# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended June 30, 2016**

☐ **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**<br>**(State or other jurisdiction of incorporation or organization)** | **26-2753540**<br>**(I.R.S. Employer Identification No.)** |
| **1305 Cherrington Parkway, Building 210, Suite 400**<br>**Moon Township, Pennsylvania**<br>**(Address of principal executive offices)** | **15108**<br>**(Zip Code)** |

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

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ (Do not check if a smaller reporting company) | Smaller reporting company | ☒ |

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

The number of shares of the registrant's Common Stock, par value $.01 per share, outstanding as of July 29, 2016 was 4,397,005.

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**MASTECH HOLDINGS, INC.**
**QUARTERLY REPORT ON FORM 10-Q**
**FOR THE QUARTER ENDED JUNE 30, 2016**

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

**MASTECH HOLDINGS, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**(Amounts in thousands, except per share data)**
**(Unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues | $33,629 | $29,305 | $65,343 | $56,365 |
| Cost of revenues | 26,740 | 23,790 | 52,341 | 46,163 |
| Gross profit | 6,889 | 5,515 | 13,002 | 10,202 |
| Selling, general and administrative expenses | 5,225 | 4,896 | 11,203 | 9,255 |
| Income from operations | 1,664 | 619 | 1,799 | 947 |
| Interest (expense), net | (121) | (36) | (237) | (47) |
| Other income (expense), net | (18) | 38 | (20) | 32 |
| Income before income taxes | 1,525 | 621 | 1,542 | 932 |
| Income tax expense | 580 | 239 | 586 | 355 |
| Net income | $ 945 | $ 382 | $ 956 | $ 577 |
| Earnings per share: | | | | |
| Basic | $ .22 | $ .09 | $ .22 | $ .13 |
| Diluted | $ .21 | $ .09 | $ .21 | $ .13 |
| Weighted average common shares outstanding: | | | | |
| Basic | 4,354 | 4,332 | 4,353 | 4,330 |
| Diluted | 4,451 | 4,436 | 4,450 | 4,437 |

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

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**MASTECH HOLDINGS, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**(Amounts in thousands)**
**(Unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net income | $ 945 | $ 382 | $ 956 | $ 577 |
| Other comprehensive income (loss): | | | | |
| Net unrealized gain/(loss) on currency forward contracts | — | (17) | — | 12 |
| Net unrealized (loss) on interest rate swap contracts | (5) | (38) | (35) | (38) |
| Total pretax net unrealized (loss) | (5) | (55) | (35) | (26) |
| Income tax (benefit) | (2) | (21) | (14) | (10) |
| Total other comprehensive (loss), net of taxes | (3) | (34) | (21) | (16) |
| Total comprehensive income | $ 942 | $ 348 | $ 935 | $ 561 |

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

**MASTECH HOLDINGS, INC.**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(Amounts in thousands, except share and per share data)**
**(Unaudited)**

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 735 | $ 848 |
| Accounts receivable, net of allowance for uncollectible accounts of $338 in 2016 and $313 in 2015 | 16,214 | 16,394 |
| Unbilled receivables | 6,541 | 2,796 |
| Prepaid and other current assets | 731 | 587 |
| Deferred income taxes | 284 | 217 |
| Total current assets | 24,505 | 20,842 |
| Equipment, enterprise software, and leasehold improvements, at cost: | | |
| Equipment | 1,197 | 1,142 |
| Enterprise software | 645 | 645 |
| Leasehold improvements | 332 | 342 |
| | 2,174 | 2,129 |
| Less – accumulated depreciation and amortization | (1,571) | (1,473) |
| Net equipment, enterprise software, and leasehold improvements | 603 | 656 |
| Deferred income taxes | 99 | 92 |
| Deferred financing costs, net | 78 | 97 |
| Non-current deposits | 232 | 237 |
| Goodwill | 8,427 | 8,427 |
| Intangible assets, net | 7,720 | 8,126 |
| Total assets | $41,664 | $ 38,477 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Current portion of long-term debt | $ 1,800 | $ 1,800 |
| Accounts payable | 2,901 | 2,213 |
| Accrued payroll and related costs | 7,122 | 5,965 |
| Accrued income taxes | 232 | 1,014 |
| Other accrued liabilities | 573 | 603 |
| Deferred revenue | 204 | 341 |
| Total current liabilities | 12,832 | 11,936 |
| Long-term liabilities: | | |
| Long-term debt, less current portion | 11,913 | 10,738 |
| Total liabilities | 24,745 | 22,674 |
| Commitments and contingent liabilities (Note 4) | | |
| Shareholders' equity: | | |
| Preferred Stock, no par value; 20,000,000 shares authorized; none outstanding | — | — |
| Common Stock, par value $.01; 125,000,000 shares authorized and 5,173,643 shares issued as of June 30, 2016 and 5,169,143 shares issued as of December 31, 2015 | 52 | 52 |
| Additional paid-in-capital | 13,295 | 13,114 |
| Retained earnings | 7,733 | 6,777 |
| Accumulated other comprehensive loss | (40) | (19) |
| Treasury stock, at cost; 816,638 shares as of June 30, 2016 and December 31, 2015 | (4,121) | (4,121) |
| Total shareholders' equity | 16,919 | 15,803 |
| Total liabilities and shareholders' equity | $41,664 | $ 38,477 |

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

**MASTECH HOLDINGS, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Amounts in thousands)**
**(Unaudited)**

| | Six Months Ended June 30, 2016 | Six Months Ended June 30, 2015 |
|---|---|---|
| OPERATING ACTIVITIES: | | |
| Net income | $ 956 | $ 577 |
| Adjustments to reconcile net income to cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 504 | 143 |
| Bad debt expense | 25 | — |
| Interest amortization of deferred financing costs | 19 | 11 |
| Stock-based compensation expense | 185 | 193 |
| Deferred income taxes, net | (74) | (123) |
| (Gain) on derivative contract | — | (24) |
| Working capital items: | | |
| Accounts receivable and unbilled receivables | (3,590) | (1,845) |
| Prepaid and other current assets | (130) | 316 |
| Accounts payable | 688 | 1,252 |
| Accrued payroll and related costs | 1,157 | 713 |
| Other accrued liabilities | (847) | — |
| Deferred revenue | (137) | 17 |
| Net cash flows provided by (used in) operating activities | (1,244) | 1,230 |
| INVESTING ACTIVITIES: | | |
| Acquisition of Hudson IT | — | (16,987) |
| Recovery of non-current deposits | 5 | 36 |
| Capital expenditures | (45) | (104) |
| Net cash flows (used in) investing activities | (40) | (17,055) |
| FINANCING ACTIVITIES: | | |
| Borrowings on revolving credit facility, net | 2,075 | 4,872 |
| Borrowings (repayments) on term loan facility | (900) | 9,000 |
| Payment of deferred financing costs | — | (75) |
| Purchase of treasury stock | — | (201) |
| Proceeds from the exercise of stock options | — | 17 |
| Increase (decrease) in excess tax benefits related to stock options / restricted shares, net | (4) | 134 |
| Net cash flows provided by financing activities | 1,171 | 13,747 |
| Net change in cash and cash equivalents | (113) | (2,078) |
| Cash and cash equivalents, beginning of period | 848 | 2,568 |
| Cash and cash equivalents, end of period | $ 735 | $ 490 |

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

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**MASTECH HOLDINGS, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**JUNE 30, 2016 AND 2015**
**(Unaudited)**

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

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

### *Description of Business*

We are a provider of IT 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; service oriented architecture; web services; enterprise resource planning & customer resource management; eBusiness solutions; mobile applications; and the implementation and support for cloud-based applications. We work with businesses and institutions with significant IT spending and recurring staffing needs. We also support smaller organizations with their “project focused” temporary IT staffing requirements. Our services span a broad range of industry verticals including: automotive; consumer products; education; financial services; government; healthcare; manufacturing; retail; technology; telecommunications; transportation; and utilities.

### *Accounting Principles*

The accompanying Financial Statements have been prepared by management in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and applicable rules and regulations of the Securities and Exchange Commission (the “SEC”). Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for complete consolidated financial statements. In the opinion of management, all adjustments, consisting principally of normal recurring adjustments, considered necessary for a fair presentation have been included. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the Financial Statements and the accompanying notes. Actual results could differ from these estimates. These Financial Statements should be read in conjunction with the Company’s audited consolidated financial statements and accompanying notes for the year ended December 31, 2015, included in our Annual Report on Form 10-K filed with the SEC on March 25, 2016. Additionally, our operating results for the three and six months ended June 30, 2016 are not necessarily indicative of the results that can be expected for the year ending December 31, 2016 or for any other period.

### *Principles of Consolidation*

The Financial Statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

### *Critical Accounting Policies*

Please refer to Note 1 “Summary of Significant Accounting Policies” of the Financial Statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations–Critical Accounting Policies and Estimates” in our Annual Report on Form 10-K for the year ended December 31, 2015 for a more detailed discussion of our significant accounting policies and critical accounting estimates. There were no material changes to these critical accounting policies during the six months ended June 30, 2016.

### *Segment Reporting*

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

## 2. Business Combinations

On June 15, 2015, the Company completed the cash acquisition of Hudson Global Resources Management, Inc.’s U.S. IT staffing business (“Hudson IT”). The acquisition supports Mastech’s growth strategy as a premier provider of IT staffing services by expanding its existing client base, increasing its domestic recruitment capabilities and strengthening its management talent. The acquisition was structured as an asset purchase and was accounted for using the acquisition method of accounting. The acquisition method of accounting requires that the assets acquired and liabilities assumed be measured at their fair values as of the closing date.

The financial terms of the acquisition included a $16,987,000 purchase price and the assumption of $13,000 of net current liabilities, with the seller retaining essentially all working capital.

The cash purchase price at closing was paid with funds obtained from the following sources:

| (in thousands) | Amounts |
|---|---|
| Cash balances on hand | $ 2,000 |
| Term loan facility | 9,000 |
| Revolving line of credit | 5,987 |
| **Cash paid at Closing** | $16,987 |

The allocation of purchase price was based on estimates of the fair value of assets acquired and liabilities assumed as of June 15, 2015, as set forth below. The excess purchase price over the fair values of the net tangible assets and identifiable intangible assets was recorded as goodwill, which includes value associated with the assembled workforce. All goodwill is deductible for tax purposes. The valuation of net assets acquired is as follows:

| (in thousands) | Amounts |
|---|---|
| **Current Assets** | **$ 18** |
| **Fixed Assets** | **6** |
| **Identifiable intangible assets:** | |
| Client relationships | 7,999 |
| Covenant not-to-compete | 319 |
| Trade name | 249 |
| **Total identifiable intangible assets** | **8,567** |
| **Goodwill** | **8,427** |
| **Current liabilities** | **(31)** |
| **Net Assets Acquired** | **$16,987** |

The fair value of identifiable intangible assets has been estimated using the income approach through a discounted cash flow analysis. Specifically, the Company used the income approach through an excess earnings analysis to determine the fair value of client relationships. The value applied to the covenant not-to-compete was based on an income approach using a “with or without” analysis of this covenant in place. The trade name was valued using the income approach – relief from royalty method. All identifiable intangibles are considered level 3 inputs under the fair value measurement and disclosures guidance.

