

StarTek, Inc.  
Form 10-Q  
November 14, 2014

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 September 30, 2014

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

StarTek, Inc.

(Exact name of registrant as specified in its charter)

Delaware

84-1370538

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. employer  
Identification No.)

8200 E. Maplewood Ave., Suite 100

Greenwood Village, Colorado

80111

(Address of principal executive offices)

(Zip code)

(303) 262-4500

(Registrant's telephone number, including area code)

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 Website, 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

Smaller reporting company

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(Do not check if a 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 November 5, 2014, there were 15,409,394 shares of Common Stock outstanding.

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STARTEK, INC. AND SUBSIDIARIES  
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NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q may contain 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 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,” “intends,” “continue,” “estimate,” “plans,” “future,” “targets,” “predicts,” “budgeted,” “projections,” “outlooks,” “scheduled,” or similar expressions; and
- other statements 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, which speak only as of the date thereof. 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 described herein or set forth in Item 1A. “Risk Factors” appearing in our Annual Report on Form 10-K for the year ended December 31, 2013. Unless otherwise noted in this report, any description of “us,” “we,” or “our,” refers to StarTek, Inc. (“STARTEK”) and its subsidiaries.

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## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## STARTEK, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(In thousands, except per share data)

(Unaudited)

|  | Three Months Ended |           | Nine Months Ended |           |
|--|--------------------|-----------|-------------------|-----------|
|  | September 30,      |           | September 30,     |           |
|  | 2014               | 2013      | 2014              | 2013      |
| Revenue  | \$61,438           | \$58,448  | \$185,901         | \$167,834 |
| Cost of services   | 52,393             | 51,928    | 162,946           | 150,965   |
| Gross profit   | 9,045              | 6,520     | 22,955            | 16,869    |
| Selling, general and administrative expenses                   | 7,503              | 7,153     | 23,052            | 21,601    |
| Impairment losses and restructuring charges, net               | 1,262              | —         | 3,504             | (437)     |
| Operating income (loss)  | 280                | (633)     | (3,601)           | (4,295)   |
| Interest and other income (expense), net                       | 362                | (1,075)   | 216               | (1,009)   |
| Income (loss) before income taxes                              | 642                | (1,708)   | (3,385)           | (5,304)   |
| Income tax expense   | 728                | 83        | 482               | 87        |
| Net loss   | \$(86)             | \$(1,791) | \$(3,867)         | \$(5,391) |
| Other comprehensive income (loss), net of tax:                 |                    | 1         |                   | 1         |
| Foreign currency translation adjustments                       | (582)              | (145)     | (657)             | (671)     |
| Change in fair value of derivative instruments                 | (905)              | 632       | 227               | (2,244)   |
| Comprehensive loss   | \$(1,573)          | \$(1,304) | \$(4,297)         | \$(8,306) |
| Net loss per common share - basic and diluted                  | \$(0.01)           | \$(0.12)  | \$(0.25)          | \$(0.35)  |
| Weighted average common shares outstanding - basic and diluted | 15,400             | 15,351    | 15,389            | 15,330    |

See Notes to Consolidated Financial Statements.

STARTEK, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

|  | As of September<br>30,<br>2014<br>(unaudited) | As of December 31,<br>2013 |
|--|---|----------------------------|
| <b>ASSETS</b>  |   |                            |
| Current assets:  |   |                            |
| Cash and cash equivalents  | \$6,552                                       | \$ 10,989                  |
| Trade accounts receivable, net   | 46,003  | 43,708                     |
| Deferred income tax assets   | 67  | 157                        |
| Prepaid expenses   | 2,268   | 2,939                      |
| Other current assets   | 914   | 2,271                      |
| Total current assets   | 55,804  | 60,064                     |
| Property, plant and equipment, net   | 24,377  | 22,210                     |
| Long-term deferred income tax assets   | 1,237   | 2,151                      |
| Intangible assets, net   | 737   | 1,164                      |
| Goodwill   | 2,002   | 1,637                      |
| Other long-term assets   | 2,477   | 2,491                      |
| Total assets   | \$86,634                                      | \$ 89,717                  |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |   |                            |
| Current liabilities:   |   |                            |
| Accounts payable   | \$7,879                                       | \$ 8,477                   |
| Accrued liabilities:   |   |                            |
| Accrued payroll and compensated absences   | 10,223  | 11,665                     |
| Accrued restructuring costs  | 627   | 16                         |
| Other accrued liabilities  | 2,260   | 1,901                      |
| Line of credit   | 2,500   | 1,000                      |
| Derivative liability   | 1,932   | 2,160                      |
| Deferred income tax liabilities  | 766   | 766                        |
| Other current liabilities  | 1,957   | 2,513                      |
| Total current liabilities  | 28,144  | 28,498                     |
| Deferred rent  | 1,407   | 1,445                      |
| Other liabilities  | 1,873   | 1,600                      |
| Total liabilities  | 31,424  | 31,543                     |
| Commitments and contingencies  |   |                            |
| Stockholders' equity:  |   |                            |
| Common stock, 32,000,000 non-convertible shares, \$0.01 par value, authorized;<br>15,406,453 and 15,368,356 shares issued and outstanding at September 30, 2014<br>and December 31, 2013, respectively | 154   | 154                        |
| Additional paid-in capital   | 75,607  | 74,273                     |
| Accumulated other comprehensive loss   | (1,439)                                       | (1,009)                    |
| Accumulated deficit  | (19,112)                                      | (15,244)                   |
| Total stockholders' equity   | 55,210  | 58,174                     |
| Total liabilities and stockholders' equity   | \$86,634                                      | \$ 89,717                  |
| See Notes to Consolidated Financial Statements.  |   |                            |



