STARTEK INC
Form 10-K405
March 29, 2002

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2001.

OR

o **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 (State or other jurisdiction of incorporation or organization)	**84-1370538** (I.R.S. employer identification no.)
100 Garfield Street **Denver, Colorado 80206** (Address of principal executive offices)	**80206** (Zip code)

(303) 361-6000
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value	New York Stock Exchange, Inc.

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

Indicate by checkmark 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 ý No o

Indicate by checkmark 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. ý

As of February 7, 2002, 14,082,561 shares of common stock were outstanding and held by approximately 3,231 holders. The aggregate market value of common stock held by non-affiliates of the registrant on such date was approximately $84 million, based upon the closing price of the Company'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 in that 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 2002 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.

Forward-Looking Statements

All statements contained in this Form 10-K which are not statements of historical facts are forward-looking statements that involve substantial risks and uncertainties. Forward-looking statements are preceded by terms such as "may", "will", "should", "anticipates", "expects", "believes", "plans", "future", "estimate", "continue", and similar expressions. The following are important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements; these include, but are not limited to, inflation and general economic conditions in the Company's and its clients' markets, risks associated with the Company's reliance on principal clients, loss or delayed implementation of a large project or service offering for a principal client, which could cause substantial quarterly variation in the Company's revenues and earnings, difficulties in managing rapid growth, risks associated with rapidly changing technology, dependence on labor force, risks associated with international operations and expansion, control by principal stockholders, dependence on key personnel, dependence on key industries and trends toward outsourcing, risks associated with the Company's contracts, highly competitive markets, risks of business interruptions, volatility of the Company's stock price, risks related to the Company's Internet web site operations, risks related to the Company's portfolio of Internet domain names, and risks related to changes in valuation of the Company's investments. These factors include risks and uncertainties beyond the Company's ability to control; and, in many cases, the Company and its management cannot predict the risks and uncertainties that could cause actual results to differ materially from those indicated by use of forward-looking statements. Similarly, it is impossible for management to foresee or identify all such factors. As such, investors should not consider the foregoing list to be an exhaustive statement of all risks, uncertainties, or potentially inaccurate assumptions. All forward-looking statements herein are made as of the date hereof, and the Company undertakes no obligation to update any such forward-looking statements. All forward-looking statements herein are qualified in their entirety by information set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" "Risk Factors" appearing elsewhere in this Form 10-K.

PART I

ITEM 1. BUSINESS

General

StarTek, Inc. (the "Company" or "StarTek") has an established position as a global provider of process management services and owns and operates branded vertical market Internet web sites. The Company's process management service platforms include a comprehensive offering of supply chain management services, high-end inbound telephone technical support, and provisioning management for complex telecommunications systems. As an outsourcer of process management services as its core business, StarTek allows its clients to focus on their primary business, reduce overhead, replace fixed costs with variable costs, and reduce working capital needs. The Company has continuously expanded its process management business and facilities to offer additional outsourcing services in response to the growing needs of its clients and to capitalize on market opportunities, both domestically and internationally. StarTek has a strategic partnership philosophy through which it assesses each of its client's needs, and together with its clients develops and implements customized outsourcing solutions. Management believes StarTek's entrepreneurial culture, long-term relationships with clients and suppliers, efficient operations, dedication to quality, and use of technology and management techniques provide StarTek a competitive advantage in attracting clients to outsource non-core operations. StarTek's largest client, based on 2001 revenues, has utilized StarTek's outsourced services since 1996. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations" "Risk Factors*" set forth herein for a further discussion of the Company's "*Reliance on Principal Client Relationship"* and *"Risks Associated with the Company's Contracts"*.

StarTek's existing clients are primarily in computer software, Internet, E-commerce, computer hardware, technology, and telecommunications industries which are characterized by rapid growth, complex and evolving product offerings, and large customer bases, which require frequent, often sophisticated customer interaction. Management believes there are substantial opportunities to cross-sell StarTek's wide spectrum of outsourced process management services to its existing and future client base. The Company intends to capitalize on the increasing trend toward outsourcing by focusing on potential clients in additional industries which could benefit from the Company's expertise in developing and delivering integrated, cost-effective, outsourced services.

StarTek currently has six operating facilities in Colorado, and one facility each in Wyoming, Tennessee, Texas, and Oklahoma. The Company's European operations are performed from its two facilities in Hartlepool, England. The Company's Canadian operations are performed from two facilities in Kingston, Ontario and one facility in Cornwall, Ontario. The Company operated a facility in Singapore through 2001, but has substantially ceased such operations. We anticipate that this will not have a material adverse effect on the Company's future financial results.

