

Mastech Holdings, Inc.
Form 10-K
March 19, 2009
Table of Contents

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, 2008

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

Commission File Number 001-34099

MASTECH HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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PENNSYLVANIA
(State or other jurisdiction of
incorporation or organization)

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

1000 Commerce Drive, Suite 500
Pittsburgh, PA
(Address of principal executive offices)

15275
(Zip Code)

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

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

Title of each class	Name of exchange on which registered
Common Stock, \$.01 par value	NYSE Alternext

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

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

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

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

The voting stock of the registrant was not traded publicly as of June 30, 2008.

The number of shares of the registrant's Common Stock, par value \$.01 per share, outstanding as of February 27, 2009 was 3,606,717 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement, prepared for the Annual Meeting of Shareholders scheduled for May 14, 2009 to be filed with the Commission are incorporated by reference into Part III of this report.

Table of Contents

MASTECH HOLDINGS, INC.

2008 FORM 10-K

TABLE OF CONTENTS

	Page
PART I	
ITEM 1. <u>BUSINESS</u>	1
ITEM 1A. <u>RISK FACTORS</u>	10
ITEM 1B. <u>UNRESOLVED STAFF COMMENTS</u>	17
ITEM 2. <u>PROPERTIES</u>	18
ITEM 3. <u>LEGAL PROCEEDINGS</u>	18
ITEM 4. <u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	18
PART II	
ITEM 5. <u>MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	19
ITEM 6. <u>SELECTED FINANCIAL DATA</u>	20
ITEM 7. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	21
ITEM 7A. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	30
ITEM 8. <u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	30
ITEM 9. <u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	52
ITEM 9A. <u>CONTROLS AND PROCEDURES</u>	52
ITEM 9B. <u>OTHER INFORMATION</u>	52
PART III	
ITEM 10. <u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	53
ITEM 11. <u>EXECUTIVE COMPENSATION</u>	53
ITEM 12. <u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS</u>	53
ITEM 13. <u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	53
ITEM 14. <u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	53
PART IV	
ITEM 15. <u>EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u>	54
<u>SIGNATURES</u>	57

Table of Contents

PART I

Forward-Looking Statements

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

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

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

our ability to retain existing clients and obtain new clients;

changes in competitive conditions;

our ability to introduce new service offerings;

availability of skilled technical employees;

technological changes;

changes in accounting standards, rules and interpretations;

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

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

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

the impact of new acquisitions;

management's ability to identify and manage risks; and

adverse consequences related to our recent spin-off from iGATE.

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 and brokering operations staffing and consulting services to Fortune 1000 companies. We combine 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 eBusiness solutions segments. Headquartered in Pittsburgh, Pennsylvania, we have approximately 550 consultants that provide services across a broad spectrum of industry verticals.

Our marketing efforts are focused on large businesses and institutions with significant IT spending and recurring staffing and software development needs and large system integrators with recurring needs for highly

Table of Contents

qualified technical computer personnel. Sales and marketing is conducted through account executives within two business 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. Within the retail channel, many end-users of IT staffing services have retained a third party to provide vendor management services (a managed service provider or MSP) and to centralize the consultant hiring process.

We recruit through Global Recruiting Centers located in the United States, Asia and Europe that deliver a full range of recruiting and sourcing services. Our centers employ approximately 70 recruiters and sourcers, focused 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 engine, with investment in sourcing and recruiting processes, expanding search coverage, round-the-clock sourcing, and frequent candidate contact, gives us the ability to deliver to our clients high quality candidates in a timely fashion.

History and Development

Historically, we operated as the former Professional Services segment of iGate Corporation (iGATE). Mastech Holdings, Inc. was incorporated in Pennsylvania as a wholly-owned subsidiary of iGATE on June 6, 2008 in anticipation of our spin-off from iGATE. On September 30, 2008, we spun off from iGATE and began operating as an independent public company. Our operating subsidiaries have more than 20 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. Through 1999, the Company participated in the rapid growth experienced by the U.S. IT staffing industry. In the early 2000 s the demand for IT professionals cooled and the supply of IT resources quickly exceeded a declining demand curve. No longer was there a need to recruit abroad for technology talent, as supply was abundant in the U.S. Accordingly, the Company retooled its recruiting model to focus on the recruitment of U.S.-based IT talent. Given the Company s reputation with, and knowledge of, H1-B visas, part of our recruiting efforts focused on attracting H1-B visa holders currently in the United States. This approach gave the Company access to a larger and differentiated recruiting pool compared to many of our competitors.

