

STARTEK INC  
Form 10-K  
March 03, 2009

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**Form 10-K**

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2008  
or  
 **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from        to

Commission file number 1-12793

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**StarTek, Inc.**

*(Exact name of registrant as specified in its charter)*

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

**44 Cook Street, 4th Floor  
Denver, Colorado**  
*(Address of principal executive offices)*

**84-1370538**  
*(I.R.S. employer  
Identification No.)*

**80206**  
*(Zip code)*

**(303) 262-4500**

*(Registrant's telephone number, including area code)*

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

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**Title of Each Class**  
Common Stock, \$.01 par value

**Name of Each Exchange on Which Registered**  
New York Stock Exchange, Inc.

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

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

As of February 15, 2009, 14,813,912 shares of common stock were outstanding. The aggregate market value of common stock held by non-affiliates of the registrant on June 30, 2008, was \$61.5 million, based upon the closing price of the registrant's common stock as quoted on the New York Stock Exchange composite tape on such date. Shares of common stock held by each executive officer and director and by each person who owned 5% or more of the outstanding common stock as of such date have been excluded, as such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

**DOCUMENTS INCORPORATED BY REFERENCE**

Part III incorporates certain information by reference from the registrant's proxy statement to be delivered in connection with its 2009 annual meeting of stockholders. With the exception of certain portions of the proxy statement specifically incorporated herein by reference, the proxy statement is not deemed to be filed as part of this Form 10-K.

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including the following:

- certain statements, including possible or assumed future results of operations, in Management's Discussion and Analysis of Financial Condition and Results of Operations ;
- any statements contained herein regarding the prospects for our business or any of our services;
- any statements preceded by, followed by or that include the words may, will, should, seeks, believes, expects, anticipates, continue, estimate, plans, future, targets, predicts, budgeted, projections, outlooks, attempts, is scheduled, or similar expressions;
- other statements contained herein regarding matters that are not historical facts.

Our business and results of operations are subject to risks and uncertainties, many of which are beyond our ability to control or predict. Because of these risks and uncertainties, actual results may differ materially from those expressed or implied by forward-looking statements, and investors are cautioned not to place undue reliance on such statements. All forward-looking statements herein speak only as of the date hereof, and we undertake no obligation to update any such forward-looking statements. Important factors that could cause actual results to differ materially from our expectations and may adversely affect our business and results of operations include, but are not limited to those items set forth in Item 1A. Risk Factors appearing in this Form 10-K.

Unless otherwise noted in this report, any description of us or we refers to StarTek, Inc. and our subsidiaries. Financial information in this report is presented in U.S. dollars.

**Part I**

**ITEM 1. BUSINESS**

**BUSINESS OVERVIEW**

StarTek is a provider of business process outsourcing services to the communications industry. We partner with our clients to meet their business objectives and improve customer retention, increase revenues and reduce costs through an improved customer experience. Our

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solutions leverage industry knowledge, best business practices, skilled agents, proven operational excellence and flexible technology. The StarTek comprehensive service suite includes customer care, sales support, complex order processing, accounts receivable management, technical and product support and other industry-specific processes. We operate our business within three reportable segments, based on the geographic regions in which our services are rendered: (1) the U.S., (2) Canada and (3) the Philippines ( Offshore ). As of December 31, 2008, our U.S. segment included the operations of our thirteen facilities in the U.S.; our Canada segment included the operations of our six facilities in Canada; and our Offshore segment included the operations of our facility in Makati City, Philippines. Financial information for each of our reportable segments for the last three fiscal years is included in Note 14, Segment Information, to our Consolidated Financial Statements, which are included in Item 8. Financial Statements and Supplementary Financial Data, of this Form 10-K.

Our business is providing high-end *Customer Service Offerings* through the effective deployment of *People* and *Technology*.

### **Customer Service Offerings**

We provide our clients with an outsourced customer care service offering so that they may focus on their core business and preserve capital. Our service offering includes customer care, sales support, complex order processing, accounts receivable management, technical and product support and other industry-specific processes. We are well positioned to help our clients implement the convergence of product lines, including wire-line, wireless, cable and broadband and high technical consumer products. Under each service offering, we deliver a transparent extension of our clients' brands.

*Customer Care.* We provide customer care management throughout the life cycle of our clients' customers. These programs include management of customer acquisition, service activation, renewals, account inquiries, complaint resolutions, product information and billing support. These services are aimed at seamlessly managing the relationships between our clients and their customers in a manner that cultivates customer retention and loyalty.