StarTek owns a portfolio of branded vertical market Internet web sites and operates certain sites, including airlines.com and wedding.com. In fiscal year 2001, the Company wrote off all of its investments in Gifts.com for $12.4 million. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations"*.

The Company's business was founded in 1987 and, through its wholly-owned subsidiaries, has provided outsourced process management services since inception. On December 30, 1996, StarTek, Inc. was incorporated in Delaware, and in June 1997 StarTek completed an initial public offering of its common stock. Prior to December 30, 1996, StarTek USA, Inc. and StarTek Europe, Ltd., two of the Company's operating subsidiaries, conducted business as affiliates under common control. In 1998, the Company formed StarTek Pacific, Ltd., a Colorado corporation and Domain.com, Inc., a Delaware corporation, both of which are wholly-owned subsidiaries of the Company. In 2001, the Company formed StarTek Canada Services, Ltd. a Nova Scotia, Canada corporation, which is a wholly owned subsidiary of the Company. StarTek, Inc. is a holding company for the businesses conducted by its wholly-owned subsidiaries. StarTek's principal executive offices are located at 100 Garfield Street, Denver, Colorado 80206 and its telephone number is (303) 361-6000. StarTek's home page on the Internet is located at www.startek.com.

Process Management Service Platforms

The Company offers a wide spectrum of process management service platforms designed to provide cost-effective and efficient management services for non-core operations of its clients. The Company works closely with its clients to develop, refine, and implement efficient and productive integrated outsourced solutions that link StarTek with its clients and their customers. The processes that create such solutions generally include development of product manufacturing specifications, packaging, and distribution requirements, as well as product-related software programs for telephone, facsimile, E-mail, and Internet interactions involving product order processing, fulfillment, and technical support. Substantially all of the Company's process-related teleservices activities are inbound telephone calls rather than outbound calls. Process management service platforms StarTek provides include, but are not limited to:

Supply Chain Management. StarTek personnel are responsible for maintaining and managing multiple supplier relationships. When the Company is selected by a client to provide product assembly and packaging services, the Company qualifies, selects, certifies, and manages sourcing and manufacturing of various products and related components. Such products and related components are then assembled and packaged at certain of the Company's facilities. The Company monitors supplier quality by visiting manufacturing facilities, and utilizes just-in-time production to minimize inventory in the Company's warehouses. Management believes the Company's strong, long-term relationships with multiple suppliers allow StarTek to be flexible and responsive to its clients, while minimizing cost and dependency on any single supplier.

The Company assembles and packages products in the United States and the United Kingdom. The Company's assembly lines have been designed with significant flexibility, enabling the Company to assemble and package various types of products and rapidly change the type of product produced.

StarTek's inventory management systems enable the Company to ship and track products to distribution centers, individual stores, and its clients' customers directly. Product orders are received by the Company via file transfer protocol (FTP), the Internet, electronic data interchange (EDI), facsimile, as well as through the Company's product order teleservices and E-commerce support services described elsewhere.

High-End Technical Support Teleservices. StarTek service representatives provide 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. Customers of StarTek's clients dial a technical support number listed in their product or service manuals and, based on touch-tone responses, are automatically connected to an appropriate StarTek service representative specially trained in the use of computerized knowledge databases for the applicable product. Each StarTek service representative acts as a transparent extension of the client when resolving complaints, diagnosing and resolving product or service problems, or answering technical questions.

Provisioning Management. StarTek personnel are responsible for managing installation and providing on-going support services for large-scale telecommunications networks for client customers. Service representatives manage relationships between the StarTek client and its customers on a transparent basis. StarTek's installation management and on-going network support services, on an outsourced basis, enable a client to provide telecommunications services to their customers more efficiently and cost effectively.

E-commerce Support and Product Order Fulfillment. StarTek develops, operates, and maintains Internet web sites and the Company's personnel process, pack, and ship product orders received by telephone, E-mail, facsimile, and the Internet, 24 hours per day, seven days per week. The Company provides same-day shipping of customer orders if the product is available.