STARTEK, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

|   | Nine Months Ended<br>September 30, |              |
|---|------------------------------------|--------------|
|   | 2014                               | 2013         |
| <b>Operating Activities</b>   |                                    |              |
| Net loss  | \$(3,867                           | ) \$(5,391 ) |
| Adjustments to reconcile net loss to net cash provided by operating activities: |                                    |              |
| Depreciation and amortization   | 7,629                              | 9,585        |
| (Gains) losses on disposal of assets  | (182                               | ) 898        |
| (Gain) on dissolution of subsidiary   | (413                               | ) —          |
| Share-based compensation expense  | 1,207                              | 1,255        |
| Amortization of deferred gain on sale leaseback transaction                     | (214                               | ) (206 )     |
| Deferred income taxes   | 955                                | (180 )       |
| Changes in operating assets and liabilities:                                    |                                    |              |
| Trade accounts receivable, net  | (2,328                             | ) (3,798 )   |
| Prepaid expenses and other assets   | 1,873                              | (570 )       |
| Accounts payable  | (982                               | ) (194 )     |
| Accrued and other liabilities   | (723                               | ) 693        |
| Net cash provided by operating activities                                       | 2,955                              | 2,092        |
| <b>Investing Activities</b>   |                                    |              |
| Proceeds from note receivable   | 481                                | 495          |
| Proceeds from sale of assets  | 1,064                              | —            |
| Purchases of property, plant and equipment                                      | (9,562                             | ) (4,054 )   |
| Cash paid for acquisitions of businesses  | (603                               | ) (1,889 )   |
| Net cash used in investing activities   | (8,620                             | ) (5,448 )   |
| <b>Financing Activities</b>   |                                    |              |
| Proceeds from stock option exercises  | 39                                 | 140          |
| Proceeds from the issuance of common stock                                      | 89                                 | 79           |
| Proceeds from line of credit  | 111,172                            | 13,662       |
| Principal payments on line of credit  | (109,672                           | ) (13,662 )  |
| Principal payments on long-term debt  | (94                                | ) —          |
| Principal payments on capital lease obligations                                 | (92                                | ) (16 )      |
| Net cash provided by financing activities                                       | 1,442                              | 203          |
| Effect of exchange rate changes on cash   | (214                               | ) (13 )      |
| Net decrease in cash and cash equivalents                                       | (4,437                             | ) (3,166 )   |
| Cash and cash equivalents at beginning of period                                | \$10,989                           | \$9,183      |
| Cash and cash equivalents at end of period                                      | \$6,552                            | \$6,017      |

See Notes to Consolidated Financial Statements.

STARTEK, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014

(In thousands, except share and per share data)  
(Unaudited)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by GAAP for complete financial statements. These financial statements reflect all adjustments (consisting only of normal recurring entries, except as noted) which, in the opinion of management, are necessary for fair presentation. Operating results for the three and nine months ended September 30, 2014, are not necessarily indicative of operating results that may be expected during any other interim period of 2014 or the year ending December 31, 2014.

The consolidated balance sheet as of December 31, 2013, included herein was derived from the audited financial statements as of that date, but does not include all disclosures including notes required by GAAP. As such, the information included in this quarterly report on Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

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

Use of Estimates

The preparation of our consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts included in the financial statements and accompanying notes. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the period they are determined to be necessary.

Recently Issued Accounting Standards

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-15, Presentation of Financial Statements—Going Concern: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The standard requires an entity's management to evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. Public entities are required to apply the standard for annual reporting periods ending after December 15, 2016, and interim periods thereafter. Early application is permitted. We do not expect the adoption of this standard to have a material impact on our financial statements or disclosures.

In June 2014, the FASB issued ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force). The ASU clarifies that entities should treat performance targets that can be met after the requisite service period of a share-based payment award as performance conditions that affect vesting. Therefore, an entity would not record compensation expense (measured as of the grant date without taking into account the effect of the performance target) related to an award for which transfer to the employee is contingent on the entity's satisfaction of a performance target until it becomes probable that the performance target will be met. The ASU does not contain any new disclosure requirements. The ASU is effective for reporting periods beginning after December 15, 2015. Early adoption is permitted. We do not expect the adoption of this standard to have a material impact on our financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”). ASU 2014-09 amends the guidance for revenue recognition to replace numerous, industry-specific requirements and converges areas under this topic with those of the International Financial Reporting Standards. The ASU implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The amendment also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendments in this ASU are effective for reporting

periods beginning after December 15, 2016, and early adoption is prohibited. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. We are currently assessing the impact the adoption of ASU 2014-09 will have on our financial statements.

## 2. ACQUISITION

### RN's On Call

On July 24, 2013, we acquired RN's On Call, a business process outsourcing provider in the health care industry, for approximately \$1,455, net of interest incurred. The company provides health care related services to patients on behalf of the professional medical community.

As of September 30, 2014, we paid approximately \$1,200 of the purchase price with the remaining balance to be paid by January 2015, which is included in other accrued liabilities on the consolidated balance sheet. Minimal acquisition-related expenses were paid, which are recorded in selling, general and administrative expenses. Financial results from the date of acquisition are included in the results of operations within our Domestic segment.

We finalized our purchase price allocation during the three months ended March 31, 2014. The following summarizes the final purchase price allocation of the fair values of the assets acquired as of the acquisition date. There were no other assets or liabilities acquired.

|                      | Acquisition Date<br>Fair Value |
|----------------------|--------------------------------|
| Customer base        | \$340                          |
| Goodwill             | 1,115                          |
| Total purchase price | \$1,455                        |

The customer base has an estimated useful life of ten years. The goodwill recognized was attributable primarily to the acquired workforce and our ability to expand into the health care industry.

## 3. GOODWILL AND INTANGIBLE ASSETS

### Goodwill

The goodwill of \$2,002 recognized from our acquisitions during 2013 was assigned to our Domestic segment. The tax basis of the goodwill is deductible for income tax purposes.

### Intangible Assets

The following table presents our intangible assets as of September 30, 2014:

|                      | Gross Intangibles | Accumulated<br>Amortization | Net Intangibles | Weighted Average<br>Amortization Period<br>(years) |
|----------------------|-------------------|-----------------------------|-----------------|--|
| Developed technology | \$390             | \$73                        | \$317           | 3.63   |
| Customer base        | 470               | 105                         | 365             | 4.29   |
| Trade name           | 70                | 18                          | 52              | 2.78   |
| Noncompete agreement | 10                | 7                           | 3               | 0.50   |
|                      | \$940             | \$203                       | \$737           | 3.89   |

Expected future amortization of intangible assets as of September 30, 2014 is as follows:



| Year Ending December 31, | Amount |
|--------------------------|--------|
| Remainder of 2014        | \$ 36  |
| 2015                     | 139    |
| 2016                     | 105    |
| 2017                     | 94     |
| 2018                     | 94     |
| Thereafter               | 269    |

#### 4. IMPAIRMENT LOSSES AND RESTRUCTURING CHARGES

##### Impairment Losses

During the three and nine months ended September 30, 2014 and 2013, we did not incur any impairment losses.

##### Restructuring Charges

A summary of the activity under the restructuring plans as of September 30, 2014 is as follows:

|  | Facility-Related/Employee-Related Costs |           |            |           | Total    |
|--|---|-----------|------------|-----------|----------|
|  | Victoria                                | Jonesboro | Costa Rica | Corporate |          |
| Balance as of December 31, 2013        | \$ 16                                   | \$—       | \$—        | \$—       | \$ 16    |
| Expense                                | —                                       | 792       | 1,392      | 284       | 2,468    |
| Payments, net of receipts for sublease | —                                       | (719      | ) (951     | ) (187    | ) (1,857 |
| Balance as of September 30, 2014       | \$ 16                                   | \$ 73     | \$ 441     | \$ 97     | \$ 627   |

We entered into a sublease agreement for our Victoria, Texas facility through the remainder of its lease term in 2014. The reserves listed above are net of expected sublease rental income. We have recorded an accrual for certain property taxes we still owe in Victoria, which we expect to pay through 2014.