The Company incurred $549,000 of direct transaction costs related to the acquisition for the three months ended June 30, 2015 and $599,000 for the six months ended June 30, 2015. These costs are included in selling, general and administrative expenses in the accompanying Condensed Consolidated Statement of Operations.

Included in the Condensed Consolidated Statement of Operations for the three and six month periods ended June 30, 2016 are revenues of $7.6 million and $14.3 million, respectively, and net income of approximately $0.4 million and $0.7 million, respectively, applicable to the Hudson IT operations. Included in the Condensed Consolidated Statement of Operations for the three and six month periods ended June 30, 2015 were revenues of $1.3 million and net income of approximately $0.1 million applicable to the Hudson IT operations.

The following reflects the Company’s unaudited pro forma results had the results of Hudson IT been included for all periods presented:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | (Amounts in Thousands) | | (Amounts in Thousands) | |
| Revenue | $ 33,629 | $ 35,532 | $ 65,343 | $ 70,094 |
| Net income | $ 945 | $ 508 | $ 956 | $ 833 |
| Earnings per share - diluted | $ 0.21 | $ 0.11 | $ 0.21 | $ 0.19 |

The information above related to the 2015 periods does not reflect all of the operating efficiencies or inefficiencies that may have resulted from the Hudson IT acquisition. Therefore, the pro forma information for those periods is not necessarily indicative of results that would have been achieved had the business been combined during all periods presented or the results that the Company will experience going forward.

## 3. Goodwill and Other Intangible Assets, net

Goodwill related to our June 15, 2015 acquisition of Hudson IT totaled $8.4 million.

The Company is amortizing the identifiable intangible assets on a straight-line basis over estimated average lives ranging from 3 to 12 years. Intangible assets were comprised of the following as of June 30, 2016:

| | As of June 30, 2016 | | | |
|---|---|---|---|---|
| (Amounts in thousands) | Amortization Period (In Years) | Gross Carrying Value | Accumulative Amortization | Net Carrying Value |
| Client relationships | 12 | $ 7,999 | $ 694 | $ 7,305 |
| Covenant-not-to-compete | 5 | 319 | 66 | 253 |
| Trade name | 3 | 249 | 87 | 162 |
| **Total Intangible Assets** | | **$ 8,567** | **$ 847** | **$ 7,720** |

Amortization expense for the three and six month periods ended June 30, 2016 was $203,000 and $406,000, respectively, and is included in selling, general and administrative expenses in the Condensed Consolidated Statement of Operations. Amortization expense for the three and six month periods ended June 30, 2015 was $34,000.

The estimated aggregate amortization expense for intangible assets for the years ending December 31, 2016 through 2020 is as follows:

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 |
| | (Amounts in thousands) | | | | |
| Amortization expense | $813 | $813 | $769 | $731 | $696 |

## 4. Commitments and Contingencies

***Lease Commitments***

The Company rents certain office space and equipment under non-cancelable leases which provide for future minimum rental payments. Total lease commitments have not materially changed from the amounts disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

***Contingencies***

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

## 5. Employee Benefit Plan

The Company provides an Employee Retirement Savings Plan (the “Retirement Plan”) under Section 401(k) of the Internal Revenue Code of 1986, as amended (the “Code”), that covers substantially all U.S. based salaried employees. Concurrent with the acquisition of Hudson IT, the Company expanded employee eligibility under the Retirement Plan to include all U.S. based W-2 hourly employees. Employees may contribute a percentage of eligible compensation to the Retirement Plan, subject to certain limits under the Code. For employees that were enrolled in the Hudson Employee Retirement Savings Plan under the Code at the acquisition date, the Company provides a matching contribution of 50% of the first 6% of the participant’s contributed pay, subject to vesting based on the combined tenure with Hudson and Mastech. For all other employees, the Company did not provide for any matching contributions for the six months ended June 30, 2016 and June 30, 2015. Mastech’s total contributions to the Retirement Plan for the three and six months ended June 30, 2016 related to the Hudson IT employees totaled approximately $28,000 and $55,000, respectively. Mastech’s contributions to the Retirement Plan for the three and six months ended June 30, 2015 related to the Hudson IT employees totaled $1,000.

## 6. Stock-Based Compensation

In 2008, the Company adopted a Stock Incentive Plan (the "Plan") which, as amended, provides that up to 1,400,000 shares of the Company's Common Stock shall be allocated for issuance to directors, officers and key personnel. The most recent amendment, approved by shareholder vote at the Company's Annual Meeting of Shareholders on May 18, 2016 increased the number of shares of Common Stock that may be issued pursuant to the Plan by 200,000 shares to a total of 1,400,000. Grants under the Plan can be made in the form of stock options, stock appreciation rights, performance shares or stock awards. During the three and six months ended June 30, 2016, there were -0- and 250,000 stock options grants made under this Plan. Additionally, during the six months ended June 30, 2016, approximately 79,000 performance shares expired unvested, as the underlying performance objective was not achieved. These shares are available for future grants under the Plan. During the three and six months ended June 30, 2015, there were 18,000 restricted stock grants made under this Plan. As of June 30, 2016 and December 31, 2015, there were 189,000 and 160,000 shares, respectively, available for grants under this Plan.

Stock-based compensation expense for the three months ended June 30, 2016 and 2015 was $70,000 and $98,000, respectively, and for the six months ended June 30, 2016 and 2015 was $185,000 and $193,000, respectively. Stock-based compensation expense is included in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

During the three and six months ended June 30, 2016, the Company issued 4,500 shares related to the vesting of restricted stock. During the three and six months ended June 30, 2015, the Company issued 4,306 shares and 50,895 shares, respectively, related to the exercise of stock options and vesting of restricted stock and performance shares.

## 7. Credit Facility

On June 15, 2015, the Company entered into a First Amendment to its Second Amended and Restated Loan Agreement (the "Amendment") with PNC Bank, N.A. ("PNC"). The amended terms set forth in the Amendment include the following: (1) a reduction in the maximum principal amount available under the credit facility for revolving credit loans and letters of credit from $20 million to $17 million and an extension of the facility to June 15, 2018 from July 14, 2017; (2) the addition of a term-loan component in the principal amount of $9 million with an expiration date of June 15, 2020; (3) the approval of the Company's acquisition of Hudson IT; and (4) an amendment to the financial covenant relating to the Company's fixed charge ratio and the elimination of a financial covenant relating to the Company's senior leverage ratio, as more fully described in the Amendment filed as Exhibit 10.1 to the Company's Form 8-K, filed with the SEC on June 17, 2015.

Advances under the credit facility for revolving credit loans are limited to a borrowing base that consists of the sum of 85% of eligible accounts receivable and 60% of eligible unbilled receivables. Amounts borrowed under the facility may be used for working capital and general corporate purposes, for the issuance of standby letters of credit, and to facilitate other acquisitions and stock repurchases. Initial borrowings under the revolving credit facility for the acquisition of Hudson IT totaled $6.0 million. Amounts borrowed under the term loan were limited to use for the Company's acquisition of Hudson IT. The term loan is payable in 60 consecutive monthly installments, each in the amount of $150,000 commencing on July 1, 2015 and on the first day of each calendar month thereafter followed by a final payment of all outstanding principal and interest due on June 15, 2020.

Borrowings under the credit facility for revolving credit loans and the term loan will, at the Company's election, bear interest at either (a) the higher of PNC's prime rate or the federal funds rate plus 0.50%, plus an applicable margin determined based upon the Company's leverage ratio or (b) an adjusted LIBOR rate, plus an applicable margin determined based upon the Company's leverage ratio. The applicable margin on the base rate is between 0.25% and 0.75% on revolving credit loans and between 1.50% and 2.00% on term loans. The applicable margin on the adjusted LIBOR rate is between 1.25% and 1.75% on revolving credit loans and between 2.50% and 3.00% on term loans. A 20 basis point per annum commitment fee on the unused portion of the credit facility for revolving credit loans is charged and due monthly in arrears through June 15, 2018.

The Company has pledged substantially all of its assets in support of the credit facility. The loan agreement contains standard financial covenants, including, but not limited to, covenants related to the Company's leverage ratio and fixed charge ratio (as defined under the loan agreement) and limitations on liens, indebtedness, guarantees, contingent liabilities, loans and investments, distributions, leases, asset sales, stock repurchases and mergers and acquisitions. As of June 30, 2016, the Company was in compliance with all provisions under the facility.

In connection with securing the Amendment, the Company paid a commitment fee and incurred transaction costs totaling $75,000, which are being amortized as interest expense over the lives of the facilities. During first quarter of 2016, we adopted ASU 2015-03 and ASU 2015-15 which resulted in no change to our presentation of these costs as the majority of our debt issuance costs related to our line of credit which continue to be presented as an asset on our balance sheet under the caption "Deferred financing costs, net".

As of June 30, 2016, the Company's outstanding borrowings under the credit facility for revolving credit loans totaled $6.5 million and unused borrowing capacity available was $10.7 million. The Company's outstanding borrowings under the term loan were $7.2 million at June 30, 2016. The Company believes the eligible borrowing base on the revolving credit facility will not fall below current outstanding borrowings for a period of time exceeding one year and has classified the $6.5 million outstanding debt balance at June 30, 2016 as long-term.

## 8. Income Taxes

The components of income before income taxes, as shown in the accompanying Financial Statements, consisted of the following for the three and six months ended June 30, 2016 and 2015:

| | Three Months Ended June 30, (Amounts in thousands) | | Six Months Ended June 30, (Amounts in thousands) | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Income before income taxes: | | | | |
| Domestic | $ 1,525 | $ 621 | $ 1,542 | $ 932 |
| Foreign | — | — | — | — |
| Income before income taxes | $ 1,525 | $ 621 | $ 1,542 | $ 932 |

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 June 30, 2016, 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, as shown in the accompanying Financial Statements, consisted of the following for the three and six months ended June 30, 2016 and 2015:

| | Three Months Ended June 30, (Amounts in thousands) | | Six Months Ended June 30, (Amounts in thousands) | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Current provision: | | | | |
| Federal | $ 348 | $ 252 | $ 583 | $ 430 |
| State | 30 | 31 | 64 | 48 |
| Total current provision | 378 | 283 | 647 | 478 |
| Deferred (benefit): | | | | |
| Federal | 176 | (38) | (53) | (107) |
| State | 26 | (6) | (8) | (16) |
| Total deferred (benefit) | 202 | (44) | (61) | (123) |
| Total provision for income taxes | $ 580 | $ 239 | $ 586 | $ 355 |

The reconciliation of income taxes computed using the statutory U.S. income tax rate and the provision for income taxes for the three and six months ended June 30, 2016 and 2015 were as follows (amounts in thousands):

| | Three Months Ended June 30, 2016 | | Three Months Ended June 30, 2015 | |
|---|---|---|---|---|
| Income taxes computed at the federal statutory rate | $ 519 | 34.0% | $ 211 | 34.0% |
| State income taxes, net of federal tax benefit | 56 | 3.7 | 25 | 4.0 |
| Other – net | 5 | 0.3 | 3 | 0.5 |
| | $ 580 | 38.0% | $ 239 | 38.5% |

| | Six Months Ended June 30, 2016 | | Six Months Ended June 30, 2015 | |
|---|---|---|---|---|
| Income taxes computed at the federal statutory rate | $ 524 | 34.0% | $ 317 | 34.0% |
| State income taxes, net of federal tax benefit | 56 | 3.6 | 32 | 3.5 |
| Other – net | 6 | 0.4 | 6 | 0.6 |
| | $ 586 | 38.0% | $ 355 | 38.1% |

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

| (Amounts in thousands) | Six Months Ended June 30, 2016 |
|---|---|
| Balance as of December 31, 2015 | $ 135 |
| Additions related to current period | 14 |
| Additions related to prior periods | — |
| Reductions related to prior periods | — |
| Balance as of June 30, 2016 | $ 149 |

Although it is difficult to anticipate the final outcome of these uncertain tax positions, the Company believes that the total amount of unrecognized tax benefits could be reduced by approximately $27,000 during the next twelve months due to the expiration of the statutes of limitation.