International Operations

StarTek provides process management services on an international basis from the United Kingdom and Canada, and through 2001, in Singapore. The Company's facilities in the United Kingdom provide most of the Company's process management service platforms for clients internationally, including supply chain management, inbound technical support services in several languages, and product order fulfillment. The Company's facilities in Canada provide technical support services for clients in North America. The facility in Singapore closed on January 31, 2002, which we believe will not have a material adverse effect on the Company's future financial results as less than 1% of the Company's operating profit in 2001 was derived from these operations. International operations, in the aggregate, generated 21.5% of the Company's revenues during 2001. See Note 15 to the consolidated financial statements set forth herein for a further description of revenues, operating profit, and identifiable assets classified by the major geographic areas in which the Company operates. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations"* *"Risk Factors*" set forth herein for a discussion of"*Risks Associated with International Operations and Expansion"*.

Domain.com Operations

StarTek, through its wholly-owned subsidiary Domain.com, Inc., owns a portfolio of branded vertical market Internet web sites and currently operates certain sites, including airlines.com and wedding.com as internet portals.

Business Strategy

StarTek's strategic objectives are to increase revenues and earnings by maintaining and enhancing its established position as a global provider of process management services; and to enhance shareholder value, revenues, and earnings by developing revenue streams from, or ownership interests in, Internet web site businesses arising from a portfolio of Internet domain names. To reach these objectives, the Company intends to:

Provide Integrated, Outsourced Process Management Services. StarTek seeks to provide integrated, outsourced process management services which enable its clients to provide their customers with high-quality services at lower cost than through a client's own in-house operations. The Company believes its ability to tailor operations, materials, and employee resources objectively, and provide process management services on a cost-effective basis will allow the Company to become an integral part of its clients' businesses.

Develop Strategic Partnerships and Long-Term Relationships. StarTek seeks to develop long-term client relationships, primarily with Fortune 1000 companies. The Company invests significant resources to establish strategic partnership relationships and to understand each client's processes, culture, decision parameters, and goals so as to develop and implement customized solutions. The Company believes this solution-oriented, value-added, integrated approach to addressing its clients' needs distinguishes StarTek from its competitors and plays a key role in the Company's ability to attract and retain clients on a long-term basis.

Maintain Low-Cost Position through the StarTek Process Management System. StarTek strives to establish a competitive advantage by frequently redefining its operational processes to reduce cost and improve quality. The Company believes its continuous improvement philosophy and modern process management techniques result in reduced waste and increased efficiency by: (i) controlling overproduction; (ii) minimizing waiting time due to inefficient work sequences; (iii) reducing nonessential handling of materials; (iv) eliminating nonessential movement and processing; (v) implementing fail-safe processes; (vi) improving inventory management; and (vii) preventing defects.

Emphasize Quality. StarTek strives to achieve the highest quality standards in the industry. To this end, the Company, through its wholly-owned subsidiary in the United Kingdom, has received ISO 9001:2000 certification, and through certain of its wholly-owned subsidiaries in the US, has received ISO 9002 certification. Both ISO 9001:2000 and ISO 9002 are an international standard for quality assurance and consistency in operating procedure. Certain of the Company's existing clients require evidence of ISO certification prior to selecting an outsourcing provider.

Capitalize on Technology. Management believes it has established a competitive advantage by capitalizing on technology and proprietary software, including automatic call distributors, inventory management software, order management software, transportation management software, knowledge databases, call tracking systems, resource scheduling software, and computer telephony integration software. The Company further believes these capabilities enable StarTek to improve efficiency, serve as a transparent extension of its clients, receive telephone calls and data directly from its clients' systems, and report detailed information concerning the status and results of the Company's services and interaction with clients on a daily basis.

Develop Internet Web Site Portfolio. Management believes the Company can continue to develop revenue and profit streams from certain of its Internet sites, or establish ownership interests in Internet web site businesses arising from a portfolio of Internet domain names. Management believes shareholder value can be enhanced in a variety of ways, which include, among others, joint ventures with third parties to develop web site businesses based upon its Internet domain names. These opportunities are being pursued at this time.

Clients

StarTek's current client base consists of companies engaged primarily in computer software, Internet, E-commerce, computer hardware, technology, consumer products, and telecommunications industries. The Company's three largest customers, Microsoft Corporation, AT&T Wireless, Inc., and AT&T Corporation accounted for 48.4%, 19.1%, and 10.8%, respectively, of the Company's revenues in 2001. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" *"Risk Factors*" set forth herein for a further discussion of the Company's *"Reliance on Principal Client Relationship"* and *"Risks Associated with the Company's Contracts"*.

