>\$ 2</b>   | <b>\$ (58)</b>                       | <b>\$ 2</b>   |
| <b>Total comprehensive income (loss)</b>                     | <b>\$ 722</b>                          | <b>\$ 460</b> | <b>\$ 1,306</b>                      | <b>\$ 812</b> |

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

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

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

(Unaudited)

|  | June 30,<br>2013 | December 31,<br>2012 |
|--|------------------|----------------------|
| <b>ASSETS</b>  |                  |                      |
| Current assets:  |                  |                      |
| Cash and cash equivalents  | \$ 616           | \$ 659               |
| Accounts receivable, net of allowance for uncollectible accounts of \$368 in 2013 and \$438 in 2012  | 13,380           | 10,864               |
| Unbilled receivables   | 3,368            | 2,927                |
| Prepaid and other current assets   | 883              | 788                  |
| Deferred income taxes  | 141              | 153                  |
| <b>Total current assets</b>  | <b>18,388</b>    | <b>15,391</b>        |
| Equipment, enterprise software, and leasehold improvements, at cost:   |                  |                      |
| Equipment  | 1,794            | 1,788                |
| Enterprise software  | 720              | 720                  |
| Leasehold improvements   | 559              | 555                  |
|  | 3,073            | 3,063                |
| Less accumulated depreciation  | (2,840)          | (2,814)              |
| <b>Net equipment, enterprise software, and leasehold improvements</b>  | <b>233</b>       | <b>249</b>           |
| Intangible assets, net   | 18               | 24                   |
| Deferred financing costs, net  | 33               | 46                   |
| Non-current deposits   | 210              | 214                  |
| Goodwill   | 405              | 405                  |
| Deferred income taxes  | 152              | 91                   |
| <b>Total assets</b>  | <b>\$ 19,439</b> | <b>\$ 16,420</b>     |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |                  |                      |
| Current liabilities:   |                  |                      |
| Short-term borrowings  | \$ 3,479         | \$ 2,610             |
| Accounts payable   | 2,571            | 1,984                |
| Accrued payroll and related costs  | 4,557            | 4,424                |
| Other accrued liabilities  | 363              | 342                  |
| Deferred revenue   | 91               | 173                  |
| <b>Total current liabilities</b>   | <b>11,061</b>    | <b>9,533</b>         |
| <b>Total liabilities</b>   | <b>11,061</b>    | <b>9,533</b>         |
| Commitments and contingent liabilities (Note 4)  |                  |                      |
| 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 3,931,912 shares issued as of June 30, 2013 and 3,925,395 shares issued as of December 31, 2012 | 39               | 39                   |

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|  |           |           |
|--|-----------|-----------|
| Additional paid-in-capital   | 11,237    | 11,036    |
| Retained earnings  | 283       | (1,081)   |
| Accumulated other comprehensive income (loss)  | (50)      | 8         |
| Treasury stock, at cost; 586,367 shares as of June 30, 2013 and 584,172 shares as of December 31, 2012 | (3,131)   | (3,115)   |
| Total shareholders' equity   | 8,378     | 6,887     |
| Total liabilities and shareholders' equity   | \$ 19,439 | \$ 16,420 |

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

**Table of Contents****MASTECH HOLDINGS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in thousands)

(Unaudited)

|   | <b>Six Months ended<br/>June 30,</b> |                |
|---|--------------------------------------|----------------|
|   | <b>2013</b>                          | <b>2012</b>    |
| <b>OPERATING ACTIVITIES:</b>  |                                      |                |
| Net income  | \$ 1,364                             | \$ 810         |
| Adjustments to reconcile net income to cash provided by (used in) operating activities: |                                      |                |
| Depreciation and amortization   | 97                                   | 101            |
| Interest amortization of deferred financing costs                                       | 13                                   | 14             |
| Bad debt (credit) expense   | (25)                                 |                |
| Stock-based compensation expense  | 187                                  | 77             |
| Deferred income taxes, net  | (49)                                 | (8)            |
| (Gain)/loss on derivative contracts   | 2                                    | (1)            |
| Working capital items:  |                                      |                |
| Accounts receivable and unbilled receivables  | (2,932)                              | (2,129)        |
| Prepaid and other current assets  | (99)                                 | (24)           |
| Accounts payable  | 587                                  | (314)          |
| Accrued payroll and related costs   | 133                                  | (2)            |
| Other accrued liabilities   | (35)                                 | (38)           |
| Deferred revenue  | (82)                                 | (48)           |
| <b>Net cash flows (used in) operating activities</b>                                    | <b>(839)</b>                         | <b>(1,562)</b> |
| <b>INVESTING ACTIVITIES:</b>  |                                      |                |
| Recovery of non-current deposits  | 4                                    | 30             |
| Capital expenditures  | (75)                                 | (108)          |
| <b>Net cash flows (used in) investing activities</b>                                    | <b>(71)</b>                          | <b>(78)</b>    |
| <b>FINANCING ACTIVITIES:</b>  |                                      |                |
| Proceeds from short-term borrowings, net  | 869                                  |                |
| Purchase of treasury stock  | (16)                                 | (2,491)        |
| Proceeds from the exercise of stock options   | 5                                    | 43             |
| Increase in excess tax benefits related to stock options, net                           | 9                                    | 20             |
| <b>Net cash flows provided by (used in) financing activities</b>                        | <b>867</b>                           | <b>(2,428)</b> |
| Net change in cash and cash equivalents   | (43)                                 | (4,068)        |
| Cash and cash equivalents, beginning of period  | 659                                  | 5,755          |
| Cash and cash equivalents, end of period  | \$ 616                               | \$ 1,687       |

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**

**June 30, 2013 AND 2012**

**(Unaudited)**

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

References in this Quarterly Report on 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 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. 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. Our services span a broad range of industry verticals including: automotive; consumer products; education; financial services; government; healthcare; manufacturing; retail; technology; telecommunications; transportation; and utilities. Our healthcare staffing business provides specialized healthcare professionals, including surgical nurses and therapists 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, 2012, included in our Annual Report on Form 10-K filed with the SEC on March 22, 2013. Additionally, our operating results for the three months and six months ended June 30, 2013 are not necessarily indicative of the results that can be expected for the year ending December 31, 2013 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 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. The cost method of accounting is used when the Company does not exercise significant management influence, generally when Mastech has an ownership interest of less than 20%.