In 2003, the Company launched its offshore Global Recruitment Center model in an effort to meet an increase in industry demand with lower cost recruiting resources. Over the last five years, the Company has expanded and made significant investment in these centers to improve infrastructure, processes and effectiveness. In mid-2006, the Company began to market, on a selective basis, its offshore recruitment services to staffing-industry clients, as a cost effective way for these clients to supplement their existing recruiting capabilities. Today, over 90% of our recruiting activities are done through our offshore centers.

Our Business

Our revenues are principally generated from contract staffing services. We derive these revenues from two primary sources, IT staffing services and brokerage operations staffing services. These services are provided on a time and materials basis. Typically, we negotiate a master service agreement with a client that describes the framework of our relationship. In accordance with the master service agreement, 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 master services agreement.

Table of Contents

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

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

Sales and Marketing

We focus our marketing efforts primarily on large businesses and institutions with significant IT budgets and recurring staffing and software development needs and on large system integrators with recurring needs for highly qualified technical computer personnel. While we are continuously looking to expand our client base, much of our marketing efforts are focused on increasing business with our existing accounts.

Our marketing is conducted through account executives within two business channels (wholesale and retail). Much of our marketing efforts employ a cost-effective telesales model, supplemented with selective travel and client visits. Our consultants and their skill sets can be marketed within both business 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 business 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 abilities to attract highly-qualified temporary technical computer personnel. Revenues from this channel represented 48% of total revenues in 2008. Over the last several years, more of our IT revenues have come from the wholesale channel as a percentage of total revenues. Most of our strategic relationships in this channel are established at the vice president / sales director level. Account executives generally are responsible for expanding existing client relationships. We supplement these marketing activities through our sales organization in India. Offshore account executives target smaller IT staffing clients within the wholesale channel. Generally, these account executives call (telesales) on potential new customers within an assigned U.S. territory.

Our IT retail channel focuses on customers that are end-users of IT staffing services. Revenues from this channel represented 40% of total revenues in 2008. Our brokerage operations business, which services financial institutions with brokerage operations, represented 12% of total 2008 revenues. Account executives call on potential new customers and are also responsible for maintaining existing client contacts within assigned accounts and territories. Generally, account executives are paired with recruiters and both receive incentive-based compensation based on revenue generation activities. We also utilize technical resource managers, to ensure quality commitment to clients. Resource managers are available to assist account executives and recruiters in assessing candidate qualifications.

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. Under this arrangement, the third-party managed service provider (MSP) retains control of the vendor selection and vendor evaluation process, which acts to weaken the relationship built with client contacts. Our lower-cost centralized telesales model and highly efficient offshore recruiting model are perfectly aligned to the growing MSP market. MSP clients represented 23% of 2008 revenues. Our belief, based on industry trends, is that a larger portion of our retail channel will consist of MSP clients on a going forward basis.

Table of Contents

Recruiting

We operate five Global Recruiting Centers located in the United States, Asia and Europe that deliver a full range of recruiting and sourcing services. Our centers employ over 70 recruiters and sourcers, focused 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 engine, with investment in sourcing and recruiting processes, expanding search coverage, round-the-clock sourcing, and frequent candidate contact, gives us the ability to deliver to our clients high quality candidates in a timely fashion.

We have continued to invest in leading technologies and recruitment tools, in efforts to make our recruiting engine one of the most efficient in the industry. For example, job board spidering tools, such as Data Frenzy, are employed to expand the reach of our candidate searches. We also employ a state-of-the art applicant tracking system that has proprietary toolkits and job board / internet interfacing capabilities, which has resulted in further operational efficiencies.

Mastech has access to a large and differentiated recruiting pool due to its brand recognition with both W-2 hourly U.S. citizens and H1-B visa professionals 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 approximately a 50/50 composition of H1-B and W-2 hourly employees. As such, this balanced mix allows us to tap a broad candidate pool.