Sales and Marketing

The Company's marketing objective is to develop long-term relationships with existing and potential clients to become the preferred worldwide provider of process management services. StarTek invests substantial resources to create a strategic partnership with its clients to understand their existing operations, customer service processes, culture, decision parameters, and goals. A StarTek team assesses a client's outsourcing service needs, and together with the client, develops and implements customized solutions. Management believes, as a result of StarTek's strategic relationship with its clients and comprehensive understanding of their businesses, the Company can identify new revenue generating opportunities, customer interaction possibilities, and product service improvements not adequately addressed by the client. The Company's sales strategy emphasizes multiple contacts with a client to strengthen its relationship and facilitate cross-selling of services.

StarTek markets its process management services through a variety of methods, including personal sales calls, client referrals, attendance at trade shows, and cross-selling of services to existing clients. As part of its marketing efforts, the Company encourages visits to its facilities where the Company demonstrates its services, quality procedures, and ability to accommodate additional business.

Management believes an essential element to revenue growth is the ability to flexibly, effectively, and efficiently expand service capacity to meet client needs as its clients grow or outsource more of their non-core operations to the Company. Additionally, to attract new clients to StarTek's services, the Company maintains resources to develop a strategy to meet new clients' outsourcing goals promptly, as well as the ability to implement operations for such clients quickly and accurately.

Technology

StarTek employs technology and proprietary software that incorporates digital switching, relational knowledge database management systems, call tracking systems, workforce management systems, object-oriented software modules, and computer telephony integration. The Company's digital switching technology is designed to enable calls to be routed to the next available teleservice representative with the appropriate product knowledge, skill, and language abilities. Call tracking and workforce management systems generate and track call volumes by client, enabling the Company to schedule personnel efficiently, anticipate fluctuations in call volume, and provide clients with detailed information concerning the status and results of the Company's services on a daily basis. Management believes StarTek's proprietary technology platform provides the Company with a competitive advantage in maintaining existing clients and attracting new clients. See "*Management's Discussion and Analysis of*

Financial Condition and Results of Operations" "Risk Factors" set forth herein for a discussion of "*Risks Associated with Rapidly Changing Technology*".

Employees and Training

StarTek's success in recruiting, hiring, training, and retaining large numbers of full and part-time skilled employees, and obtaining large numbers of hourly and temporary employees during peak periods is critical to the Company's ability to provide high quality outsourced services. To maintain good employee relations and to minimize turnover, the Company offers competitive pay, a range of employee benefits, and provides employees with clear, visible career paths. To meet its service objectives, the Company also utilizes temporary employees. As of December 31, 2001, the Company had approximately 4,225 full-time equivalent employees. The number of temporary employees varies substantially due to the seasonal nature of StarTek's clients' businesses. Management believes demographics surrounding StarTek's facilities, and the Company's reputation, stability, and compensation plans should allow the Company to continue to attract and retain qualified employees. The Company considers its employee relations to be good. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations" "Risk Factors*" set forth herein for a discussion of factors relating to the Company's "*Dependence on Labor Force"* and "*Dependence on Key Personnel"*.

In keeping with StarTek's continuous improvement philosophy, the Company is committed to training all of its employees. StarTek provides formal training for senior management, supervisors, process managers, quality coordinators, and service representatives. StarTek also maintains an employee quality program to back up every employee, including specialized quality coordinators who teach problem solving, assist with service calls, and offer immediate performance feedback. On a more informal basis, the Company provides on-the-job process training and tutoring for all product assembly and packaging personnel. Employee teams gather daily to receive information about products to be produced and techniques to be utilized, and have an opportunity to ask questions and receive one-on-one training as necessary.

The Company's in-house training programs for technical support and telecommunications process management employees involve an in-depth, structured learning environment that builds technical competence and teaches critical software skills necessary to provide effective services to its clients. Each client service representative is designated and trained to support a particular product or group of products for a particular client. These client service representatives receive training in product knowledge, call listening, and computer skills prior to answering any customer calls independently. Training time depends on the complexity of the product for which such representative will provide services. Further, the Company uses live and taped call reviews along with customer feedback surveys to continuously monitor and enhance its service quality.