***Critical Accounting Policies***

Please refer to Note 1 Summary of Significant Accounting Policies of the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies in our Annual Report on Form 10-K for the year ended December 31, 2012 for a more detailed discussion of our significant accounting policies and critical accounting estimates.

***Segment Reporting***

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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 .

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As of June 30, 2013, the Company had \$405,000 of goodwill recorded on its balance sheet related to the January 2, 2010 acquisition of Curastat, Inc. There was no activity in our goodwill account during the three and six months ended June 30, 2013 and June 30, 2012.

**3. Intangible Assets**

Intangible assets consist of customer relationships, trade name and non-compete covenants related to the acquisition of Curastat, Inc. Intangible assets are amortized on a straight-line basis over their estimated useful lives, which range from 2 to 5 years. Intangible assets were comprised of the following as of June 30, 2013:

| (in thousands)          | Gross<br>Carrying Value | As of June 30, 2013<br>Accumulated<br>Amortization | Net Carrying<br>Value |
|-------------------------|-------------------------|--|-----------------------|
| Customer relationships  | \$ 60                   | \$ 42  | \$ 18                 |
| Trade name              | 50                      | 50   |                       |
| Non-compete covenants   | 40                      | 40   |                       |
| Total intangible assets | \$ 150                  | \$ 132   | \$ 18                 |

Amortization expense for the six months ended June 30, 2013 and 2012 was \$6,000 and \$15,000 respectively, and is included in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

**4. 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 2012 Annual Report on Form 10-K.

***Contingencies***

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

**5. 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. For the six months ended June 30, 2013 and June 30, 2012, the Company did not provide for any matching contributions.

**6. 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 three and six months ended June 30, 2013, there were -0- and 50,000 performance share grants made under this Plan. For the three and six months ended June 30, 2012, there were no grants made under this Plan.

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As of June 30, 2013, there were 18,133 shares available for grant under the Plan.

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

Stock-based compensation expense for the three months ended June 30, 2013 and 2012 was \$92,000 and \$39,000, respectively, and for the six months ended June 30, 2013 and 2012 was \$187,000 and \$77,000, respectively. Stock-based compensation expense is included in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

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During the three and six months ended June 30, 2013, the Company issued 4,445 shares and 6,517 shares related to the exercise of stock options and vesting of restricted stock grants. During the three and six months ended June 30, 2012, the Company issued 25,524 and 30,633 shares related to exercise of stock options and vesting of restricted stock grants.

**8. 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 and six months ended June 30, 2013 and 2012:

|                             | Three Months Ended<br>June 30, |                                | Six Months Ended<br>June 30,   |                                |
|-----------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
|                             | 2013<br>(Amounts in Thousands) | 2012<br>(Amounts in Thousands) | 2013<br>(Amounts in Thousands) | 2012<br>(Amounts in Thousands) |
| Income before income taxes: |                                |                                |                                |                                |
| Domestic                    | \$ 1,270                       | \$ 738                         | \$ 2,194                       | \$ 1,311                       |
| Foreign                     |                                |                                |                                |                                |
| Income before income taxes  | \$ 1,270                       | \$ 738                         | \$ 2,194                       | \$ 1,311                       |

The provision for income taxes, as shown in the accompanying Condensed Consolidated Financial Statements, consisted of the following for the three and six months ended June 30, 2013 and 2012:

|                                    | Three Months Ended<br>June 30, |                                | Six Months Ended<br>June 30,   |                                |
|------------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
|                                    | 2013<br>(Amounts in Thousands) | 2012<br>(Amounts in Thousands) | 2013<br>(Amounts in Thousands) | 2012<br>(Amounts in Thousands) |
| Current provision:                 |                                |                                |                                |                                |
| Federal                            | \$ 417                         | \$ 196                         | \$ 805                         | \$ 386                         |
| State                              | 36                             | 15                             | 74                             | 34                             |
| Total current provision            | 453                            | 211                            | 879                            | 420                            |
| Deferred provision (benefit):      |                                |                                |                                |                                |
| Federal                            | 21                             | 60                             | (48)                           | 70                             |
| State                              | 7                              | 9                              | (1)                            | 11                             |
| Total deferred provision (benefit) | 28                             | 69                             | (49)                           | 81                             |
| Total provision for income taxes   | \$ 481                         | \$ 280                         | \$ 830                         | \$ 501                         |

The reconciliation of income taxes computed using the statutory U.S. income tax rate and the provision for income taxes for the three and six months ended June 30, 2013 and 2012 were as follows (amounts in thousands):

|   | Three Months Ended<br>June 30, 2013 |       | Three Months Ended<br>June 30, 2012 |       |
|---|-------------------------------------|-------|-------------------------------------|-------|
|   |                                     |       |                                     |       |
| Income taxes computed at the federal statutory rate | \$ 432                              | 34.0% | \$ 251                              | 34.0% |
| State income taxes, net of federal tax benefit      | 43                                  | 3.4   | 24                                  | 3.3   |
| Other net   | 6                                   | 0.5   | 5                                   | 0.6   |