*Technical and Product Support.* Our technical and product support service offering provides our clients' customers with high-end technical support services by telephone, e-mail, facsimile and the internet, 24 hours per day, seven days per week. Technical support

inquiries are generally driven by a customer's purchase of a product or service, or by a customer's need for ongoing technical assistance.

*Sales Support.* Through our sales support service we seek to increase the revenue generation of our clients through cross-selling and up-selling our clients' products to their customers. We have the ability to increase customer purchasing levels, implement product promotion programs, introduce our clients' customers to new products, secure and process additional customer orders and handle inquiries related to product shipments and billing.

*Provisioning and Complex Order Processing.* Our complex order processing services provide our clients with large scale project management and direct relationship management for our clients' large enterprise customers. This service includes order management and technical sales support for high-end communications services, such as wire-line, wireless, data and customer premise equipment. In addition, we process order fallout from our clients' automated systems, complete billing review and revenue recovery, and perform quality assurance. Our services enable a client to provide large scale project management and customer relations services to their customers in a more efficient and cost-effective way.

*Receivables Management.* We provide billing, credit card support and first party collections through our receivables management services. These services allow our clients to reduce the risk of non-payment by automatically transferring the calls made by delinquent customers to us, at which point our representatives encourage the customers to pay their bill in order to continue to receive service. Customers may bring their bill current through credit or debit card payments, electronic checks or money orders. This service allows us to help our clients reduce their number of days sales outstanding and bad debt write-offs.

*Other.* We provide other industry-specific processes including technical support, phone number portability and directory management. We provide number portability services to facilitate the process when our clients' customers wish to keep their phone number when changing service providers. Our phone number portability services, which include both automated and live agent interaction, facilitate pre-port validation, data collection, automatic processing of port-out/in requests, direct and automated interface with the service order activation platform, fallout management tool and port request tracking and archiving. We also provide 411 directory listing management services.

## **People**

Our success is driven by our people, who we believe are industry trained experts in providing the communications industry with proven business practices and solutions to help our clients achieve their business goals. Many of the members of our management team, in addition to our trained customer service representatives, have a background in the communications industry, and bring deep experience to ensure the delivery of optimal solutions to our clients. We believe that this expertise in our human capital is what allows us to succeed in providing excellent account management and tailored solutions in serving the communications marketplace.

## **Technology**

Our ability to deliver exceptional service to our clients is enhanced by our technology infrastructure, agent performance tools, analytics, self service applications and technology professional services. Our technology support services included hosted IT infrastructure and application services encompassing interactive voice response (IVR), virtual queuing, IP-PBX, eWorkforce management, quality assurance monitoring, disposition tolls, business intelligence reporting and eServices, including our e-mail, chat and knowledge base capabilities. Through our

technology, we are able to rapidly respond to ever-changing client demands in a tailored, yet cost-effective and efficient manner. We are capable of handling large call volumes at each of our contact centers through our reliable and scalable contact center solutions. We staff our IT personnel such that we can support our infrastructure and still have the capability to design programs to meet the specific needs of our clients.

## **CUSTOMER TRENDS**

In collaborating with our clients, we have observed a few emerging trends in the communications industry. Our clients are increasingly focused on: (1) improving customer satisfaction and retention; (2) improving the customer experience through right-shoring; and (3) increasing sales per subscriber or user. We provide some of the industry's highest customer satisfaction evidenced by our clients' customer service awards and our clients' ranking of StarTek relative to other outsourced partners. Many of our clients have realized the value of cultural and language familiarity available from on-shore providers as a way to improve the customer experience particularly in the case of voice-enabled services. We have demonstrated to our clients our success in increasing revenue per subscriber by incorporating up-sell and cross-sell methodologies during customer interactions.

## KEY COMPETITIVE DIFFERENTIATORS

We offer a variety of customer management solutions that provide front to back-office capabilities utilizing the StarTek Choice delivery platform. StarTek Choice includes onshore, near shore, offshore, and StarTek@Home sourcing alternatives. We also offer multi-channel interactions across voice, chat, email, and IVR channels. Our solution configuration is aligned with our clients' unique requirements. We are flexible in designing solutions around our clients' strategic goals, and we provide experienced management teams that bring together a trained, productive workforce, equipped with the right tools and technology. We believe that we are differentiated by our flexibility, people, quality, execution and results.