Industry and Competition

Management believes businesses throughout the world are increasingly focusing on their core competencies, and are increasingly engaging outsourced service companies to perform specialized, non-core functions and services. Outsourcing of non-core activities offers a strategic advantage to companies in a wide range of industries by offering them an opportunity to reduce operating costs and working capital needs, improve their reaction to business cycles, manage capacity, and improve customer and technical information gathering and utilization. To realize these advantages, companies are outsourcing the process of planning, implementing, and controlling the efficient flow of goods, services, teleservices, and related information from point of origin to point of consumption. Additionally, rapid technological changes and rising customer expectations for high-quality goods and services make it increasingly difficult and expensive for companies to maintain the necessary personnel and product capabilities in-house to support a product's life-cycle on a cost-effective basis. Management believes companies that focus on providing these services as their core business, including StarTek, are

expected to continue to benefit from these outsourcing trends. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" "*Risk Factors*" set forth herein for a discussion of the Company's "*Highly Competitive Market*".

StarTek competes on the basis of quality, reliability of service, price, efficiency, speed, and flexibility in tailoring services to client needs. Management believes StarTek's comprehensive and integrated services differentiate the Company from non-client competitors who may only be able to provide one or a few of the outsourced services StarTek provides. The Company continuously explores new outsourcing service opportunities, typically in circumstances where clients are experiencing inefficiencies in non-core areas of their businesses. Management believes it can develop superior outsourced solutions to such inefficiencies on a cost-effective basis. Management believes StarTek competes primarily with in-house process management operations of its current and potential clients. Such in-house operations include Internet operations, E-commerce support, technical support teleservices, and supply chain management. StarTek also competes with certain companies that provide similar services on an outsourced basis. There are numerous competitors of all sizes that provide product order teleservices and product fulfillment distribution services.

ITEM 2. PROPERTIES

Facilities

Currently, StarTek owns or operates the following facilities, containing in aggregate, approximately 1,087,874 square feet:

Properties	Year Opened or Acquired	Square feet	Leased, Company Owned, or Otherwise
US Facilities			
Greeley, Colorado	1987	100,000	Company Owned
Denver, Colorado	1995	138,000	Company Owned
Greeley, Colorado	1998	35,000	Company Owned
Laramie, Wyoming	1998	22,000	Company Owned
Clarksville, Tennessee	1998	305,000	Company Owned(a)
Grand Junction, Colorado	1999	46,350	Leased
Greeley, Colorado	1999	88,000	Company Owned
Big Spring, Texas	1999	30,000	Leased
Enid, Oklahoma	2000	47,524	Company Owned
Grand Junction, Colorado	2000	54,500	Leased
Denver, Colorado	2000	5,500	Leased
International Facilities			
Hartlepool, England(2)	1993	73,000	Leased(b)
Kingston, Ontario Canada	2001	49,000	Company Owned
Kingston, Ontario Canada	2001	20,000	Leased
Cornwall, Ontario Canada	2001	74,000	Leased

Substantially all of the Company's facility space can be used to support several of the Company's process management service platforms. Management believes StarTek's existing facilities are adequate for the Company's current operations, but continued capacity expansion could be required to support continued growth. Management intends to maintain a certain amount of excess capacity to enable StarTek to readily provide for needs of new clients, and increasing needs of existing clients. See

"*Management's Discussion and Analysis of Financial Condition and Results of Operations*" "*Risk Factors*" set forth herein for a discussion of *"Risks of Business Interruptions"*.

(a) See Note 9 to the consolidated financial statements set forth herein for a description of the Tennessee financing arrangement.

(b) Single lease for two operating facilities.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the three months ended December 31, 2001.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Market Price of Common Stock

StarTek's common stock has traded under the symbol "**SRT**" on the New York Stock Exchange since June 19, 1997, the effective date of the Company's initial public offering. StarTek's common stock also trades on the Pacific Exchange, Chicago Stock Exchange, Boston Stock Exchange, Philadelphia Stock Exchange, and Berlin Stock Exchange. High and low sale prices of StarTek's common stock for 2000 and 2001 were:

	2000		2001	
	High	**Low**	**High**	**Low**
First Quarter	76	28 5/8	19.66	11.60
Second Quarter	79 1/4	44 3/16	22.60	13.20
Third Quarter	52 3/4	28 7/8	26.60	15.81
Fourth Quarter	31 1/2	11 3/4	19.75	15.23

The closing sale price for StarTek's common stock on February 7, 2002 was $16.70. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" "*Risk Factors*" set forth herein for a discussion of *"Volatility of Stock Price"*.