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\$ 481 37.9% \$ 280 37.9%

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|   | Six Months Ended<br>June 30, 2013 |       | Six Months Ended<br>June 30, 2012 |       |
|---|-----------------------------------|-------|-----------------------------------|-------|
| Income taxes computed at the federal statutory rate | \$ 746                            | 34.0% | \$ 446                            | 34.0% |
| State income taxes, net of federal tax benefit      | 73                                | 3.3   | 45                                | 3.4   |
| Other net   | 11                                | 0.5   | 10                                | 0.8   |
|   | \$ 830                            | 37.8% | \$ 501                            | 38.2% |

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

| (Amounts in thousands)              | Six Months Ended<br>June 30, 2013 |
|-------------------------------------|-----------------------------------|
| Balance as of December 31, 2012     | \$ 78                             |
| Additions related to current period | 16                                |
| Additions related to prior periods  |                                   |
| Reductions related to prior periods |                                   |
| Balance as of June 30, 2013         | \$ 94                             |

Although it is difficult to anticipate the final outcome of these uncertain tax positions, the Company believes that the total amount of unrecognized tax benefits could be reduced by approximately \$32,000 during the next twelve months due to the expiration of the statute of limitations.

**9. Derivative Instruments and Hedging Activities**

Commencing in June 2012, the Company entered into foreign currency forward contracts ( derivative contracts ) to mitigate and manage the risk of changes in foreign exchange rates related to highly probable expenditures in support of its Indian-based global recruitment operations. These forward contracts have been designated as cash flow hedging instruments and qualified as effective hedges at inception under ASC Topic 815, Derivatives and Hedging .

All derivatives are recognized on the balance sheet at fair value. The effective portion of the changes in fair value on these instruments are recorded in other comprehensive income (loss) and are reclassified into the Consolidated Statement of Operations on the same line item and in the same period in which the underlying hedge transaction affects earnings. Changes in the fair value of these instruments deemed ineffective are recognized in the Consolidated Statement of Operations as foreign exchange gains (losses). Hedge effectiveness is assessed based on changes in the fair value of the forward contracts related to the difference between the spot price and the forward price. Forward points (premiums/discounts) are excluded from the assessment of hedge effectiveness and are recognized in the Consolidated Statement of Operations as foreign exchange gains/(losses).

As of June 30, 2013, the Company s outstanding contracts mature in six monthly installments of 10 million rupees per month through December 2013, meet the qualifying criteria for hedge accounting and have been deemed to be effective. Accordingly, the Company has recorded other comprehensive pretax (losses) of (\$82,000) as of June 30, 2013.

The following table presents information related to foreign currency forward contracts held by the Company:

**Outstanding hedge transactions qualifying for hedge accounting as of June 30, 2013 (amounts in thousands):**

| Maturity Date<br>Ranges | Rupee Strike Price<br>Ranges | Net Unrealized<br>Gain/(Loss)<br>Amount | June 30, 2013 |
|-------------------------|------------------------------|---|---------------|
|-------------------------|------------------------------|---|---------------|



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**Forward contracts USD:**

|       |                   |       |          |         |
|-------|-------------------|-------|----------|---------|
| From: | July 22, 2013     | 56.85 |          |         |
| To:   | December 20, 2013 | 58.06 |          |         |
| Total |                   |       | \$ 1,044 | \$ (82) |

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The effect of derivative instruments on the Consolidated Statements of Operations and Comprehensive Income (Loss) for the three months ended June 30, 2013 (in thousands):

|  | Amount of Gain / (Loss) recognized in OCI on Derivatives | Location of Gain / (Loss) reclassified from Accumulated OCI to Income/(Expense) | Amount of Gain / (Loss) reclassified from Accumulated OCI to Income/(Expense) | Location of Gain / (Loss) reclassified in Income/(Expense) on Derivatives (Ineffective Portion/ Amounts excluded from effectiveness testing) | Amount of Gain / (Loss) recognized in Income/(Expense) on Derivatives |
|--|--|---|---|--|---|
| Derivatives in ASC Topic 815 Cash Flow Hedging Relationships | (Effective Portion)                                      | (Effective Portion)   | (Effective Portion)   |  |   |
| Currency Forward Contracts                                   | \$ (109)   | SG&A Expense  | \$ (1)  | Other Income/(Expense)   | \$ 30   |

The effect of derivative instruments on the Consolidated Statements of Operations and Comprehensive Income (Loss) for the six months ended June 30, 2013 (in thousands):

|  | Amount of Gain / (Loss) recognized in OCI on Derivatives | Location of Gain / (Loss) reclassified from Accumulated OCI to Income/(Expense) | Amount of Gain / (Loss) reclassified from Accumulated OCI to Income/(Expense) | Location of Gain / (Loss) reclassified in Income/(Expense) on Derivatives (Ineffective Portion/ Amounts excluded from effectiveness testing) | Amount of Gain / (Loss) recognized in Income/(Expense) on Derivatives |
|--|--|---|---|--|---|
| Derivatives in ASC Topic 815 Cash Flow Hedging Relationships | (Effective Portion)                                      | (Effective Portion)   | (Effective Portion)   |  |   |
| Currency Forward Contracts                                   | \$ (95)  | SG&A Expense  | \$ 4  | Other Income/(Expense)   | \$ 41   |