In February 2014, we announced the closure of our Jonesboro, Arkansas facility, which ceased operations in the second quarter of 2014 when the business transitioned to another facility. We established a restructuring reserve of \$192 for employee related costs and recognized additional charges of \$600 when the facility closed. These costs are expected to be paid out through 2014. We also recognized a net gain of \$256 related to the early termination of our lease.

In June 2014, we announced the closure of our Heredia, Costa Rica facility, included in our Latin America segment, which ceased operations in the third quarter of 2014. We established a restructuring reserve of \$1,004 for employee related costs and recognized additional charges in the third quarter of 2014 of \$388 when the facility closed. The restructuring charges for those employees who continue to work after the notification date will be recognized over the service period. These costs are expected to be paid out through December 2014.

During the first nine months of 2014, we continued to pursue operating efficiencies through streamlining our organizational structure and leveraging our shared services centers in low-cost regions. We eliminated several positions as a result and incurred a restructuring charge of \$284. The cash payments for these employees will be substantially completed by the fourth quarter of 2014.

During the second quarter of 2014, we moved forward with our initiative to outsource our data centers and move to a hosted solutions model. We recognized \$1,300 of restructuring charges as of September 30, 2014, of which \$200 is included in other accrued liabilities for costs incurred and not yet paid as of September 30, 2014. Additional transition costs will be recognized throughout the remainder of 2014 as restructuring charges as incurred in operating income and are expected to be approximately \$500.

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## 5. NET LOSS PER SHARE

Basic net loss per common share is computed on the basis of our weighted average number of common shares outstanding. Diluted earnings per share is computed on the basis of our weighted average number of common shares outstanding plus the effect of dilutive stock options and non-vested restricted stock using the treasury stock method. Securities totaling 2,289,041 and 2,288,769 for the three and nine months ended September 30, 2014 and 2013, respectively, have been excluded from loss per share because their effect would have been anti-dilutive.

## 6. PRINCIPAL CLIENTS

The following table represents revenue concentration of our principal clients:

|   | Three Months Ended September 30, |            |           | Nine Months Ended September 30, |           |            |           |            |
|---|----------------------------------|------------|-----------|---------------------------------|-----------|------------|-----------|------------|
|   | 2014                             |            | 2013      |                                 | 2014      |            | 2013      |            |
|   | Revenue                          | Percentage | Revenue   | Percentage                      | Revenue   | Percentage | Revenue   | Percentage |
| T-Mobile USA, Inc., a subsidiary of Deutsche Telekom (2)                            | \$ 19,594                        | 31.9 %     | \$ 16,469 | 28.2 %                          | \$ 57,018 | 30.7 %     | \$ 44,846 | 26.7 %     |
| AT&T Services, Inc. and AT&T Mobility, LLC, subsidiaries of AT&T, Inc. (1)          | \$ 13,598                        | 22.1 %     | \$ 14,868 | 25.4 %                          | \$ 42,695 | 23.0 %     | \$ 42,770 | 25.5 %     |
| Comcast Cable Communications Management, LLC, subsidiary of Comcast Corporation (2) | \$ 9,087                         | 14.8 %     | \$ 10,822 | 18.5 %                          | \$ 30,824 | 16.6 %     | \$ 33,301 | 19.8 %     |
| Time Warner Cable Inc. (2)  | \$ 6,800                         | 11.1 %     | *         | *                               | \$ 19,896 | 10.7 %     | *         | *          |

\* Less than 10%

(1) Revenue from this customer is generated through our Domestic and Asia Pacific segments.

(2) Revenue from this customer is generated through our Domestic, Asia Pacific and Latin America segments.

We enter into contracts and perform services with our major clients that fall under the scope of master service agreements (MSAs) with statements of work (SOWs) specific to each line of business. These MSAs and SOWs may automatically renew or be extended by mutual agreement and are generally terminable by the customer or us with prior written notice.

On July 28, 2011, we entered into a new MSA with T-Mobile effective July 1, 2011, which has an initial term of five years and will automatically renew for additional one-year periods thereafter, but may be terminated by T-Mobile upon 90 days written notice.

Our initial MSA with AT&T had been extended through January 31, 2013. On January 25, 2013, we entered into a new MSA with AT&T Services, Inc., which expires December 31, 2015 and may be extended upon mutual agreement, but may be terminated by AT&T with written notice.

On January 4, 2014, we entered into a new MSA with Comcast, effective June 22, 2013, which replaced the original MSA that was signed in 2011 and would have expired in 2014. The new MSA has an initial term of one year and will automatically renew for additional one-year periods unless either party gives notice of cancellation. Comcast may terminate the agreement upon 90 days written notice.

On February 15, 2014, we signed an amendment to an MSA with Time Warner Cable, which provides for the same services as the original MSA that was signed in February 2011 and expired in February 2014. The amendment extends the term to February 15, 2017, but may be terminated by either party with written notice.

## 7. DERIVATIVE INSTRUMENTS

We use derivatives to partially offset our business exposure to foreign currency exchange risk. We enter into foreign currency exchange contracts to hedge our anticipated operating commitments that are denominated in foreign currencies, including forward contracts and range forward contracts (a transaction where both a call option is purchased and a put option is sold). The contracts cover periods commensurate with expected exposure, generally three to twelve months, and are principally unsecured foreign exchange contracts. The market risk exposure is essentially limited to risk related to currency rate movements. We operate in Canada, the Philippines, Costa Rica and Honduras. The functional currencies in Canada and the Philippines are the Canadian dollar and the Philippine peso, which are used to pay labor and other operating costs in those countries. We provide funds for these operating costs as our client contracts generate revenues which are paid in U.S. dollars. In Costa Rica and Honduras, our functional currency is the U.S. dollar and the majority of our costs are denominated in U.S. dollars. As of September 30, 2014, we have not entered into any arrangements to hedge our exposure to fluctuations in the Costa Rican colon or the Honduran lempira relative to the U.S. dollar.

We have elected to designate our derivatives as cash flow hedges in order to associate the results of the hedges with forecasted expenses. Unrealized gains and losses are recorded in accumulated other comprehensive income (“AOCI”) and will be re-classified to operations as the forecasted expenses are incurred, typically within one year. During the three and nine months ended September 30, 2014 and 2013, our cash flow hedges were highly effective and hedge ineffectiveness was not material.

