

Mastech Holdings, Inc.  
Form 10-K  
March 20, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-K**

(Mark One)

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

**For the fiscal year ended December 31, 2014**

**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**  
**(State or other jurisdiction of**  
**incorporation or organization)**

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

**1305 Cherrington Parkway, Building 210, Suite 400**

**Moon Township, PA**  
**(Address of principal executive offices)**

**15108**  
**(Zip Code)**

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

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

<b>Title of each class</b>	<b>Name of exchange on which registered</b>
Common Stock, \$.01 par value	NYSE MKT

**Securities registered pursuant to Section 12(g) of the Act: None**

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2014 (based on the closing price on such stock as reported by NYSE MKT on such date) was \$25,747,000.

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The number of shares of the registrant's Common Stock, par value \$.01 per share, outstanding as of February 27, 2015 was 4,330,603 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement, prepared for the Annual Meeting of Shareholders scheduled for May 13, 2015 to be filed with the Commission, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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**MASTECH HOLDINGS, INC.**

**2014 FORM 10-K**

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**PART I**

**Forward-Looking Statements**

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

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

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

our ability to retain existing clients and obtain new clients;

changes in competitive conditions;

our ability to introduce new service offerings;

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

technological changes;

changes in accounting standards, rules and interpretations;

many of our contracts are terminable by clients without penalty;

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

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

fluctuations due to currency exchange rate variations;

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

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

the impact of new acquisitions; and

management's ability to identify and manage risks.

## **ITEM 1. BUSINESS**

### **Overview**

Mastech Holdings, Inc. (referred to in this report as "Mastech", the "Company", "us", "our" or "we") is a provider of Information Technology (IT) staffing services. Headquartered in the suburbs of Pittsburgh, Pennsylvania, we have approximately 750 consultants that provide services across a broad spectrum of industry verticals. From July 1986 through September 2008, we conducted our business as subsidiaries of iGATE Corporation ("iGATE"). We do not sell, lease or otherwise market computer software or hardware, and 100% of our revenue is derived from the sale of staffing services.

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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 and customer resource management; mobile applications; and e-Business 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.

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

We recruit through Global Recruiting Centers located in the U.S. and India that deliver a full range of recruiting and sourcing services. Our centers employ over 100 recruiters and sourcers that focus on recruiting U.S. based candidates to service a geographically diverse client base in the U.S. Our ability to respond to client requests, due to our offshore recruiting capabilities, with investment in sourcing and recruiting processes, expanded search coverage, round-the-clock sourcing, and frequent candidate contact, gives us the ability to deliver high-quality candidates to our clients in a timely fashion.

## **History and Developments**

Historically, we operated as the former Professional Services segment of iGATE. Mastech Holdings, Inc. was incorporated in Pennsylvania as a wholly-owned subsidiary of iGATE on June 6, 2008 in anticipation of our spin-off from iGATE. On September 30, 2008, we spun-off from iGATE and began operating as an independent public company. Our operating subsidiaries have 28 years of history as reliable providers of IT staffing services.

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

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

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

focusing on its IT and healthcare staffing operations.



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In August 2013, the Company sold its healthcare staffing operations to focus entirely on its core IT staffing business.

During the fourth quarter of 2014, the Company established a technology center to evaluate practice opportunities for high-demand IT skill-sets and emerging technologies. This new initiative is expected to generate revenues during 2015 as new practice areas are identified and marketed.

## **Our Business**

Our revenues are principally generated from contract staffing services that are provided on a time and material basis. Typically, we negotiate our business relationship by using one of three methods to gain agreement on the services to be provided. We either establish our relationship based on a simple standard term sheet; create a Statement of Work ( SOW ) specific to a project; or enter into a master service agreement with a client that describes the framework of our relationship. In each case, a client will submit to us positions and / or requirements that they plan on satisfying by using temporary contractors. We propose consultants to the client that we believe satisfy their needs and propose an hourly bill rate for each consultant submitted. The client will select our consultant or a competing firm s consultant based on their view of quality, fit and pricing. Contractual consultant specific details, such as billable rates, are documented as an annex to the agreement type that is chosen by the client.

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

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

## *Sales and Marketing*

We focus much of our marketing efforts on businesses and institutions with significant budgets and recurring staffing needs. We constantly look to develop relationships with new clients. In addition, we continuously work to penetrate our existing client relationships to deeper levels.

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

The wholesale channel consists of system integrators and other IT staffing firm customers with a need to supplement their ability to attract highly-qualified temporary technical computer personnel. Over the last several years, more of our revenues have come from the wholesale channel as a percentage of total revenues. Revenues from this channel represented 77% of our total revenues in 2014. Most of our strategic relationships in this channel are established at the vice president / sales director level. Account executives generally are responsible for expanding existing client relationships. We supplement these marketing activities through our sales organization in India, whose account

executives target smaller IT staffing clients within the wholesale channel. Generally, these account executives call (telesales) on potential new customers within an assigned U.S. territory.

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Our retail channel focuses on customers that are end-users of IT staffing services. Revenues from this channel represented 23% of our total revenues in 2014. Account executives at our limited branch operations call on, and meet with, potential new customers and are also responsible for maintaining existing client relationships within their geographic territory. Account executives are paired with recruiters and both receive incentive compensation based on revenue generation activities using a localized sales and recruitment model. Within the retail channel, many end-users of IT staffing services have retained a third party to provide vendor management services to centralize the consultant hiring process and reduce costs. Under this arrangement, the third-party managed service provider ( MSP ) retains control of the vendor selection and vendor evaluation process, which weakens the relationship built with the client. Our lower-cost centralized telesales model and highly efficient offshore recruiting model have better positioned us to respond to the growing use of MSPs.

Permanent placement activity can be generated from both of our sales channels. However, such opportunities are largely by-products of conducting our core contract staffing business. During 2014, permanent placement fees continued to represent less than 1% of total revenues.

### *Recruiting*

We operate four small recruiting centers located in the U.S. and two larger facilities in India that deliver a full range of recruiting and sourcing services. Our centers employ over 100 recruiters and sourcers that focus on recruiting U.S. based candidates to service a geographically diverse client base in the U.S. Our ability to respond to client requests faster than the competition is critical for success in our industry as most staffing firms access the same candidate pool via job boards and websites. Our offshore recruiting capabilities, with investment in sourcing and recruiting processes, expanded search coverage, around-the-clock sourcing, and frequent candidate contact, gives us the ability to deliver high-quality candidates to our clients in a timely fashion.

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

In late 2011, we upgraded and expanded our offshore recruitment offices in Bangalore. In late 2014, we significantly expanded our offshore recruitment offices in New Delhi which will give us the ability to nearly double our recruiter seats from existing levels. Both facilities provide our offshore organization with state-of-the-art infrastructure and workforce amenities to attract top-quality employees.

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

**Table of Contents***Technology Focus of our IT Operations*

We provide technologies and maintain strategic relationships with industry leaders, such as Salesforce.com, Oracle and Accenture, in many high demand areas including mobile applications and the implementation and support for cloud-based applications. Our IT staffing services are concentrated in the following areas:

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

Application integration  
Service Oriented Architecture ( SOA ) and Web Services

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

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

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

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

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The Enterprise Solutions Life Cycle includes the following phases:

Project Initiation Phase

Definition Phase

Development Phase

Deployment Phase

Support Phase

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

Finance and Accounting

Inventory and Purchasing

Project Billing and Costing, Sales, Distribution and Services

Manufacturing

Marketing and Call Center Support

Product Data Management and Data Warehousing

Supply Chain Management

Human Capital Solutions

Customer Relationship Management

Business Intelligence and Data Warehousing

Our Business Intelligence and Data Warehousing practice specializes in helping clients navigate enterprise-wide IT infrastructure, utilizing best practices to create a roadmap for realizing the full benefits of their investment. Our services are comprised of technical and functional consultants who work with clients to achieve the following objectives:

1) Increase data accuracy and consistency:

Define consistent data definitions and data standards

Develop metadata to drive data cleansing and aid user understanding

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

Provide users with complete and easy access to all data

Design a model that focuses on database performance

Add additional elements and aggregations to improve analysis and modeling

3) Increase productivity and flexibility.

4) Access data through central solution:

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

Access to the data warehouses using the standard tool set

Provide flexible and modular architecture to meet changing business needs

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5) Reduce complexity:

Decommission redundant systems

Transition reporting and analysis

**e-Business Solutions**

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

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

2) Java and related technologies including:

J2EE

IBM Websphere

WebLogic

Apache

Open Source software

XML-based technology

N-tier architecture applications

Web-enabling existing applications

*Geographic Presence & Industry Verticals*



All of our revenues are generated from services provided in the U.S. We market our services on a national basis and have the ability to provide services in all 50 states. Our geographical concentration tends to track major client locations, such as California, Texas, Pennsylvania, and in large metropolitan areas such as New York City and Washington, D.C.

We provide our IT services across a broad spectrum of industry verticals including: Automotive, Consumer Products, Education, Financial Services, Government, Healthcare, Manufacturing, Retail, Technology, Telecommunications, Transportation and Utilities. Below is a breakdown of our IT billable consultant base by industry as of December 31, 2014:

Financial Services	27%	Healthcare	13%
Telecom	19%	Government	9%
Technology	14%	Other	18%

Our client-base consists of large, medium-sized and small companies that span across multiple industry verticals. Accenture is our largest client, representing 11.7% of total 2014 revenues. Our services to Accenture generally supplement their needs for IT professionals to staff end-client projects. Approximately 59% of our total revenues were generated from our top ten clients during 2014.

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### *Employees*

At December 31, 2014, we had approximately 700 U.S. employees and 200 employees offshore. None of our employees are subject to collective bargaining agreements governing their employment with our Company. We employ our consultants on both an hourly and salary basis. Most of our salaried employees are H1-B visa holders. We enjoy a good reputation within the H1-B visa community, which allows us to tap a very broad candidate pool. Most of our hourly employees are U.S. citizens. On average, we maintain a balanced composition of salaried and hourly employees. We believe that our employee relations are good.

### *Intellectual Property Rights*

Our intellectual property largely consist of proprietary processes; client, employee and candidate information; as well as proprietary rights of third parties from whom we license intellectual property. We rely upon a combination of nondisclosure and other arrangements to protect our intellectual properties.

### *Seasonality*

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

## **Our Competitive Position**

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

## **Our Strengths**

We believe our strengths compared to industry peers include:

### *Established client base*

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

### *Operational excellence*

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

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needs in a timely and cost effective manner. Investments in sourcing and recruiting processes and leading technologies and recruitment tools have resulted in a highly scalable offshore recruiting model, which has delivered value to our clients.

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

### *Minority-owned status*

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

### *Attractive financial profile*

We have historically enjoyed higher operating margin potential than our industry peers due to our low cost telesales and offshore recruiting models. These business models allow us to quickly adjust our cost structure to changes in our business environment. Our blue-chip client base has ensured high quality accounts receivable and a strong and predictable cash flow conversion metric.

### *Experienced management team*

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

### *Expertise in high-demand IT skills*

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

## **Reportable Financial Segments**

The Company has one reportable segment in accordance with ASC Topic 280 Disclosures about Segments of an Enterprise and Related Information .

## **Available Information**

Our headquarters are located at 1305 Cherrington Parkway, Building 210, Suite 400, Moon Township, Pennsylvania 15108, and our telephone number is (412) 787-2100. The Company's website is [www.mastech.com](http://www.mastech.com). Our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to these

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reports are available free of charge by accessing the Investor Relations page of the Company's website as soon as reasonably practical after such reports are filed with the Securities and Exchange Commission (the "SEC").

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**ITEM 1A. RISK FACTORS**

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

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

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

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

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

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

***Government regulation of immigration may materially affect our workforce and limit our supply of qualified IT professionals.***

We recruit IT professionals on a global basis and, therefore, must comply with the immigration laws in the countries in which we operate, particularly the U.S. As of December 31, 2014, approximately 49% of our U.S. workforce was working under Mastech sponsored H1-B temporary work permits. Statutory law limits the number of new H1-B petitions that may be approved in a fiscal year, and if we are unable to obtain H1-B visas for our employees in sufficient quantities or at a sufficient rate for a significant period of time, our business, operating results and financial condition could be adversely affected. Additionally, legislation could be enacted limiting H1-B visa holders employment with staffing companies, which could result in reduced revenues and / or a higher cost of recruiting.