*Flexibility.* We believe that we provide high quality business process outsourcing (BPO) solutions, and we leverage our expertise in working with our clients to design solutions around their goals. We offer customer management solutions that help our clients manage customer relationships across the customer lifecycle to improve the customer experience, retention, and sales, and reduce the total cost of customer management. We are able to achieve these results through our people, applied technology, dedication to continuous improvement, and integrated North American, offshore and home agent delivery platform.

*People.* Our people are the key to our success. We possess a unique culture where people are dedicated to serving our clients and their customers. Whether it be an at home agent or call center representative, we use a screening process to ensure people will have the right skills and attitude to thrive in our culture. We offer blended classroom and eLearning training, knowledge management systems, and other desktop tools to ensure that our representatives are fully equipped to deliver an outstanding customer experience.

*Quality.* Quality delivery is the driving force behind our culture. We are consistently ranked highly by our clients, but just as importantly, ranked highly by our clients' customers. We are a catalyst enabling our clients to earn the JD Power and other coveted industry quality awards.

*Execution.* Our clients' customer strategies are the driving force behind our solutions and their delivery. Our experienced management team brings together a well-trained, productive workforce, equipped with the right tools and technology. Our program managers find ways to optimize the effectiveness and efficiency of the delivery of our solutions to achieve our clients' goals.

*Results.* We manage customer relationships to increase loyalty and profitability. Loyal customers purchase more frequently, provide higher revenues per purchase, acquire multiple products or services, refer our clients to others, and continue to purchase from our clients over long periods of time. Our solutions derive more benefits from customer interactions by delivering increased customer satisfaction and revenue, which in turn leads to a higher return on our clients' customer investment.

## STRATEGY

We seek to become a market leader in providing high-value services to clients in the communications industry. Our approach is to develop relationships with our clients that are partnering and collaborative in nature and create industry-based solutions to meet our clients' business needs. To be a leader in the market, our strategy is to:

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- grow our existing client base by deepening and broadening our relationships,
- add new clients and continue to diversify our client base,
- improve the profitability of our business through operational improvements and securing higher margin business,
- expand on our delivery platform to broaden our service offerings and
- make prudent acquisitions to expand our business scale and service offerings.

During 2008, we executed on our strategy by launching three new U.S. sites and expanding our geographic presence by opening our first offshore operation in the Philippines. We positioned ourselves for improved profitability by announcing the closure of three non-performing sites. We also added two new clients, launched a number of new programs with existing clients and made significant investments in new systems, home agents and employee programs.

### **HISTORY OF THE BUSINESS**

StarTek was founded in 1987. At that time, our business was centered on supply chain management services, which included packaging, fulfillment, marketing support and logistics services.

After our initial public offering on June 19, 1997, we began operating contact center services, which primarily focused on customer care, and grew to include our current suite of offerings as described in the Business Overview section of this Form 10-K. We also expanded internationally through our StarTek Europe, Ltd. operating subsidiary. Through StarTek Europe, Ltd., we provided call center and supply chain management services from two facilities located in Hartlepool, England.

We sold our StarTek Europe, Ltd. operating subsidiary on September 30, 2004. On December 16, 2005, we sold our supply chain management services platform.



While our business is not generally seasonal, it does fluctuate quarterly based on our clients' product offerings as well as their customer interaction volume. See Item 1A. Risk Factors, for a more complete description of the seasonality of our business.

## INDUSTRY

According to a June 2008 report published by IDC, a leading provider of industry research and market intelligence, the customer interaction segment of business process outsourcing is a \$55 billion market and is expected to grow at an 11.5% compound annual growth rate through 2012. The communication and technology market comprises 41% of the total market and is expected to grow at a 13% compound annual growth rate through 2012. The study also shows that offshore migration is accelerating, primarily to Latin America and the Philippines, which, combined, currently accounts for 15% of the market and is expected to account for 24% of the market by 2012. Currently, the U.S. and EMEA are the largest markets with 45% and 28% market share respectively, which is expected to decrease to 35% and 26% by 2012.

Outsourcing of non-core activities, such as those we provide, offers companies the ability to focus on their core competencies, leverage economies of scale and control variable costs of the business while accessing new technology and trained expert personnel. As the business environment continues to evolve, it has become more difficult and expensive for some companies to maintain the necessary personnel and product capabilities in-house to provide business process services on a cost-effective basis. Accordingly, our anticipation is that outsourced customer care services will grow significantly in the coming years. In general, we believe that industries having higher levels of customer contact and service volume, such as the communications industry, tend to be more likely to seek outsourced services as a more efficient method for managing their technical support and customer care functions. We believe that outsourced service providers, including ourselves, will continue to benefit from these outsourcing trends.