The effect of derivative instruments on the Consolidated Statements of Operations and Comprehensive Income (Loss) for the three months ended June 30, 2012 (in thousands):

|  | Amount of Gain / (Loss) recognized in OCI on Derivatives | Location of Gain / (Loss) reclassified from Accumulated OCI to Income/(Expense) | Amount of Gain / (Loss) reclassified from Accumulated OCI to Income/(Expense) | Location of Gain / (Loss) reclassified in Income/(Expense) on Derivatives (Ineffective Portion/ Amounts excluded from effectiveness testing) | Amount of Gain / (Loss) recognized in Income/(Expense) on Derivatives |
|--|--|---|---|--|---|
| Derivatives in ASC Topic 815 Cash Flow Hedging Relationships | (Effective Portion)                                      | (Effective Portion)   | (Effective Portion)   |  |   |
| Currency Forward Contracts                                   | \$ 4   | SG&A Expense  | \$ 0  |  | \$ 1  |



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The effect of derivative instruments on the Consolidated Statements of Operations and Comprehensive Income (Loss) for the six months ended June 30, 2012 (in thousands):

|  | Amount of Gain / (Loss) recognized in OCI on Derivatives | Location of Gain / (Loss) reclassified from Accumulated OCI to Income(Expense) (Effective Portion) | Amount of Gain / (Loss) reclassified from Accumulated OCI to Income(Expense) (Effective Portion) | Location of Gain / (Loss) reclassified in Income(Expense) on Derivatives (Ineffective Portion/ Amounts excluded from effectiveness testing) | Amount of Gain / (Loss) recognized in Income(Expense) on Derivatives |
|--|--|--|--|---|--|
| Derivatives in ASC Topic 815 Cash Flow Hedging Relationships |  |  |  |   |  |
| Currency Forward Contracts                                   | \$ 4   | SG&A Expense   | \$ 0   | Other Income/ (Expense)   | \$ 1   |

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

| Derivative Instruments     | June 30, 2013             |            | December 31, 2012                |            |
|----------------------------|---------------------------|------------|----------------------------------|------------|
|                            | Balance Sheet Location    | Fair Value | Balance Sheet Location           | Fair Value |
| Currency Forward Contracts | Other Accrued Liabilities | \$ 56      | Prepaid and Other Current Assets | \$ 41      |

The estimated amount of pretax losses as of June 30, 2013 that is expected to be reclassified from other comprehensive (loss) into earnings within the next 12 months is (\$82,000).

**10. Fair Value Measurements**

The Company has adopted the provisions of ASC 820, Fair Value Measurements and Disclosures (ASC 820) related to certain financial and nonfinancial assets and liabilities. ASC 820 establishes the authoritative definition of fair value; sets out a framework for measuring fair value; and expands the required disclosures about fair value measurements. The valuation techniques required by ASC 820 are based on observable and unobservable inputs using the following three-tier hierarchy:

Level 1 - Inputs are observable quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2 - Inputs are observable, other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are directly or indirectly observable in the marketplace.

Level 3 - Inputs are unobservable that are supported by little or no market activity.

At June 30, 2013, the Company carried the following financial assets and (liabilities) at fair value measured on a recurring basis (in thousands):

Fair Value as of June 30, 2013

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| (Amounts in thousands)     | Level 1 | Level 2 | Level 3 |
|----------------------------|---------|---------|---------|
| Currency Forward Contracts | \$ 0    | \$ (56) | \$ 0    |

### 11. Shareholders Equity

As of June 30, 2013, the Company had 413,633 shares available for purchase under its existing share repurchase program. Repurchases under the program may be made through open market purchases or privately negotiated transactions in accordance with applicable securities laws through December 22, 2014. During the three and six months ended June 30, 2013, 2,195 shares were purchased under this program.

### 12. Revenue Concentration

For the three months ended June 30, 2013, the Company had one client that exceeded 10% of total revenue (Accenture = 10.1%). For the three months ended June 30, 2012, the Company had three clients that exceeded 10% of total revenue (TEK Systems = 11.2%, IBM = 11.1%, and Kaiser Permanente = 11.1%). For the six months ended June 30, 2013,

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the Company had no clients that exceeded 10% of total revenue. For the six months ended June 30, 2012, the Company had three clients that exceeded 10% of total revenue (IBM = 12.9%, TEK Systems = 10.9% and Kaiser Permanente = 10.8%).

The Company's top ten clients represented approximately 51% and 56% of total revenues for the three months ended June 30, 2013 and 2012, respectively. For the six months ended June 30, 2013 and 2012, the Company's top ten clients represented approximately 51% and 56% of total revenues, respectively.

### **13. 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 effect of stock options was calculated using the treasury stock method.

For the three months ended June 30, 2013 and 2012, the computation of diluted earnings per share does not include 18,000 and 50,000 stock options, respectively, as the effect of their inclusion would have been anti-dilutive. For the six months ended June 30, 2013 and 2012, 18,000 and 50,000 stock options, respectively, were not included in the computation of earnings per share.

### **14. Severance Charges**

The Company incurred severance costs of \$0 and \$120,000 during the three and six months ended June 30, 2012, related to a change in executive leadership. These costs are included as selling, general and administrative expense in the Company's Condensed Consolidated Statements of Operations. No severance costs were incurred during the six months ended June 30, 2013.