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In recent years, the vast majority of our H1-B hires were not subject to the annual quota limiting H1-B visas because they were already in the U.S. under H1-B visa status with other employers. As a result, the negative impact on recruiting due to the exhaustion of recent H1-B quotas was not substantial. However, unless Congress increases the annual H1-B quota, the pool of H1-B workers in the U.S., who were charged against previous years' quotas, will decline. Such a development would make H1-B worker recruiting more difficult. Absent positive legislation, in the long-term, the pool of available H1-B workers in the U.S. that are not subject to the annual quota may eventually be substantially limited. A limitation of H1-B workers could decrease our revenues if we are not able to recruit enough domestic workers to provide sufficient numbers of IT professionals to our clients.

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

All of our revenues are generated from clients located in the U.S. Our business depends on the overall demand for IT professionals and on the economic health of our clients. Weak economic conditions may force companies to reduce their staffing budgets and adversely affect demand for our services, thus reducing our revenues.

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

Within our retail sales channel, many large users of staffing services are employing Managed Service Providers (MSP) to manage their contractor expenses in an effort to drive down overall costs. The impact of this shift towards the MSP model has been to lower our gross margins. Should this trend towards utilizing the MSP model continue, it is likely that our gross margins will be pressured in the future. In addition, if large users of staffing services continue to employ MSPs, the relationship between us and those large users may be primarily conducted through MSPs, in which case we may have difficulty maintaining those client relationships because the MSP model uses the MSP as an intermediary between the staffing service provider and the end-user, and reduces our direct contact with the end-user.

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

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

unexpected changes in regulatory environments;

foreign currency fluctuations;

tariffs and other trade barriers;

difficulties in managing international operations; and

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



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

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

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

South Asia has, from time to time, experienced instances of civil unrest and hostilities among neighboring countries, such as between India and Pakistan and even within India. There have been military confrontations along the India-Pakistan border from time to time. The potential for hostilities between the two countries is high due to past terrorist incidents in India, troop mobilizations along the border, and the geopolitical situation in the region. Military activity or terrorist attacks in the future could influence the Indian economy by disrupting communications and making travel more difficult. This, in turn, could have a material adverse effect on our business, operating results and financial condition.

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

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

***Our quarterly operating results may be subject to significant variations.***

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

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

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

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

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

competition from other potential acquirers;

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

the unwillingness of the company to partner with us.

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

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

Our revenues are highly dependent on clients located in the U.S., as well as clients concentrated in certain industries. Economic slowdowns, changes in U.S. law and other restrictions or factors that affect the economic health of these industries may affect our business. For the year ended December 31, 2014, approximately 59% of our revenues were derived from our top ten clients. Consequently, if our clients reduce or postpone their spending significantly, this may lower the demand for our services and negatively affect our revenues and profitability. Further, any significant decrease in the rate of economic growth in the U.S. may reduce the demand for our services and negatively affect our revenues and profitability.

We have in the past, and may in the future, derive a significant portion of our revenues from a relatively limited number of clients. Our largest client, Accenture, accounted for approximately 11.7% of our 2014 revenues. These contracts are terminable without penalty, as are most of our contracts. The loss of any significant client or major project, or an unanticipated termination of a major project, could result in the loss of substantial anticipated revenues.

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

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

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

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

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

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

Our success depends in part upon certain methodologies and tools we use in designing, developing and implementing application systems and other proprietary intellectual property rights. We rely upon a combination of nondisclosure and other contractual arrangements and trade secrets, copyright and trademark laws to protect

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our proprietary rights and the proprietary rights of third parties from whom we license intellectual property. We enter into confidentiality agreements with our employees and limit distribution of proprietary information. There can be no assurance that the steps we take in this regard will be adequate to deter misappropriation of proprietary information or that we will be able to detect unauthorized use and take appropriate steps to enforce our intellectual property rights. In the event of an unfavorable resolution of a dispute over our intellectual property rights, we may incur substantial costs or liabilities, which would decrease our operating margins.

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

Sunil Wadhvani and Ashok Trivedi, co-founders of iGATE, own approximately 59% of Mastech's outstanding common stock. Accordingly, Messrs. Wadhvani and Trivedi together have sufficient voting power to elect all the members of the Board of Directors and to effect transactions without the approval of our other shareholders, except for those limited transactions that require a supermajority vote under our bylaws or articles of incorporation. The interests of Messrs. Wadhvani and Trivedi may from time to time diverge from our interests. Mastech's Audit Committee consists of independent directors and addresses certain potential conflicts of interest and related party transactions that may arise between us and our directors, officers or our other affiliates. However, there can be no assurance that any conflicts of interest will be resolved in our favor.

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

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

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

***Existing and potential customers may consider outsourcing their IT requirements to foreign countries, which could have an adverse effect on our ability to obtain new customers or retain existing customers.***

In the past few years, more companies started to use low-cost offshore outsourcing centers to perform technology-related work. Should this shift towards moving technology-related work to offshore outsourcing centers continue, our business, operating results and financial condition could be adversely effected.

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

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



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***Requirements of the Affordable Care Act will increase our employee benefits costs and could negatively affect our operating results, cash flows and financial condition if such costs aren't recovered with increases in client bill rates.***

We provide healthcare coverage to our U.S.-based employees that are subject to the Affordable Care Act. In 2014, we paid a portion of these healthcare costs for our salaried employees, but made no contribution towards healthcare coverage for our hourly employees. In order to adhere to the 2015 requirements of the Affordable Care Act, the Company altered how it delivers healthcare benefits to its U.S.-based employees. This change has resulted in higher overall costs to the Company, which could have a negative impact on our operating results, cash flows and financial condition.

***Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.***

In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners, and personally identifiable information of our customers and employees, in our data center and on our networks. The secure processing, maintenance and transmission of this information is critical to our operations and business strategy. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, and regulatory penalties, disrupt our operations and the services we provide to customers, and damage our reputation, and cause a loss of confidence in our services, which could adversely affect our operating results and competitive position. We maintain cyber risk insurance, but this insurance may not be sufficient to cover all of our losses from any breaches of our networks.

***If our clients are subjected to cyber-attacks or data security breaches, it may result in damage to our business and the disclosure of our confidential information.***

In addition to cybersecurity threats posed directly against us, our clients' information systems are also vulnerable to an increasing threat of continually evolving cybersecurity risks. There is no guarantee that our clients have implemented procedures that are adequate to safeguard against all data security breaches. The failure of our clients to adequately safeguard against data security breaches could have a material adverse effect on our business and operations. The theft and/or breach of our clients' data security could cause the disclosure and/or loss of our confidential information and data and result in significant costs. In addition, any cybersecurity damage to the networks or computer systems used by us or our clients could result in a claim for substantial damages against us and significant reputational harm, regardless of our responsibility for the failure.

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

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



Physical risk from climate change

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

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

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Litigation risks for emitters of greenhouse gases

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

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

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

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

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

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

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

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None

**Table of Contents****ITEM 2. PROPERTIES**

Information regarding the principal properties leased by us and our subsidiaries as of December 31, 2014 is set forth below:

<b>Location</b>	<b>Principal Use</b>	<b>Approximate Square Footage</b>
Moon Township, Pennsylvania	Corporate headquarters, executive, human resources, sales, recruiting, marketing and finance	11,500
Dallas, Texas	Sales and recruiting office	2,600
Fremont, California	Sales and recruiting office	2,600
Chicago, Illinois	Sales and recruiting office	1,000
New Delhi, India	Sales and recruiting office	27,000
Bangalore, India	Recruiting office	8,800

**ITEM 3. LEGAL PROCEEDINGS**

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

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

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

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

The following table sets forth, for the periods indicated, the range of high and low closing sale prices of the common stock of Mastech during the calendar quarters indicated. All share prices listed below have been adjusted to reflect the impact of our five-for-four stock split effective November 29, 2013.

<b>Common Stock Market Price</b>	<b>High</b>	<b>Low</b>
<b>2014:</b>		
Fourth Quarter	\$ 11.99	\$ 8.39
Third Quarter	16.27	10.24
Second Quarter	17.41	13.76
First Quarter	14.45	13.34
<b>2013:</b>		
Fourth Quarter	\$ 18.99	\$ 9.08
Third Quarter	9.27	6.08
Second Quarter	7.03	5.46
First Quarter	7.20	4.08

On February 27, 2015, we had 99 registered holders of record of our Common Stock. This figure excludes an estimate of the indeterminate number of beneficial holders whose shares may be held by brokerage firms and clearing agencies. We currently do not pay recurring dividends on our common stock. However, on October 29, 2013, the Company declared a cash dividend of \$0.50 per share on common stock, payable on December 20, 2013 to shareholders of record on December 9, 2013. Additionally, on November 29, 2012, the Company declared a special one-time dividend of \$1.60 per share on common stock, payable on December 21, 2012. These dividends should be viewed as non-recurring.

On December 23, 2010, the Company announced a share repurchase program of up to 937,500 shares of the Company's common stock over a two-year period. On October 23, 2012, the program was extended for an additional two-year period and the number of shares subject to the program was increased by 312,500 shares to 1.25 million shares. On October 22, 2014, the Company's Board of Directors approved the extension of this program through December 22, 2016. Repurchases under the program may be made through open market purchases or privately negotiated transactions in accordance with applicable securities laws. During 2014, we purchased 32,149 shares under this program at an average price of \$11.75 per share. In addition to the repurchases made under this program, the Company purchased an additional 29,182 shares in 2014 at an average price of \$13.63 to satisfy employee tax obligations related to the vesting of performance shares, in accordance with the Company's Stock Incentive Plan provisions.



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<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price</b>	<b>Maximum Number of Shares that may be Purchased under this Program</b>
January 1, 2014 – January 31, 2014			517,041
February 1, 2014 – February 28, 2014			517,041
March 1, 2014 – March 31, 2014	19,341*	\$ 14.06*	517,041
April 1, 2014 – April 30, 2014			517,041
May 1, 2014 – May 31, 2014			517,041
June 1, 2014 – June 30, 2014			517,041
July 1, 2014 – July 31, 2014	9,841*	12.78*	517,041
August 1, 2014 – August 31, 2014	22,430	11.86	494,611
September 1, 2014 – September 30, 2014			494,611
October 1, 2014 – October 31, 2014	2,400	11.43	492,211
November 1, 2014 – November 30, 2014	6,655	11.57	485,556
December 1, 2014 – December 31, 2014	664	11.10	484,892
<b>Total</b>	<b>61,331</b>	<b>\$ 12.64</b>	

\* Represents Company purchases to satisfy employee tax obligations upon the vesting of performance shares as provided for in the Company's Stock Incentive Plan. These shares were not acquired pursuant to any publicly announced purchase program.

Additionally, the Company adopted a Stock Incentive Plan in 2008 which, as amended, provides that up to 1,200,000 shares of the Company's common stock shall be allocated for issuance to directors, executive management, and key personnel. Details of shares issued and outstanding under this plan are disclosed in Note 7 – Stock-Based Compensation to the Consolidated Financial Statements included in Item 8 herein.

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

	<b>Years Ended December 31,</b>				
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(Amounts in thousands, except per share data)</b>				
<b>Income Statement Data from Continuing Operations (a):</b>					
Revenues	\$ 113,523	\$ 106,901	\$ 90,770	\$ 80,476	\$ 66,059
Gross profit	20,786	20,117	17,165	15,875	13,136
Operating expense	15,246	14,815	13,794	13,656	11,313
Other income / (expense), net	(32)	(77)	(32)	(69)	(26)
Income before income taxes	5,508	5,225	3,339	2,150	1,797
Income tax expense	2,085	1,956	1,281	795	632
Net income continuing operations	\$ 3,423	\$ 3,269	\$ 2,058	\$ 1,355	\$ 1,165
<b>Earnings per share continuing operations:</b>					
Basic (b)	\$ .79	\$ .78	\$ .51	\$ .30	\$ .25
Diluted (b)	\$ .77	\$ .75	\$ .49	\$ .29	\$ .25
<b>Income Statement Data from Discontinued Operations (a):</b>					
Income (loss) before income taxes	\$	\$ 162	\$ 145	\$ (358)	\$ (759)
Pre-tax gain on sale of discontinued operations		485			
Income tax expense		111	64	(116)	(257)
Net income discontinued operations	\$	\$ 536	\$ 81	\$ (242)	\$ (502)
<b>Earnings per share discontinued operations:</b>					
Basic (b)	\$	\$ .13	\$ .02	\$ (.05)	\$ (.11)
Diluted (b)	\$	\$ .12	\$ .02	\$ (.05)	\$ (.11)
<b>Weighted average common shares outstanding:</b>					
Basic (b)	4,320	4,193	4,075	4,566	4,591
Diluted (b)	4,459	4,342	4,201	4,695	4,683
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 2,568	\$ 424	\$ 659	\$ 5,755	\$ 6,334
Operating working capital (c)	9,096	8,397	7,809	6,108	5,060
Short-term borrowings		12	2,610		
Total liabilities	7,176	7,591	9,533	6,741	6,049
Total assets	20,044	17,051	16,420	19,788	18,397

Shareholders' equity (d)	12,868	9,460	6,887	13,047	12,348
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- (a) Continuing operations excludes the results of the Company's healthcare staffing segment which was sold in August 2013. All periods presented have been recast to reflect the presentation of discontinued operations.
- (b) Weighted average common shares outstanding have been adjusted for all periods presented for the Company's November 2013 five-for-four stock split.
- (c) Operating working capital represents current assets, excluding cash and cash equivalents, minus current liabilities, excluding short-term borrowings.
- (d) The 2012 reduction in shareholders' equity reflects the Company's special one-time cash dividend payable to shareholders on December 21, 2012 (\$6.7 million) and purchases made under its share repurchase program during the year (\$2.5 million).