## 9. Derivative Instruments and Hedging Activities

*Interest Rate Risk Management*

Concurrent with the Company's June 15, 2015 borrowings under the $9 million term loan facility, the Company entered into a five-year interest-rate swap to convert the debt's variable interest rate to a fixed rate of interest. Under the swap contracts, the Company pays interest at a fixed rate of 1.515% and receives interest at a variable rate equal to the daily U.S. LIBOR rate on a notional amount of $5,000,000. Both the debt and the swap contracts mature in 60-monthly installments commencing on July 1, 2015. These swap contracts have been designated as cash flow hedging instruments and qualified as effective hedges at inception under ASC Topic 815, "Derivatives and Hedging". These contracts are recognized on the balance sheet at fair value. The effective portion of the changes in fair value on these instruments is recorded in other comprehensive income (loss) and is reclassified into the Condensed Consolidated Statements of Operations as interest expense in the same period in which the underlying hedge transaction affects earnings. Changes in the fair value of interest-rate swap contracts deemed ineffective are recognized in the Condensed Consolidated Statement of Operations as interest expense. The fair value of the interest-rate swap contracts at June 30, 2016 was a liability of $66,000 and is reflected in the Condensed Consolidated Balance Sheet as other current liabilities.

*Foreign Currency Risk Management*

During 2012 through 2015, 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 were designated as cash flow hedging instruments and qualified as effective hedges at inception under ASC Topic 815, "*Derivatives and Hedging*". In December 2015, the decision was made not to hedge the Indian rupee in 2016 given that the likelihood of an expanding interest rate environment in the U.S. should mitigate any material appreciation in the Indian rupee relative to the U.S. dollar. Thus, at June 30, 2016 there were no outstanding currency hedge positions.

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**The effect of derivative instruments on the Condensed Consolidated Statements of Operations and Comprehensive Income are as follows (in thousands):**

| Derivatives in ASC Topic 815 Cash Flow Hedging Relationships | Amount of Gain / (Loss) recognized in OCI on Derivatives (Effective Portion) | Location of Gain / (Loss) reclassified from Accumulated OCI to Income (Expense) (Effective Portion) | Amount of Gain / (Loss) reclassified from Accumulated OCI to Income (Expense) (Effective Portion) | Location of Gain / (Loss) reclassified in Income (Expense) on Derivatives (Ineffective Portion/Amounts excluded from effectiveness testing) | Amount of Gain / (Loss) recognized in Income (Expense) on Derivatives (Ineffective Portion/Amounts excluded from effectiveness testing) |
|---|---|---|---|---|---|
| **For the Three Months Ended June 30, 2016:** | | | | | |
| Interest- Rate Swap Contract | $ (5) | Interest Expense | $ (11) | Interest Expense | $ — |
| **For the Six Months Ended June 30, 2016:** | | | | | |
| Interest- Rate Swap Contract | $ (35) | Interest Expense | $ (22) | Interest Expense | $ — |
| **For the Three Months Ended June 30, 2015:** | | | | | |
| Currency Forward Contracts | $ (17) | SG&A Expense | $ (13) | Other Income/(Expense) | $ 44 |
| Interest- Rate Swap Contract | $ (38) | Interest Expense | $ (3) | Interest Expense | $ — |
| **For the Six Months Ended June 30, 2015:** | | | | | |
| Currency Forward Contracts | $ 12 | SG&A Expense | $ (17) | Other Income/(Expense) | $ 43 |
| Interest- Rate Swap Contract | $ (38) | Interest Expense | $ (3) | Interest Expense | $ — |

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

| | June 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| Derivative Instruments | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Interest-Rate Swap Contracts | Other Current Liabilities | $ 66 | Other Current Liabilities | $ 31 |

The estimated amount of pretax losses as of June 30, 2016 that is expected to be reclassified from other comprehensive income (loss) into earnings within the next 12 months is approximately ($0.1 million).

## 10. Fair Value Measurements

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

- Level 1 - Inputs are observable quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2 - Inputs are observable, other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are directly or indirectly observable in the marketplace.
- Level 3 - Inputs are unobservable that are supported by little or no market activity.

At June 30, 2016 and December 31, 2015, the Company carried the following financial liabilities at fair value measured on a recurring basis (in thousands):

| (Amounts in thousands) | Fair Value as of June 30, 2016 Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Interest-Rate Swap Contracts | $ 0 | $ (66) | $ 0 | $(66) |

| (Amounts in thousands) | Fair Value as of December 31, 2015 Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Interest-Rate Swap Contracts | $ 0 | $ (31) | $ 0 | $(31) |

## 11. Shareholders' Equity

As of June 30, 2016, the Company had 472,238 shares available for purchase under its existing share repurchase program. Repurchases under the program may be made through open market purchases or privately negotiated transactions in accordance with applicable securities laws through December 22, 2016. During the six months ended June 30, 2016, the Company did not repurchase any shares under this program. During the three months ended June 30, 2015, the Company repurchased no shares of Common Stock. During the six months ended June 30, 2015, the Company repurchased 12,654 shares of Common Stock under this program at an average price of $9.49 per share. Additionally, the Company purchased an additional 8,237 shares to satisfy employee tax obligations related to the vesting of performance shares at a share price of $9.74.

## 12. Revenue Concentration

For the three and six months ended June 30, 2016, the Company did not have any clients that exceeded 10% of total revenue. For the three and six months ended June 30, 2015, the Company had one client that exceeded 10% of total revenue (Accenture = 10.9% and 11.9%, respectively).

The Company's top ten clients represented approximately 44% and 55% of total revenues for the three months ended June 30, 2016 and June 30, 2015, respectively. For the six months ended June 30, 2016 and June 30, 2015, the Company's top ten clients represented approximately 43% and 57% of total revenues, respectively.

## 13. Earnings Per Share

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

For the three months ended June 30, 2016, there were 254,759 anti-dilutive stock options excluded from the computation of diluted earnings per share. For the six months ended June 30, 2016, there were 172,341 anti-dilutive stock options excluded from the computation of diluted earnings per share. For the three and six months ended June 30, 2015, there were no anti-dilutive stock options excluded from the computation of diluted earnings per share.

## 14. Severance Charges

During the three and six month periods ending June 30, 2016, the Company incurred no severance costs and $780,000 (pre-tax), respectively. This severance costs related to several changes in executive leadership. The Company incurred severance costs of $305,000 (pre-tax) in the six month period ended June 30, 2015 related to a change in sales leadership. No severance costs were incurred during the three months ended June 30, 2015.

## 15. Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, "Revenue from Contracts with Customers," which provides for a single five-step model to be applied to all revenue contracts with customers. The new guidance also requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to customer contracts. Entities can use either a retrospective approach or a cumulative effect adjustment approach to implement the guidance. In 2015, the FASB issued a deferral of the effective date of the guidance to 2018, with early adoption permitted in 2017. In 2016, the FASB issued ASU 2016-08, ASU 2016-10 and ASU 2016-12 as amendments to ASU 2014-09 to clarify the implementation guidance for 1) principal versus agent considerations, 2) identifying performance obligations, 3) the accounting for licenses of intellectual property and 4) narrow scope improvements on assessing collectability, presentation of sales taxes, non-cash consideration and completed contracts and contract modifications at transition. The Company is evaluating the method of adoption of this ASU, but does not expect the adoption to have a material impact on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, “Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs”. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Prior to the adoption of ASU 2015-03, we recognized debt issuance costs as assets on our balance sheet. The recognition and measurement guidance for debt issuance costs are not affected by ASU 2015-03. ASU 2015-03 is effective for annual and interim periods beginning after December 15, 2015 and early adoption is permitted. In August 2015, the FASB issued ASU 2015-15, “Interest – Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements”. ASU 2015-15 clarifies that the SEC would not object to an entity deferring and presenting debt issuance costs related to a line-of-credit arrangement as an asset on the balance sheet. We adopted ASU 2015-03 and ASU 2015-15 in the first quarter of 2016 and there was no material impact on our consolidated statement of financial position as the majority of our debt issuance costs related to our line of credit, which continues to be presented as an asset on our balance sheet (under the caption “Deferred financing costs, net”), and neither ASU 2015-03 or ASU 2015-15 had an impact on our results of operations or cash flows.

In November 2015, the FASB issued ASU 2015-17, “Balance Sheet Classification of Deferred Taxes.” Current GAAP requires an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts on the balance sheet. To simplify the presentation of deferred income taxes, the amendments in this Update require that deferred tax liabilities and assets be classified as noncurrent on the balance sheet. The amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Accordingly, we plan to adopt this ASU on January 1, 2017.

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments – Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities”, which amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This amendment requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under the equity method of accounting or those that result in consolidation of the investee). This standard will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are evaluating the impact the adoption of ASU 2016-01 will have on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)”. The main difference between the current requirement under GAAP and ASU 2016-02 is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases. ASU 2016-02 requires that a lessee recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of the lease payment. The lease asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on the criteria that are largely similar to those applied in current lease accounting. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018 and early adoption is permitted. ASU 2016-02 must be adopted using a modified retrospective transition and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. We are currently assessing the potential impact of ASU 2016-02 and expect adoption will have a material impact on our consolidated financial condition and result of operations.

In March, 2016, the FASB issued ASU 2016-09 “Compensation – Stock Compensation (Topic 718) - Improvements to Employee Share-Based Payment Accounting”. The Board issued this Update as part of its Simplification Initiative whose objective is to identify, evaluate, and improve areas of GAAP for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. The areas for simplification in this Update involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

A variety of proposed or otherwise potential accounting standards are currently under consideration by standard-setting organizations and certain regulatory agencies. Because of the tentative and preliminary nature of such proposed standards, management has not yet determined the effect, if any, that the implementation of such proposed standards would have on the Company’s consolidated financial statements.

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with our audited consolidated financial statements and accompanying notes for the year ended December 31, 2015, included in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission ("SEC") on March 25, 2016.

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements about future events, future performance, plans, strategies, expectations, prospects, competitive environment and regulations. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words, "may", "will", "expect", "anticipate", "believe", "estimate", "plan", "intend" or the negative of these terms or similar expressions in this quarterly report on Form 10-Q. We have based these forward-looking statements on our current views with respect to future events and financial performance. Our actual financial performance could differ materially from those projected in the forward-looking statements due to the inherent uncertainty of estimates, forecasts and projections and our financial performance may be better or worse than anticipated. Given these uncertainties, you should not put undue reliance on any forward-looking statements. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed under "Risk Factors", "Forward-Looking Statements" and elsewhere in our Annual Report on Form 10-K for the year ended December 31, 2015. Forward-looking statements represent our estimates and assumptions only as of the date that they were made. We do not undertake any duty to update forward-looking statements and the estimates and assumptions associated with them, after the date of this quarterly report on Form 10-Q, except to the extent required by applicable securities laws.