### **15. Subsequent Events**

On July 26, 2013, the Company entered into a definitive Asset Purchase Agreement to sell substantially all of the assets of its Healthcare Staffing segment to Accountable Healthcare Staffing, Inc. The total consideration to be paid is \$1.15 million and consist of cash at closing of approximately \$1.0 million, plus the assumption of certain liabilities. The assets to be sold exclude cash balances on hand, accounts receivables and other current assets, which totaled approximately \$1.5 million as of June 30, 2013, net of current liabilities retained by the Company. The closing is subject to customary closing conditions and is expected to close in the third quarter of 2013.

### **16. Recently Issued Accounting Standards**

**In January 2013**, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-01, *Balance Sheet (Topic 210): Clarifying the scope and disclosures about Offsetting Assets and Liabilities*. The main objective in developing this Update is to address implementation issues about the scope of Accounting Standards Update No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. Stakeholders have told the Board that because the scope in Update 2011-11 is unclear, diversity in practice may result. Recent feedback from stakeholders is that standard commercial provisions of many contracts would equate to a master netting arrangement. Stakeholders questioned whether it was the Board's intent to require disclosures for such a broad scope, which would significantly increase the cost of compliance. The objective of this Update is to clarify the scope of the offsetting disclosures and address any unintended consequences.

The amendments clarify that the scope of Update 2011-11 applies to derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement.

The amendments clarify the intended scope of the disclosures required by Section 210-20-50. The Board concluded that the clarified scope will reduce significantly the operability concerns expressed by preparers while still providing decision-useful information about certain transactions involving master netting arrangements. The amendments provide a user of financial statements with comparable information as it relates to certain reconciling differences between financial statements prepared in accordance with U.S. GAAP and those financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

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An entity is required to apply the amendments for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the required disclosures retrospectively for all comparative periods presented. The effective date is the same as the effective date of Update 2011-11.

The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

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**In February 2013**, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-02, *Comprehensive Income (Topic 220, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income)*. The objective of this Update is to improve the reporting of reclassifications out of accumulated other comprehensive income.

The amendments of this update do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts.

The amendments in this Update apply to all entities that issue financial statements that are presented in conformity with U.S. GAAP and that report items of other comprehensive income. Public companies are required to comply with these amendments for all reporting periods presented, including interim periods.

For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. Early adoption is permitted.

The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.



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**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 year ended December 31, 2012, included in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission ( SEC ) on March 22, 2013.

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 2012 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](http://www.mastech.com). The Company's 2012 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 domestic 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. We provide our services across various industry verticals including: automotive; consumer products; education; financial services; government; healthcare; manufacturing; retail; technology; telecommunications; transportation; and utilities. Our healthcare staffing unit provides specialized healthcare professionals to hospitals and other healthcare facilities.

The Company aggregates its IT and healthcare operating segments, based on the nature of services and, accordingly, has one reportable segment. Thus, 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 ( MSP ). The specialized healthcare channel clients consist of hospitals and other healthcare facilities that utilize our staffing professionals. Permanent placement / fee revenues are incidental revenues derived as by-product opportunities of conducting our core contract staffing business.

***Critical Accounting Policies:***

Please refer to Note 1 Summary of Significant Accounting Policies of the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies in our Annual Report on Form 10-K for the year ended December 31, 2012 for a more detailed discussion of our significant accounting policies and critical accounting estimates.

**Table of Contents*****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 our staffing services. During the second half of 2009, we began to see signs of market stabilization and a modest pick-up in activity levels within certain sales channels and technologies. In 2010, market conditions continued to strengthen over the course of the year and activity levels within most of our sales channels progressively improved. In 2011 and 2012, activity levels continued to trend up in most technologies and sales channels. During the first half of 2013, activity levels remained solid.

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 cause our results of operations to deviate 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. This trend in our business mix has impacted overall gross margins during the past several years, and if this trend continues, will likely impact future gross margins as well. Within our retail sales channel, many larger users of IT staffing services are employing MSP's to manage their contractor spending in an effort to drive down overall costs. This trend towards utilizing the MSP model has resulted in lower gross margins in the retail IT channel over the last two years and it is likely that our gross margins will be pressured in future periods should this trend continue.

***Results of Operations for the Three Months Ended June 30, 2013 as Compared to the Three Months Ended June 30, 2012:******Revenues:***

Revenues for the three months ended June 30, 2013 totaled \$28.9 million, compared to \$25.3 million for the corresponding three month period of 2012. This 14% year-over-year revenue increase largely reflects a higher demand for the Company's services and the corresponding increase in billable consultants during the 2013 period. Billable IT headcount at June 30, 2013 totaled 716 consultants compared to 587 consultants, one-year earlier. For the three-month period ended June 30, 2013 our billable IT headcount increased by 58 consultants.

Below is a tabular presentation of revenues by sales channel for the three months ended June 30, 2013 and 2012:

| Revenues (Amounts in millions) | Three months ended<br>June 30, 2013 | Three months ended<br>June 30, 2012 |
|--------------------------------|-------------------------------------|-------------------------------------|
| Wholesale IT Channel           | \$ 19.9                             | \$ 15.6                             |
| Retail IT Channel              | 6.1                                 | 7.0                                 |
| Specialized Healthcare         | 2.8                                 | 2.6                                 |
| Permanent Placements / Fees    | 0.1                                 | 0.1                                 |
| <b>Total revenues</b>          | <b>\$ 28.9</b>                      | <b>\$ 25.3</b>                      |

Revenues from our wholesale IT channel increased approximately 28% during the three month period ended June 30, 2013 compared to the corresponding 2012 period. Higher revenue levels from both staffing clients (up 21%) and integrator clients (34%) were driven by stronger demand for IT services. Retail IT channel revenues were down approximately 13% during the three months ended June 30, 2013 compared to the period one-year earlier. This channel's entire revenue decline came from our end-user clients, as revenues from MSP clients were flat. Specialized healthcare revenues increased by 8% for the three month period ended June 30, 2013 compared to the corresponding 2012 period. This improvement largely reflects an increase in demand for travel nurses, partially offset by some contraction in our therapy business. Permanent placement / fee revenues were in-line with revenues generated a year earlier.