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

**Overview**

We are a domestic provider of IT staffing services to mostly large and medium-sized organizations. From July 1986 until our September 30, 2008 spin-off, we conducted our business as subsidiaries of iGATE. We do not sell, lease or otherwise market any computer software or hardware, and 100% of our revenues are derived from the sale of information technology 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 e-Business solutions. We provide our services across various industry verticals including: automotive; consumer products; education; financial services; government; healthcare; manufacturing; retail; telecommunications; transportation and utilities.

We have one operating segment. We do, however, track and evaluate our revenues and gross profits by three distinct sales channels: wholesale; retail; and permanent placements / fees. Our wholesale 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 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 ). Permanent placement / fee revenues are incidental revenues derived as by-product opportunities of conducting our core contract staffing business.

**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. During 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 2013 and 2014, we continued to see a steady flow of solid activity in our contract staffing business; however, tightness in the supply side (skilled IT professional) of our business in 2014 negatively impacted our new assignment successes. Permanent placement activity levels were up in 2014 after trending down in 2013 from 2012 levels. As we enter 2015, we view a strengthening job market and a growing domestic economy as positives. However, supply side pressures should continue to pose challenges for us and our industry as a whole.

In addition to tracking general U.S. economic conditions, a large portion of our revenues are generated from a limited number of clients (see Item 1A, the Risk Factor entitled "Our revenues are highly concentrated and the loss of a significant client would adversely affect our business and revenues"). Accordingly, our trends and outlook are additionally impacted by the prospects and well-being of these specific clients. This "account concentration" factor may result in our results of operations deviating from the prevailing U.S. economic trends from time to time.

In recent years, a larger portion of our revenues has 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. This trend in our business mix has



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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 large users of IT staffing services are employing Managed Service Providers ( MSP ) to manage their contractor spending in an effort to drive down overall costs. This trend towards utilizing the MSP model may pressure gross margins in future periods.

**Recent Developments**

On April 2, 2014, the Company entered into a ten year operating lease for approximately 11,500 square feet of office space in the Pittsburgh, Pennsylvania area. This lease, effective August 29, 2014, replaced the Company's existing Corporate Headquarters lease. Further details of this lease are disclosed in the Company's Form 8-K, filed with the SEC on April 7, 2014.

On July 11, 2014, the Company entered into a Second Amended and Restated Loan Agreement with PNC Bank, N.A., replacing its previous credit facility that was set to expire on August 31, 2014. This new facility expires in three years and provides for up to \$20 million of credit, subject to a borrowing base and commitment reductions and mandatory prepayments, as described in the Loan Agreement filed as Exhibit 10.1 to the Company's current report on Form 8-K, filed with the SEC on July 17, 2014. For additional information regarding this new credit facility see Note 4 Credit Facility to the Consolidated Financial Statements included in Item 8 herein.

On October 22, 2014, the Company's Board of Directors agreed to extend the duration of the Company's existing Share Repurchase Program for an additional two years, through December 22, 2016.

**Results of Continuing Operations**

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

**Revenues & Gross Margin by Sales Channel**

(Amounts in millions)

<b>Revenues</b>	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Wholesale Channel	\$ 87.6	\$ 82.8	\$ 64.0
Retail Channel	25.5	23.9	26.5
Permanent Placements / Fees*	0.4	0.2	0.3
<b>Total Revenues</b>	<b>\$ 113.5</b>	<b>\$ 106.9</b>	<b>\$ 90.8</b>
<b>Gross Margin</b>			
Wholesale Channel	17.0%	18.1%	18.3%
Retail Channel	21.5%	20.7%	19.5%
Permanent Placements / Fees*	100.0%	100.0%	100.0%
<b>Total Gross Margin %</b>	<b>18.3%</b>	<b>18.8%</b>	<b>18.9%</b>

\* Permanent Placement / Fees are generated from clients within both of our existing sales channels. In order to minimize the impact of the industry trends mentioned above on our gross margins, the Company will need to continue to lower its operating cost structure as a percentage of revenues through innovation and greater efficiencies. Investments in our global recruitment centers, aimed at improving operational effectiveness, and costs rationalization efforts throughout our entire organization, are examples of past actions that have resulted in lower operating costs as a percentage to total revenues.

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

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

(Amounts in millions)

	Years Ended December 31,		
	2014	2013	2012
Sales and Marketing	\$ 4.5	\$ 4.4	\$ 4.0
Operations (HR & Recruiting)	5.3	5.3	5.0
General & Administrative	5.4	5.1	4.8
<b>Total S,G&amp;A Expenses</b>	<b>\$ 15.2</b>	<b>\$ 14.8</b>	<b>\$ 13.8</b>

**2014 Compared to 2013****Revenues**

Revenues for the year ended December 31, 2014 totaled \$113.5 million, compared to \$106.9 million for the year ended December 31, 2013. This 6% increase was due to a higher average billable consultant-base employed during 2014 compared to one-year earlier. However, billable consultant headcount at December 31, 2014 totaled 731-consultants versus 742-consultants at year-end 2013 and reflected a high level of assignment ends during the month of December 2014. Additionally, our average bill rate in 2014 declined slightly to \$74.00 from \$74.25 in 2013.

Revenues from our wholesale channel increased 6% in 2014 compared to 2013. Higher revenue levels from staffing clients (up 10%) were driven by strong demand for our IT staffing services. Revenues from our integrator clients were up 3% over 2013 levels, as our growth rate was muted by the early termination of a sizable integrator assignment in the second quarter of 2014. Retail channel revenues increased by 7% in 2014 compared to a year earlier. This increase reflected higher revenues from MSP clients, partially offset by revenue declines at direct end-user clients. Permanent placement / fee revenues increased in 2014 by approximately \$0.2 million from 2013 levels. With the closure of several branch offices in late 2011, permanent placement opportunities have been more sporadic over the last several years given our primary focus is on contract staffing.

In 2014, we had one client that represented more than 10% of total revenues (Accenture = 11.7%). In 2013, the same client represented 11.4% of our total revenues. Our top ten clients represented 59% of total revenues in 2014 compared to 57% of total revenues in 2013.

**Gross Margin**

Gross profit increased to \$20.8 million in 2014 compared to \$20.1 million in 2013. This improvement in gross profit was due to revenue growth during the 2014 period and a higher level of permanent placement fees than in the 2013 period. Gross profit as a percentage of revenue was 18.3% in 2014 compared to 18.8% in 2013. The 50 basis point decline in gross margin largely reflected consultant compensation increases on existing assignments that have

out-paced bill rate increases, mitigated by higher permanent placement fees.

Wholesale channel gross margins decreased by 110 basis points in 2014 compared to 2013. This decline was largely due to lower margins on new assignments with integrator clients and consultant compensation increases on existing assignments that out-paced bill rate increases during 2014. In our retail channel, gross margins increased by 80 basis points from 2013 levels. This increase reflected higher margins on new assignments, primarily with MSP clients.

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

S,G&A expenses in 2014 totaled \$15.2 million and represented 13.4% of revenues, compared to \$14.8 million or 13.9% of revenues in 2013.

Below is a variance analysis by expense category related to S,G&A expense in 2014 compared to 2013:

Sales expenses increased by \$0.1 million in 2014 and reflected staff increases related to our new business development efforts, partially offset by lower bonus expense.

Recruiting expenses were flat in 2014 compare to 2013, as higher visa processing fees were offset by lower bonus expense. During 2014, staff increases at our offshore recruitment centers offset some staff declines domestically.

General and administrative expenses increased by \$0.3 million in 2014. Higher travel, facility costs and corporate related expenses (legal / outside services) were partially offset by lower bonus expense. Lower bonus expense in all three of the S,G&A areas reflected the Company's financial performance being below target levels for 2014. These financial targets are established by the Board of Directors each year and are the basis for management's variable component of compensation.

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

In 2014, other income / (expense) consisted of interest expense of \$84,000, a \$9,000 loss on the disposal of fixed assets and foreign exchange gains of \$61,000. In 2013, other income / (expense) consisted of \$93,000 of interest expense and foreign exchange gains of \$16,000. Higher interest expense in 2013 was due to higher average borrowings during 2013 compared to 2014. Net foreign exchange gains in 2014 and 2013 reflected exchange rate variations between the Indian rupee and the U.S. dollar.

### ***Income Tax Expense***

Income tax expense for 2014 was \$2.1 million and represented an effective tax rate on pre-tax income of 37.9% compared to \$2.0 million for 2013, which represented an effective tax rate on pre-tax income of 37.4%. The higher effective tax rate in 2014 was largely due to a higher aggregate state income tax rate.

## **2013 Compared to 2012**

### ***Revenues***

Revenues for the year ended December 31, 2013 totaled \$106.9 million, compared to \$90.8 million for the year ended December 31, 2012. This 18% increase was due to higher demand for the Company's staffing services during 2013. Billable consultant headcount at December 31, 2013 totaled 742-consultants compared to 632-consultants one-year earlier. Additionally, our average bill rate in 2013 increased to \$74.25 from \$73.58 in 2012.

Revenues from our wholesale channel increased 29% in 2013 compared to 2012. Higher revenue levels from staffing clients (up 23%) were driven by strong demand for our IT staffing services. Revenue from our integrator clients were up 35% over 2012 levels, as we participated in more larger-scale project assignments with several of our strategic partners. Retail IT channel revenues declined by 10% in 2013 compared to a year earlier. This decline reflected lower revenues from direct end-user clients. Revenues from MSP clients were largely flat in 2013, after a significant run-up in revenues during 2012. The 2013 decision to wind down business activities with a low-margin MSP client impacted revenues in this channel during the year. Permanent placement / fee revenues declined in 2013 by approximately \$0.1 million from 2012. With the closure of several branch offices in late 2011, permanent placement opportunities have been less prevalent over the last two years.



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In 2013, we had one client that represented more than 10% of total revenues (Accenture = 11.4%). In 2012, we had three clients that represented more than 10% of revenues (IBM = 13.3%, TEK Systems = 12.0%; and Kaiser Permanente = 11.8%). Our top ten clients represented 57% of total revenues in 2013 compared to 60% of total revenues in 2012.

***Gross Margin***

Gross profit increased to \$20.1 million in 2013 compared to \$17.2 million in 2012. This improvement in gross profit was due to strong revenue growth during the 2013 period. Gross profit as a percentage of revenue was 18.8% in 2013 compared to 18.9% in 2012. The 10 basis point decline in gross margin reflected lower levels of permanent placement / fee revenues, as higher margins in our retail channel essentially offset slightly lower gross margins from our wholesale channel.

Wholesale channel gross margins decreased by 20 basis points in 2013 compared to 2012. This slight decline was largely due to consultant compensation increases on existing assignments that out-paced bill rate increases during 2013. With assignment durations increasing over the last several years, this issue continues to have a greater impact on our overall gross margin performance. In our retail channel, gross margins increased by 120 basis points from 2012 levels. This increase reflected higher margins on new assignments and the wind-down of business with a low-margin MSP client.

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

S,G&A expenses in 2013 totaled \$14.8 million and represented 13.9% of revenues, compared to \$13.8 million or 15.2% of revenues in 2012.