***Website Access to SEC Reports:***

The Company's website is www.mastech.com. The Company's Annual Report on Form 10-K for the year ended December 31, 2015, current reports on Form 8-K and all other reports filed with the SEC, are available free of charge on the Investor Relations page. The website is updated as soon as reasonably practical after such reports are filed electronically with the SEC.

***Critical Accounting Policies and Estimates:***

The Company's significant accounting policies and critical accounting estimates are described in Note 1 "Summary of Significant Accounting Policies" of the Condensed Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations–Critical Accounting Policies and Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2015. There were no material changes to these critical accounting policies during the six months ended June 30, 2016.

***Overview:***

We are a domestic provider of IT staffing services to mostly large and medium-sized organizations. We do not sell, lease or otherwise market computer software or hardware, and 100% of our revenue is derived from the sale of staffing services.

Our IT staffing business combines technical expertise with business process experience to deliver a broad range of services within business intelligence / data warehousing; service oriented architecture; web services; enterprise resource planning & customer resource management; e-Business solutions; mobile applications; and the implementation and support for cloud-based applications. We provide our services across various industry verticals including: automotive; consumer products; education; financial services; government; healthcare; manufacturing; retail; technology; telecommunications; transportation; and utilities.

We have one operating segment. Thus, no segment related disclosures are presented. 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 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 second half of 2007 and recessionary conditions emerged in 2008 and during much of 2009, we experienced less demand for our staffing services. During the second half of 2009, we began to see signs of market stabilization and a modest pick-up in activity levels within certain sales channels and technologies. In 2010, market conditions continued to strengthen over the course of the year and activity levels within most of our sales channels progressively improved. In 2011 and 2012, activity levels continued to trend up in most technologies and sales channels. During 2013, 2014 and 2015, we continued to see a steady flow of solid activity in our contract staffing business; however, tightness in the supply side (skilled IT professionals) of our business in 2014 and 2015 negatively impacted our new assignment successes. Solid activity levels continued during the first half of 2016. However, recruitment challenges remain due to the tightness in supply of skilled IT professionals.

In addition to tracking general U.S. economic conditions, a large portion of our revenues are generated from a limited number of clients. Accordingly, our trends and outlook are impacted by the prospects and well-being of these specific clients. This “account concentration” factor may cause our results of operations to deviate from the prevailing U.S. economic trends from time to time.

In recent years, a larger portion of our revenues have come from our wholesale sales channel, which consists largely of strategic relationships with systems integrators and other staffing organizations. This channel tends to carry lower gross margins, but provides higher volume opportunities. This trend in our business mix has impacted overall gross margins during the past several years. The acquisition of Hudson IT in June 2015 has increased our retail revenues and materially improved the balance of our business mix between the retail and wholesale channels.

Within our retail sales channel, many larger users of IT staffing services are employing MSPs 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 the future.

***Results of Operations for the Three Months Ended June 30, 2016 as Compared to the Three Months Ended June 30, 2015:***

*Revenues:*

Revenues for the three months ended June 30, 2016 totaled $33.6 million compared to $29.3 million for the corresponding three month period in 2015. This 15% year-over-year revenue increase largely reflected the June 2015 acquisition of Hudson IT. Organically, revenues declined by 7% and largely reflected a decrease in consultants on billing. However, sequentially second quarter 2016 revenues represented a 6% improvement over first quarter 2016, as our billable consultant-base increased by 62-consultants.

Billable consultant headcount at June 30, 2016 totaled 916 consultants compared to 936 consultants, one-year earlier. The decline in billable headcount reflected a lower new assignment win ratio and an increase in client hires during the second half of 2015 and was influenced by a tighter supply of skilled IT professionals. In the second quarter of 2016, our new assignment win ratio improved and our billable consultant-base grew by approximately seven percent. Additionally, our average bill rate in the second quarter of 2016 was up approximately 2% to $75.23 compared to $73.91 in the corresponding quarter of 2015.

Below is a tabular presentation of revenues by sales channel for the three months ended June 30, 2016 and 2015, respectively:

| **Revenues (Amounts in millions)** | **Three Months Ended June 30, 2016** | **Three Months Ended June 30, 2015** |
|---|---|---|
| Wholesale Channel | $ 20.0 | $ 21.3 |
| Retail Channel | 13.5 | 7.9 |
| Permanent Placements / Fees | 0.1 | 0.1 |
| Total revenues | $ 33.6 | $ 29.3 |

Revenues from our wholesale channel decreased approximately 6% during the three month period ended June 30, 2016 compared to the corresponding 2015 period. Lower revenues from our integrator clients (down 12%), was partially offset by revenue increases at our staffing clients (up 1%). The lower new assignment win ratio mentioned above and fewer project opportunities from our integrator partners negatively impacted our revenue performance in this channel. Retail channel revenues increased 70% during the three months ended June 30, 2016 compared to the period one-year earlier. The Hudson IT acquisition was responsible for the entire improvement. Permanent placement / fee revenues were approximately $0.1 million in both the 2016 and 2015 periods.

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For the three months ended June 30, 2016, the Company had no clients that exceeded 10% of total revenues. For the three months ended June 30, 2015, the Company had one client that exceeded 10% of total revenues (Accenture = 10.9%).

The Company's top ten clients represented approximately 44% and 55% of total revenues for the three months ended June 30, 2016 and 2015, respectively.

*Gross Margin:*

Gross profits in the second quarter of 2016 totaled $6.9 million, or approximately $1.4 million higher than in the second quarter of 2015. Gross profit as a percentage of revenue was 20.5% for the three month period ending June 30, 2016 compared to 18.8% during the same period of 2015. Approximately 110-basis points of this improvement reflected higher margins on new assignments over the last several quarters and 60-basis points reflected a favorable mix of channel revenues (a higher level of retail clients) due to the Hudson IT acquisition.

Below is a tabular presentation of gross margin by sales channel for the three months ended June 30, 2016 and 2015, respectively:

| Gross Margin | Three Months Ended June 30, 2016 | Three Months Ended June 30, 2015 |
|---|---|---|
| Wholesale Channel | 18.2% | 17.3% |
| Retail Channel | 23.3 | 22.4 |
| Permanent Placements / Fees | 100.0 | 100.0 |
| Total gross margin | 20.5% | 18.8% |

Wholesale channel gross margins increased by 90 basis points for the three months ended June 30, 2016 compared to the 2015 period. Higher margins on new assignments were responsible for this overall margin improvement. Retail gross margins were up 90 basis points during the three months ended June 30, 2016 compared to the corresponding 2015 period and largely reflected the impact of the Hudson IT acquisition and some margin improvement on new assignments in 2016.

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

SG&A expenses for the three months ended June 30, 2016 totaled $5.2 million or 15.5% of total revenues, compared to $4.9 million or 16.7% of revenues for the three months ended June 30, 2015. Excluding acquisition transaction expenses incurred in the 2015 period, SG&A expenses as a percentage of revenues in the second quarter of 2015 would have been 14.8%. This increase in SG&A as a percentage of revenues was due to the consolidation of Hudson IT, which employs a branch model that has an operating costs structure that is higher than Mastech's centralized business model.

Fluctuations within SG&A expense components during the second quarter of 2016, compared to the second quarter of 2015, included the following:

- Sales expense increased by $0.4 million in the 2016 period compared to 2015, of which the variance was attributable to the acquisition of Hudson IT.
- Recruiting expense increased by $0.3 million in the 2016 period compared to 2015, of which almost all of the variance was attributable to the acquisition of Hudson IT.
- General and administrative expense in 2016 was down $0.4 million from a year earlier and reflected $0.5 million of acquisition transaction expenses incurred in the 2015 period, partially offset by higher amortization expense related to the acquired intangible assets of Hudson IT.

*Other Income / (Expense) Components:*

Other Income / (Expense) for the three months ended June 30, 2016 consisted of interest expense of $121,000 and foreign exchange losses of $18,000. For the three months ended June 30, 2015, Other Income / (Expense) consisted of interest expense of $36,000 and foreign exchange gains of $38,000. The increase in interest expense was due to higher outstanding borrowings in the second quarter of 2016 reflective of debt financing of the Hudson IT acquisition in June 2015.

*Income Tax Expense:*

Income tax expense for the three months ended June 30, 2016 totaled $580,000, representing an effective tax rate on pre-tax income of 38.0%, compared to $239,000 for the three months ended June 30, 2015, which represented a 38.5% effective tax rate on pre-tax income. A lower aggregate state tax rate in the second quarter of 2016 was largely responsible for the lower effective tax rate.

***Results of Operations for the Six Months Ended June 30, 2016 as Compared to the Six Months Ended June 30, 2015:***

*Revenues:*

Revenues for the six months ended June 30, 2016 totaled $65.3 million compared to $56.4 million for the corresponding six month period in 2015. This 16% year-over-year revenue increase largely reflected the June 2015 acquisition of Hudson IT. Organically, revenues declined by 7% and largely reflected a decrease in consultants on billing.

Below is a tabular presentation of revenues by sales channel for the six months ended June 30, 2016 and 2015, respectively:

| Revenues (Amounts in millions) | Six Months Ended June 30, 2016 | Six Months Ended June 30, 2015 |
|---|---|---|
| Wholesale Channel | $ 39.0 | $ 42.4 |
| Retail Channel | 26.2 | 13.8 |
| Permanent Placements / Fees | 0.1 | 0.2 |
| Total revenues | $ 65.3 | $ 56.4 |

Revenues from our wholesale channel decreased approximately 8% in the six month period ended June 30, 2016 compared to the corresponding 2015 period. Lower revenues from our integrator clients (down 16%), was partially offset by revenue increases at our staffing clients (up 1%). A lower new assignment win ratio and fewer project opportunities from our integrator partners negatively impacted our revenue performance in this channel. Retail channel revenues increased 90% during the six months ended June 30, 2016 compared to the period one-year earlier. The Hudson IT acquisition was responsible for the entire improvement. Permanent placement / fee revenues were approximately $0.1 million higher in the 2015 period when compared to the first six months of 2016.

For the six months ended June 30, 2016, the Company had no clients that exceeded 10% of total revenues. For the six months ended June 30, 2015, the Company had one client that exceeded 10% of total revenues (Accenture = 11.9%).

The Company’s top ten clients represented approximately 43% and 57% of total revenues for the six months ended June 30, 2016 and 2015, respectively.

*Gross Margin:*

Gross profits during the six months ended June 30, 2016 totaled $13.0 million, or approximately $2.8 million higher than during the first six months of 2015. Gross profit as a percentage of revenue was 19.9% for the six month period ending June 30, 2016 compared to 18.1% during the same period of 2015. Approximately 100-basis points of this improvement reflected higher margins on new assignments over the last several quarters and 80-basis points reflected a favorable mix of channel revenues (a higher level of retail clients) due to the Hudson IT acquisition.