## COMPETITION

We believe that our competitive differentiators are our flexibility, people, quality, execution and results. We compete with a number of companies that provide similar services on an outsourced basis, including technical support and customer care companies such as APAC Customer Services, Inc.; Teleperformance; Convergys Corporation; NCO Group; Aegis PeopleSupport; Sitel Corporation; Sykes Enterprises, Incorporated; TeleTech Holdings, Inc.; ICT Group, Inc. and West Corporation. We compete with the aforementioned companies for new business, for expansion of existing business, and within the companies we currently serve. Many of these competitors are significantly larger than us in revenue, income, number of contact centers and customer agents, number of product offerings, and market capitalization. We believe that while smaller than many of our competitors, we are able to compete because of our flexibility and ability to react quickly and efficiently to integrate client technology into our contact centers. We believe our success is contingent more on our quality of service than our overall size. We also compete with in-house process outsourcing operations of our current and potential clients. Such in-house operations include customer care, technical support, internet operations and e-commerce support. As noted in our industry discussion, it is believed that many outsourced services will continue to migrate to other countries with lower wages than those prevailing in the U.S. Accordingly, our strategic objectives include expanding our geographic platform so that we may compete with those companies who have devoted significant time and money to operating offshore.

## CLIENTS

As mentioned previously, we seek to become the expert provider of outsourced customer care and related services for the communications industry and believe that we possess expertise in servicing clients within that industry. Accordingly, more than 95% of our revenue is derived from customers within that industry. Our two largest customers, AT&T Inc. (formerly Cingular Wireless, LLC and AT&T Corporation) and

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T-Mobile (a subsidiary of Deutsche Telekom), account for a significant percentage of our revenue. In 2008, AT&T Inc. accounted for 54.9% of our revenue and T-Mobile accounted for 26.7% of our revenue. In 2007, AT&T Inc. accounted for 50.4% of our revenue and T-Mobile accounted for 21.8% of our revenue. In 2006, AT&T Inc. accounted for 52.7% and T-Mobile accounted for 21.2% of our revenue. While we believe that we have good relationships with these clients, a loss of one or more of these principal clients could adversely affect our business and our results of operations (see Item 1A. Risk Factors ).

### **GOVERNMENT AND ENVIRONMENTAL REGULATION**

We are subject to numerous federal, state, and local laws in the states and territories in which we operate, including tax, environmental and other laws that govern the way we conduct our business. There are risks inherent in conducting business internationally, including significant changes in domestic government programs, policies, regulatory requirements, and taxation with respect to foreign operations, potentially longer working capital cycles, unexpected changes in foreign government programs, policies, regulatory requirements and labor laws, and difficulties in staffing and effectively managing foreign operations.

## **EMPLOYEES AND TRAINING**

Our success in recruiting, hiring, training, and retaining large numbers of full and part-time skilled employees, and obtaining large numbers of hourly employees during peak periods is critical to our ability to provide high quality outsourced services. Competition for labor is with firms offering similar paying jobs in the communities in which we are located, which includes other contact centers. During 2008, we experienced difficulties hiring and retaining agents as we faced economic pressures in and around certain of our site locations. Refer to Item 1A. Risk Factors for further discussion of risks surrounding our ability to recruit and retain personnel.

As of December 31, 2008, we employed approximately 9,500 employees. We believe the demographics surrounding our facilities, and our reputation, stability, and compensation plans should allow us to continue to attract and retain qualified employees. None of our employees were members of a labor union or were covered by a collective bargaining agreement during 2008.

## **CORPORATE INFORMATION**

We were founded in 1987 and on June 19, 1997, we completed an initial public offering of our common stock. We conduct our business through our wholly owned operating subsidiaries, StarTek USA, Inc., StarTek Canada Services, Ltd and StarTek International, Limited. We are a Delaware corporation headquartered in Denver, Colorado. Our principal executive offices are located at 44 Cook Street, 4th Floor, Denver, Colorado 80206. Our telephone number is (303) 262-4500. Our website address is [www.startek.com](http://www.startek.com). Our stock currently trades on the New York Stock Exchange under the symbol SRT.

## **WEB SITE AVAILABILITY OF REPORTS**

Copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) and 15(d) of the Securities Exchange Act of 1934 (the Exchange Act) are available free of charge through our web site ([www.startek.com](http://www.startek.com)) as soon as practicable after we furnish it to the Securities and Exchange Commission (SEC). We also make available on the Investor Relations page of our corporate website, the charters for the Compensation Committee, Audit Committee and Governance and Nominating Committee of our Board of Directors, as well as our Corporate Governance Guidelines and our Code of Ethics and Business Conduct.