Below is a variance analysis by expense category related to S,G&A expense in 2013 compared to 2012:

Sales expense increased by \$0.4 million and reflected staff increases of \$0.2 million and higher travel and variable compensation expenses of \$0.2 million.

Recruiting expenses increased by \$0.3 million due to increases in our recruiting staff of \$0.1 million; higher activity-base expenses of \$0.1 million (visa processing fees, job board access fees and background check expenses); and higher variable compensation expenses of \$0.1 million.

General and administrative expenses increased by \$0.3 million. Higher equity-based compensation expense of \$0.3 million and higher bonus expense of \$0.1 million in 2013 were partially offset by lower severance expense of \$0.1 million.

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

In 2013, other income / (expense) consisted of interest expense of \$93,000 and foreign exchange gains of \$16,000. In 2012, other income / (expense) consisted of \$68,000 of interest expense and foreign exchange gains of \$36,000. Higher interest expense in 2013 was due to higher average borrowings during 2013 compared to 2012. Net foreign exchange gains in 2013 and 2012 reflected exchange rate variations between the Indian rupee and the U.S. dollar.

***Income Tax Expense***

Income tax expense for 2013 was \$2.0 million and represented an effective tax rate on pre-tax income of 37.4% compared to \$1.3 million for 2012, which represented an effective tax rate on pre-tax income of 38.4%. The lower effective tax rate in 2013 was largely due to a higher aggregate state income tax rate in 2012.

**Table of Contents****Results of Discontinued Operations**

Net Income from discontinued operations in 2013 totaled \$536,000 and included a net gain of \$442,000 related to the sale of the healthcare staffing business. In 2012, net income from discontinued operations total \$0.1 million.

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

At December 31, 2014, we had cash balances on hand of \$2.6 million, no outstanding borrowings and approximately \$16.9 million of borrowing capacity under our existing credit facility. This financial position reflects returning \$0.8 million of capital to our shareholders during 2014 in the form of share repurchases.

Historically, we have funded our business needs with cash generated from operating activities. In the staffing services industry, investment in operating working capital levels (defined as current assets minus cash and cash equivalents and current liabilities, excluding short-term borrowings) is a significant use of cash. Controlling our operating working capital levels by closely managing our accounts receivable balance is an important element of cash preservation. Our accounts receivable days sales outstanding (DSO's) measurement was 49 days at December 31, 2014 and 48 days at December 31, 2013. We believe that effectively managing our DSO's has been an important factor in maximizing our cash flows in recent years.

Cash provided by operating activities, our cash and cash equivalents balances on hand at December 31, 2014 and current availability under our credit facility are expected to be adequate to fund our business needs over the next 12 months. Below is a tabular presentation of cash flow activities for the periods discussed:

<b>Cash Flows Activities</b>	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>(Amounts in millions)</b>		
Operating activities from continuing operations	\$ 3.3	\$ 1.9	\$ 0.9
Investing activities from continuing operations	(0.7)	(0.1)	(0.2)
Financing activities from continuing operations	(0.4)	(4.3)	(5.9)
Discontinued operations activities	(0.1)	2.3	0.1

***Operating Activities***

Cash provided by operating activities for the years ended December 31, 2014, 2013 and 2012 totaled \$3.3 million, \$1.9 million and \$0.9 million, respectively. Factors contributing to cash flows during the 2014 period included net income of \$3.4 million and non-cash charges of \$0.6 million, partially offset by an increase in operating working capital of \$0.7 million. In 2013, cash flows from operating activities included net income of \$3.3 million and non-cash charges of \$0.6 million, partially offset by an increase in operating working capital of \$2.0 million. In 2012, cash flows from operating activities included net income of \$2.1 million and non-cash charges of \$0.5 million, partially offset by an increase in operating working capital of \$1.7 million. The increases in operating working capital during 2014, 2013 and 2012 were largely in support of higher activity levels and revenue expansion during the respective years.

We would expect operating working capital levels to increase should revenue growth continue in 2015. Similar to previous years, such an increase would have a negative impact on cash generated from operating activities. We

believe that DSO s are likely to remain in the 48 to 52-day range during 2015.

***Investing Activities***

Cash used in investing activities for the years ended December 31, 2014, 2013 and 2012 totaled approximately \$0.7 million, \$0.1 million and \$0.2 million, respectively. In 2014, both capital expenditures and

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the increase in non-current deposits were largely related to the Company's move to its new corporate headquarters. In 2013 and 2012 capital expenditures largely accounted for all uses of cash in investing activities.

We believe that investments in capital expenditures and facility lease deposits should approximate \$0.4 million in 2015.

**Financing Activities**

In 2014, cash used in financing activities totaled \$0.4 million and included \$0.8 million of share repurchases, partially offset by excess tax benefits related to the exercising of stock options and the vesting of restricted shares. In 2013, cash used in financing activities totaled \$4.3 million and included \$2.1 million of dividend payments and \$2.6 million of debt repayments, partially offset by stock option activities which generated cash of \$0.4 million. In 2012, cash used in financing activities totaled \$5.9 million and included \$6.7 million of dividend payments on common stock, \$2.5 million of purchases under the Company's share repurchase program, partially offset by \$2.6 million of borrowings under our revolving loan facility and \$0.7 million of proceeds related to stock option exercises.

**Discontinued Operations Activities**

In 2014, discontinued operations used cash of \$0.1 million related to the run-out of current liabilities. In 2013, discontinued operations generated cash of \$2.3 million related to proceeds from the sale of the business and the wind-down of retained operating working capital levels. In 2012, discontinued operations generated cash of \$0.1 million.

**Contractual Obligations and Off-Balance Sheet Arrangements**

We have financial commitments related to existing operating leases, primarily for office space that we occupy, and borrowings under our existing credit facility. Our commitments are as follows:

	Payments due by period (Amounts in thousands)					Total
	Less than 1 year	1 3 years	3 5 years	More than 5 years		
<b>Contractual obligations</b>						
Operating Leases	\$ 745	\$ 1,113	\$ 1,105	\$ 472	\$ 3,435	

We do not have any off-balance sheet arrangements.

**Inflation**

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

**Seasonality**

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

benefit costs during the fourth quarter. 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.

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### **Critical Accounting Policies and Estimates**

Certain accounting policies are particularly important to the portrayal of our financial position, results of operations and cash flows and require the application of significant judgment by management, and as a result, are subject to an inherent degree of uncertainty. In applying these policies, our management uses judgment to determine the appropriate assumptions to be used in the determination of certain estimates. These estimates are based on our historical experience, terms of existing contracts, observances of industry trends and other available information from outside sources, as appropriate. The following explains our most critical accounting policies. See the Notes to the Consolidated Financial Statements, contained in Item 8, of this Annual Report on Form 10-K for a complete description of our significant accounting policies.

#### ***Revenue Recognition***

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

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

#### ***Accounts Receivable and Allowance for Uncollectible Accounts***

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

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

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

#### ***Stock-Based Compensation***

Effective October 1, 2008, the Company adopted a Stock Incentive Plan (the "Plan") which, as amended, provides that up to 1,200,000 shares of the Company's common stock shall be allocated for issuance to directors, executive management and key personnel. Grants under the Plan can be made in the form of stock options, stock appreciation rights, performance shares or stock awards. The Plan is administered by the Compensation Committee of the Board of Directors. Stock options are granted at an exercise price equal to the closing share price of the Company's common stock at the grant date and generally vest over a four year period.

The Company accounts for stock-based compensation expense in accordance with ASC Topic 718 "Share-based Payments" which requires us to measure all share-based payments based on their estimated fair value at the grant date

and recognize compensation expense over the requisite service period. The fair value of our stock options is determined at the date of grant using the Black-Scholes option pricing model.



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**Table of Contents*****Income Taxes***

The Company records an estimated liability for income and other taxes based on what management determines will likely be paid in the various tax jurisdictions in which we operate. Management uses its best judgment in the determination of these amounts. However, the liabilities ultimately realized and paid are dependent on various matters, including the resolution of the tax audits in the various affected tax jurisdictions, and may differ from the amounts recorded. An adjustment to the estimated liability would be recorded through income in the period in which it becomes probable that the amount of the actual liability differs from the amount recorded.

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

The Company accounts for uncertain tax positions in accordance with ASC Topic 740-10, *Accounting for Uncertainty in Income Taxes*. Accordingly, the Company reports a liability for unrecognized tax benefits resulting from uncertain tax positions taken, or expected to be taken, in a tax return. As of December 31, 2014, the Company provided a liability of \$138,000 for uncertain tax positions, including interest and penalties, related to various state income tax matters.

***Derivative Instruments and Hedging Activities***

The Company is exposed to foreign currency risks as a result of its Indian-based global recruitment centers. During 2012, the Company's expenditures in Indian rupees, in support of these operations, increased significantly. Accordingly, to mitigate and manage the risk of changes in foreign currency exchange rates, the Company entered into foreign currency forward contracts in June 2012 and continued its hedging strategy through 2014. 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*. The Company does not enter into derivative contracts for speculative purposes.

All derivatives are recognized on the balance sheet at fair value. The effective portion of the changes in the 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). 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).

With respect to derivatives designed as hedges, the Company formally documents all relationships between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking such transactions. The Company evaluates hedge effectiveness at the time a contract is entered into and on an ongoing basis. If a contract is deemed ineffective, these changes in the fair value of the derivative is recorded in the Consolidated Statement of Operations as foreign exchange gains / (loss).

***Discontinued Operations***

In August 2013, the Company sold its healthcare staffing business to Accountable Healthcare Staffing, Inc. The healthcare staffing segment meets the criteria for being reported as a discontinued operation. Accordingly,

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the Consolidated Statements of Operations and Cash Flows for all periods presented have been recast to reflect the presentation of discontinued operations. The carrying value of assets and liabilities of discontinued operations that have been retained by the Company are disclosed in Note 2 Discontinued Operations to the Consolidated Financial Statements, included in Item 8 herein.

**Recently Issued Accounting Standards**

Recent accounting pronouncements are described in Note 1 to the Consolidated Financial Statements contained in Item 8, herein.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Cash and cash equivalents are defined as cash and highly liquid investments with maturities of three months or less when purchased. Cash equivalents are stated at cost, which approximates market value.

Our cash flows and earnings are subject to fluctuations due to currency exchange rate variations. Foreign currency risk exists by nature of our global recruitment centers. We attempt to limit our exposure to currency exchange fluctuations in the Indian rupee ( Rupee ) via the purchase of foreign currency forward 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 December 31, 2014:

<b>Currency (in thousands)</b>	<b>Amount (in Rupees)</b>	<b>Amount (in USD)</b>
Currency Forward Contracts	INR 132,000	\$ 2,065

***Effect of Hypothetical Currency Rate Fluctuations***

As of December 31, 2014, 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%				Fair Value as of December 31, 2014	Valuation given X%			
	decrease in Rupee/USD Rate					increase in Rupee/USD Rate			
	10%	5%	2%	1%		1%	2%	5%	10%
Rupee to USD Rate	58.63	61.88	63.84	64.49	65.14	65.79	66.44	68.40	71.65
Fair value of derivative instruments	\$ 186	\$ 68	\$ 3	\$ (18)	\$ (38)	\$ (59)	\$ (78)	\$ (135)	\$ (223)

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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

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**MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

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

The Company's Consolidated Financial Statements for the year ended December 31, 2014 have been audited by UHY LLP, an Independent Registered Public Accounting Firm, whose report thereon appears on page 33 of this Form 10-K.

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

D. Kevin Horner

President and Chief Executive Officer

John J. Cronin, Jr.