Below is a tabular presentation of gross margin by sales channel for the six months ended June 30, 2016 and 2015, respectively:

| Gross Margin | Six Months Ended June 30, 2016 | Six Months Ended June 30, 2015 |
|---|---|---|
| Wholesale Channel | 17.6% | 16.7% |
| Retail Channel | 22.9 | 21.3 |
| Permanent Placements / Fees | 100.0 | 100.0 |
| Total gross margin | 19.9% | 18.1% |

Wholesale channel gross margins increased by 90 basis points for the six months ended June 30, 2016 compared to the 2015 period. Higher margins on new assignments were responsible for this overall margin improvement. Retail gross margins were up 160 basis points during the six months ended June 30, 2016 compared to the corresponding 2015 period and largely reflected the impact of the Hudson IT acquisition and some margin improvement on new assignments in 2016.

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

SG&A expenses for the six months ended June 30, 2016 totaled $11.2 million or 17.1% of total revenues, compared to $9.3 million or 16.4% of revenues for the six months ended June 30, 2015. Excluding severance costs incurred in the 2016 period of $0.8 million and excluding severance costs and acquisition transaction expenses incurred in the 2015 period of $0.9 million, SG&A expenses as a percentage of revenues would have been 15.9% and 14.8% for the six months ended June 30, 2016 and 2015, respectively. This increase in SG&A as a percentage of revenues was largely due to the consolidation of Hudson IT, which employs a branch model that has an operating costs structure that is higher than Mastech’s centralized business model.

Fluctuations within SG&A expense components during the six months of 2016, compared to the six months of 2015, included the following:

- Sales expense increased by $1.0 million in the 2016 period compared to 2015, of which essentially the entire variance was attributable to the acquisition of Hudson IT.
- Recruiting expense increased by $0.6 million in the 2016 period compared to 2015 of which essentially the entire variance was attributable to the acquisition of Hudson IT.
- General and administrative expense in 2016 was up $0.3 million from a year earlier. The year-over-year increase was due to $0.5 million of higher severance cost and $0.4 million of higher amortization expense related to the acquired intangible assets of Hudson IT in the 2016 period, partially offset by $0.6 million of acquisition transaction expenses incurred in the 2015 period.

*Other Income / (Expense) Components:*

Other Income / (Expense) for the six months ended June 30, 2016 consisted of interest expense of $237,000 and foreign exchange losses of $20,000. For the six months ended June 30, 2015, Other Income / (Expense) consisted of interest expense of $47,000 and foreign exchange gains of $32,000. The increase in interest expense was due to higher outstanding borrowings in the six months of 2016 reflective of debt financing of the Hudson IT acquisition in June 2015.

*Income Tax Expense:*

Income tax expense for the six months ended June 30, 2016 totaled $586,000, representing an effective tax rate on pre-tax income of 38.0%, compared to $355,000 for the six months ended June 30, 2015, which represented a 38.1% effective tax rate on pre-tax income. A lower aggregate state tax rate in the six months ended June 30, 2016 was responsible for the lower effective tax rate.

***Liquidity and Capital Resources:***

*Financial Conditions and Liquidity:*

At June 30, 2016, we had bank debt, net of cash balances on hand, of $13.0 million and approximately $10.7 million of borrowing capacity under our existing credit facility.

Historically, we have funded our business needs with cash generated from operating activities. Controlling our operating working capital levels by closely managing our accounts receivable balance is an important element of cash generation. At June 30, 2016, our accounts receivable “days sales outstanding” (“DSOs”) measurement increased to 59-days from 57-days a quarter earlier. This measurement is on the high end of our projected range and we should expect some decline during the second half of the year.

We believe that cash provided by operating activities, cash balances on hand and current availability under our credit facility should be adequate to fund our business needs and debt service obligations over the next twelve months.

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

Cash (used in) operating activities for the six months ended June 30, 2016 totaled ($1.2 million) compared to cash provided by operating activities of $1.2 million during the six months ended June 30, 2015. Elements of cash flows in the 2016 period were net income of $1.0 million, non-cash charges of $0.7 million, and an increase in operating working capital levels of ($2.9 million). During the six months ended June 30, 2015, elements of cash flows were net income of $0.6 million, non-cash charges of $0.2 million and a decrease in operating working capital levels of $0.4 million. The operating working capital increases in 2016 reflected amended payment terms on several major clients and higher operating working capital levels in support of 2016 revenue growth.

*Cash flows used in investing activities:*

Cash used in investing activities for the six months ended June 30, 2016 was $40,000 compared to $17.1 million for the six months ended June 30, 2015. In 2016, capital expenditures essentially accounted for our total cash needs. In 2015, cash used in investing activities consisted of $17.0 million to complete our acquisition of Hudson IT and $0.1 million for capital expenditures.

*Cash flows provided by financing activities:*

Cash provided by financing activities for the six months ended June 30, 2016 totaled $1.2 million and consisted of borrowings under our revolving credit facility of $2.1 million, partially offset by debt payments on our term loan of ($0.9 million). Cash provided by financing activities for the six months ended June 30, 2015 totaled $13.7 million and largely consisted of an increase in bank debt of $13.9 million to finance our Hudson IT acquisition. Additional usage of funds related to financing activities in the six months ended June 30, 2015 included the purchase of treasury shares of $0.2 million and the payment of deferred financing expenses of $0.1 million, partially offset by cash generated from stock options / restricted share activities.

*Off-Balance Sheet Arrangements:*

We do not have any off-balance sheet arrangements.

*Inflation:*

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

*Seasonality:*

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

***Recently Issued Accounting Standards:***

Recent accounting pronouncements are described in Note 15 to the accompanying financial statements.

## ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Our cash flow and earnings are subject to fluctuations due to exchange rate variations. Foreign currency risk exists by nature of our global recruitment centers. During 2012 through 2015, we attempted to limit our exposure to currency exchange fluctuations in the Indian rupee via the purchase of foreign currency forward contracts. The Company elected not to engage in currency hedging activities for 2016 given the likelihood of an environment of interest rate expansion in the United States, which should have the impact of mitigating any material appreciation in the Indian rupee against the U.S. dollar. As a result, we currently do not have a currency hedging program in place.

Concurrent with the Company’s June 15, 2015 borrowings under its $9 million term loan facility, we entered into a five-year interest-rate swap to convert the debt’s variable interest rate to a fixed rate of interest. Under the swap contracts, the Company pays interest at a fixed rate of 1.515% and receives interest at a variable rate equal to the daily U.S. LIBOR rate on a notional amount of $5 million. Both the debt and the swap contacts mature in 60-monthly installments commencing on July 1, 2015. These swap contacts have been designed as cash flow hedging instruments.

## ITEM 4: CONTROLS AND PROCEDURES

***Disclosure Controls and Procedures***

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934, 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 certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 are filed as exhibits 31.1 and 31.2, respectively, to this quarterly report on Form 10-Q.

***Changes in Internal Control over Financial Reporting***

There has been no change in Mastech’s internal control over financial reporting that occurred during the quarter ended June 30, 2016 that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting as of December 31, 2015.

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## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

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

### ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on March 25, 2016.

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

A summary of our Common Stock repurchased during the quarter ended June 30, 2016 is set forth in the following table:

| Period | Total Number of Shares Purchased | Average Price per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under this Plan or Programs (1) |
|---|---|---|---|---|
| April 1, 2016 – April 30, 2016 | — | — | — | 472,238 |
| May 1, 2016 – May 31, 2016 | — | — | — | 472,238 |
| June 1, 2016 – June 30, 2016 | — | — | — | 472,238 |
| Total | — | — | — | |

(1) Repurchases under the program may be made through open market purchases or privately negotiated transactions in accordance with applicable securities laws through December 22, 2016.

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## ITEM 6. EXHIBITS

(a) Exhibits

| | |
|---|---|
| 10.1† | Amended and Restated Executive Employment Agreement, dated as of April 26, 2016, by and among Mastech, Inc., Mastech Holdings, Inc. and Vivek Gupta filed as Exhibit 10.1 to Mastech's Form 10-Q for the three months ended March 31, 2016, filed on May 11, 2016 and herein incorporated by reference. |
| 10.2† | Mastech Holdings, Inc. Stock Incentive Plan (as Amended and Restated) is filed herewith. |
| 31.1 | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer is filed herewith. |
| 31.2 | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Financial Officer is filed herewith. |
| 32.1 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by the Chief Executive Officer is furnished herewith. |
| 32.2 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by the Chief Financial Officer is furnished herewith. |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |

† Designates a management contract of the Registrant or a compensation plan or arrangement 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 12th day of August 2016.

MASTECH HOLDINGS, INC.

August 12, 2016

/s/ VIVEK GUPTA

**Vivek Gupta**
**Chief Executive Officer**

/s/ JOHN J. CRONIN, JR.

**John J. Cronin, Jr.**
**Chief Financial Officer**
**(Principal Financial Officer)**

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**Exhibit 10.2**

# MASTECH HOLDINGS, INC.
# STOCK INCENTIVE PLAN
# (AS AMENDED AND RESTATED)

Effective as of May 14, 2014, the Mastech Holdings, Inc. Stock Incentive Plan is hereby amended and restated by Mastech Holdings, Inc., as set forth herein. The Mastech Holdings, Inc. Stock Incentive Plan was originally effective as of October 1, 2008.

**Section 1. General Purpose of the Plan; Definitions.** The name of this plan is the Mastech Holdings, Inc. Stock Incentive Plan (the "Plan"). The purpose of the Plan is to encourage and enable the officers, employees, directors and consultants of Mastech Holdings, Inc. (the "Company") and its Subsidiaries upon whose judgment, initiative and efforts the Company largely depends for the successful conduct of its business to acquire a proprietary interest in the Company. It is anticipated that providing such persons with a direct stake in the Company's welfare will assure a closer identification of their interests with those of the Company, thereby stimulating their efforts on the Company's behalf and strengthening their desire to remain with the Company.

The following terms shall be defined as set forth below:

"Act" means the Securities Exchange Act of 1934, as amended.

"Award" or "Awards," except where referring to a particular category of grant under the Plan, shall include Incentive Stock Options, Non-Qualified Stock Options, Restricted Stock Awards, Stock Awards, Performance Share Awards and Stock Appreciation Rights.

"Board" means the Board of Directors of the Company.

"Change of Control" shall have the meaning assigned to that term in Section 15.

"Code" means the Internal Revenue Code of 1986, as amended, and any successor Code, and related rules, regulations and interpretations.

"Effective Date" means May 14, 2014, provided that the Plan, as amended and restated, shall have been approved by the Company's stockholders.

"Fair Market Value" of the Stock on any given date shall be the closing price as reported on the American Stock Exchange for such date or, if no sales were reported for such date, for the last day preceding such date for which a sale was reported. If the Fair Market Value cannot be determined on the basis previously set forth in this definition on the date that Fair Market Value is to be determined, the Board shall in good faith determine the Fair Market Value of the Stock on such date.

"Incentive Stock Option" means any Stock Option designated and qualified as an "incentive stock option" as defined in Section 422 of the Code.

"Independent Director" means a member of the Board who is not an employee or officer of the Company or any Subsidiary.

"Non-Qualified Stock Option" means any Stock Option that is not an Incentive Stock Option.

"Option" or "Stock Option" means any Option to purchase shares of Stock granted pursuant to Section 6.

"Performance Share Award" means any Award granted pursuant to Section 12.