None of the information on our website or any other website identified herein is part of this report. All website addresses in this report are intended to be inactive textual references only.

## **ITEM 1A. RISK FACTORS**

*Continuing unfavorable economic conditions could have a material adverse effect on our results of operations and financial condition.*

The current economic downturn and disruptions in the capital and credit markets in the U.S. and world economies have reduced consumer spending and reduced spending by businesses. Since our revenue is largely concentrated in the telecommunications industry, and the majority of our business involves technical support and customer care services initiated by our clients' customers, our revenue is dependent on the amount of telecommunications products and services demanded by our clients' customers. Consequently, a general reduction in consumer demand for such products and services due to the recession in the domestic and international economies could reduce the demand for our services and have a material adverse effect on our results of operations.

In addition, our existing clients and a number of clients we are currently targeting have been decreasing the number of firms they rely on to outsource their business process outsourced services. Due to financial uncertainties and the potential reduction in demand for our clients' products and services, our clients and prospective clients may decide to further consolidate the number of firms on which they rely for their business process outsourced services to reduce costs. Under these circumstances, our clients may cancel current contracts with us, or we may fail to attract new clients, which will adversely affect our financial condition. If global economic and market conditions remain uncertain or persist, spread, or deteriorate further, we may experience material impacts on our business, operating results, and financial condition.

*If we are unable to renew or replace sources of capital funding on satisfactory terms, potential growth and results of operations may suffer.*

We currently have three debt facilities in place, with approximately \$6.8 million in debt outstanding as of December 31, 2008. One of these facilities, a \$10.0 million line of credit, is scheduled to expire in June 2009 (See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Contractual Obligations ). The other

debt facilities mature over differing periods through 2010. If we are unable to renew the \$10.0 million line of credit or other facilities or are unable to secure alternative sources of capital funding under satisfactory terms, or at all, we may be unable to meet short-term cash needs required for operations or growth opportunities. This may adversely impact our financial results. In addition, if we do not meet the debt covenant requirements under the line of credit, we could face adverse effects on our financial statements, including payments for waivers or higher interest rate obligations. We believe we will obtain financing to replace or extend this line of credit that will allow us to meet our short-term cash needs. However, the current poor conditions of the U.S. credit markets may adversely impact our ability to obtain financing.

*If the value of our portfolio of investment securities declines, our results of operations will suffer.*

Approximately 5.7%, 10.5%, and 3.8% of our total assets as of December 31, 2008, 2007 and 2006, respectively, consisted of investment securities. During 2008, we made investments in corporate debt. We periodically review investments available for sale for other-than-temporary declines in fair value and write down investments to their fair value when such a decline occurs. During the year ended December 31, 2008, we recognized a loss totaling \$0.5 million (representing the entire basis amount) on a Lehman Brothers corporate debt security that was determined to be other-than-temporarily impaired due to their bankruptcy announcement. We do not consider the remainder of our investments to be other-than-temporarily impaired because we have the ability and intent to hold these investments until a market price recovery or maturity. We did not record any other-than-temporary impairments for the years ended December 31, 2007 or 2006. Future adverse changes in market conditions, or poor operating results of companies in which we have invested, could result in losses. Moreover, we implemented a more conservative investment policy in late 2006, and the resulting lower returns may adversely impact our financial results.

*Over 70% of our revenue in the past several years (over 80% in 2008) has been received from our two largest clients. The loss or reduction in business from any of these clients would adversely affect our business and results of operations.*

The following table represents revenue concentration of our principal clients:

	Year Ended December 31,		
	2008	2007	2006
AT&T Inc. (formerly Cingular Wireless, LLC and AT&T Corp.)	54.9%	50.4%	52.7%
T-Mobile, a subsidiary of Deutsche Telekom	26.7%	21.8%	21.2%

The loss of a principal client, a material reduction in the amount of business we receive from a principal client, or the loss, delay or termination of a principal client's product launch or service offering would adversely affect our business, revenue and operating results. We may not be able to retain our principal clients or, if we were to lose any of our principal clients, we may not be able to timely replace the revenue generated by the lost clients. Loss of a principal client could result from many factors, including consolidation or economic downturns in our clients industries, as discussed further below. Our work for AT&T Inc. (AT&T) is covered by several contracts for a variety of different lines of AT&T business, some of these contracts expire in 2009 and others in 2010. For example, we entered into a contract covering certain customer care services with AT&T Mobility LLC, a wholly-owned subsidiary of AT&T, in May 2008 that expires in April 2010. Previously, in December 2006, we entered into another contract covering certain business care services that has been extended through March 31, 2009 while the parties negotiate a new agreement for such services. We entered into a services agreement and statement of work with T-Mobile (the T-Mobile Contract) for the provision of certain call center services, each having an initial term expiring September 30, 2009, that automatically renews from year-to-year, subject to non-renewal by either party.