Technology Focus

We provide technologies and maintain strategic relationships with industry leaders, such as IBM and Oracle, in many high demand areas. Our focus in such areas include the following:

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

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Upgrades

Enterprise data modeling

Testing and database
administration

Enhancements new
functionality, new modules

Metadata management

Application integration

Data stewardship

4

Table of Contents

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 along with our partners work on methods to 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 their technical consultants to streamline and maximize the value of its clients' systems and interfaces. We view SOA as the catalyst for business change over the next decade and are focusing our top assets to become a premier SOA / Web Services provider.

Enterprise Solutions & Package Implementation Life Cycle (PILC)

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

Enterprise Solutions Life Cycle Phases:

Project Initiation Phase

Definition Phase

Development Phase

Deployment Phase

Support Phase

Enterprise Resource Planning

We have completed numerous projects in the ERP space, which range from the implementation of stock systems to fully customized applications. Our consultants are well versed in the leading ERP solutions, including SAP, PeopleSoft, Oracle Applications and JD Edwards. We have completed more than 400 ERP projects with 25% of those delivered to Fortune 500 clients, and our functional experience crosses many industries including the following areas:

Finance and Accounting

Inventory and Purchasing

Project Billing and Costing, Sales, Distribution and Services

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Manufacturing (including Planning)

Marketing and Call Center Support

Product Data Management and Data Warehousing

Supply Chain Management

Human Capital Solutions

Customer Relations Management

Table of Contents

Business Intelligence and Data Warehousing

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

1) Increase data accuracy and consistency:

Define consistent data definitions and data standards

Develop metadata to drive data cleansing and aid user understanding

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

Provide users with complete and easy access to all data

Design a model that focuses on database performance

Add additional elements and aggregations to improve analysis and modeling

3) Increase productivity and flexibility.

4) Access data through central solution:

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

Access to the data warehouses using the standard tool set

Provide flexible and modular architecture to meet changing business needs

5) Reduce complexity:

Decommission redundant systems

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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

Table of Contents

N-tier architecture applications

Web-enabling existing applications

Offshore Recruitment Services

We also provide recruitment and sourcing services to other staffing-industry clients through our RPO business unit. This service offering capitalizes on our low-cost offshore recruitment centers by providing staffing-industry clients a cost effective way of supplementing their existing recruiting capabilities. This segment is not a strategic focus, but represents a by-product opportunity created by our unique recruitment model. Revenues have been, and are expected to be in the future, less than one-percent of our consolidated total.

Geographic Presence & Industry Verticals

All of our revenues are generated from services provided in the United States. 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, Pennsylvania, Virginia, North Carolina and Texas.

We provide our 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 billable consultant base by industry as of December 31, 2008:

Financial Services: 30%
Healthcare: 20%
Government: 13%
Technology: 11%

Telecom: 10%
Retail: 6%
Other: 10%

Clients

Our client-base consists of large companies that span across multiple industry verticals. IBM, Tek Systems and Wachovia Securities are our top three clients representing 14.9%, 12.7% and 10.7% of total 2008 revenues, respectively. Our services to IBM and Tek Systems generally supplement their needs for IT professionals to staff end-client projects. We provide Wachovia Securities with brokerage operations professionals to satisfy their internal needs. Approximately 66% of our total revenues are generated from our top ten clients.

Employees

At December 31, 2008, we had approximately 500 U.S. employees and 100 employees offshore. None of our employees are subject to collective bargaining agreements governing their employment with our Company. We employ technical personnel on both an hourly and salary basis. Most of our technical salaried employees are H1-B visa holders. We enjoy a good reputation in 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 50/50 composition of salaried and hourly technical employees. We believe that our employee relations are good.

Seasonality

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

Our Competitive Position

We operate in a highly competitive and fragmented industry, with low barriers to entry. We compete for potential clients with providers of outsourcing services, systems integrators, computer systems consultants, other

Table of Contents

providers of technical staffing services and, to a lesser extent, temporary personnel agencies. Many of our competitors are significantly larger and have greater financial resources than we do. We believe that the principal competitive factors in obtaining and retaining clients are accurate assessment of clients' requirements, timely assignment of technical employees with appropriate skills and the price of services. The principal competitive factors in attracting qualified technical personnel are compensation, availability, quality and variety of projects and schedule flexibility. We believe that many of the technical personnel included in our database may also be pursuing other employment opportunities. Therefore, our responsiveness to the needs of technical personnel is an important factor in our ability to fill projects.