Chief Financial Officer

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**MASTECH HOLDINGS, INC.**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**Board of Directors and Stockholders**

Mastech Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Mastech Holdings, Inc. and Subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2014. We have also audited the accompanying Schedule II, Valuation and Qualifying Accounts, for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements and schedule referred to above present fairly, in all material respects, the financial position of Mastech Holdings, Inc. and Subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

Farmington Hills, Michigan

March 20, 2015

**Table of Contents****MASTECH HOLDINGS, INC.****CONSOLIDATED BALANCE SHEETS****(Amounts in thousands, except share and per share data)**

	<b>At December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,568	\$ 424
Accounts receivable, net of allowance for uncollectible accounts of \$260 in 2014 and \$358 in 2013	10,677	10,707
Unbilled receivables	4,549	4,304
Prepaid and other current assets	926	822
Deferred income taxes	120	143
<b>Total current assets</b>	<b>18,840</b>	<b>16,400</b>
Equipment, enterprise software, and leasehold improvements, at cost:		
Equipment	1,022	1,688
Enterprise software	629	723
Leasehold improvements	320	547
	1,971	2,958
Less accumulated depreciation and amortization	(1,270)	(2,784)
<b>Net equipment, enterprise software, and leasehold improvements</b>	<b>701</b>	<b>174</b>
Deferred income taxes	188	248
Deferred financing costs, net	51	19
Non-current deposits	264	210
<b>Total assets</b>	<b>\$ 20,044</b>	<b>\$ 17,051</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Short-term borrowings	\$	\$ 12
Accounts payable	1,514	2,026
Accrued payroll and related costs	5,012	5,202
Other accrued liabilities	531	304
Deferred revenue	119	47
<b>Total current liabilities</b>	<b>7,176</b>	<b>7,591</b>
<b>Total liabilities</b>	<b>7,176</b>	<b>7,591</b>
Commitments and contingent liabilities (Note 5)		



Shareholders' equity:

Preferred Stock, no par value; 20,000,000 shares authorized; none outstanding		
Common Stock, par value \$.01; 125,000,000 shares authorized and 5,099,184 shares issued as of December 31, 2014 and 4,974,506 shares issued as of December 31, 2013	51	50
Additional paid-in-capital	12,733	11,924
Retained earnings	4,024	601
Accumulated other comprehensive income (loss)	(25)	16
Treasury stock, at cost; 794,289 shares as of December 31, 2014 and 732,958 as of December 31, 2013	(3,915)	(3,131)
<b>Total shareholders' equity</b>	<b>12,868</b>	<b>9,460</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 20,044</b>	<b>\$ 17,051</b>

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

Table of Contents**MASTECH HOLDINGS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(Amounts in thousands, except per share data)**

	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Revenues	\$ 113,523	\$ 106,901	\$ 90,770
Cost of revenues	92,737	86,784	73,605
Gross profit	20,786	20,117	17,165
Selling, general and administrative expenses	15,246	14,815	13,794
Income from operations	5,540	5,302	3,371
Interest (expense)	(84)	(93)	(68)
Other income, net	52	16	36
Income from continuing operations before income taxes	5,508	5,225	3,339
Income tax expense	2,085	1,956	1,281
Income from continuing operations	3,423	3,269	2,058
Income from discontinued operations, net of tax expense of \$0, \$68 and \$64		94	81
Gain on sale of discontinued operations, net of tax expense of \$0, \$43 and \$0		442	
Net income from discontinued operations		536	81
Net income	\$ 3,423	\$ 3,805	\$ 2,139
<b>Earnings Per Share:</b>			
<b>Basic:</b>			
Continuing operations	\$ .79	\$ .78	\$ .51
Discontinued operations		.13	.02
Total	\$ .79	\$ .91	\$ .53
<b>Diluted:</b>			
Continuing operations	\$ .77	\$ .75	\$ .49
Discontinued operations		.12	.02
Total	\$ .77	\$ .88	\$ .51
<b>Weighted average common shares outstanding:</b>			
Basic	4,320	4,193	4,075
Diluted	4,459	4,342	4,201

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

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**MASTECH HOLDINGS, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Amounts in thousands)

	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Net income	\$ 3,423	\$ 3,805	\$ 2,139
Other comprehensive income (loss):			
Net unrealized gain (loss) on cash flow hedges	(67)	13	13
Income tax expense (benefit)	(26)	5	5
Total other comprehensive income (loss)	\$ (41)	\$ 8	\$ 8
Total comprehensive income	\$ 3,382	\$ 3,813	\$ 2,147

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

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## MASTECH HOLDINGS, INC.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Amounts in thousands)

	Common Stock	Additional Paid-in Capital	Accumulated Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (loss)	Total Shareholders Equity
Balances, December 31, 2011	\$ 46	\$ 10,105	\$ 3,462	\$ (566)	\$	\$ 13,047
Net income			2,139			2,139
Unrealized gain on cash flow hedges, net of tax					8	8
Dividends paid on common stock			(6,682)			(6,682)
Increase in excess tax benefits related to stock-based compensation		58				58
Stock-based compensation expense		242				242
Stock options exercised	3	621				624
Purchase of treasury stock				(2,549)		(2,549)
Balances, December 31, 2012	\$ 49	\$ 11,026	\$ (1,081)	\$ (3,115)	\$ 8	\$ 6,887
Net income			3,805			3,805
Unrealized gain on cash flow hedges, net of tax					8	8
Dividends paid on common stock			(2,123)			(2,123)
Increase in excess tax benefits related to stock-based compensation		250				250
Stock-based compensation expense		517				517
Stock options exercised	1	131				132
Purchase of treasury stock				(16)		(16)
Balances, December 31, 2013	\$ 50	\$ 11,924	\$ 601	\$ (3,131)	\$ 16	\$ 9,460
Net income			3,423			3,423
Unrealized (loss) on cash flow hedges, net of tax					(41)	(41)

Increase in excess tax benefits related to stock-based compensation		467				467
Stock-based compensation expense		330				330
Stock options exercised	1	12				13
Purchase of treasury stock				(784)		(784)
Balances, December 31, 2014	\$ 51	\$ 12,733	\$ 4,024	\$ (3,915)	\$ (25)	\$ 12,868

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

**Table of Contents****MASTECH HOLDINGS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Amounts in thousands)**

	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>OPERATING ACTIVITIES:</b>			
Net income	\$ 3,423	\$ 3,805	\$ 2,139
Adjustments to reconcile net income to net cash provided by (used in) operating activities of continuing operations:			
Net income from discontinued operations, net of tax		(536)	(81)
Depreciation and amortization	143	153	158
Interest amortization of deferred financing costs	28	27	28
Stock-based compensation expense	330	532	222
Deferred income taxes, net	59	(131)	151
(Gain) loss on derivative contract	38	(13)	(28)
Loss on capital asset retirements	9	1	
Working capital items:			
Accounts receivable and unbilled receivables	(281)	(2,915)	(1,778)
Prepaid and other current assets	(144)	(197)	(17)
Accounts payable	(495)	176	(312)
Accrued payroll and related costs	(190)	1,141	468
Other accrued liabilities	348	(43)	(99)
Deferred revenue	72	(121)	71
Net cash flows provided by operating activities of continuing operations	3,340	1,879	922
Net cash flows provided by (used in) operating activities of discontinued operations	(87)	1,332	75
Net cash flows provided by operating activities	3,253	3,211	997
<b>INVESTING ACTIVITIES:</b>			
(Payment for) Recovery of non-current deposits	(54)	10	(8)
Capital expenditures	(679)	(100)	(136)
Net cash flows (used in) investing activities of continuing operations	(733)	(90)	(144)
Net cash flows provided by (used in) investing activities of discontinued operations		1,000	(10)
Net cash flows provided by (used in) investing activities	(733)	910	(154)
<b>FINANCING ACTIVITIES:</b>			
Dividends paid on common stock		(2,123)	(6,682)
Payment of deferred financing costs	(60)		

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Proceeds from (payment of) short-term borrowings, net	(12)	(2,598)	2,610
Purchase of treasury stock and other equity securities	(784)	(16)	(2,549)
Proceeds from the exercise of stock options	13	131	624
Increase in excess tax benefits related to stock options, net	467	250	58
Net cash flows (used in) financing activities of continuing operations	(376)	(4,356)	(5,939)
Net cash flows of financing activities of discontinued operations			
Net cash flows (used in) financing activities	(376)	(4,356)	(5,939)
Net change in cash and cash equivalents	2,144	(235)	(5,096)
Cash and cash equivalents, beginning of period	424	659	5,755
Cash and cash equivalents, end of period	\$ 2,568	\$ 424	\$ 659
SUPPLEMENTAL DISCLOSURE:			
Cash payments for interest expense	\$ 116	\$ 65	\$ 40
Cash payments for income taxes	\$ 1,629	\$ 2,275	\$ 1,093

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



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**MASTECH HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Significant Accounting Policies:  
Basis of Presentation**

Mastech Holdings, Inc. (referred to in this report as Mastech, the Company, us, our or we) is a provider of information technology staffing services. Our business combines technical expertise with business process experience to deliver a broad range of services within business intelligence / data warehousing; service oriented architecture; web services; enterprise resource planning & customer resource management; and e-Business solutions segments. Headquartered in the Pittsburgh, Pennsylvania area, we have approximately 750 consultants that provide services across a broad spectrum of industry verticals on a national basis.

**Accounting Principles**

The Company's Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

**Principles of Consolidation**

The 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.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Actual results could differ from these estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents are defined as cash and highly liquid debt investments with maturities of three months or less when purchased. Cash equivalents are stated at cost, which approximates market value.

**Accounts Receivable and Unbilled Receivables**

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

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

**Allowance for Uncollectible Accounts**

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

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The Allowance for Uncollectible Accounts was \$260,000 and \$358,000 at December 31, 2014 and 2013, respectively. There were no bad debt expense charges from continuing operations reflected in the Consolidated Statements of Operations for each of the three years ended December 31, 2014.

**Equipment, Enterprise Software and Leasehold Improvements**

Equipment, enterprise software and leasehold improvements are stated at historical cost. The Company provides for depreciation using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of (a) the remaining term of the lease or (b) the estimated useful life of the improvements. Repairs and maintenance, which do not extend the useful life of the respective assets, are charged to expense as incurred. Upon disposal, assets and related accumulated depreciation are removed from the Company's accounts and the resulting gains or losses are reflected in the Company's Consolidated Statement of Operations.

The estimated useful lives of depreciable assets are primarily as follows:

Laptop Computers	18 months
Equipment	3-5 years
Enterprise Software	3 years

Depreciation and amortization expense related to fixed assets totaled \$143,000, \$153,000 and, \$158,000 for the years ended December 31, 2014, 2013 and 2012, respectively.

**Income Taxes**

The Company records an estimated liability for income and other taxes based on what management determines will likely be paid in the various tax jurisdictions in which we operate. Management uses its best judgment in the determination of these amounts. However, the liabilities ultimately realized and paid are dependent on various matters, including the resolution of the tax audits in the various affected tax jurisdictions, and may differ from the amounts recorded. An adjustment to the estimated liability would be recorded through income in the period in which it becomes probable that the amount of the actual liability differs from the amount recorded.

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

The Company accounts for uncertain tax positions in accordance with ASC Topic 740-10, Accounting for Uncertainty in Income Taxes. Accordingly, the Company has reported a liability for unrecognized tax benefits resulting from uncertain tax positions taken, or expected to be taken, in a tax return. As of December 31, 2014 and 2013, the Company provided \$138,000 and \$111,000 for uncertain tax positions, including interest and penalties, related to various state income tax matters.

During 2013, the Company's 2011 federal tax return was audited by the Internal Revenue Service ( IRS ) resulting in no adjustments to our filed return. During 2011, the IRS completed its examination of the Company's federal income tax returns for the years 2008 (post spin-off) and 2009. Amendments to our income tax return as a result of such examination were immaterial. All periods remain subject to examination by various state authorities, conditioned upon statutory limitations.

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### **Segment Reporting**

The Company has one reportable segment in accordance with ASC Topic 280 Disclosures About Segments of an Enterprise and Related Information .

### **Revenue Recognition**

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

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

### **Stock-Based Compensation**

Effective October 1, 2008, the Company adopted a Stock Incentive Plan (the Plan) which, as amended, provides that up to 1,200,000 shares of the Company's common stock shall be allocated for issuance to directors, executive management and key personnel. Grants under the Plan can be made in the form of stock options, stock appreciation rights, performance shares or stock awards. The Plan is administered by the Compensation Committee of the Board of Directors. Stock options are granted at an exercise price equal to the closing share price of the Company common stock at the grant date and generally vest over a four-year period.

The Company accounts for stock-based compensation expense in accordance with ASC Topic 718 Share-based Payments which requires us to measure all share-based payments based on their estimated fair value at the grant date and recognize compensation expense over the requisite service period. The fair value of our stock options is determined at the date of grant using the Black-Scholes option pricing model.

### **Treasury Stock**

The Company maintains a stock repurchase program which expires on December 22, 2016. Under this program, the Company may make treasury stock purchases in the open market or through privately negotiated transactions, subject to market conditions and normal trading restrictions. At December 31, 2014, the Company held 794,289 shares in its treasury at a cost of \$3.9 million.