The following table shows the notional amount of our foreign exchange cash flow hedging instruments as of September 30, 2014:

|                 | Local Currency Notional<br>Amount | U.S. Dollar Notional<br>Amount |
|-----------------|-----------------------------------|--------------------------------|
| Canadian Dollar | 9,600                             | \$8,872                        |
| Philippine Peso | 1,595,610                         | 36,966                         |
|                 |                                   | \$45,838                       |

Derivative assets and liabilities associated with our hedging activities are measured at gross fair value as described in Note 8 and are reflected as separate line items in our consolidated balance sheets.

## 8. FAIR VALUE MEASUREMENTS

The carrying value of our cash and cash equivalents, accounts receivable, notes receivable, accounts payable and line of credit approximate fair value because of their short-term nature.

### Derivative Instruments and Hedging Activities

The values of our derivative instruments are derived from pricing models using inputs based upon market information, including contractual terms, market prices and yield curves. The significant inputs to the valuation pricing models are observable in the market, and as such the derivatives are classified as Level 2 in the fair value hierarchy.

### Restructuring Charges

Accrued restructuring costs were valued using a discounted cash flow model. Significant assumptions used in determining the amount of the estimated liability for closing a facility are the estimated liability for future lease payments on vacant facilities and the discount rate utilized to determine the present value of the future expected cash

flows. If the assumptions regarding early termination and the timing and amounts of sublease payments prove to be inaccurate, we may be required to record additional losses, or conversely, a future gain, in the consolidated statements of operations and comprehensive income (loss).

In the future, if we sublease for periods that differ from our assumption or if an actual buy-out of a lease differs from our estimate, we may be required to record a gain or loss. Future cash flows also include estimated property taxes through the remainder of the lease term, which are valued based upon historical tax payments. Given that the restructuring charges were valued using our internal estimates using a discounted cash flow model, we have classified the accrued restructuring costs as Level 3 in the fair value hierarchy.

## Fair Value Hierarchy

The following tables set forth our assets and liabilities measured at fair value on a recurring basis and a non-recurring basis by level within the fair value hierarchy. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

|   | Liabilities Measured at Fair Value<br>on a Recurring Basis as of September 30, 2014 |         |         |         |
|---|---|---------|---------|---------|
|   | Level 1   | Level 2 | Level 3 | Total   |
| Liabilities:  |   |         |         |         |
| Foreign exchange contracts                                    | \$—   | \$1,932 | \$—     | \$1,932 |
| Total fair value of liabilities measured on a recurring basis | \$—   | \$1,932 | \$—     | \$1,932 |

|   | Liabilities Measured at Fair Value<br>on a Recurring Basis as of December 31, 2013 |         |         |         |
|---|--|---------|---------|---------|
|   | Level 1  | Level 2 | Level 3 | Total   |
| Liabilities:  |  |         |         |         |
| Foreign exchange contracts                                    | \$—  | \$2,160 | \$—     | \$2,160 |
| Total fair value of liabilities measured on a recurring basis | \$—  | \$2,160 | \$—     | \$2,160 |

|   | Liabilities Measured at Fair Value on a<br>Non-Recurring Basis as of September 30, 2014 |         |         |       |
|---|---|---------|---------|-------|
|   | Level 1   | Level 2 | Level 3 | Total |
| Liabilities:  |   |         |         |       |
| Accrued restructuring costs                                       | \$—   | \$—     | \$627   | \$627 |
| Total fair value of liabilities measured on a non-recurring basis | \$—   | \$—     | \$627   | \$627 |

|  | Assets and Liabilities Measured at Fair Value on a<br>Non-Recurring Basis as of December 31, 2013 |         |         |       |
|--|---|---------|---------|-------|
|  | Level 1   | Level 2 | Level 3 | Total |
| Assets:  |   |         |         |       |
| Property, plant and equipment, net                           | \$—   | \$—     | 531     | 531   |
| Total fair value of assets measured on a non-recurring basis | \$—   | \$—     | \$531   | \$531 |

|   |     |     |      |      |
|---|-----|-----|------|------|
| Liabilities:  |     |     |      |      |
| Accrued restructuring costs                                       | \$— | \$— | \$16 | \$16 |
| Total fair value of liabilities measured on a non-recurring basis | \$— | \$— | \$16 | \$16 |

## 9. DEBT

## Line of Credit

Effective February 28, 2012, we entered into a secured revolving credit facility ("Credit Agreement") with Wells Fargo Bank. The Credit Agreement has a maturity date of February 28, 2016. The amount we may borrow under the Credit Agreement is the lesser of the borrowing base calculation and \$15,000, and, so long as no default has occurred, we may increase the maximum availability to \$20,000 in \$2,500 increments. As of September 30, 2014, we had

\$2,500 outstanding borrowings on our credit facility and available capacity was \$12,420, net of \$80 of letters of credit backed by the facility.

Under the Credit Agreement, we are subject to certain standard affirmative and negative covenants, including the following financial covenants: 1) maintaining a Minimum Adjusted EBITDA, as defined in the Credit Agreement, of no less than the cumulative month-end minimum amounts set forth in an amendment to the Credit Agreement and 2) limiting non-financed capital expenditures to no more than the cumulative month-end maximum amounts set forth in an amendment to the Credit Agreement. We were in compliance with all such covenants as of September 30, 2014.

In March 2014, the Company and Wells Fargo agreed on the financial covenants for 2014 and the first quarter of 2015, constituting the Sixth Amendment to the Credit Agreement. This amendment also amended certain definitions and fees. In June 2014, we entered into a Seventh Amendment to the Credit Agreement adjusting the financial covenants through the first quarter of 2015.

#### Financing Agreement

We entered into a financing agreement for the purchase of certain software licenses and related hardware for approximately \$1,000, which were delivered and placed into service in April 2014. Monthly payments commenced July 2014. The current portion of \$367 and the long term portion of \$602 are included in other current liabilities and other liabilities, respectively, on the consolidated balance sheet.

#### 10. SHARE-BASED COMPENSATION

Our share-based compensation arrangements include grants of stock options, restricted stock awards and deferred stock units under the StarTek, Inc. 2008 Equity Incentive Plan, certain awards granted outside of these plans and our Employee Stock Purchase Plan. The compensation expense that has been charged against income for stock option awards and restricted stock for the three and nine months ended September 30, 2014 was \$343 and \$1,207, respectively, and for the three and nine months ended September 30, 2013 was \$398 and \$1,255, respectively, and is included in selling, general and administrative expense. As of September 30, 2014, there was \$1,632 of total unrecognized compensation expense related to nonvested stock options, which is expected to be recognized over a weighted-average period of 1.9 years.