During the three months ended June 30, 2013, we had one client that represented more than 10% of total revenues (Accenture = 10.1%). During the three months ended June 30, 2012, we had three clients that represented more than 10% of total revenues (TEK Systems = 11.2%; IBM = 11.1%; and Kaiser Permanente = 11.1%).



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During the 2013 period, our top ten clients represented approximately 51% of total revenues compared to 56% of total revenues in the corresponding 2012 period.

*Gross Margin:*

Gross profits in the second quarter of 2013 totaled \$5.5 million, or approximately \$0.6 million higher than the second quarter of 2012. Gross profit as a percentage of revenue increased to 18.9% in the three-month period ending June 30, 2013 compared to 18.1% reported in the previous quarter. However, margins were still slightly below the 19.1% achieved during the three month period ending June 30, 2012. The gross margin decline from a year earlier reflected lower margins in our healthcare channel due to an unfavorable service-offering mix (lower high-margin therapy revenues).

Below is a tabular presentation of gross margin by sales channel for the three months ended June 30, 2013 and 2012:

| Gross Margin                | Three months ended | Three months ended |
|-----------------------------|--------------------|--------------------|
|                             | June 30, 2013      | June 30, 2012      |
| Wholesale IT Channel        | 18.3%              | 18.3%              |
| Retail IT Channel           | 20.8               | 19.4               |
| Specialized Healthcare      | 16.9               | 18.9               |
| Permanent Placements / Fees | 100.0              | 100.0              |
| <b>Total gross margin</b>   | <b>18.9%</b>       | <b>19.1%</b>       |

Wholesale IT channel gross margins were flat for the three months ended June 30, 2013 compared to the corresponding 2012 period. Retail IT gross margins were up 140 basis points during the three months ended June 30, 2013 compared to 2012, as margins on new MSP assignments strengthened during the first half of 2013. Specialized healthcare gross margins declined by 200 basis points in the 2013 period compared to a year earlier, largely due to an unfavorable service-offering mix of business (lower high-margin therapy revenues).

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

SG&A expenses for the three months ended June 30, 2013 totaled \$4.2 million or 14.5% of revenues, compared to \$4.1 million or 16.0% of revenues for the three months ended June 30, 2012. Fluctuations within SG&A expense components during the 2013 period compared to a year earlier included the following:

Sales expense was flat in the 2013 period compared to 2012. Lower sales leadership expenses were offset by an increase in sales staff.

Recruiting expense was up in the 2013 period by \$0.1 million due to higher visa processing fees and slightly higher facility costs.

General and administrative expense in 2013 was in-line with those of a year earlier. A \$0.1 million increase in stock-based compensation expense was largely offset by lower bad debt and employee benefit expenses.

*Other Income / (Expense) Components:*

Other Income / (Expense) for the three months ended June 30, 2013 consisted of interest expense of \$29,000; and foreign exchange gains of \$33,000. For the three months ended June 30, 2012, Other Income / (Expense) consisted of interest expense of \$17,000 and foreign exchange losses of \$16,000. The higher interest expense in the 2013 period reflects outstanding borrowings in the 2013 period compared to zero borrowings in 2012. The foreign exchange gains and losses were due to fluctuations in the Indian Rupee against the U. S. Dollar. The 2013 period benefited from the Company's foreign currency hedging program instituted in June 2012.

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### *Income Tax Expense*

Income tax expense for the three months ended June 30, 2013 totaled \$481,000 representing an effective tax rate on pre-tax income of 37.9%, compared to \$280,000 for the three months ended June 30, 2012, which also represented a 37.9% effective tax rate on pre-tax income.

**Table of Contents****Results of Operations for the Six Months Ended June 30, 2013 as Compared to the Six Months Ended June 30, 2012:***Revenues:*

Revenues for the six months ended June 30, 2013 totaled \$55.9 million, compared to \$49.8 million for the corresponding six month period in 2012. This 12% year-over-year revenue increase largely reflects a higher demand for the Company's services and the corresponding increase in billable consultants during the 2013 period.

Below is a tabular presentation of revenues by sales channel for the six months ended June 30, 2013 and 2012:

| Revenues (Amounts in millions) | Six months ended | Six months ended |
|--------------------------------|------------------|------------------|
|                                | June 30, 2013    | June 30, 2012    |
| Wholesale IT Channel           | \$ 37.8          | \$ 31.0          |
| Retail IT Channel              | 12.3             | 13.5             |
| Specialized Healthcare         | 5.7              | 5.2              |
| Permanent Placements / Fees    | 0.1              | 0.1              |
| <b>Total revenues</b>          | <b>\$ 55.9</b>   | <b>\$ 49.8</b>   |

Revenues from our wholesale IT channel increased approximately 22% during the six month period ended June 30, 2013 compared to the corresponding 2012 period. Higher revenue levels from both staffing clients (up 20%) and integrator clients (up 24%) were driven by stronger demand for IT services. Retail IT channel revenues were down approximately 9% during the six months ended June 30, 2013 compared to the period one-year earlier. The decline reflected lower revenues from end-user clients, partially offset by a modest increase from our MSP clients. Specialized healthcare revenues increased by 10% for the six month 2013 period compared to the corresponding 2012 period. This improvement largely reflects an increase in demand for travel nurses, partially offset by lower revenues in our therapy business. Permanent placement / fee revenues were in-line with revenues generated a year earlier.