### **Comprehensive Income**

Comprehensive income as presented in the Consolidated Statements of Comprehensive Income consists of net income and unrealized gains or losses, net of taxes, on cash flow hedging transactions related to foreign exchange derivative contracts.

### **Derivative Instruments and Hedging Activities**

The Company is exposed to foreign currency risks largely as a result of its Indian-based global recruitment centers. During 2012, the Company's expenditures in Indian rupees, in support of these operations, increased significantly.

Accordingly, to mitigate and manage the risk of changes in foreign currency exchange rates, the Company entered into foreign currency forward contracts in June 2012 and continued its hedging strategy through 2014. 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* . The Company does not enter into derivative contracts for speculative purposes.

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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 transactions 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). 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).

With respect to derivatives designated as hedges, the Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking such transactions. The Company evaluates hedge effectiveness at the time a contract is entered into and on an ongoing basis. If a contract is deemed ineffective, the change in the fair value of the derivative is recorded in the Consolidated Statement of Operations as foreign exchange gains (losses).

**Earnings Per Share**

Basic earnings per share are computed using the weighted-average number of common shares outstanding during the period. Diluted earnings per share are computed using the weighted-average number of common shares outstanding during the period, plus the incremental shares outstanding assuming the exercise of dilutive stock options and the vesting of restricted shares and performance shares, calculated using the treasury stock method.

**Recently Issued Accounting Standards**

In April 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2014-8, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* . This ASU changes the requirements for reporting discontinued operations to disposals of components of an entity that represent strategic shifts that have a major effect on an entity 's operations and financial results and does not prohibit continuing involvement. The standard also expands the disclosures for discontinued operations and requires new disclosures related to individually material disposals that do not qualify for discontinued operations reporting. The guidance is effective for interim and annual periods beginning after December 15, 2014, and should be applied prospectively. Early adoption is permitted. The Company did not early adopt this standard for purposes of the discontinued operations disclosed in Note 2 below.

In May 2014, the FASB issued ASU No. 2014-9, *Revenue from Contracts with Customers* , which stipulates that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This new guidance is effective for annual reporting periods beginning after December 15, 2016 and is to be applied retrospectively at the entity 's election either to each prior reporting period presented or with the cumulative effect of application recognized at the date of initial application. Early adoption is not permitted. The Company is currently evaluating the impact that the adoption of this ASU will have on its consolidated financial statements.

In June 2014, the Financial Accounting Standards Board (FASB) issued Update 2014-12, *Compensation - Stock Compensation (Topic 718) Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. Generally, share-based payment awards require a specific performance target to be achieved in order for employees to become eligible to vest in the awards.

Also, an award with a performance target generally requires an employee to render service until the performance target is achieved. In some cases, however, the terms of an award may provide that the performance target could be achieved after an employee completes the requisite service period. That is, the



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employee would be eligible to vest in the award regardless of whether the employee is rendering service on the date the performance target is achieved. This Update is intended to resolve the diverse accounting treatment of those awards in practice.

The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. As indicated in the definition of vest, the stated vesting period (which includes the period in which the performance target could be achieved) may differ from the requisite service period. For all entities, the amendments in this Update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted.

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

## **2. Discontinued Operations**

In August 2013, the Company sold its healthcare staffing business to Accountable Healthcare Staffing, Inc. Under the terms of the Sale and Purchase Agreement, the purchase price totaled \$1.15 million and consisted of \$1.0 million of cash consideration at closing, plus the assumption of certain liabilities by the buyer. Total net assets sold excluded cash balances on hand, accounts receivables and other current assets which approximated \$1.5 million, net of current liabilities retained by the Company at the transaction date.

The healthcare staffing business meets the criteria for being reported as a discontinued operation and has been segregated from continuing operations. Accordingly, the Consolidated Statements of Operations and Cash Flows for all periods presented have been recast to reflect the presentation of discontinued operations. Unless otherwise indicated, all disclosures in the Notes to the Consolidated Financial Statements relate to the Company's continuing operations.

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The carrying value of assets and liabilities of discontinued operations included in the December 31, 2014 and 2013 Consolidated Balance Sheets were as follows (in thousands):

	At December 31, 2014	At December 31, 2013
<b>ASSETS:</b>		
Accounts receivables	\$ 2	\$ 68
Deferred income taxes		24
Non-current deposits	19	19
<b>Total</b>	<b>21</b>	<b>111</b>
<b>LIABILITIES:</b>		
Accounts payable	6	23
Other accrued liabilities	15	174
<b>Total</b>	<b>21</b>	<b>197</b>
<b>TOTAL NET ASSETS (LIABILITIES)</b>	<b>\$</b>	<b>\$ (86)</b>

The statement of operations of discontinued operations was as follows for the three years ended December 31, 2014 (in thousands):

	Years Ended December 31,		
	2014	2013*	2012
Revenues	\$	\$ 7,058	\$ 11,068
Costs of revenues		5,856	9,024
Gross profit		1,202	2,044
Selling, general and administrative expenses		1,040	1,899
Income before income taxes		162	145
Income tax expense		68	64
Net income	\$	\$ 94	\$ 81

\* Results through the sale transaction date (August 12, 2013).

The gain on the August 2013 sale of the healthcare business was as follows (in thousands):

	<b>Year Ended</b>	
	<b>December 31, 2013</b>	
Pretax gain on sale transaction	\$	485
Income tax expense		43
<b>Net gain after income taxes</b>	<b>\$</b>	<b>442</b>

Income tax expense in 2013 on the sale transaction included the utilization of \$147,000 of tax benefits (capital loss carry-forwards) which were previously deemed non-realizable by the Company.

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The statements of cash flows of discontinued operations were as follows for the three-years ended December 31, 2014 (in thousands):

	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>OPERATING ACTIVITIES:</b>			
Net income from discontinued operations	\$	\$ 536	\$ 81
Adjustments to reconcile net income to net cash provided by (used in) operating activities of discontinued operations:			
Depreciation and amortization		16	45
Bad debt (credit) expense		(25)	125
Stock-based compensation expense		(15)	20
Deferred income taxes, net	24	(16)	(49)
(Gain) on sale of discontinued operations, net of tax		(442)	
Working capital items:			
Accounts receivable and unbilled receivables	66	1,720	(213)
Prepaid and other current assets		144	12
Accounts payable	(17)	(134)	(13)
Accrued payroll and related costs		(363)	(46)
Other accrued liabilities	(160)	(84)	117
Deferred revenue		(5)	(4)
Total cash provided by (used in) operating activities of discontinued operations	(87)	1,332	75
<b>INVESTING ACTIVITIES:</b>			
Recovery of (increase in) non-current deposits		(6)	4
Capital expenditures		(3)	(14)
Proceeds from sale of discontinued operations		1,009	
Total cash provided by (used in) investing activities of discontinued operations		1,000	(10)
<b>FINANCING ACTIVITIES:</b>			
None			
Total cash flow provided by (used in) discontinued operations	\$ (87)	\$ 2,332	\$ 65

**3. Cash and Cash Equivalents**

The Company had cash and cash equivalents consisting of cash balances on hand and money market funds that totaled \$2.6 million at December 31, 2014 and \$0.4 million at December 31, 2013. There were no restrictions on the Company's cash balances during the periods presented.

**4. Credit Facility**

On July 11, 2014, the Company entered into a Second Amended and Restated Loan Agreement (the Loan Agreement) with PNC Bank, N.A. ( PNC ), replacing its previous PNC credit facility that was set to expire on August 31, 2014. The new three-year facility provides for up to \$20 million of credit, subject to borrowing base limits and commitment reductions and mandatory prepayments, as described in the Loan Agreement filed as Exhibit 10.1 to the Company's Form 8K, filed with the SEC on July 17, 2014.

Advances under the revolving credit loan are limited to a borrowing base that consist of the sum of 85% of eligible accounts receivable and 60% of eligible unbilled accounts. The credit facility includes sub-facilities in aggregate amounts not to exceed (i) \$1 million for letters of credit and (ii) \$5 million for permitted acquisitions. Revolving credit loans made for the purpose of financing permitted acquisitions may be converted into term

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loans with five-year maturities and the credit facility will be reduced by an amount equal to each converted term loan. The credit facility also includes an accordion feature which may be exercised by the Company to increase the loan commitment by an aggregate amount of up to \$10 million, subject to PNC's approval.

Interest on borrowings will be charged at a rate equal to, at the Company's election, either (a) the higher of PNC's prime rate or the federal funds rate plus 0.50%, plus an applicable margin; or (b) adjusted LIBOR plus an applicable margin. The applicable margin on the base rate is between 0.25% and 0.75% on revolving credit loans and between 0.75% and 1.25% on the delayed draw term loans. The applicable margin on the adjusted LIBOR rate is between 1.25% and 1.75% on revolving credit loans and between 1.75% and 2.25% on the delayed draw term loans. The actual applicable margin is based on the Company's senior leverage ratio, as defined in the Loan Agreement. A 20 basis point per annum commitment fee on the unused portion of the facility is charged and due quarterly in arrears. As of December 31, 2014, the Company had no outstanding borrowings under facility and unused borrowing availability of \$16.9 million. As of December 31, 2013, the Company had \$12,000 of outstanding borrowings under the facility and unused borrowing availability of \$15.4 million.

The Loan Agreement contains standard financial covenants, including but not limited to, covenants related to the Company's leverage ratio, senior leverage ratio and fixed charge ratio (as defined under the Loan Agreement) and limitations on liens, indebtedness, guarantees and contingent liabilities, loans and investments, distributions, leases, asset sales, stock repurchases and mergers and acquisitions. As of December 31, 2014, the Company was in compliance with all provisions under the facility.

In connection with securing the Loan Agreement, the Company incurred transaction costs totaling \$60,000. These costs are being amortized as interest expense over the three-year life of the credit facility.

**5. Commitments and Contingencies***Lease Commitments*

The Company rents certain office facilities and equipment under noncancelable operating leases, which provide for the following future minimum rental payments as of December 31, 2014:

	<b>Total Amount</b> <b>(Amounts in thousands)</b>	
2015	\$	745
2016		601
2017		512
2018		552
2019		553
Thereafter		472
<b>Total</b>	<b>\$</b>	<b>3,435</b>

Rental expense for the years ended December 31, 2014, 2013 and 2012, totaled \$596,000, \$577,000 and \$618,000, respectively.

*Contingencies*

In the ordinary course of business, the Company is 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.

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**6. Employee Benefit Plan**

The Company's employees participate in an Employee Retirement Savings Plan (the "Retirement Plan") under Section 401(k) of the Internal Revenue Code that covers substantially all U.S. based salaried employees. Employees may contribute a percentage of eligible compensation to the Retirement Plan, subject to certain limits under the Internal Revenue Code. For the three years ended December 31, 2014, the Company did not provide for matching contributions.

**7. Stock-Based Compensation**

Effective October 1, 2008, the Company adopted a Stock Incentive Plan (the "Plan") which, as amended, provides that up to 1,200,000 shares of the Company's common stock shall be allocated for issuance to directors, executive management and key personnel. Grants under the Plan can be made in the form of stock options, stock appreciation rights, performance shares or stock awards. As of December 31, 2014, the Company had 720,000 outstanding and/or exercised stock options, 207,000 outstanding and/or vested performance shares and 95,000 outstanding and/or released restricted stock units that were issued under the Plan. Thus, as of December 31, 2014, the Company has 178,000 shares available for future grants under the Plan.

The Plan is administered by the Compensation Committee of the Board of Directors. All grants awarded under the Plan are recommended by the Committee to the Board of Directors for approval. The exercise price of stock options is set on the grant date and not to be less than the fair market value per share of our closing stock price on that date. Grants of stock options and restricted stock awards generally vest over a four-year period and options expire after ten years from the grant date. Performance shares vest upon the achievement of the performance criteria and approval by the Compensation Committee of the Board of Directors.

On February 6, 2013, the Compensation Committee of the Board of Directors determined that, in accordance with the provisions of the Plan, equitable adjustments to outstanding equity grants issued under the Plan were required to preserve the intrinsic value related to non-participation in the Company's special shareholder distribution (special one-time dividend), made on December 21, 2012. Accordingly, the Committee approved adjustments to the exercise price of all stock options, outstanding prior to this distribution, to preserve the stock option's pre-distribution value. Further, the Committee approved the issuance of additional restricted shares and performance shares, sufficient to preserve the pre-distribution value of those securities, with the same service and performance requirements as stated in the original grants. These equitable adjustments, in accordance with the Plan, do not constitute a modification to the original grants under the provisions of ASC Topic 718 "Share-based Payments".