"Restricted Stock Award" means any Award granted pursuant to Section 10.

"Stock" means the common stock, par value $.01 per share, of the Company, subject to adjustments pursuant to Section 14.

"Stock Appreciation Right" or "SAR" means any Award granted pursuant to Section 7.

"Stock Award" means any award granted pursuant to Section 11.

"Subsidiary" means any corporation or other entity (other than the Company) in any unbroken chain of corporations or other entities, beginning with the Company, if each of the corporations or entities (other than the last corporation or entity in the unbroken chain) owns stock or other interests possessing 50% or more of the economic interest or the total combined voting power of all classes of stock or other interests in one of the other corporations or entities in the chain.

**Section 2. Administration.** The Plan shall be administered by the full Board or a committee of such Board comprised of two or more individuals who are "Non-Employee Directors" within the meaning of Rule 16b-3(a)(3) promulgated under the Act and "outside directors" as defined in Section 162(m) of the Code (the "Plan Administrator"). Subject to the provisions of the Plan, the Plan Administrator is authorized to:

(a) construe the Plan and any Award under the Plan;

(b) select the directors, officers, employees and consultants of the Company and its Subsidiaries to whom Awards may be granted;

(c) determine the number of shares of Stock to be covered by any Award;

(d) determine and modify from time to time the terms and conditions, including restrictions, of any Award and to approve the form of written instrument evidencing Awards;

(e) accelerate at any time the exercisability or vesting of all or any portion of any Award and/or to include provisions in Awards providing for such acceleration; and

(f) impose limitations on Awards, including limitations on transfer and repurchase provisions.

The determination of the Plan Administrator on any such matters shall be conclusive.

**Section 3. Delegation of Authority to Grant Awards.** The Plan Administrator, in its discretion, may delegate to the Co-Chairmen of the Company or the Chief Executive Officer of the Company the Plan Administrator's authority and duties with respect to granting Awards to individuals who are not subject, by reason of their position with the Company or its Subsidiaries, to the reporting provisions of Section 16 of the Act and who are not expected to be "covered employees" of the Company or its Subsidiaries within the meaning of Section 162(m) of the Code.

**Section 4. Eligibility.** Directors, officers, employees and consultants of the Company or its Subsidiaries who, in the opinion of the Plan Administrator, are primarily responsible for the continued growth and development and future financial success of the business shall be eligible to participate in the Plan.

**Section 5. Shares Subject to the Plan.** The number of shares of Stock which may be issued pursuant to the Plan shall be 1,400,000 shares, subject to adjustment as provided in Section 14. The shares of Stock underlying any Awards which are forfeited, canceled, reacquired by the Company, satisfied without the issuance of Stock or otherwise terminated (other than by exercise) shall be added back to the number of shares of Stock available for issuance under the Plan. To the extent that an SAR is granted in conjunction with an Option, the shares covered by such SAR and Option shall be counted only once. Stock to be issued under the Plan may be either authorized and unissued shares or shares held in treasury by the Company.

Stock Options with respect to no more than 250,000 shares of Stock may be granted to any one individual participant during any one calendar year period and Stock Appreciation Rights with respect to no more than 250,000 shares of Stock may be granted to any one individual participant during any one calendar year period. In any one calendar year during a particular Performance Period, as hereinafter defined, the maximum amount which may be earned by any individual participant under Performance Share Awards granted under the Plan for that calendar year of the Performance Period shall be limited to 250,000 shares of Stock. In the case of multi-year Performance Periods, the number of shares which are earned in any one calendar year of the Performance Period is the number of shares paid for the Performance Period divided by the number of calendar years in the period. In applying this limit, the number of shares of Stock earned by a Participant shall be measured as of the close of the applicable calendar year which ends the Performance Period, regardless of the fact that certification by the Plan Administrator and actual payment to the Participant may occur in a subsequent calendar year or years. The limitations in this paragraph shall be interpreted and applied in a manner consistent with Section 162(m) of the Code.

**Section 6. Stock Options.** Options granted pursuant to the Plan may be either Incentive Stock Options or Non-Qualified Stock Options. Incentive Stock Options and Non-Qualified Stock Options shall be granted separately hereunder and may not be granted in tandem. The Plan Administrator shall determine whether, and to what extent, Options shall be granted under the Plan and whether such Options granted shall be Incentive Stock Options or Non-Qualified Stock Options; provided, however, that: (a) Incentive Stock Options may be granted only to employees of the Company or any Subsidiary that is a “subsidiary corporation” within the meaning of Section 424(f) of the Code, and (b) no Incentive Stock Option may be granted following the tenth anniversary of the Effective Date. The provisions of the Plan and any Stock Option agreement pursuant to which Incentive Stock Options shall be issued shall be construed in a manner consistent with Section 422 of the Code (or any successor provision) and rules and regulations promulgated thereunder.

**Section 7. Stock Appreciation Rights.** The Plan Administrator may, from time to time, subject to the provisions of the Plan, grant SARs to eligible participants. Such SARs may be granted (i) alone, or (ii) simultaneously with the grant of an Option (either an Incentive Stock Option or Non-Qualified Stock Option) and in conjunction therewith or in the alternative thereto.

(a) An SAR shall entitle the holder upon exercise thereof to receive from the Company, upon a written request filed with the Secretary of the Company at its principal offices (the “Request”), (i) a number of shares of Stock, (ii) an amount of cash, or (iii) any combination of shares of Stock and cash, as specified in the Request (but subject to the approval of the Plan Administrator in its sole discretion, at any time up to and including the time of payment, as to the making of any cash payment), having an aggregate Fair Market Value equal to the product of (i) the excess of the Fair Market Value, on the day of such Request, of one share of Stock over the exercise price per share specified in such SAR or its related Option, multiplied by (ii) the number of shares of Stock for which such SAR shall be exercised.

(b) The exercise price of an SAR granted alone shall be determined by the Plan Administrator, but may not be less than the Fair Market Value of the underlying Stock on the date of grant. An SAR granted simultaneously with the grant of an Option and in conjunction therewith or in the alternative thereto shall have the same exercise price as the related Option, shall be transferable only upon the same terms and conditions as the related Option, and shall be exercisable only to the same extent as the related Option; provided, however, that an SAR, by its terms, shall be exercisable only when the Fair Market Value of the Stock subject to the SAR and related Option exceeds the exercise price thereof.

(c) Upon exercise of an SAR granted simultaneously with an Option and in the alternative thereto, the number of shares of Stock for which the related Option shall be exercisable shall be reduced by the number of shares of Stock for which the SAR shall have been exercised. The number of shares of Stock for which an SAR shall be exercisable shall be reduced upon any exercise of a related Option by the number of shares of Stock for which such Option shall have been exercised.

(d) Any SAR shall be exercisable upon such additional terms and conditions as may be prescribed by the Plan Administrator.

**Section 8. Terms of Options and SARs.** Each Option or SAR granted under the Plan shall be evidenced by an agreement between the Company and the person to whom such Option or SAR is granted and shall be subject to the following terms and conditions:

(a) Subject to adjustment as provided in Section 14 of this Plan, the price at which each share covered by an Option may be purchased shall not be less than the Fair Market Value of the underlying Stock at the time the Option is granted. If an optionee owns (or is deemed to own under applicable provisions of the Code and rules and regulations promulgated thereunder) more than 10% of the combined voting power of all classes of the stock of the Company and an Option granted to such optionee is intended to qualify as an Incentive Stock Option, the Option price shall be no less than 110% of the Fair Market Value of the Stock covered by the Option on the date the Option is granted. The purchase price of any Option may not be reduced after grant, whether through amendment, cancellation, replacement or otherwise.

(b) The aggregate Fair Market Value of shares of Stock with respect to which Incentive Stock Options are first exercisable by the optionee in any calendar year (under all plans of the Company) shall not exceed the limitations, if any, imposed by Section 422(d) of the Code (or any successor provision), except as otherwise determined by the Plan Administrator in its discretion. If any Option designated as an Incentive Stock Option, either alone or in conjunction with any other Option or Options, exceeds the foregoing limitation, the portion of such Option in excess of such limitation shall automatically be reclassified (in whole share increments and without fractional share portions) as a Non-Qualified Stock Option, with later granted Options being so reclassified first.

(c) Neither an Option nor an SAR shall be transferable by the participant otherwise than by will or by the laws of descent and distribution or pursuant to a domestic relations order. After the death of the participant, the Option or SAR may be transferred to the Company upon such terms and conditions, if any, as the Plan Administrator and the personal representative or other person entitled to exercise the Option or SAR may agree within the period specified in subsection 8(d)(iii) hereof. All Options and SARs shall be exercisable during the lifetime of the participant only by the participant.

(d) An Option or SAR may be exercised in whole at any time, or in part from time to time, within such period or periods (not to exceed ten years from the granting of the Option in the case of an Incentive Stock Option) as may be determined by the Plan Administrator and set forth in the agreement (such period or periods being hereinafter referred to as the “Option Period”), provided that, unless the agreement provides otherwise:

(i) If a participant who is an employee of the Company shall cease to be employed by the Company, all Options and SARs to which the employee is then entitled to exercise may be exercised only within three months after the termination of employment and within the Option Period or, if such termination was due to disability or retirement (as hereinafter defined), within one year after termination of employment and within the Option Period. Notwithstanding the foregoing, in the event that any termination of employment shall be for Cause (as defined herein) or the participant becomes an officer or director of, a consultant to or employed by a Competing Business (as defined herein), during the Option Period, then any and all Options and SARs held by such participant shall forthwith terminate. For purposes of the Plan, retirement shall mean the termination of employment with the Company, other than for Cause, at any time after the participant’s attainment of age 65, and a participant’s “Disability” shall be determined within the meaning of Section 422(c)(6) of the Code.

For purposes of this Plan, the term “Cause” shall mean (a) with respect to an individual who is party to a written agreement with the Company which contains a definition of “cause” or “for cause” or words of similar import for purposes of termination of employment thereunder by the Company, “cause” or “for cause” as defined in such agreement, (b) in all other cases (i) the willful commission by an employee of a criminal or other act that causes substantial economic damage to the Company or substantial injury to the business reputation of the Company, (ii) the commission of an act of fraud in the performance of such person's duties to or on behalf of the Company, or (iii) the continuing willful failure of a person to perform the duties of such person to the Company (other than a failure to perform duties resulting from such person's incapacity due to illness) after written notice thereof (specifying the particulars thereof in reasonable detail) and a reasonable opportunity to cure such failure are given to the person by the Board or the Plan Administrator. For purposes of the Plan, no act, or failure to act, on the part of any person shall be considered "willful" unless done or omitted to be done by the person other than in good faith and without reasonable belief that the person's action or omission was in the best interest of the Company.