During the six months ended June 30, 2013, we had no clients that represented more than 10% of total revenues. During the six months ended June 30, 2012, we had three clients that represented more than 10% of total revenue (IBM = 12.9%; TEK Systems = 10.9%; and Kaiser Permanente = 10.8%). During the 2013 period, our top ten clients represented approximately 51% of total revenues compared to 56% of total revenues in the corresponding 2012 period.

*Gross Margin:*

Gross profits in the first half of 2013 totaled \$10.3 million, or approximately \$1.0 million higher than the first half of 2012. Gross profit as a percentage of revenue declined to 18.5% in the six-month period ending June 30, 2013 from the 18.7% reported in the corresponding 2012 period. The gross margin decline from a year earlier reflected lower margins in our healthcare channel due to lower revenues generated by our higher-margin therapy business and higher project initiation costs in our travel nurse business.

Below is a tabular presentation of gross margin by sales channel for the six months ended June 30, 2013 and 2012:

| Gross Margin                | Six months ended | Six months ended |
|-----------------------------|------------------|------------------|
|                             | June 30, 2013    | June 30, 2012    |
| Wholesale IT Channel        | 18.0%            | 18.0%            |
| Retail IT Channel           | 20.2             | 19.3             |
| Specialized Healthcare      | 16.7             | 18.4             |
| Permanent Placements / Fees | 100.0            | 100.0            |
| <b>Total gross margin</b>   | <b>18.5%</b>     | <b>18.7%</b>     |

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Wholesale IT channel gross margins were flat for the six months ended June 30, 2013 compared to the corresponding 2012 period. Retail IT gross margins were up 90 basis points during the six months ended June 30, 2013 compared to 2012, as margins on new MSP assignments strengthened during the first half of 2013. Specialized healthcare gross margins declined by 170 basis points in the 2013 period compared to a year earlier, largely due to lower revenues generated by our higher-margin therapy business and higher project initiation costs in our travel nurse business.

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

SG&A expenses for the six months ended June 30, 2013 totaled \$8.1 million or 14.5% of revenues, compared to \$7.9 million or 15.9% of revenues for the six months ended June 30, 2012. Fluctuations within SG&A expense components during the 2013 period compared to a year earlier included the following:

Sales expense was flat in the 2013 period compared to 2012. Lower sales leadership expenses were offset by an increase in sales staff.

Recruiting expense was up in the 2013 period by \$0.1 million due to an increase in offshore recruiting staff and higher facility costs.

General and administrative expense in 2013 was up \$0.1 million from expenses incurred a year earlier. The increase was largely due to higher stock-based compensation expense.

*Other Income / (Expense) Components:*

Other Income / (Expense) for the six months ended June 30, 2013 consisted of interest expense of \$54,000; and foreign exchange gains of \$45,000. For the six months ended June 30, 2012, Other Income / (Expense) consisted of interest expense of \$33,000 and foreign exchange losses of \$23,000. The higher interest expense in the 2013 period reflects outstanding borrowings in the 2013 period compared to zero borrowings in 2012. The foreign exchange gains and losses were due to fluctuations in the Indian Rupee against the U. S. Dollar. The 2013 period benefited from the Company's foreign currency hedging program instituted in June 2012.

*Income Tax Expense:*

Income tax expense for the six months ended June 30, 2013 totaled \$830,000, representing an effective tax rate on pre-tax income of 37.8%, compared to \$501,000 for the three months ended June 30, 2012, which represented a 38.2% effective tax rate on pre-tax income. A slightly lower aggregate state tax rate in the 2013 period was responsible for the lower effective tax rate.

***Liquidity and Capital Resources:***

*Financial Conditions and Liquidity:*

At June 30, 2013, we had \$2.9 million of outstanding debt, net of cash balances on hand, and approximately \$14 million of borrowing capacity under our existing credit facility.

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 June 30, 2013, our accounts receivable days sales outstanding ( DSO s ) measurement was 52-days, which was in-line with last quarter. We expect cash provided by operating activities, cash balances on hand and access to capital under our existing credit facility to be adequate to fund our business needs during the balance of 2013.

*Cash flows used in operating activities:*

Cash used in operating activities for the six months ended June 30, 2013 totaled \$0.8 million compared to \$1.6 million during the six months ended June 30, 2012. Elements of cash flows during the 2013 period were net income of \$1.4 million, non-cash charges of \$0.2 million and an offsetting increase in operating working capital levels of \$2.4 million. During the six months ended June 30, 2012, elements of cash flows included net income of \$0.8 million, non-cash charges of \$0.2 million and an offsetting increase in operating working capital levels of \$2.6 million. The increases in operating working capital levels in both periods reflected higher accounts receivable balances in support of our revenue growth.

*Cash flows used in investing activities:*



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Cash used in investing activities for both the six month periods ended June 30, 2013 and 2012 totaled \$0.1 million. Capital expenditures accounted for our entire cash needs in both periods.

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

Cash provided by financing activities for the six months ended June 30, 2013 totaled \$0.9 million and largely consisted of proceeds from short-term borrowings. Cash (used in) financing activities for the six months ended June 30, 2012 totaled (\$2.4) million and largely related to common shares purchased under the Company's modified Dutch Auction tender offer.

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*Contractual Obligations and 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 2012 Annual Report on Form 10-K. We do not have any off-balance sheet arrangements.