#### 11. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss) consisted of the following items:

|                                | Foreign Currency<br>Translation<br>Adjustment | Derivatives<br>Accounted for as<br>Cash Flow Hedges | Total     |   |
|--------------------------------|---|---|-----------|---|
| Balance at December 31, 2013   | \$ 1,900                                      | \$(2,909)   | \$(1,009) | ) |
| Foreign currency translation   | (657)   | —   | (657)     | ) |
| Reclassification to operations | —   | 2,367   | 2,367     |   |
| Unrealized gains (losses)      | —   | (2,140)   | (2,140)   | ) |
| Balance at September 30, 2014  | \$ 1,243                                      | \$(2,682)   | \$(1,439) | ) |

Reclassifications out of accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2014 and 2013 were as follows:

| Details about Accumulated Other Comprehensive Loss Components | Amount Reclassified from Accumulated Other Comprehensive Loss |            |                                 |          | Affected Line Item in the Statement Where Net Income is Presented |
|---|---|------------|---------------------------------|----------|---|
|   | Three Months Ended September 30,                              |            | Nine Months Ended September 30, |          |   |
|   | 2014  | 2013       | 2014                            | 2013     |   |
| (Gains) losses on cash flow hedges                            |   |            |                                 |          |   |
| Foreign exchange contracts                                    | \$ 324  | \$(1,099 ) | \$ 2,215                        | \$(925 ) | Cost of services Selling, general and                             |
| Foreign exchange contracts                                    | 17  | (69 )      | 152                             | (69 )    | administrative expenses   |
| Total reclassifications for the period                        | \$ 341  | \$(1,168 ) | \$ 2,367                        | \$(994 ) |   |

## 12. SEGMENT INFORMATION

We operate our business within three reportable segments, based on the geographic regions in which our services are rendered: Domestic, Asia Pacific and Latin America. As of September 30, 2014, our Domestic segment included the operations of eight facilities in the U.S. and one facility in Canada. Our Asia Pacific segment included the operations of four facilities in the Philippines and our Latin America segment included two facilities in Honduras. Operations at our facility in Costa Rica, which were included in our Latin America segment, ceased in August 2014.

We primarily evaluate segment operating performance in each reporting segment based on net sales, gross profit and working capital. Certain operating expenses are not allocated to each reporting segment; therefore, we do not present income statement information by reporting segment below the gross profit level.

Information about our reportable segments, which correspond to the geographic areas in which we operate, for the three and nine months ended September 30, 2014 and 2013 is as follows:

|               | For the Three Months Ended September 30, |          |
|---------------|--|----------|
|               | 2014                                     | 2013     |
| Revenue:      |  |          |
| Domestic      | \$30,703                                 | \$30,164 |
| Asia Pacific  | 22,469                                   | 20,470   |
| Latin America | 8,266                                    | 7,814    |
| Total         | \$61,438                                 | \$58,448 |
| Gross profit: |  |          |
| Domestic      | \$3,041                                  | \$2,963  |
| Asia Pacific  | 5,082                                    | 2,681    |
| Latin America | 922                                      | 876      |
| Total         | \$9,045                                  | \$6,520  |



|               | For the Nine Months Ended September 30, |            |
|---------------|---|------------|
|               | 2014                                    | 2013       |
| Revenue:      |   |            |
| Domestic      | \$ 94,941                               | \$ 87,074  |
| Asia Pacific  | 64,558                                  | 60,031     |
| Latin America | 26,402                                  | 20,729     |
| Total         | \$ 185,901                              | \$ 167,834 |
| Gross profit: |   |            |
| Domestic      | \$ 10,225                               | \$ 9,432   |
| Asia Pacific  | 11,316                                  | 7,048      |
| Latin America | 1,414                                   | 389        |
| Total         | \$ 22,955                               | \$ 16,869  |

### 13. SUBSEQUENT EVENT

On October 1, 2014, we acquired Collections Center, Inc., a North Dakota based receivables management company, for approximately \$4,350 in cash.

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

The following discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and the related notes included elsewhere in this report, as well as the financial and other information included in our 2013 Annual Report on Form 10-K.

### BUSINESS DESCRIPTION AND OVERVIEW

STARTEK is a comprehensive contact center and business process outsourcing service company with employees we call Brand Warriors who for over 25 years have been committed to making a positive impact on our clients' business results. Our mission is to enable and empower our Brand Warriors to promote our clients' brands every day and bring value to our stakeholders. We accomplish this by aligning with our clients' business objectives. The STARTEK Advantage System is the sum total of our culture, customized solutions and processes that enhance our clients' customer experience. The STARTEK Advantage System is focused on improving customer experience and reducing total cost of ownership for our clients. STARTEK has proven results for the multiple services we provide, including sales, order management and provisioning, customer care, technical support, receivables management, and retention programs. We manage programs using a variety of multi-channel customer interaction capabilities, including voice, chat, email, IVR and back-office support. STARTEK has delivery centers in the United States, Philippines, Canada, Honduras and through its STARTEK@Home workforce.

We seek to become a market leader in providing meaningful impact business process outsourcing services to our clients. Our approach is to develop relationships with our clients that are partnering and collaborative in nature where we are focused, flexible and responsive to their business needs. In addition, we offer creative industry-based solutions to meet our clients' ever changing business needs. The end result is the delivery of a quality customer experience to our clients' customers. To become a leader in the market, our strategy is to:

- 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 increased utilization,

- expand our global delivery platform to meet our clients' needs,
- broaden our service offerings by providing more innovative and technology-enabled solutions, and
- expand into new verticals.

As of September 30, 2014, our Domestic segment included the operations of eight facilities in the U.S. and one facility in Canada. Our Asia Pacific segment included the operations of four facilities in the Philippines, and our Latin America segment included two facilities in Honduras.

SIGNIFICANT DEVELOPMENTS DURING THE NINE MONTHS ENDED SEPTEMBER 30, 2014

Iloilo, Philippines

We started operations in a temporary facility in Iloilo, Philippines in June 2014 and completed the build out of a leased permanent facility in October 2014. We are currently operating in this new location.

Heredia, Costa Rica

In June 2014, we announced the closure of our Heredia site. Operations ceased in the third quarter of 2014. We recorded a restructuring reserve of \$1.4 million for employee related costs and facility related costs. The lease terminates in December 2014.

IT Platform Initiative

During the second quarter of 2014, we implemented the last phase of our IT transformation project by outsourcing our data centers. We recognized \$0.6 million and \$0.7 million in restructuring charges in the three months ended June 30, 2014 and September 30, 2014, respectively, and will recognize additional restructuring charges of approximately \$0.5 million throughout the remainder of 2014.