For purposes of this Plan, the term "Competing Business" shall mean: any person, corporation or other entity engaged in the business of (a) information technology staffing and consulting services, or (b) selling or attempting to sell any product or service which is the same as or similar to products or services sold by the Company within the last year prior to termination of such person's employment, consultant relationship or directorship, as the case may be, hereunder;

(ii) If a participant who is a director of the Company shall cease to serve as a director of the Company, any Options or SARs then exercisable by such director may be exercised only within three months after the cessation of service and within the Option Period unless such cessation was due to Disability, in which case such optionee may exercise such Option or SAR within one year after cessation of service and within the Option Period. Notwithstanding the foregoing, if any cessation of service as a director was the result of removal for Cause or the participant becomes an officer or director of, a consultant to or employed by a Competing Business during the Option Period, any Options and SARs held by such participant shall forthwith terminate;

(iii) If the participant shall die during the Option Period, any Options or SARs then exercisable may be exercised only within one year after the participant's death and within the Option Period and only by the participant's personal representative or persons entitled thereto under the participant's will or the laws of descent and distribution;

(iv) The Option or SAR may not be exercised for more shares (subject to adjustment as provided in Section 14) after the termination of the participant's employment, cessation of service as a director or the participant's death, as the case may be, than the participant was entitled to purchase thereunder at the time of the termination of the participant's employment or the participant's death; and

(v) If a participant owns (or is deemed to own under applicable provisions of the Code and regulations promulgated thereunder) more than 10% of the combined voting power of all classes of stock of the Company (or any parent or subsidiary corporation of the Company) and an Option granted to such participant is intended to qualify as an Incentive Stock Option, the Option by its terms may not be exercisable after the expiration of five years from the date such Option is granted.

(e) The Option exercise price of each share purchased pursuant to an Option shall be paid in full at the time of each exercise (the "Payment Date") of the Option (i) in cash, (ii) by delivering to the Company a notice of exercise with an irrevocable direction to a broker-dealer registered under the Act to sell a sufficient portion of the shares and deliver the sale proceeds directly to the Company to pay the exercise price, (iii) in the discretion of the Plan Administrator, through the delivery or certification to the Company of previously-owned shares of Stock having an aggregate Fair Market Value equal to the Option exercise price of the shares being purchased pursuant to the exercise of the Option, (iv) in the discretion of the Plan Administrator, through an election to have shares of Stock otherwise issuable to the optionee withheld to pay the exercise price of such Option, or (v) in the discretion of the Plan Administrator, through any combination of the payment procedures set forth in subsections (i)-(iv) of this Section 8(e). Notwithstanding any procedure of the broker or other agent-sponsored exercise or financing program, if the Option price is paid in cash, the exercise of the Option shall not be deemed to occur and no shares of Stock will be issued until the Company has received full payment in cash (including check, bank draft or money order) for the Option price from the broker or other agent.

(f) The Plan Administrator, in its discretion, may authorize "stock retention Options" which provide, upon the exercise of an Option previously granted under this Plan (a "prior Option"), using previously owned shares, for the automatic issuance of a new Option under this Plan with an exercise price equal to the current Fair Market Value and for up to the number of shares equal to the number of previously-owned shares delivered in payment of the exercise price of the prior Option. Such stock retention Option shall have the same Option Period as the prior Option.

(g) Nothing contained in the Plan nor in any Award agreement shall confer upon any participant any right with respect to the continuance of employment by the Company nor interfere in any way with the right of the Company to terminate his employment or change his compensation at any time.

(h) The Plan Administrator may include such other terms and conditions not inconsistent with the foregoing as the Plan Administrator shall approve. Without limiting the generality of the foregoing sentence, the Plan Administrator shall be authorized to determine that Options or SARs shall be exercisable in one or more installments during the term of the Option, subject to the attainment of performance goals and objectives and the right to exercise may be cumulative as determined by the Plan Administrator.

(i) If a grantee of an Option or SAR engages in the operation or management of a business (whether as owner, partner, officer, director, employee or otherwise and whether during or after termination of employment or service as an Independent Director) which is in competition with the Company or any of its Subsidiaries, the Plan Administrator may immediately terminate all outstanding Options and SARs of the participant.

**Section 9. Independent Director Options.** The Option exercise price for Options granted to Independent Directors under the Plan will be equal to the Fair Market Value of the Stock on the date of grant. Options granted to Independent Directors will expire ten years after grant, subject to earlier termination if the optionee ceases to serve as a director.

**Section 10. Restricted Stock Awards.**

(a) The Plan Administrator may grant Restricted Stock Awards to any officer, employee or consultant of the Company and its Subsidiaries. A Restricted Stock Award entitles the recipient to acquire shares of Stock subject to such restrictions and conditions as the Plan Administrator may determine at the time of grant ("Restricted Stock"). Conditions may be based on continuing employment (or other business relationship) and/or achievement of pre-established performance goals and objectives.

(b) A participant holding unvested Restricted Stock shall not have any of the rights of a shareholder with respect to such unvested Restricted Stock, including, but not limited to the right to vote and receive dividends with respect thereto, until such Stock vests in accordance with the terms of the Restricted Stock Award under which such Stock was granted. The Plan Administrator may, in its sole discretion, decide to issue stock certificates evidencing the Restricted Stock at the time of grant, after the time of grant, or at the time when the restrictions lapse.

(c) The Plan Administrator at the time of grant shall specify the date or dates and/or the attainment of pre-established performance goals, objectives and other conditions on which Restricted Stock shall become vested, subject to such further rights of the Company or its assigns as may be specified in the instrument evidencing the Restricted Stock Award.

(d) Unvested Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided herein or in the written instrument evidencing the Restricted Stock Award.

(e) If an awardee of Restricted Stock engages in the operation or management of a business (whether as owner, partner, officer, director, employee or otherwise and whether during or after termination of employment) which is in competition with the Company or any of its Subsidiaries, the Plan Administrator may immediately declare forfeited all shares of Restricted Stock held by the participant as to which the restrictions have not yet lapsed.

**Section 11. Stock Awards.** The Plan Administrator may, in its sole discretion, grant (or sell at a purchase price determined by the Plan Administrator) a Stock Award to any officer, employee or consultant of the Company or its Subsidiaries, pursuant to which such individual may receive shares of Stock free of any vesting restrictions under the Plan. Stock Awards may be granted or sold as described in the preceding sentence in respect of past services or other valid consideration, or in lieu of any cash compensation due to such individual; provided, however, that any purchase rights may not be granted at less than the Fair Market Value of the underlying shares on the date of grant.

**Section 12. Performance Share Awards.** A Performance Share Award is an Award entitling the recipient to acquire shares of Stock upon the attainment of specified performance goals (the “Performance Goals”). The Plan Administrator may make Performance Share Awards independent of or in connection with the granting of any other Award under the Plan. Performance Share Awards may be granted under the Plan to any officer, employee or consultant of the Company or its Subsidiaries, including those who qualify for awards under other performance plans of the Company. The Plan Administrator, in its sole discretion, shall determine whether and to whom Performance Share Awards shall be made, the Performance Goals applicable under each such Award, the periods during which performance is to be measured (the “Performance Period”), and all other limitations and conditions applicable to the awarded Performance Shares.

(a) *Terms of Performance Awards.* At the time a Performance Share Award is granted, the Plan Administrator shall cause to be set forth in the Award agreement or otherwise in writing (1) the Performance Goals applicable to the Award and the Performance Period during which the achievement of the Performance Goals shall be measured, (2) the amount which may be earned by the participant based on the achievement, or the level of achievement, of the Performance Goals or the formula by which such amount shall be determined, and (3) such other terms and conditions applicable to the Award as the Plan Administrator may, in its discretion, determine to include therein. The terms so established by the Plan Administrator shall be objective such that a third party having knowledge of the relevant facts could determine whether or not any Performance Goal has been achieved, or the extent of such achievement, and the amount, if any, which has been earned by the participant based on such performance. The Plan Administrator may retain the discretion to reduce (but not to increase) the amount of a Performance Share Award which will be earned based on the achievement of Performance Goals. When the Performance Goals are established, the Plan Administrator shall also specify the manner in which the level of achievement of such Performance Goals shall be calculated and the weighting assigned to such Performance Goals. The Plan Administrator may determine that unusual items or certain specified events or occurrences, including changes in accounting standards or tax laws and the effects of extraordinary items as defined by generally accepted accounting principles, shall be excluded from the calculation to the extent permitted in Section 162(m) of the Code.

(b) *Performance Goals*. Performance Goals shall mean one or more preestablished, objective measures of performance during a specified Performance Period, selected by the Plan Administrator in its discretion. Performance Goals may be based upon one or more of the following objective performance measures and expressed in either, or a combination of, absolute or relative values: earnings per share, earnings per share growth, net income, net income growth, revenue growth, revenues, expenses, return on equity, return on total capital, return on assets, earnings (including EBITDA and EBIT), cash flow, operating cash flow, share price, economic value added, gross margin, operating income, market share or total shareholder return. Performance Goals based on such performance measures may be based either on the performance of the Company, a Subsidiary or Subsidiaries, any branch, department, business unit or other portion thereof under such measure for the Performance Period and/or upon a comparison of such performance with the performance of a peer group of corporations, prior Performance Periods or other measure selected or defined by the Plan Administrator at the time of making a Performance Share Award. The Plan Administrator may in its discretion also determine to use other objective performance measures as Performance Goals and/or other terms and conditions even if such Performance Share Award would not qualify under Section 162(m) of the Code, provided that the Plan Administrator identifies the Performance Share Award as non-qualifying at the time of Award.

(c) *Plan Administrator Certification*. Following completion of the applicable Performance Period, and prior to any payment of a Performance Share Award to the participant, the Plan Administrator shall determine in accordance with the terms of the Performance Share Award and shall certify in writing whether the applicable Performance Goal or Goals were achieved, or the level of such achievement, and the amount, if any, earned by the participant based upon such performance. For this purpose, approved minutes of the meeting of the Plan Administrator at which certification is made shall be sufficient to satisfy the requirement of a written certification. Performance Share Awards are not intended to provide for the deferral of compensation, such that payment of Performance Share Awards shall be paid within two and one-half months following the end of the calendar year in which the Performance Period ends or such other time period if and to the extent as may be required to avoid characterization of such Awards as deferred compensation.

**Section 13. Tax Withholding.**

(a) To the extent required by applicable Federal, state, local or foreign law, the participant or his successor shall make arrangements satisfactory to the Company, in its discretion, for the satisfaction of any withholding tax obligations that arise in connection with an Award. The Company shall not be required to issue any shares of Stock or make any cash or other payment under the Plan until such obligations are satisfied. If a participant makes a disposition of shares acquired upon the exercise of an Incentive Stock Option within either two years after the Option was granted or one year after its exercise by the participant, the participant shall promptly notify the Company and the Company shall have the right to require the participant to pay to the Company an amount sufficient to satisfy federal, state and local tax withholding requirements. The Company is authorized to withhold from any Award granted or any payment due under the Plan, including from a distribution of shares of Stock, amounts of withholding taxes due with respect to an Award, its exercise or any payment thereunder, and to take such other action as the Plan Administrator may deem necessary or advisable to enable the Company and participants to satisfy obligations for the payment of such taxes. This authority shall include authority to withhold or receive shares of Stock, Awards or other property and to make cash payments in respect thereof in satisfaction of such tax obligations.

(b) A participant who is obligated to pay the Company an amount required to be withheld under applicable tax withholding requirements may pay such amount (i) in cash, (ii) in the discretion of the Plan Administrator, through the delivery to the Company of previously-owned shares of Stock having an aggregate Fair Market Value on the date on which the amount of tax to be withheld is determined which does not exceed the amount of tax required to be withheld (based on the statutory minimum withholding rates for federal and state tax purposes, including payroll taxes), provided that the previously owned shares delivered in satisfaction of the withholding obligations must have been held by the participant for at least six months, or (iii) in the discretion of the Plan Administrator, through a combination of the procedures set forth in subsections (i) and (ii) of this Section 13(b).