We are working diligently to complete negotiation of the new agreements for business care services and other lines of business for which individual statements of work expire in 2009, and we expect to renew each of them in due course. However, if we fail to do so or if any are not

renewed, it would have a material adverse effect on our business, results of operations, and financial condition.

The future revenue we generate from our principal clients may decline or grow at a slower rate than expected or than it has in the past. In the event we lose any of our principal clients or do not receive call volumes anticipated from these clients, we may suffer from the costs of underutilized capacity because of our inability to eliminate all of the costs associated with conducting business with that client, which could exacerbate the effect that the loss of a principal client would have on our operating results and financial condition. For example, there are no guarantees of volume under the current contract with AT&T. In addition, that contract with AT&T provides for a tiered incentive pricing structure that provides for lower pricing at higher volumes. Additional productivity gains will be necessary to offset the negative impact that lower per-minute revenue at higher volume levels will have on our margins in future periods.

***We are currently carrying a significant amount of net operating loss carry forwards for tax purposes. If we are not able to generate sufficient future taxable income to offset these losses, our financial results may be adversely affected.***

As of December 31, 2008, we had gross federal net operating loss carry forwards of approximately \$10.0 million. These carry forwards can be used to offset future taxable income and expire in 2028. We have not recorded a valuation allowance related to the net operating loss carry forwards and other temporary items as management believes it is more likely than not that we will be able to use the benefit to reduce future tax liabilities. We believe it is more likely than not based upon our current estimates of future taxable income that the deferred tax assets will be realized. A valuation allowance may be required if we are unable to generate future taxable income. A tax valuation allowance could have a significant negative impact on future earnings.

***Our client base is concentrated in the communications industry, which has recently experienced consolidation trends. As our clients businesses change as a result of merger and acquisition activity, there is no guarantee that the newly formed companies will continue to use our services.***

Consolidation in the communications industry may decrease the potential number of buyers for our services. Likewise, there is no guarantee that the acquirer of one of our clients will continue to use our services after the consolidation is completed. We are particularly vulnerable on this issue given the relatively few significant clients we currently serve and the concentration of these clients in the telecommunications industry. For example, in late 2006, our client, AT&T, acquired another of our clients, Cingular Wireless, LLC (now, AT&T Mobility, LLC), thereby further concentrating our revenue base. There can be no assurance that AT&T Mobility, LLC, AT&T, or other subsidiaries of AT&T, will continue to use our services in the future. If we lose principal clients or our service volumes decrease as a result of principal clients being acquired, our business, financial condition and results of operations would be adversely affected. We expect to negotiate renewals of our contracts in due course; however, if any of such contracts or any order under such a contract is not ultimately renewed, it would have a material adverse effect on our results of operations and financial condition.

***Our client base is concentrated in the communications industry and our strategy partially depends on a trend of communications companies continuing to outsource non-core services. If the communications industry suffers a downturn or the trend toward outsourcing reverses, our business will suffer.***

Our current clients are almost exclusively communications companies, which include companies in the wire-line, wireless, cable and broadband lines of business. Over 95% of our revenue in 2008 was concentrated in the telecommunications industry. Our business and growth is largely dependent on continued demand for our services from clients in this industry, and other industries that we may target in the future, and on trends in those industries to purchase outsourced services. A general and continuing economic downturn in the telecommunications industry or in other industries that we target, or a slowdown or reversal of the trend in these industries to outsource services we provide, could adversely affect our business, results of operations, growth prospects, and financial condition. A general and continuing economic downturn in other industries may result in excess capacity of contact center services in those industries attracting clients in the telecommunications industry or in other industries that we target. If this happens, it could adversely affect our business, results of operations, growth prospects, and financial condition.