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Following is a summary of Mastech stock option activity for the three years ended December 31, 2014:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Outstanding at December 31, 2011	654,000	\$ 2.80
Granted		\$
Exercised	(262,000)	\$ 2.68
Cancelled / forfeited	(61,000)	\$ 3.77
Outstanding at December 31, 2012	331,000	\$ 2.79
Granted		\$
Exercised	(64,000)	\$ 2.05
Cancelled / forfeited	(2,000)	\$ 2.08
Outstanding at December 31, 2013	265,000	\$ 1.01*
Granted		\$
Exercised	(10,000)	\$ 1.43*
Cancelled / forfeited		\$
Outstanding at December 31, 2014	255,000	\$ 1.00*

\* Reflects equitable adjustments to the exercise price as referenced above.

As of December 31, 2014, the Company's outstanding in the money stock options using the year-end share price of \$10.62 had an aggregate intrinsic value of \$2.5 million. As of December 31, 2014, the intrinsic value of vested and expected to vest stock options totaled \$2.4 million. The total intrinsic value of options exercised during 2014, 2013 and 2012 totaled \$131,000, \$754,000 and \$582,000, respectively. The measurement date fair value of stock options vested during 2014, 2013 and 2012 totaled \$69,000, \$112,000 and \$152,000, respectively.

The table below summarizes information regarding the Company's outstanding and exercisable stock options as of December 31, 2014:

<b>Range of Exercise Prices:</b>	<b>Options Outstanding</b>	<b>Weighted Average Remaining Contractual Life (in years)</b>	<b>Weighted Average Exercise Price</b>
\$0.01 to \$2.00	232,000	6.8	\$ .81
\$2.01 to \$4.00	17,000	5.0	\$ 2.36
\$4.01 to \$6.00	6,000	2.7	\$ 4.63

255,000 6.6 \$ 1.00

<b>Range of Exercise Prices:</b>	<b>Options Exercisable</b>	<b>Weighted Average Remaining Contractual Life (in years)</b>	<b>Weighted Average Exercise Price</b>
\$0.01 to \$2.00	170,000	6.8	\$ .81
\$2.01 to \$4.00	17,000	5.0	\$ 2.36
\$4.01 to \$6.00	6,000	2.7	\$ 4.63
	193,000	6.5	\$ 1.07

No stock options were issued during the three years ended December 31, 2014.

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Following is a summary of Mastech restricted stock activity for the three years ended December 31, 2014:

	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Beginning outstanding balance	39,863	9,375	25,000
Awarded	45,000	31,250	
Awarded as equitable adjustments		3,544	
Released	(12,122)	(4,306)	(6,250)
Forfeited			(9,375)
Ending outstanding balance	72,741	39,863	9,375

The average grant date fair value of restricted stock awarded in 2014 was \$12.34. The aggregate intrinsic value of restricted stock units outstanding at December 31, 2014 was \$773,000. The total intrinsic value of restricted shares released during 2014 totaled \$165,000.

Following is a summary of Mastech performance share activity for the three years ended December 31, 2014:

	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Beginning outstanding balance	206,554	131,250	
Awarded		68,750	193,750
Awarded as equitable adjustments		49,616	
Released	(103,281)		
Forfeited		(43,062)	(62,500)
Ending outstanding balance	103,273	206,554	131,250

The total intrinsic value of performance shares released during 2014 totaled \$1.4 million. The aggregate intrinsic value of performance shares outstanding at December 31, 2014 was \$1.1 million.

Stock-based compensation expense of \$330,000, \$532,000, and \$222,000 was recognized in the Consolidated Statements of Operations for the years ended December 31, 2014, 2013, and 2012, respectively. The Company has recognized related tax benefits associated with its share-based compensation arrangements for the years ended December 31, 2014, 2013, and 2012 of \$125,000, \$193,000 and \$93,000, respectively. As of December 31, 2014, the total remaining unrecognized compensation expense related to non-vested stock options totaled \$42,000, which will be amortized over the weighted-average remaining requisite service period of 0.8 years; the total remaining unrecognized compensation expense related to restricted stock units amounted to \$755,000, which will be amortized over the weighted-average remaining requisite service period of 3.3 years; and the total remaining unrecognized compensation expense related to performance shares amounted to \$142,000, which will be amortized over the weighted-average estimated remaining requisite service period of 1.5 years.



**Table of Contents****8. Income Taxes**

The components of income before income taxes from continuing operations, as shown in the accompanying Consolidated Statement of Operations, consisted of the following for the years ended December 31, 2014, 2013 and 2012:

	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>(Amounts in thousands)</b>		
Income before income taxes:			
Domestic	\$ 5,508	\$ 5,225	\$ 3,339
Foreign			
Income before income taxes	\$ 5,508	\$ 5,225	\$ 3,339

While all of the Company's revenues and income is generated within the United States, the Company does have a foreign subsidiary in India which provides recruitment services to its U.S. operations. Accordingly, the Company allocates a portion of its income to this subsidiary based on a transfer pricing model. No provision for U.S. income taxes has been made for the undistributed earnings of its Indian subsidiary as of December 31, 2014, as those earnings are expected to be permanently reinvested outside the U.S. If these foreign earnings were to be repatriated in the future, the U.S. tax liability may be reduced by any foreign income taxes previously paid on such earnings, which would make this U.S. tax liability immaterial. The determination of the amount of unrecognized deferred tax liability related to these earnings is not practicable.

The provision for income taxes from continuing operations, as shown in the accompanying Consolidated Statement of Operations, consisted of the following for the years ended December 31, 2014, 2013 and 2012:

	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>(Amounts in thousands)</b>		
Current provision:			
Federal	\$ 1,835	\$ 1,915	\$ 1,024
State	191	172	106
Total current provision	2,026	2,087	1,130
Deferred provision (benefit):			
Federal	51	(115)	133
State	8	(16)	18
Total deferred provision (benefit)	59	(131)	151
Total provision for income taxes	\$ 2,085	\$ 1,956	\$ 1,281

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The reconciliation of income taxes from continuing operations computed using our statutory U.S. income tax rate and the provision for income taxes for the years ended December 31, 2014, 2013 and 2012 were as follows:

<b>(Amounts in thousands)</b>	<b>2014</b>		<b>2013</b>		<b>2012</b>	
Income taxes computed at the federal statutory rate	\$ 1,873	34.0%	\$ 1,777	34.0%	\$ 1,135	34.0%
State income taxes, net of federal tax benefit	199	3.6	156	3.0	124	3.7
Other	13	0.3	23	0.4	22	0.7
	\$ 2,085	37.9%	\$ 1,956	37.4%	\$ 1,281	38.4%

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The components of the deferred tax assets and liabilities were as follows:

	<b>At December 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Amounts in thousands)</b>	
<b>Deferred tax assets:</b>		
Allowance for doubtful accounts and employee advances	\$ 102	\$ 139
Accrued vacation, bonuses and severance	228	199
Stock-based compensation expense	191	249
<b>Total deferred tax assets</b>	<b>521</b>	<b>587</b>
<b>Deferred tax liabilities:</b>		
Prepaid expenses	210	193
Depreciation, intangibles and other	3	3
<b>Total deferred tax liabilities</b>	<b>213</b>	<b>196</b>
Net deferred tax asset	308	391
Less: current deferred tax asset	120	143
<b>Total long-term deferred tax asset</b>	<b>\$ 188</b>	<b>\$ 248</b>

A reconciliation of the beginning and ending amounts of unrecognized tax benefits related to uncertain tax positions, including interest and penalties, for the three years ended December 31, 2014 is as follows:

	<b>Years Ended December 31,</b>		
<b>(Amounts in thousands)</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Unrecognized tax benefits, beginning balance	\$ 111	\$ 78	\$ 89
Additions related to current period	40	33	27
Additions related to prior periods			
Reductions related to prior periods	(13)		(38)
<b>Unrecognized tax benefits, ending balance</b>	<b>\$ 138</b>	<b>\$ 111</b>	<b>\$ 78</b>

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. As of December 31, 2014, 2013 and 2012, the Company had \$16,000, \$15,000 and \$13,000, respectively, accrued for interest and penalties.

**9. Derivative Instruments and Hedging Activities**

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 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).



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The outstanding contracts as of December 31, 2014 mature in twelve equal monthly installments of 11 million rupees through December 2015, meet the qualifying criteria for hedge accounting and have been deemed to be effective. Accordingly, the Company has recorded other comprehensive pretax losses of \$41,000 as of December 31, 2014.

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

**Outstanding hedge transactions qualifying for hedge accounting as of December 31, 2014 (amounts in thousands):**

	Maturity Date Ranges	Rupee Strike Price Ranges	Amount	Net Unrealized Gain / (Loss) December 31, 2014
<b>Forward contracts USD:</b>				
From:	January 20, 2015	62.35		
To:	December 18, 2015	65.74		
Total			\$ 2,065	\$ (41)

**The effect of derivative instruments on the Consolidated Statements of Operations and Comprehensive Income for the year ended December 31, 2014 (in thousands):**

Derivatives in	Amount of	Location of	Amount of	Location of	Amount of
ASC Topic 815	Gain / (Loss)	Gain / (Loss)	Gain / (Loss)	Gain / (Loss)	Gain / (Loss)
Cash Flow	reclassified from	reclassified from	reclassified in	reclassified in	recognized in
Hedging Relationships	recognized in OCI on Derivatives (Effective Portion)	Accumulated OCI to Income (Effective Portion)	Accumulated OCI to Income (Effective Portion)	Income on Derivatives (Effective Portion)	Income on Derivatives (Effective Portion)
				Amounts excluded from effectiveness testing)	
Currency Forward Contracts	(\$67)	SG&A Expense	\$51	Other Income/ (Expense)	\$77

**The effect of derivative instruments on the Consolidated Statements of Operations and Comprehensive Income for the year ended December 31, 2013 (in thousands):**

Derivatives in	Amount of	Location of	Amount of	Location of	Amount of
ASC Topic 815	Gain / (Loss)	Gain / (Loss)	Gain / (Loss)	Gain / (Loss)	Gain / (Loss)

<b>Cash Flow</b>	<b>recognized in OCI</b>	<b>reclassified from</b>	<b>reclassified from</b>	<b>reclassified in</b>	<b>recognized in</b>
<b>Hedging</b>	<b>on Derivatives</b>	<b>Accumulated OCI</b>	<b>Accumulated OCI</b>	<b>Income on</b>	<b>Income on</b>
<b>Relationships</b>		<b>to Income</b>	<b>to Income</b>	<b>Derivatives</b>	<b>Derivatives</b>
	(Effective Portion)	(Effective Portion)	(Effective Portion)	(Effective Portion/Amounts excluded from effectiveness testing)	
Currency Forward Contracts	\$13	SG&A Expense	(\$20)	Other Income/ (Expense)	\$9

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

<b>Derivative Instruments</b>	<b>December 31, 2014</b>		<b>December 31, 2013</b>	
	<b>Balance Sheet Location</b>	<b>Fair Value</b>	<b>Balance Sheet Location</b>	<b>Fair Value</b>
Currency Forward Contracts	Other Current Liabilities	\$ 38	Prepaid and Other Current Assets	\$ 67

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The estimated amount of pretax (losses) as of December 31, 2014 that is expected to be reclassified from other comprehensive income (loss) into earnings, within the next 12 months is \$(41,000).

### **10. Shareholders Equity**

On October 22, 2014, the Company's Board of Directors approved the extension of the Company's existing Share Repurchase Program for an additional two-year period, through December 22, 2016. Repurchases under the program may be made through open market purchases or privately negotiated transactions in accordance with applicable securities laws. During 2014, 2013 and 2012, the Company purchased 32,149, 2,743 and 551,607 shares respectively, under the Share Repurchase Program. These share repurchases were completed at an average share price, inclusive of transaction cost of \$11.75, \$5.59 and \$4.62 per share for 2014, 2013 and 2012, respectively. As of December 31, 2014, there are approximately 484,892 shares available for purchase under the Share Repurchase Program. Additionally in 2014, the Company purchased an additional 29,182 shares at an average share price of \$13.63 to satisfy employee tax obligations related to the vesting of performance shares, in accordance with the Plan provisions.