Holders of Common Stock

As of February 7, 2002, there were approximately 3,231 stockholders of record and 14,082,561 shares of common stock outstanding. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" "*Risk Factors*" set forth herein for a discussion of *"Control by Principal Stockholders"*.

Dividend Policy

StarTek currently intends to retain all earnings to finance continued growth of its business and does not expect to pay any dividends in the foreseeable future. The payment of any dividends will be at the discretion of the Company's Board of Directors and will depend upon, among other things, availability of funds, future earnings, capital requirements, contractual restrictions, general financial condition of the Company, and general business conditions. Under its $10 million line of credit, the Company may not pay dividends in an amount that would cause a failure to meet its financial covenants. See Note 7 to the consolidated financial statements, and *"Management's Discussion and Analysis of Financial Condition and Results of Operations" "Liquidity and Capital Resources"* set forth herein for a description of these financial covenants.

Sales of Unregistered Securities

The Company did not issue or sell any unregistered securities during the three months ended December 31, 2001, except for the following stock options, all of which were granted at exercise prices equal to the closing market price of the Company's common stock on the date the options were granted:

On October 1, 2001, the Company granted options to purchase 14,400 shares of common stock, in the aggregate, to 144 employees pursuant to the Company's employee stock option plan. These options vest at a rate of 20% per year beginning October 1, 2002, expire October 1, 2011, and are exercisable at a price of $16.60 per share.

On October 3, 2001, the Company granted options to purchase 24,200 shares of common stock, in the aggregate, to 24 employees pursuant to the Company's employee stock option plan. These options vest at a rate of 20% per year beginning October 3, 2002, expire October 3, 2011, and are exercisable at a price of $17.90 per share.

On December 7, 2001, the Company granted options to purchase 18,500 shares of common stock, in the aggregate, to 6 employees pursuant to the Company's employee stock option plan. These options vest at a rate of 20% per year beginning December 7, 2002, expire December 7, 2011, and are exercisable at a price of $18.50 per share.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this Form 10-K. Additionally, the following selected financial data should be read in conjunction with *"Management's Discussion and Analysis of Financial Condition and Results of Operations*" appearing elsewhere in this Form 10-K.

	Year Ended December 31,				
	1997	**1998**	**1999**	**2000**	**2001**
	(Dollars in Thousands, Except Per Share Data)				
Income Statement Data:					
Revenues	$ 89,150	$ 140,984	$ 205,227	$ 200,750	$ 182,576
Cost of services	71,986	115,079	166,880	153,629	137,622
Gross profit	17,164	25,905	38,347	47,121	44,954
Selling, general and administrative expenses	8,703	14,714	20,338	20,950	25,938
Management fee expense	3,126				
Operating profit	5,335	11,191	18,009	26,171	19,016
Net interest income and other	933	2,254	2,814	4,655	4,318
Loss on impaired investments					(15,452)
Income before income taxes	6,268	13,445	20,823	30,826	7,882
Income tax expense	2,110	4,901	7,800	11,406	3,011

	Year Ended December 31,				
Net income	$ 4,158	$ 8,544	$ 13,023	$ 19,420	$ 4,871
Earnings per share:					
Basic		$ 0.62	$ 0.94	$ 1.39	$ 0.35
Diluted		$ 0.62	$ 0.92	$ 1.36	$ 0.34
Weighted average shares outstanding:					
Basic		13,828,571	13,874,556	14,016,851	14,053,484
Diluted		13,828,571	14,139,149	14,279,409	14,168,044
Selected Operating Data:					
Capital expenditures, net of proceeds	$ 3,191	$ 13,927	$ 12,591	$ 8,625	$ 19,008
Depreciation and amortization	$ 1,829	$ 2,852	$ 4,715	$ 5,482	$ 6,898
Balance Sheet Data (December 31):					
Working capital	$ 38,704	$ 38,336	$ 40,214	$ 56,146	$ 59,129
Total assets	58,172	80,201	101,435	122,283	129,153
Total debt	664	4,225	7,424	11,497	11,806
Total stockholders' equity	$ 46,006	$ 54,133	$ 71,046	$ 91,964	$ 95,609

Selected Unaudited Pro Forma Information:

	Year Ended December 31, 1997	Year Ended December 31, 2001
	(In Thousands Except Per Share Data)	
Historical net income	$ 4,158	$ 4,871
Add back: Management fee expense(a)	3,126	
Loss on impaired investments(b)	15,452	
Less applicable income tax expense	(1,394)	(5,903)
Pro Forma net income	$ 5,890	$ 14,420
Earnings per share:		
Basic	$ 0.47	$ 1.03
Diluted	$ 0.47	$ 1.02
Weighted average shares outstanding		
Basic	12,652,680	14,053,484
Diluted	12,652,680	14,168,044

(a)

The Company was an S corporation for federal and state income tax purposes from July 1, 1992 through June 17, 1997, and accordingly, was not subject to federal or state income taxes. The S corporation election was terminated on June 17, 1997 in contemplation of the Company's initial public offering. Since June 18, 1997, the Company has been a C corporation for federal and state income tax purposes. Pro forma net income: (i) reflects the elimination of management fee expense; and (ii) includes a provision for federal, state and foreign income taxes at an effective rate of 37.3% during the applicable S corporation period. Management fee expense was discontinued in connection with the initial public offering in June 1997. Pro forma presentation was not applicable for the years ended December 31, 1998, 1999, and 2000.

(b)

The Company recognized an impairment on its investment in Six Sigma, LLC for $3.1 million in the first quarter of 2001 and an impairment on its investment in Gifts.com, Inc. for $12.4 million in the fourth quarter of 2001.

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

All statements contained in this Form 10-K, which are not statements of historical facts, are forward-looking statements that involve substantial risks and uncertainties. Forward-looking statements are preceded by terms such as "may", "will", "should", "anticipates", "expects", "believes", "plans", "future", "estimate", "continue", and similar expressions. The following are important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements; these include, but are not limited to, inflation and general economic conditions in the Company's and its clients' markets, risks associated with the Company's reliance on principal clients, loss or delayed implementation of a large project or service offering for a principal client, which could cause substantial quarterly variation in the Company's revenues and earnings, difficulties in managing rapid growth, risks associated with rapidly changing technology, dependence on labor force, risks associated with international operations and expansion, control by principal stockholders, dependence on key personnel, dependence on key industries and trends toward outsourcing, risks associated with the Company's contracts, highly competitive markets, risks of business interruptions, volatility of the Company's stock price, risks related to the Company's investment in and notes receivable from Gifts.com, Inc., risks related to the Company's Internet web site operations, risks related to the Company's portfolio of Internet domain names, and risks related to changes

in valuation of the Company's investments. These factors include risks and uncertainties beyond the Company's ability to control; and, in many cases, the Company and its management cannot predict the risks and uncertainties that could cause actual results to differ materially from those indicated by use of forward-looking statements. Similarly, it is impossible for management to foresee or identify all such factors. As such, investors should not consider the foregoing list to be an exhaustive statement of all risks, uncertainties, or potentially inaccurate assumptions. All forward-looking statements herein are made as of the date hereof, and the Company undertakes no obligation to update any such forward-looking statements. All forward-looking statements herein are qualified in their entirety by information set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" "Risk Factors" appearing elsewhere in this Form 10-K.

Overview

StarTek has historically generated revenues through the performance of process management services, which include a comprehensive offering of supply chain management services, high-end inbound technical support, provisioning management for complex telecommunications systems, and E-commerce support and fulfillment. Substantially all of the Company's significant arrangements with its clients for its services generate revenues based, in large part, on the number and duration of customer inquiries, and the volume, complexity and type of components involved in the handling of clients' products. Changes in the complexity or type of components in the product units assembled by the Company may have an affect on the Company's revenues, independent of the number of product units assembled.

An essential element of the Company's ability to grow is availability of capacity to readily provide for the needs of new clients and the increasing needs of existing clients. StarTek currently operates from facilities in the United States, United Kingdom, and Canada. The Company's capacity expanded during 2001 through: i) purchase of a 49,000 square foot building in Kingston, Ontario; ii) lease of a 20,000 square foot space in Kingston, Ontario; and iii) lease of 74,000 square foot space in Cornwall, Ontario. Management believes StarTek's existing facilities are adequate for the Company's current and near-term operations, but continued capacity expansion will be required to support continued growth. Management intends to maintain a certain amount of excess capacity to enable StarTek to readily provide for the needs of new clients and the increasing needs of existing clients.

The Company frequently purchases components of its clients' products as an integral part of its process management services and in advance of providing its product assembly and packaging services. These components are packaged, assembled, and held by StarTek pending shipment. The Company generally has the right to be reimbursed from clients for unused inventories. Client-owned inventories are not valued in the Company's balance sheet. See Note 1 and 5 to the consolidated financial statements set forth herein for a further description of the Company's inventories.