Our Strengths

We believe our strengths compared to industry peers include:

Established client base

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

Operational excellence

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

Attractive financial profile

We have historically enjoyed higher operating margins than our industry peers due largely to our low cost telesales model and offshore recruiting capabilities. This business model allows us to quickly adjust 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. We are debt free and have an unused \$10 million credit facility as of December 31, 2008.

Experienced management team

Our management team is the same team that managed the staffing business for iGATE before the spin-off. Business leaders at the senior management level and below were involved in creating and implementing our long-term strategy. Collectively, the members of our executive team have an average of eleven years with us.

Human resources model focused on employees

We employ a human resource management model, featuring portal technology as well as immigration support services for our widely dispersed consultant base. This model enables us to maintain attrition rates that are below industry averages.

Expertise in high-demand IT skills

We have substantial expertise in IT skills including: enterprise resource planning and customer resource management; service oriented architecture and web services; business intelligence and data warehousing; and

Table of Contents

web development. We also have the capacity to take advantage of the demand and growth in these sectors, as we are well positioned in terms of scale, technical capabilities, and client base. In addition, we have relationships with industry leaders such as IBM and Oracle, who are among the leading providers of such services.

Industry expertise

Our focus on the financial services and healthcare industry sectors, which account for approximately 46% of our revenues, has enabled us to build industry expertise in those areas. Further, we have developed customized solutions for vertical industries, such as our brokerage operations business, which offers solutions to broker-dealers, custodians, and asset managers, as well as regulatory compliance analysis.

Reportable Financial Segments

The Company operates as a single reportable segment in accordance with SFAS-131 Disclosures about Segments of an Enterprise and Related Information . Accordingly, no segment related disclosures are presented.

The Separation from iGATE

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

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

We entered into agreements with iGATE prior to the spin-off which will have potential impacts on our business in future periods, including:

Separation and Distribution Agreement

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

Table of Contents

Employee Matters Agreement

The employee matters agreement defined liabilities and responsibilities related to employee compensation, benefit plans and other related matters in connection with the separation, including the treatment of outstanding incentive awards and certain retirement and welfare benefit obligations.

Tax Sharing Agreement

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

Transition Services Agreement

The transition services agreement sets forth the various services iGATE would provide us to ensure an orderly transition to being an independent company. This agreement identifies these transition services and defines the terms and durations in which such services would be provided. As of December 31, 2008 all material transition services have been completed.

Available Information

Our headquarters are located at 1000 Commerce Drive, Pittsburgh, Pennsylvania 15275, and our telephone number is (412) 787-2100. The Company's website is www.mastech.com. Our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to these reports are available free of charge by accessing the Investor Relations page of the Company's website as soon as reasonably practical after such reports are filed with the Securities and Exchange Commission (the "SEC").

The public may read and copy any materials that the Company has filed with the SEC at the SEC's Public Reference Room located at 100 F Street, NE., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of the SEC's website is www.sec.gov.

ITEM 1A. RISK FACTORS

RISK FACTORS

You should carefully consider each of the following risk factors and all of the other information set forth in this Annual Report on Form 10-K or incorporated by reference herein. Based on the information currently known to us, we believe that the following information identifies the most significant risk factors affecting our company in each of the noted risk categories: (i) Risks Relating to Our Business; and (ii) Risks Relating to Our Separation from iGATE. However, additional risks and uncertainties not currently known to us or that we currently believe to be immaterial may also adversely impact our business

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

Table of Contents

Risks Relating to Our Business

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

The IT 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 IT staffing services, applications software firms, service groups of computer equipment companies, specialized interest consulting firms, programming companies and temporary staffing firms. Many of these competitors have substantially greater financial, technical and marketing resources and greater name recognition than we have. There are relatively few barriers to entry into our markets, and we may face additional competition from new entrants into our markets. In addition, there is a risk that clients may elect to increase their internal resources to satisfy their applications solutions needs. There can be no assurance that we will compete successfully with existing or new competitors in the IT 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 IT and brokerage operation professionals and project managers who possess the technical 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 or retain qualified professionals in sufficient numbers may have a material adverse effect on our business, operating results and financial condition. Historically, we have done much of our recruiting outside of the countries 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 United States. As of December 31, 2008, approximately 50% of our U.S. workforce were working under Mastech sponsored H1-B temporary work permits in the United States. 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.