***We have experienced significant management turnover and need to retain key management personnel.***

On January 5, 2007, A. Laurence Jones was appointed President, Chief Executive Officer and Interim Chief Financial Officer as a successor to our former Chief Executive Officer, Steven D. Butler. On September 10, 2007, we hired David G. Durham as our Executive Vice President,

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Treasurer and Chief Financial Officer. We filled several other key management positions during 2007 and eliminated the position of Chief Information Officer ( CIO ) by integrating the functions managed by the CIO with finance and operations. During 2008, we eliminated the position of Chief Operating Officer ( COO ) and lost the services of the incumbent Senior Vice President, Sales, a position we are actively seeking to fill. High turnover of senior management can adversely impact our stock price, our results of operations and our client relationships, and may make recruiting for future management positions more difficult. In some cases, we may be required to pay significant amounts of severance to terminated management employees. In addition, we must successfully integrate any new management personnel that we hire within our organization in order to achieve our operating objectives. Changes in other key management positions may temporarily affect our financial performance and results of operations as new management becomes familiar with our business. Accordingly, our future financial performance will depend to a significant extent on our ability to motivate and retain key management personnel.

*If we are not able to hire and retain qualified employees, our ability to service our existing customers and retain new customers will be adversely affected.*

Our success is largely dependent on our ability to recruit, hire, train, and retain qualified employees. Our business is labor intensive and, as is typical for our industry, continues to experience high personnel turnover. Our operations, especially our technical support



and customer care services, generally require specially trained employees. During 2008, we continued to experience a high rate of employee turnover, which, in turn, requires significant recruiting and training costs. Such turnover adversely affects our operating efficiency, productivity and ability to fully respond to client demand, thereby adversely impacting our results of operations. Some of this turnover can be attributed to the fact that we compete for labor not only with other call centers, but also with other similar-paying jobs, including retail, oil and gas industry labor, food service, etc. As such, improvements in the local economies in which we operate can adversely affect our ability to recruit agents in those locations. Further increases in employee turnover or failure to effectively address and remedy these high attrition rates would have an adverse effect on our results of operations and financial condition.

The addition of new clients or implementation of new projects for existing clients may require us to recruit, hire, and train personnel at accelerated rates. We may not be able to successfully recruit, hire, train, and retain sufficient qualified personnel to adequately staff for existing business or future growth, particularly if we undertake new client relationships in industries in which we have not previously provided services. Because a substantial portion of our operating expenses consists of labor-related costs, labor shortages or increases in wages (including minimum wages as mandated by the U.S. and Canadian federal governments, employee benefit costs, employment tax rates, and other labor related expenses) could cause our business, operating profits, and financial condition to suffer. In the past, some of our Canadian employees have attempted to organize a labor union and economic and legislative changes in the U.S. may encourage organizing efforts in the future which, if successful, could further increase our recruiting and training costs and could decrease our operating efficiency and productivity.

***Our operating costs may increase as a result of higher labor costs.***

During the past economic downturns, we, like a number of companies in our industry, sought to limit our labor costs by limiting salary increases and payment of cash bonuses to our employees. During 2008, the local economies in some of the locations in which we operate experienced growth, which caused us to increase labor rates to remain competitive within the local economies. If these growth trends continue, we may need to further increase salaries or otherwise compensate our employees at higher levels in order to remain competitive. Effective July 2008, the U.S. federal minimum wage was increased, with additional increases expected in July 2009. The minimum wage applicable to most of our operations in Canada is rising even more dramatically than in the U.S. Higher salaries or other forms of compensation are likely to increase our cost of operations. If such increases are not offset by increased revenue, they will negatively impact our financial results. Conversely, if labor rates decrease due to higher unemployment in the current economic downturn, our cost of operations may decrease. In the past, some of our Canadian employees have attempted to organize a labor union and economic and legislative changes in the U.S. may encourage organizing efforts in the future, which if successful could further increase our recruiting and training costs and could decrease our operating efficiency and productivity.

***We may need to add specialized sales personnel in order to grow our business. We may have difficulty recruiting candidates for these positions.***

Our future growth depends on our ability to initiate, develop and maintain new client relationships, as well as our ability to maintain relationships with our existing principal clients. To generate opportunities for new business from existing clients, as well as obtain new clients, we may need to hire specialized sales and marketing staff to introduce new products and services. If we are unable to hire sales people with the specialized skills and knowledge needed to attract new business, or if we are not able to develop new products and services, we will not be able to diversify our revenue base and thereby reduce our reliance on our significant customers.