Laramie, Wyoming

In June 2014, we sold the previously vacated owned property in Laramie, Wyoming for \$0.7 million, which resulted in a gain of \$0.2 million.

Colorado Springs, Colorado

In March 2014, we expanded into a new larger facility in Colorado Springs.

Myrtle Beach, South Carolina

We started operations in a temporary facility in Myrtle Beach in February 2014 and completed a permanent leased customer support center during the third quarter.

Jonesboro, Arkansas

In February 2014, we announced the closure of our Jonesboro, Arkansas site. Operations ceased in the second quarter of 2014 and the business transitioned to another facility, resulting in a restructuring charge of \$0.8 million recorded in the first nine months of 2014.

Tegucigalpa, Honduras

In February 2014, we opened a new contact center in Tegucigalpa, Honduras. We are currently in a temporary facility and are in the process of developing a permanent contact center, which is expected to be complete in the first half of 2015. This facility will be leased.

## RESULTS OF OPERATIONS — THREE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

The following table summarizes our revenues and gross profit for the periods indicated, by reporting segment:

|                       | For the Three Months Ended September 30, |              |                   |              |
|-----------------------|--|--------------|-------------------|--------------|
|                       | 2014<br>(in 000s)                        | (% of Total) | 2013<br>(in 000s) | (% of Total) |
| <b>Domestic:</b>      |  |              |                   |              |
| Revenue               | \$30,703                                 | 50.0%        | \$30,164          | 51.5%        |
| Cost of services      | 27,662                                   | 52.8%        | 27,201            | 52.4%        |
| Gross profit          | \$3,041                                  | 33.6%        | \$2,963           | 45.4%        |
| Gross profit %        | 9.9                                      | %            | 9.8               | %            |
| <b>Asia Pacific:</b>  |  |              |                   |              |
| Revenue               | \$22,469                                 | 36.6%        | \$20,470          | 35.0%        |
| Cost of services      | 17,387                                   | 33.2%        | 17,789            | 34.3%        |
| Gross profit          | \$5,082                                  | 56.2%        | \$2,681           | 41.1%        |
| Gross profit %        | 22.6                                     | %            | 13.1              | %            |
| <b>Latin America:</b> |  |              |                   |              |
| Revenue               | \$8,266                                  | 13.5%        | \$7,814           | 13.5%        |
| Cost of services      | 7,344                                    | 14.0%        | 6,938             | 13.4%        |
| Gross profit          | \$922                                    | 10.2%        | \$876             | 13.4%        |
| Gross profit %        | 11.2                                     | %            | 11.2              | %            |
| <b>Company Total:</b> |  |              |                   |              |
| Revenue               | \$61,438                                 | 100.0%       | \$58,448          | 100.0%       |
| Cost of services      | 52,393                                   | 100.0%       | 51,928            | 100.0%       |
| Gross profit          | \$9,045                                  | 100.0%       | \$6,520           | 100.0%       |
| Gross profit %        | 14.7                                     | %            | 11.2              | %            |

## Revenue

Revenue increased by \$3.0 million, or 5.1%, from \$58.4 million to \$61.4 million in the third quarter of 2014. The Domestic segment increase of \$0.5 million was due to \$4.8 million of new business and growth from existing programs, partially offset by \$4.3 million of volume reductions. Asia Pacific revenues grew \$2.0 million due to \$4.7 million of growth from existing and new clients, partially offset by \$2.1 million of volume reductions and \$0.6 million of lost revenues. The increase in the Latin America segment of \$0.5 million was due to \$2.6 million of growth from existing clients in our Honduras facilities, partially offset by \$1.4 million of lost revenues and \$0.7 million reduction due to the closure of Costa Rica.

## Cost of Services and Gross Profit

The gross profit as a percentage of revenue increase of 3.5% was primarily due to significant improvements in the Asia Pacific segment. The Asia Pacific improvement of 9.5% was the result of improved capacity utilization and operational performance. Latin America gross profit as a percentage of revenue remained steady at 11.2% as capacity utilization continues to increase in Honduras and operations ceased in Costa Rica. Costa Rica impacted gross profit negatively by 1.5% during the third quarter of 2014 as the site was closed in September 2014.

## RESULTS OF OPERATIONS — NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

The following table summarizes our revenues and gross profit for the periods indicated, by reporting segment:

|                  | For the Nine Months Ended September 30, |              |                   |              |
|------------------|---|--------------|-------------------|--------------|
|                  | 2014<br>(in 000s)                       | (% of Total) | 2013<br>(in 000s) | (% of Total) |
| Domestic:        |   |              |                   |              |
| Revenue          | \$94,941                                | 51.1%        | \$87,074          | 51.8%        |
| Cost of services | 84,716                                  | 52.0%        | 77,642            | 51.4%        |
| Gross profit     | \$10,225                                | 44.5%        | \$9,432           | 55.9%        |
| Gross profit %   | 10.8                                    | %            | 10.8              | %            |
| Asia Pacific:    |   |              |                   |              |
| Revenue          | \$64,558                                | 34.7%        | \$60,031          | 35.8%        |
| Cost of services | 53,242                                  | 32.7%        | 52,983            | 35.1%        |
| Gross profit     | \$11,316                                | 49.3%        | \$7,048           | 41.8%        |
| Gross profit %   | 17.5                                    | %            | 11.7              | %            |
| Latin America:   |   |              |                   |              |
| Revenue          | \$26,402                                | 14.2%        | \$20,729          | 12.5%        |
| Cost of services | 24,988                                  | 15.3%        | 20,340            | 13.5%        |
| Gross profit     | \$1,414                                 | 6.2%         | \$389             | 2.3%         |
| Gross profit %   | 5.4                                     | %            | 1.9               | %            |
| Company Total:   |   |              |                   |              |
| Revenue          | \$185,901                               | 100.0%       | \$167,834         | 100.0%       |
| Cost of services | 162,946                                 | 100.0%       | 150,965           | 100.0%       |
| Gross profit     | \$22,955                                | 100.0%       | \$16,869          | 100.0%       |
| Gross profit %   | 12.3                                    | %            | 10.1              | %            |

## Revenue

Revenue increased by \$18.1 million, or 10.8%, from \$167.8 million in the first nine months of 2013 to \$185.9 million in the first nine months of 2014. The Domestic segment increase of \$7.9 million was due to \$12.7 million of new business and growth from existing programs, partially offset by \$2.4 million of volume reductions, \$1.2 million of pricing reductions, and \$1.2 million due to site closures. Asia Pacific revenues grew \$4.5 million due to \$11.3 million of growth from existing and new clients, partially offset by \$1.1 million of lost revenues and \$5.7 million of volume reductions. The increase in the Latin America segment of \$5.7 million was due to \$9.7 million in growth from existing clients in our Honduras facilities, partially offset by \$2.8 million of lost revenues and \$1.2 million reduction due to the closure of Costa Rica.