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. in H1-B visa status with another employer. As a result, the negative impact on recruiting due to the exhaustion of the fiscal years 2004 to 2008 H1-B quotas was not substantial. However, unless Congress substantially 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.

Table of Contents

Negative economic conditions in the United States and abroad may adversely affect demand for our services.

All of our revenues are generated from clients located in the United States. Due to the current economic downturn, there is decreased economic activity in the United States. Our business depends on the overall demand for information technology and on the economic health of our clients. As the economic downturn progresses, companies may be forced to reduce their information technology staffing budgets. Weak economic conditions and reduced budgets may 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 larger users of IT staffing services are employing Managed Service Providers (MSP) to manage their contractor expenses in an effort to drive down overall costs. The impact of this shift towards the MSP model has been to lower our gross margins. Should this trend towards utilizing the MSP model continue, it is likely that our gross margins will be pressured in the future. In addition, if larger users of IT staffing services continue to employ more MSPs, the relationship between us and those larger users may be primarily conducted through MSPs, in which case we may have difficulty maintaining those client relationships because the MSP model uses an MSP as an intermediary between the staffing service provider and the user, and reduces our direct contact with the user.

We are increasingly dependent upon our foreign and international operations and there can be no assurance that our international operations will support our growth strategy.

Our international recruitment centers depend greatly upon business, immigration and technology transfer laws in their respective countries, and upon the continued development of technology infrastructure. There can be no assurance that our international operations will support our growth strategy. The risks inherent in our international 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 our growth, attract and retain personnel or a significant interruption of our ability to transmit data via satellite, could have a material adverse impact on our ability to successfully maintain and develop our global recruitment centers and could have a material adverse effect on our business, operating results and financial condition.

The rupee may increase in value relative to the dollar, increasing our costs. Although we do not receive revenue from abroad, we maintain a significant portion of our 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.

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

Our wage costs in India have historically been significantly lower than wage costs in the United States for comparably skilled professionals, and this has been one of our competitive advantages with respect to the costs of our Indian recruiting offices. However, wage increases in India may prevent us from sustaining this competitive advantage and may negatively affect our profit margins. We may need to increase the levels of our employee

Table of Contents

compensation more rapidly than in the past to retain talent or to comply with regulations. Unless we are able to continue to increase the efficiency and productivity of our employees, wage increases in the long term may reduce our profit margins.

Our quarterly operating results may be subject to significant variations.

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

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

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

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

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

competition from other potential acquirers;

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

the unwillingness of the company to partner with us.

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

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

Our revenues are highly dependent on clients located in the United States, as well as clients concentrated in certain industries, and economic slowdowns, changes in U.S. law and other restrictions or factors that affect the economic health of these industries may affect our business. In the year ended December 31, 2008, approximately 66% of our revenues were derived from our top ten clients. Consequently, if our clients reduce or postpone their IT 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. In addition, approximately 46% of our total revenue is derived from the financial services and health care industry sectors. Because our revenues are highly concentrated in those sectors, any significant or prolonged downturn in either industry sector could have a material adverse effect on our business, operating results and financial condition.

We have in the past derived, and may in the future derive, a significant portion of our revenues from a relatively limited number of clients. Our largest three clients, IBM, TEK Systems, and Wachovia Securities accounted for approximately 15%, 13% and 11% of our 2008 revenues, respectively. All three of these contracts are terminable without penalty, as are most of our assignments. The loss of any significant client or major project, or an unanticipated termination of a major project, could result in the loss of substantial anticipated revenues.

Table of Contents

In order to continue to achieve success, we must develop new solutions that keep pace with the rapid technological changes that characterize our industry.

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 develop solutions that 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