*Inflation:*

We do not believe that inflation had a significant impact on our results of operations for the periods presented. On an ongoing basis, we attempt to minimize any effects of inflation on our operating results by controlling operating costs and, whenever possible, seeking to 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. Additionally, assignment completions tend to be higher near the end of the calendar year, which largely impacts our revenue and gross profit performance during the subsequent quarter.

***Recently Issued Accounting Pronouncements:***

**In January 2013**, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-01, *Balance Sheet (Topic 210): Clarifying the scope and disclosures about Offsetting Assets and Liabilities*. The main objective in developing this Update is to address implementation issues about the scope of Accounting Standards Update No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. Stakeholders have told the Board that because the scope in Update 2011-11 is unclear, diversity in practice may result. Recent feedback from stakeholders is that standard commercial provisions of many contracts would equate to a master netting arrangement. Stakeholders questioned whether it was the Board's intent to require disclosures for such a broad scope, which would significantly increase the cost of compliance. The objective of this Update is to clarify the scope of the offsetting disclosures and address any unintended consequences.

The amendments clarify that the scope of Update 2011-11 applies to derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement.

The amendments clarify the intended scope of the disclosures required by Section 210-20-50. The Board concluded that the clarified scope will reduce significantly the operability concerns expressed by preparers while still providing decision-useful information about certain transactions involving master netting arrangements. The amendments provide a user of financial statements with comparable information as it relates to certain reconciling differences between financial statements prepared in accordance with U.S. GAAP and those financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

An entity is required to apply the amendments for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the required disclosures retrospectively for all comparative periods presented. The effective date is the same as the effective date of Update 2011-11.

The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

**In February 2013**, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-02, *Comprehensive Income (Topic 220, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income)*. The objective of this Update is to improve the reporting of reclassifications out of accumulated other comprehensive income.

The amendments of this update do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to

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cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts.

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The amendments in this Update apply to all entities that issue financial statements that are presented in conformity with U.S. GAAP and that report items of other comprehensive income. Public companies are required to comply with these amendments for all reporting periods presented, including interim periods.

For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. 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 flows and earnings are subject to fluctuations due to exchange rate variations. Foreign currency risk exists by the nature of our Indian-based recruitment centers. We attempt to limit our exposure to currency exchange fluctuations in the Indian Rupee ( Rupee ) via the purchase of forward currency exchange contracts. These forward contracts have been designated as cash flow hedging instruments and are used to mitigate overall risk by essentially creating offsetting currency exposures. The following table presents information related to foreign currency forward contracts held by the Company as of June 30, 2013:

| Currency (in thousands)    | Amount (in Rupees) | Amount (in USD) |
|----------------------------|--------------------|-----------------|
| Currency Forward Contracts | INR 60,000         | \$ 1,044        |

*Effect of Hypothetical Currency Rate Fluctuations*

As of June 30, 2013, the potential gain or loss in the fair value of the Company's outstanding foreign currency forward contracts assuming hypothetical 10%, 5%, 2% and 1% fluctuations in currency rates would be as follows (Amounts in thousands):

|                                      | Valuation given X% decrease in Rupee/USD Rate |        |         |         | Fair Value as of June 30, 2013 | Valuation given X% increase in Rupee/USD Rate |         |          |          |
|--------------------------------------|---|--------|---------|---------|--------------------------------|---|---------|----------|----------|
|                                      | 10%   | 5%     | 2%      | 1%      |                                | 1%  | 2%      | 5%       | 10%      |
| Rupee to USD Rate                    | 54.62   | 57.66  | 59.48   | 60.08   | 60.69                          | 61.30   | 61.90   | 63.72    | 66.76    |
| Fair value of derivative instruments | \$ 54   | \$ (3) | \$ (35) | \$ (45) | \$ (56)                        | \$ (65)                                       | \$ (75) | \$ (102) | \$ (145) |

**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 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.

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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 second quarter that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting as of December 31, 2012.

**Table of Contents****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 2012 Annual Report on Form 10-K, filed with the SEC on March 22, 2013.

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

A summary of our common stock repurchased during the second quarter of 2013 is set forth in the following table:

| <b>Period</b>                  | <b>Total<br/>Number of<br/>Shares<br/>Purchased</b> | <b>Average<br/>Price per<br/>Share</b> | <b>Total Number<br/>of Shares<br/>Purchased<br/>as<br/>Part of Publicly<br/>Announced<br/>Plans or<br/>Programs</b> | <b>Maximum<br/>Number of<br/>Shares that May<br/>Yet Be<br/>Purchased<br/>Under this<br/>Plan<br/>or Programs</b> |
|--------------------------------|---|--|---|---|
| April 1, 2013 - April 30, 2013 |   |  |   | 415,828   |
| May 1, 2013 - May 31, 2013     |   |  |   | 415,828   |
| June 1, 2013 - June 30, 2013   | 2,195   | \$ 6.99                                |   | 413,633   |
| Total                          | 2,195   | \$ 6.99                                |   |   |

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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. |
| 101.INS* | XBRL Instance Document.   |
| 101.SCH* | XBRL Taxonomy Extension Schema Document.  |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document.  |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document.   |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document.  |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document.   |

\* XBRL (eXtensible Business Reporting Language) information is furnished and not filed herewith, is not part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to the liability under these sections.



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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 31st day of July, 2013.

MASTECH HOLDINGS, INC.

July 31, 2013

/s/ D. KEVIN HORNER  
**D. Kevin Horner**  
**Chief Executive Officer**

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

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