## Cost of Services and Gross Profit

Gross profit as a percentage of revenue increased by 2.2% due to operational efficiency gains and higher capacity utilization across all segments, partially offset by transition and ramp related costs and price reductions versus year to date 2013. Cost of services in the Domestic segment increased by approximately \$7.1 million due to an \$11.9 million investment in growth, partially offset by \$1.0 million in site transition costs, \$3.5 million of reductions related to volume declines and \$0.3 million for price reductions. Gross profit as a percentage of revenue remained steady at 10.8%. Cost of services in the Asia Pacific segment increased by approximately \$0.3 million and gross profit as a percentage of revenue increased by approximately 5.8%. Cost of services in Latin America increased by approximately \$4.6 million and gross profit as a percentage of revenue increased by 3.5%. Both the Asia Pacific and

Latin America margin improvements were due to higher capacity utilization and improved labor efficiencies.

The following paragraphs discuss other items affecting the results of our operations for the three and nine months ended September 30, 2014 and 2013.

#### Selling, General and Administrative Expenses

As a percentage of revenue, selling, general and administrative expenses remained comparable at 12.2% for the third quarter of 2014 and 2013. On a year-to-date basis, such expenses as a percentage of revenue decreased from 12.9% in 2013 to 12.4% in 2014. For the three and nine months ended September 30, 2014, compared to the three and nine months ended September 30, 2013, selling, general and administrative expenses increased \$0.4 million, or 4.9%, and \$1.5 million, or 6.7%, respectively, due to variable costs associated with the revenue increase and investments in our healthcare initiative.

#### Impairment Losses and Restructuring Charges, Net

No impairment losses were incurred during the first nine months of 2014 or 2013.

Restructuring charges totaled \$1.3 million and \$3.5 million for the three and nine months ended September 30, 2014, which consisted of the following:

- \$0.7 million for employee related and facility costs due to the closure of the Jonesboro, Arkansas facility, offset by a gain of \$0.2 million for the early termination of our lease;
- \$1.4 million for employee related costs and facility related costs due to the closure of the Heredia, Costa Rica facility;
- \$0.3 million for corporate restructuring; and
- \$1.3 million for outsourcing our data centers. We will also recognize additional charges through 2014 related to outsourcing our data centers as we complete this transformation.

We reversed \$0.4 million of restructuring charges during the nine months ended September 30, 2013 due to expenses reimbursable under the sublease at our Victoria, Texas facility.

#### Interest and Other Income (Expense), Net

Interest and other income (expense), net for the nine months ended September 30, 2014 of approximately \$0.2 million includes a gain on disposal of assets related to the sale of our Laramie, Wyoming property of \$0.2 million and a gain of \$0.4 million related to the currency translation adjustment balance that was previously recorded within stockholders' equity for a dormant subsidiary we dissolved during the three months ended September 30, 2014, partially offset by interest expense of \$0.4 million, which includes \$0.2 million related to a sale leaseback transaction and \$0.1 million related to interest on our credit facility.

#### Income Tax

Income tax expense was \$0.7 million and \$0.5 million for the three and nine months ended September 30, 2014, respectively. The income tax expense is primarily due to the impact of intra-period allocations from items recorded in other comprehensive income and the impact of our Canadian operations. Our operations in the Philippines, Honduras and Costa Rica have tax holidays.

#### LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are generally cash flows generated by operating activities and from available borrowings under our revolving credit facility. We have historically utilized these resources to finance our operations and make capital expenditures associated with capacity expansion, upgrades of information technologies and service

offerings, and business acquisitions. Due to the timing of our collections of large billings with our major customers, we have historically needed to draw on our line of credit periodically for ongoing working capital needs. Based on current expectations, we believe our cash from operations and capital resources will be sufficient to operate our business for at least the next 12 months.

As of September 30, 2014, working capital totaled \$27.7 million and our current ratio was 1.98:1, compared to working capital of \$31.6 million and a current ratio of 2.11:1 at December 31, 2013.

Net cash flows provided by operating activities for the nine months ended September 30, 2014 was \$3.0 million compared to \$2.1 million for the nine months ended September 30, 2013. The \$0.9 million increase in cash provided was primarily due to a \$1.5 million increase in cash collected from accounts receivable, \$1.5 million in higher earnings and a \$2.4 million decrease in non-cash reconciling items. Cash flows from operating activities can vary significantly from quarter to quarter depending upon the timing of operating cash receipts and payments, especially accounts receivable and accounts payable.

Net cash used in investing activities for the nine months ended September 30, 2014 of \$8.6 million was primarily for capital expenditures of \$9.6 million related to new facility build-out and expansions, partially offset by proceeds of \$1.1 million from the sale of our Laramie, Wyoming property and the sale of other miscellaneous assets at various facilities. This compares to net cash used in investing activities of \$5.4 million for the nine months ended September 30, 2013, which primarily consisted of \$4.1 million of capital expenditures and cash paid for acquisitions.

Net cash provided by financing activities increased by approximately \$1.2 million in the first nine months of 2014 compared to the first nine months of 2013, primarily due to advances on our line of credit of \$1.5 million, partially offset by payments on long-term debt of \$0.1 million and decreases in stock issuances from the exercise of stock options of \$0.1 million.

**Secured Revolving Credit Facility.** We have a secured revolving credit facility, with a current borrowing capacity of \$15.0 million, which can increase to \$20.0 million at our option, to provide liquidity for working capital needs and to finance growth opportunities. After consideration of \$2.5 million of borrowings outstanding under the credit facility and letters of credit outstanding thereunder of \$0.08 million, our remaining borrowing capacity was \$12.4 million at September 30, 2014.

**Debt Covenants.** Our secured revolving credit facility contains standard affirmative and negative covenants that may limit or restrict our ability to sell assets, incur additional indebtedness and engage in mergers and acquisitions. We were in compliance with all debt covenants at September 30, 2014.

#### CONTRACTUAL OBLIGATIONS

There were no material changes in our contractual obligations during the third quarter of 2014.

#### OFF-BALANCE SHEET ARRANGEMENTS

We have no off-balance sheet transactions, unconditional purchase obligations or similar instruments and we are not a guarantor of any other entities' debt or other financial obligations.