(c) A participant who is obligated to pay to the Company an amount required to be withheld under applicable tax withholding requirements in connection with either the exercise of a Non-Qualified Stock Option, or the receipt of a Restricted Stock Award, Stock Award or Performance Share Award under the Plan may, in the discretion of the Plan Administrator, elect to satisfy this withholding obligation, in whole or in part, by requesting that the Company withhold shares of stock otherwise issuable to the participant having a Fair Market Value on the date on which the amount of tax to be withheld is determined which does not exceed the amount of tax required to be withheld (based on the statutory minimum withholding rates for federal and state tax purposes, including payroll taxes); provided, however, that shares may be withheld by the Company only if such withheld shares have vested. Any fractional amount shall be paid to the Company by the participant in cash or shall be withheld from the participant's next regular paycheck.

(d) An election by a participant to have shares of stock withheld to satisfy federal, state and local tax withholding requirements pursuant to Section 13(c) must be in writing and delivered to the Company prior to the date on which the amount of tax to be withheld is determined.

**Section 14. Adjustment of Number and Price of Shares.**

Any other provision of the Plan notwithstanding:

(a) If, through, or as a result of, any reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other similar transaction, the outstanding shares of Stock are increased or decreased or are exchanged for a different number or kind of shares or other securities of the Company, or additional shares or new or different shares or other securities of the Company or other non-cash assets are distributed with respect to such shares of Stock or other securities, the Plan Administrator shall make an appropriate or proportionate adjustment in (i) the number of Stock Options, Stock Appreciation Rights and Performance Share Awards that can be granted to any one individual participant, (ii) the number and kind of shares or other securities subject to any then outstanding Awards under the Plan, (iii) the price for each share subject to any then outstanding Stock Options, Stock Appreciation Rights and other purchase rights under the Plan, without changing the aggregate exercise price (i.e., the exercise price multiplied by the number of shares) as to which such Stock Options remain exercisable, and (iv) the number of shares which may be issued under the Plan but are not then subject to Awards. The adjustment by the Plan Administrator shall be final, binding and conclusive.

(b) If the outstanding shares of the Stock shall be changed in value by reason of any spin-off, split-off or split-up, or dividend in partial liquidation, dividend in property other than cash, or extraordinary distribution to shareholders of the Stock, (i) the Plan Administrator shall make any adjustments to any then outstanding Stock Option, Stock Appreciation Right, Restricted Stock Award, Performance Share Award or other stock Award which it determines are equitably required to prevent dilution or enlargement of the rights of participants which would otherwise result from any such transaction, and (ii) unless otherwise determined by the Plan Administrator in its discretion, any stock, securities, cash or other property distributed with respect to any shares of Restricted Stock held in escrow or for which any shares of Restricted Stock held in escrow shall be exchanged in any such transaction shall also be held by the Company in escrow and shall be subject to the same restrictions as are applicable to the shares of Restricted Stock in respect of which such stock, securities, cash or other property was distributed or exchanged.

(c) No adjustment or substitution provided for in this Section 14 shall require the Company to issue or to sell a fractional share under any Award agreement and the total adjustment or substitution with respect to each Award agreement shall be limited accordingly.

**Section 15. Definition of Change of Control.** For purposes of this Plan, "Change of Control" shall mean the occurrence of any of the following events:

(a) The acquisition, other than from the Company, by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Act) (a "Person") (other than the Company, a Subsidiary or any of their respective benefit plans or affiliates within the meaning of Rule 144 under the Securities Act of 1933, as amended) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Act) of 30% or more of either (i) the then outstanding shares of Stock (the "Outstanding Stock"), or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Company Voting Securities"); or

(b) Individuals who, as of the Effective Date, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board, provided that any individual becoming a director subsequent to the Effective Date whose election or nomination for election by the Company’s stockholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the Directors of the Company (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Act); or

(c) Approval by the stockholders of the Company of a reorganization, merger or consolidation or similar form of corporate transaction, involving the Company or any of its Subsidiaries (a “Business Combination”), in each case, with respect to which all or substantially all of the individuals and entities who were the respective beneficial owners of the Outstanding Stock and Company Voting Securities immediately prior to such Business Combination do not, immediately following such Business Combination, beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination in substantially the same proportion as their ownership immediately prior to such Business Combination of the Outstanding Stock and Company Voting Securities, as the case may be; or

(d) (i) Approval by the stockholders of the Company of a complete liquidation or dissolution of the Company, or (ii) sale or other disposition of all or substantially all of the assets of the Company other than to a corporation with respect to which, following such sale or disposition, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors is then owned beneficially, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Stock and Company Voting Securities immediately prior to such sale or disposition in substantially the same proportion as their ownership of the Outstanding Stock and Company Voting Securities, as the case may be, immediately prior to such sale or disposition.

**Section 16. Consequences of a Change of Control.**

(a) Upon a Change of Control, (i) each outstanding Option, SAR and Performance Share Award shall be assumed by the Acquiring Company (as defined below) or parent thereof or replaced with a comparable option or right to purchase or to be awarded shares of the capital stock, or equity equivalent instrument, of the Acquiring Company or parent thereof, or other comparable rights (such assumed and comparable options and rights, together, the “Replacement Options”), and (ii) each share of Restricted Stock shall be converted to a comparable restricted grant of capital stock, or equity equivalent instrument, of the Acquiring Corporation or parent thereof or other comparable restricted property (such assumed and comparable, restricted grants, together, the “Replacement Restricted Stock”); provided, however, that if the Acquiring Corporation or parent thereof does not agree to grant Replacement Options and Replacement Restricted Stock, then all outstanding Options and SARs which have been granted under the Plan and which are not exercisable as of the effective date of the Change of Control shall automatically accelerate and become exercisable immediately prior to the effective date of the Change of Control, and the Performance Period with respect to all Performance Share Awards shall end on the day prior to the effective date of the Change of Control and become payable to the extent the Performance Goals were achieved, and all restrictions and conditions on any Restricted Stock or other stock Award shall lapse upon the effective date of the Change of Control. The term “Acquiring Corporation” means the surviving, continuing, successor or purchasing corporation, as the case may be. The Board may determine, in its discretion, (but shall not be obligated to do so) that in lieu of the issuance of Replacement Options, all holders of outstanding Options and SARs which are exercisable immediately prior to a Change of Control (including those that become exercisable under this Section 16(a)) will be required to surrender them in exchange for a payment by the Company, in cash or Stock as determined by the Board, of an amount equal to the amount (if any) by which the per share value of Stock subject to unexercised Options or SARs (determined by the Board in good faith, based on the applicable price in the transaction giving rise to the Change of Control, and such other considerations as the Board deems appropriate) exceeds the exercise price of those Options or SARs (where Options and SARs are issued in tandem, such payment to be made only with respect to a single underlying share of Stock upon surrender of each tandem pair of Options and SARs), with such payment to take place as of the date of the Change of Control or such other date as the Board may prescribe.

(b) Any Options, SARs or Performance Share Awards that are not assumed or replaced by Replacement Options, exercised or cashed out prior to or concurrent with a Change of Control will terminate effective upon the Change of Control or at such other time as the Board deems appropriate.

**Section 17. Amendment and Discontinuance.** The Board may alter, amend, suspend or discontinue the Plan, provided that no such action shall deprive any person without such person's consent of any rights theretofore granted pursuant hereto; provided further that no amendment of the Plan shall be made without shareholder approval (a) if the effect of the amendment is (i) to make any changes in the class of employees eligible to receive Incentive Stock Options under the Plan, or (ii) to increase the number of shares with respect to which Incentive Stock Options may be granted under the Plan, or (b) if shareholder approval of the amendment is at the time required (i) by the rules of any stock exchange on which the Stock may then be listed, or (ii) for Options, SARs and Performance Share Awards granted under the Plan to qualify as "performance based compensation" as then defined in the regulations under Section 162(m) of the Code.

**Section 18. Compliance with Governmental Regulations.** Notwithstanding any provision of the Plan or the terms of any agreement entered into pursuant to the Plan, the Company shall not be required to issue any shares hereunder prior to registration of the shares subject to the Plan under the Securities Act of 1933 or the Act, if such registration shall be necessary, or before compliance by the Company or any participant with any other provisions of either of those acts or of regulations or rulings of the Securities and Exchange Commission thereunder, or before compliance with other federal and state laws and regulations and rulings thereunder, including the rules of any applicable exchange or of the American Stock Exchange. The Company shall use its best efforts to effect such registrations and to comply with such laws, regulations and rulings forthwith upon advice by its counsel that any such registration or compliance is necessary.

**Section 19. Compliance with Section 16.** With respect to persons subject to Section 16 of the Act by reason of their service with the Company or its Subsidiaries, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3 (or any successor rule) and shall be construed to the fullest extent possible in a manner consistent with this intent.

To the extent that any Award fails to so comply, it shall be deemed to be modified to the extent permitted by law and to the extent deemed advisable by the Plan Administrator in order to comply with Rule 16b-3.

**Section 20. Participation by Foreign Nationals.** The Plan Administrator may, in order to fulfill the purposes of the Plan and without amending the Plan, determine the terms and conditions applicable to Awards to foreign nationals or United States citizens employed abroad in a manner otherwise inconsistent with the Plan if it deems such terms and conditions necessary in order to recognize differences in local law or regulations, tax policies or customs.

**Section 21. Termination of Plan.** The Plan shall terminate on the tenth anniversary of the Effective Date, May 14, 2024, and no Awards may be granted under the Plan after such date, subject to earlier termination by the Board. Termination of the Plan shall not affect previous Awards granted under the Plan. Absent additional shareholder approval, no Performance Share Awards intended to qualify as "performance-based compensation" under Section 162(m) of the Code may be granted under the Plan subsequent to the Company's annual meeting of stockholders in 2019.

**Exhibit 31.1**

**Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer**

I, Vivek Gupta, certify that:

1. I have reviewed this report on Form 10-Q of Mastech Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

MASTECH HOLDINGS, INC.

Date: August 12, 2016

/S/ VIVEK GUPTA

**Vivek Gupta**
**Chief Executive Officer**

**Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer**

I, John J. Cronin, Jr., certify that:

1. I have reviewed this report on Form 10-Q of Mastech Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

MASTECH HOLDINGS, INC.

Date: August 12, 2016

/S/ JOHN J. CRONIN, JR.

**John J. Cronin, Jr.**
**Chief Financial Officer**

**Exhibit 32.1**

**Certification Pursuant to 18 U.S.C. Section 1350,**
**As Adopted Pursuant to**
**Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Mastech Holdings, Inc. (the “Company”) on Form 10-Q for the quarter ended June 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Vivek Gupta, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ VIVEK GUPTA

**Vivek Gupta**
***Chief Executive Officer***

Date: August 12, 2016

**Exhibit 32.2**

**Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Mastech Holdings, Inc. (the “Company”) on Form 10-Q for the quarter ended June 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John J. Cronin, Jr. Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ JOHN J. CRONIN, JR.

**John J. Cronin, Jr.**
***Chief Financial Officer***

Date: August 12, 2016