***We face considerable pricing pressure in our business, and if we are not able to continually increase productivity, our gross margins and results of operations may be adversely affected.***

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Our strategy depends in part on our ability to increase productivity. We face significant price pressure arising from our clients' desire to decrease their operating costs, and from other competitors operating in our targeted markets. Price pressure may be more pronounced during periods of economic uncertainty. In addition, our contract with our largest customer currently contains a tiered pricing structure, under which pricing declines as service volumes increase, creating increased pricing pressures in future years. Accordingly, our ability to maintain our operating margins depends on our ability to improve productivity and reduce operating costs. If we are not able to achieve sufficient improvements in productivity to adequately compensate for potential price decreases, our results of operations may be adversely affected.

*Our operating results may be adversely affected if we are unable to maximize our facilities capacity utilization.*

Our profitability is influenced by our facility capacity utilization. The majority of our business involves technical support and customer care services initiated by our clients' customers, and as a result, our capacity utilization varies and demands on our capacity are, to some degree, beyond our control. We have experienced, and in the future may experience, periods of idle capacity from opening new facilities where forecasted volume levels do not materialize. In addition, we have experienced, and in the future may experience, idle peak period capacity when we open a new facility or terminate or complete a large client program. These periods of

idle capacity may be exacerbated if we expand our facilities or open new facilities in anticipation of new client business because we generally do not have the ability to require a client to enter into a long-term contract, or to require clients to reimburse us for capacity expansion costs if they terminate their relationship with us or do not provide us with anticipated service volumes. From time to time, we assess the expected long-term capacity utilization of our facilities. Accordingly, we may, if deemed necessary, consolidate or close under-performing facilities in order to maintain or improve targeted utilization and margins. Any such closures may result in lease termination costs, severance costs or impairment charges. There can be no assurance that we will be able to achieve or maintain optimal facility capacity utilization.

***We and some of our former management employees are the subject of a class action lawsuit. The defense and ultimate outcome of these allegations could negatively affect our future operating results.***

We and six of our former directors and officers have been named as defendants in *West Palm Beach Firefighters Pension Fund v. StarTek, Inc., et al.* (U.S. District Court, District of Colorado) filed on July 8, 2005, and *John Alden v. StarTek, Inc., et al.* (U.S. District Court, District of Colorado) filed on July 20, 2005. Those actions have been consolidated by the federal court. The consolidated action is a purported class action brought on behalf of all persons (except defendants) who purchased shares of our common stock in a secondary offering by certain of our stockholders in June 2004, and in the open market between February 26, 2003 and May 5, 2005 (the Class Period). The consolidated complaint alleges that the defendants made false and misleading public statements about us and our business and prospects in the prospectus for the secondary offering, as well as in filings with the SEC and in press releases issued during the Class Period, and that as a result, the market price of our common stock was artificially inflated. The complaints allege claims under Sections 11 and 15 of the Securities Act of 1933 and under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. The plaintiffs in both cases seek compensatory damages on behalf of the alleged class and award of attorneys' fees and costs of litigation. On May 23, 2006, we and the individual defendants moved the court to dismiss the action in its entirety.

On March 28, 2008, the motion was denied with respect to the claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, except the claim under Section 20(a) of the Securities Exchange Act of 1934 was dismissed against two of the individual defendants. On the same date, the motion was granted with respect to the claims under Sections 11 and 15 of the Securities Act of 1933 without prejudice to plaintiffs filing an amended complaint with respect to such claims. On May 19, 2008, the plaintiffs filed an amended complaint. On June 5, 2008, we and the individual defendants moved the court to dismiss the amended complaint in its entirety. On November 6, 2008, the motion was granted with respect to certain claims relating to representations regarding the Company's supply-chain management business, but was denied as to all other claims. We believe we have valid defenses to the claims and intend to defend the litigation vigorously.

It is not possible at this time to estimate the possibility of a loss or the range of potential losses arising from these claims. We may, however, incur material legal fees with respect to our defense of these claims. The claims have been submitted to the carriers of our executive and organization liability insurance policies. We expect the carriers to provide for certain defense costs and, if needed, indemnification with a reservation of rights. The policies have primary and excess coverage that we believe will be adequate to defend this case and are subject to a retention for securities claims. These policies provide that we are responsible for the first \$1.025 million in defense costs. We have incurred defense costs related to these lawsuits in excess of our \$1.025 million deductible.

We have been involved from time to time in other litigation arising in the normal course of business, none of which is expected by management to have a material adverse effect on our business, financial condition or results of operations.

***We generate revenue based on the demand for, and inquiries generated by, our clients' products and services. If our clients' products and services are not successful or do not generate the anticipated call volumes, our revenue and results of operations will be adversely affected.***

In substantially all of our client relationships, we generate revenue based on the amount of pro