#### VARIABILITY OF OPERATING RESULTS

We have experienced and expect to continue to experience some quarterly variations in revenue and operating results due to a variety of factors, many of which are outside our control, including: (i) timing and amount of costs incurred to expand capacity in order to provide for volume growth from existing and future clients; (ii) changes in the volume of services provided to principal clients; (iii) expiration or termination of client projects or contracts; (iv) timing of existing and future client product launches or service offerings; (v) seasonal nature of certain clients' businesses; and (vi) variability in demand for our services by our clients depending on demand for their products or services and/or depending on our performance.

#### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing our consolidated financial statements in conformity with GAAP, management must undertake decisions that impact the reported amounts and related disclosures. Such decisions include the selection of the appropriate accounting principles to be applied and assumptions upon which accounting estimates are based. Management applies

its best judgment based on its understanding and analysis of the relevant circumstances to reach these decisions. By their nature, these judgments are subject to an inherent degree of uncertainty. Accordingly, actual results may vary significantly from the estimates we have applied.

Our critical accounting policies and estimates are consistent with those disclosed in our 2013 Annual Report on Form 10-K. Please refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our 2013 Annual Report on Form 10-K for a complete description of our Critical Accounting Policies and Estimates.

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

#### Foreign Currency Exchange Risks

Market risk relating to our international operations results primarily from changes in foreign exchange rates. To address this risk, we enter into foreign currency exchange contracts. The contracts cover periods commensurate with expected exposure, generally three to twelve months, and are principally unsecured. The cumulative translation effects for subsidiaries using functional currencies other than the U.S. dollar ("USD") are included in accumulated other comprehensive loss in stockholders' equity. Movements in non-USD currency exchange rates may negatively or positively affect our competitive position, as exchange rate changes may affect business practices and/or pricing strategies of non-U.S. based competitors.

We serve many of our U.S.-based clients in several non-U.S. locations, such as Canada, the Philippines, Costa Rica and Honduras. Our client contracts are primarily priced and invoiced in USDs, however, the functional currencies of our Canadian and Philippine operations are the Canadian dollar ("CAD") and the Philippine peso ("PHP"), respectively. In Costa Rica and Honduras, our functional currency is the USD and the majority of our costs are denominated in USDs.

In order to hedge our exposure to foreign currency transactions and short-term intercompany transactions denominated in the CAD and PHP we had outstanding foreign currency exchange contracts as of September 30, 2014 with notional amounts totaling \$45.8 million. If the USD were to weaken against the CAD and PHP by 10% from current period-end levels, we would incur a loss of approximately \$4.9 million on the underlying exposures of the derivative instruments. As of September 30, 2014, we have not entered into any arrangements to hedge our exposure to fluctuations in the Costa Rican colon or the Honduran lempira relative to the USD.

#### Interest Rate Risk

We currently have a \$15.0 million secured credit facility, which can increase to \$20.0 million. The interest rate on our credit facility is variable based upon the LIBOR index, and, therefore, is affected by changes in market interest rates. If the LIBOR increased 100 basis points, there would not be a material impact to our unaudited consolidated financial statements.

During the three and nine months ended September 30, 2014, there were no material changes in our market risk exposure.

#### ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. As of September 30, 2014, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2014, our disclosure controls and procedures were effective and were designed to ensure that all information required to be disclosed by us in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

Changes in internal controls over financial reporting. There was no change in our internal control over financial reporting that occurred during the quarter ended September 30, 2014, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### PART II - OTHER INFORMATION

##### ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors, except as noted below, from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013.

The failure to comply with debt collection and consumer credit reporting regulations could subject us to fines and other liabilities, which could harm our reputation and business, and could make it more difficult for us to retain existing customers or attract new customers.

The Fair Debt Collection Practices Act ("FDCPA") regulates persons who regularly collect or attempt to collect, directly or indirectly, consumer debts owed or asserted to be owed to another person, which includes our recently acquired debt collection business. Certain of the accounts receivable handled by this business are subject to the FDCPA. Many states impose additional requirements on debt collection communications and some of those requirements may be more stringent than the federal requirements. In addition, many U.S. states require a debt collector to apply for, be granted and maintain a license to engage in debt collection activities in a state. We are currently licensed (or exempt from licensing requirements) to provide debt collection services in three states. Moreover, regulations governing debt collection are subject to changing interpretations that may be inconsistent among different jurisdictions. We could be subject to fines or other penalties if it is determined to have violated the FDCPA, the Fair Credit Reporting Act or analogous state laws, which could make it more difficult to retain existing customers or attract new customers and could otherwise harm our business.

## ITEM 6. EXHIBITS

## INDEX OF EXHIBITS

| Exhibit |   | Incorporated Herein by Reference |         |             |
|---------|---|----------------------------------|---------|-------------|
| No.     | Exhibit Description   | Form                             | Exhibit | Filing Date |
| 3.1     | Restated Certificate of Incorporation of StarTek, Inc.  | S-1                              | 3.1     | 1/29/1997   |
| 3.2     | Amended and Restated Bylaws of StarTek, Inc.  | 8-K                              | 3.2     | 11/1/2011   |
| 3.3     | Certificate of Amendment to the Certificate of Incorporation of StarTek, Inc. filed with the Delaware Secretary of State on May 21, 1999  | 10-K                             | 3.3     | 3/8/2000    |
| 3.4     | Certificate of Amendment to the Certificate of Incorporation of StarTek, Inc. filed with the Delaware Secretary of State on May 23, 2000  | 10-Q                             | 3.4     | 8/14/2000   |
| 4.1     | Specimen Common Stock certificate   | 10-Q                             | 4.2     | 11/6/2007   |
| 31.1*   | Certification of Chad A. Carlson pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |                                  |         |             |
| 31.2*   | Certification of Lisa A. Weaver pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |                                  |         |             |
| 32.1*   | Written Statement of the Chief Executive Officer and Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |                                  |         |             |
| 101*    | The following materials are formatted in Extensible Business Reporting Language (XBRL):<br>(i) Consolidated Statements of Operations and Comprehensive Loss for the Three and Nine Months Ended September 30, 2014 and 2013 (Unaudited),<br>(ii) Consolidated Balance Sheets as of September 30, 2014 (Unaudited) and December 31, 2013,<br>(iii) Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2014 and 2013 (Unaudited) and (iv) Notes to Consolidated Financial Statements (Unaudited) |                                  |         |             |
| *       | Filed with this Form 10-Q   |                                  |         |             |

SIGNATURES

Pursuant to the requirements of Securities Exchange Act of 1934, the registrant has duly caused this Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

STARTEK, INC.

By: /s/ CHAD A. CARLSON  
Chad A. Carlson  
President and Chief Executive Officer  
(principal executive officer)

Date: November 13, 2014

By: /s/ LISA A. WEAVER  
Lisa A. Weaver  
Senior Vice President, Chief Financial Officer and Treasurer  
(principal financial and accounting officer)

Date: November 13, 2014