On October 30, 2013, the Company announced that its Board of Directors approved a five-for-four (25 percent) stock split and declared a special cash dividend of \$0.50 per post-split share of common stock. Shareholders of record received one new share of Common Stock for every four shares that they owned. The distribution of the new shares was made on November 29, 2013. The cash dividend was paid on December 20, 2013 to shareholders of record at the close of December 9, 2013. This \$2.1 million cash dividend was largely funded by cash balances on hand.

### **11. Revenue Concentration**

Accenture was the Company's only client that exceeded 10% of total 2014 and 2013 revenues, generating 11.7% and 11.4% of total revenues, respectively. In 2012, IBM, TEK Systems and Kaiser Permanente exceeded 10% of total revenues, generating 13.3%, 12.0% and 11.8% of total revenues, respectively.

Accenture accounted for 13.4% and 11.7% of the Company's accounts receivable balance at December 31, 2014 and December 31, 2013. At December 31, 2012, IBM, TEK Systems and Kaiser Permanente accounted for 7.2%, 6.9% and 12.6% of the Company's accounts receivable balance.

The Company's top ten clients represented approximately 59%, 57% and 60% of total revenues in 2014, 2013 and 2012, respectively.

### **12. 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 and restricted share units were exercised / released. The dilutive effect of stock options and restricted share units were calculated using the treasury stock method. Performance shares for which the performance objectives were achieved as of December 31, 2014 and 2013, were included in the dilutive earnings per share calculation for the respective years as though such shares were outstanding for the entire quarter in which the performance objectives were achieved.

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For the years ended 2014, 2013 and 2012, the computation of diluted earnings per share does not include 0, 0 and 60,000 stock options respectively, as the effect of their inclusion would have been anti-dilutive.

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The following table sets forth the denominators of the basic and diluted EPS computations. All shares outstanding for the period shown below have been adjusted to reflect the November 2013 five-for-four stock split:

<b>(Amounts in thousands):</b>	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Weighted-average shares outstanding:</b>			
Basic	4,320	4,193	4,075
Stock options and restricted share units	139	149	126
Diluted	4,459	4,342	4,201

The following table sets forth the computation of basic EPS utilizing net income from continuing operations and the Company's weighted-average common stock outstanding:

<b>(Amounts in thousands, except per share data):</b>	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Net income	\$ 3,423	\$ 3,269	\$ 2,058
Basic weighted-average shares outstanding	4,320	4,193	4,075
Basic EPS	\$ .79	\$ .78	\$ .51

The following table sets forth the computation of diluted EPS utilizing net income from continuing operations and the Company's weighted-average common stock outstanding plus the weighted-average of stock options, restricted shares and performance shares outstanding:

<b>(Amounts in thousands, except per share data):</b>	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Net income	\$ 3,423	\$ 3,269	\$ 2,058
Diluted weighted-average shares outstanding	4,459	4,342	4,201
Diluted EPS	\$ .77	\$ .75	\$ .49

**13. 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:

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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.

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The following table summarizes the basis used to measure financial assets and (liabilities) at fair value on a recurring basis:

(Amounts in thousands)	Fair Value as of December 31, 2014			
	Level 1	Level 2	Level 3	Total
Currency forward contracts	\$ 0	\$ (38)	\$ 0	\$ 0

(Amounts in thousands)	Fair Value as of December 31, 2013			
	Level 1	Level 2	Level 3	Total
Currency forward contracts	\$ 0	\$ 67	\$ 0	\$ 0

**14. Quarterly Financial Information from Continuing Operations (Amounts in thousands, except per share data):**

Year Ended December 31, 2014	Revenues	Gross Profit	Net Income	Earnings Per Share	
				Basic	Diluted
First quarter	\$ 28,684	\$ 5,225	\$ 869	\$.20	\$.20
Second quarter	27,656	5,106	893	.21	.20
Third quarter	28,634	5,227	879	.20	.20
Fourth quarter	28,549	5,228	782	.18	.18
Annual	\$ 113,523	\$ 20,786	\$ 3,423	\$.79	\$.77

Year Ended December 31, 2013	Revenues	Gross Profit	Net Income	Earnings Per Share	
				Basic	Diluted
First quarter	\$ 24,000	\$ 4,371	\$ 544	\$.13	\$.13
Second quarter	26,135	4,973	765	.18	.18
Third quarter	28,283	5,335	999	.24	.23
Fourth quarter	28,483	5,438	961	.23	.22
Annual	\$ 106,901	\$ 20,117	\$ 3,269	\$.78	\$.75

**15. Severance Charges**

The Company did not incur any severance costs in 2014 and 2013. Severance costs during 2012 totaled \$120,000 and related to a change in executive leadership.





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**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

*Disclosure Controls and Procedures*

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

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

The certification required by Section 302 of the Sarbanes-Oxley Act of 2002 are filed as exhibits 31.01 and 31.02, respectively, to this Annual Report on Form 10-K.

*Management's Report on Internal Controls Over Financial Reporting*

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements; providing reasonable assurance that receipts and expenditures of Company assets are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use, or disposition of company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become ineffective because of changes in conditions or that the degree of compliance with established policies or procedures may deteriorate.

The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2014. In making its assessment of internal control over financial reporting, management used the criteria described in the *Internal Control-Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). Based upon this assessment, management has concluded and hereby reports that the Company's internal control over financial reporting was effective as of December 31, 2014.

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This Annual Report on Form 10-K does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was

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not subject to attestation by the Company's independent registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this Annual Report on Form 10-K.

**ITEM 9B. OTHER INFORMATION**

None.

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**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information required by this Item, not set forth below, is incorporated herein by reference from the Company's definitive proxy statement relating to the Annual Meeting of Shareholders scheduled for May 13, 2015, which will be filed with the Commission within 120 days after the close of the Company's fiscal year ended December 31, 2014 (the Proxy Statement).

We have adopted a code of ethics applicable to all of our employees, including our principal executive officer, principal financial officer and principal accounting officer titled Code of Conduct Policy. The Code of Conduct Policy is posted on the Company's website, *www.mastech.com* (under the Corporate Governance caption of the Investor Relations page). The Company intends to satisfy the disclosure requirement regarding certain amendments to, or waivers from, provisions of its code of ethics by posting such information on the Company's website.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item is incorporated by reference to the Proxy Statement.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS**

The information required by this item is hereby incorporated by reference from the section entitled Security Ownership of Certain Beneficial Owners and Management of the Proxy Statement.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this item is hereby incorporated by reference from the sections entitled Board Committees and Meetings and Policies and Procedures for Approving Related Person Transactions of the Proxy Statement. During 2014, we had no related party transactions.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this item is hereby incorporated by reference from the section entitled Independent Registered Public Accountants of the Proxy Statement.

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**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

*1. Financial Statements*

The following Consolidated Financial Statements of the registrant and its subsidiaries are included on pages 34 to 55 and the report of Independent Registered Public Accounting Firm is included on page 33 in this Annual Report on Form 10-K.

Report of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets December 31, 2014 and 2013.

Consolidated Statements of Operations Years ended December 31, 2014, 2013 and 2012.

Consolidated Statements of Comprehensive Income Years ended December 31, 2014, 2013 and 2012.

Consolidated Statements of Shareholders Equity Years ended December 31, 2014, 2013 and 2012.

Consolidated Statements of Cash Flows Years ended December 31, 2014, 2013 and 2012.

Notes to Consolidated Financial Statements

*2. Consolidated Financial Statement Schedules*

The following Consolidated Financial Statement schedules shown below should be read in conjunction with the Consolidated Financial Statements on pages 34 to 55 in this Form 10-K. All other schedules are omitted because they are not applicable or not required or the required information is shown in the Consolidated Financial Statements or notes thereto.

The following items appear immediately on the following page:

Financial Statement Schedules:

Schedule II Valuation and Qualifying Accounts for the years ended December 31, 2014, 2013 and 2012.

*3. Exhibits*

Exhibits required by Item 601 of Regulation S-K are listed in the Exhibit Index, which is incorporated herein by reference.



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**MASTECH HOLDINGS, INC.**

**SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS**

**FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012**

(Amounts in thousands)

	<b>Balance at beginning of period</b>	<b>Charged to expense (credited)</b>	<b>Recoveries/ (Write-offs)</b>	<b>Balance at end of period</b>
<b>Allowance for Doubtful Accounts:</b>				
Year ended December 31, 2014	\$ 358	\$	\$ (98)	\$ 260
Year ended December 31, 2013	438	(25)	(55)	358
Year ended December 31, 2012	305	125	8	438

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<b>Exhibit</b>	<b>Index Description Exhibit</b>
3.1	Articles of Incorporation of the Company are incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form 10, File No. 001-34099, filed on July 23, 2008.
3.2	Amended and Restated Bylaws of the Company are incorporated by reference to Exhibit 3.1. to Mastech's Form 8-K, File No. 001-34099, filed on October 1, 2008.
10.1	Mastech Holdings, Inc. Stock Incentive Plan (as amended and restated) is filed herewith.
10.2	Second Amended and Restated Loan Agreement, dated July 11, 2014, by and among Mastech Holdings, Inc., Mastech, Inc., Mastech Alliance, Inc., Mastech Trademark Systems, Inc., and PNC Bank, National Association filed as Exhibit 10.1 to Mastech's Form 8-K, filed on July 17, 2014 and herein incorporated by reference.
10.3	Executive Employment Agreement by and among Mastech, Inc., Mastech Holdings, Inc., and John J. Cronin, Jr., as amended and restated on March 20, 2014 filed as Exhibit 10.3 to Mastech's Annual Report on Form 10-K for the year ended December 31, 2013, filed on March 21, 2014 and herein incorporated by reference.
10.4	Executive Employment Agreement by and between Mastech, Inc. and Scott A. Aicher, as amended on March 20, 2014 filed as Exhibit 10.4 to Mastech's Annual Report on Form 10-K for the year ended December 31, 2013, filed on March 21, 2014 and herein incorporated by reference.
10.5	Lease Agreement, dated April 2, 2014, between PIBP 210 LLP and Mastech Holdings, Inc. is incorporated by reference to Exhibit 10.1 to Mastech's Form 8-K, filed on April 7, 2014.
10.6	Executive Employment Agreement by and among Mastech, Inc., Mastech Holdings, Inc., and D. Kevin Horner, as amended and restated on March 20, 2014 filed as Exhibit 10.6 to Mastech's Annual Report on Form 10-K for the year ended December 31, 2013, filed on March 21, 2014 and herein incorporated by reference.
10.7	Asset Purchase Agreement, dated July 26, 2013, by and among Curastat Inc., Mastech Healthcare, Inc., Mastech Holdings, Inc., and Accountable Healthcare Staffing, Inc. filed as Exhibit 10.7 to Mastech's Annual Report on Form 10-K for the year ended December 31, 2013, filed on March 21, 2014 and herein incorporated by reference.
10.8	Executive Employment Agreement by and between Mastech, Inc. and Denis Deet, dated August 20, 2014 is filed herewith.
10.9	Form of Restricted Stock Agreement under the Mastech Holdings, Inc. Stock Incentive Plan (as amended and restated) is filed herewith.
21.0	List of Subsidiaries is filed herewith.
23.1	Consent of UHY LLP, Independent Registered Public Accounting Firm is filed herewith.
31.01	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer is filed herewith.
31.02	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer is filed herewith.
32.01	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer is furnished herewith.
32.02	



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Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer is furnished herewith.

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<b>Exhibit</b>	<b>Index Description</b>	<b>Exhibit</b>
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.	

Designates the Registrant's management contracts or compensation plans or arrangements for its executive officers.

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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 20th day of March, 2015.

MASTECH HOLDINGS, INC.

/s/ D. KEVIN HORNER  
**D. Kevin Horner**

*President, Chief Executive Officer and Director*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated and on this 20th day of March, 2015.

/s/ D. KEVIN HORNER  
**D. Kevin Horner**

*President, Chief Executive Officer and Director*

*(Principal Executive Officer)*

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

*Chief Financial Officer*

*(Principal Financial Officer and Principal Accounting Officer)*

/s/ SUNIL WADHWANI  
**Sunil Wadhvani**

*Co-Chairman of the Board of Directors, and Director*

/s/ ASHOK TRIVEDI  
**Ashok Trivedi**

*Co-Chairman of the Board of Directors, and Director*

/s/ GERHARD WATZINGER  
**Gerhard Watzinger**

*Director*

/s/ JOHN AUSURA  
**John Ausura**

*Director*

/s/ BRENDA GALILEE  
**Brenda Galilee**

*Director*