Results of Operations

The following table should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Form 10-K, and sets forth certain consolidated income statement data expressed as a percentage of revenues:

	Year Ended December 31,		
	1999	**2000**	**2001**
Revenues	100.0%	100.0%	100.0%
Cost of services	81.3	76.5	75.4
Gross profit	18.7	23.5	24.6
Selling, general and administrative expenses	9.9	10.4	14.2
Operating profit	8.8	13.1	10.4
Net interest income and other	1.4	2.3	2.4
Loss on impaired investments			(8.5)
Income before income taxes	10.2	15.4	4.3
Income tax expense	3.8	5.7	1.6
Net income	6.4%	9.7%	2.7%

2001 Compared to 2000

Revenues. Revenues decreased $18.1 million, or 9.1%, from $200.7 million in 2000 to $182.6 million in 2001. This decrease was largely due to reduced revenue from the supply chain management services, partially offset by increased technical support services.

Costs of Services. Cost of services decreased $16.0 million, or 10.4%, from $153.6 million in 2000 to $137.6 million in 2001. As a percentage of revenues, cost of services was 76.5% and 75.4% in 2000 and 2001, respectively. This percentage decreased primarily due to an increase in high margin business.

Gross Profit. Due to the foregoing factors, gross profit decreased $2.2 million in 2001, or 4.6%, from $47.1 million in 2000 to $44.9 million in 2001. As a percentage of revenues, gross profit was 23.5% and 24.6% in 2000 and 2001, respectively.

Selling, General, and Administrative Expenses. Selling, general and administrative expenses increased $5.0 million, or 23.8%, from $20.9 million in 2000 to $25.9 million in 2001. As a percentage of revenues, selling, general and administrative expenses increased from 10.4% in 2000 to 14.2% in 2001. This increase was the result of facility expansions to support growth in technical support services and expenses incurred to attract and hire senior level managers during the year.

Operating Profit. As a result of the foregoing factors, operating profit decreased $7.1 million or 27.2% from $26.1 million in 2000 to $19.0 million in 2001. As a percentage of revenues, operating profit decreased from 13.1% in 2000 to 10.4% in 2001.

Net Interest Income and Other. Net interest income and other decreased $0.4 million or 8.5% from $4.7 million in 2000 to $4.3 million in 2001. The majority of net interest income and other continues to be derived from cash equivalents and investment balances, partially offset by interest expense incurred as a result of the Company's various debt and lease arrangements. The decrease is the result of lower interest rates in 2001.

Loss on Impaired Investments. The Company recorded a loss on impaired investments of $15.5 million, or 8.5% of revenue, in 2001. This loss was the result of the impairment of two investments. The first impairment, for $3.1 million, was related to the Company's investment in Six

Sigma, LLC and occurred due to the bankruptcy filing of Six Sigma, LLC because of alleged misappropriation of funds from its customer. The second impairment, for $12.4 million, was related to the Company's investment in Gifts.com, Inc. and resulted from continued operating losses, negative cash flows, and a deficiency in working capital of Gifts.com, Inc. Management intends to actively pursue recovery of these investments to the extent possible.

Income Before Income Taxes. As a result of the foregoing factors, income before income taxes decreased $22.9 million, or 74.4%, from $30.8 in 2000 to $7.9 million in 2001. As a percentage of revenues, income before income taxes decreased from 15.4% in 2000 to 4.3% in 2001.

Income Tax Expense. Income tax expense for 2000 and 2001 reflects a provision for federal, state, and foreign income taxes at an effective rate of 37.0% and 38.2% respectively.

Net Income. Based on the factors discussed above, net income decreased $14.5 million, or 74.9%, from $19.4 million in 2000 to $4.9 million in 2001.

2000 Compared to 1999

Revenues. Revenues decreased $4.5 million, or 2.2%, from $205.2 million in 1999 to $200.7 million in 2000. This decrease was largely due to reduced revenue from the Company's largest client and culling of less profitable business, partially offset by increased services provided to certain other clients.

Cost of Services. Cost of services decreased $13.3 million, or 7.9%, from $166.9 million in 1999 to $153.6 million in 2000. As a percentage of revenues, cost of services was 81.3% and 76.5% in 1999 and 2000, respectively. This percentage decreased primarily due to an improving mix of business, cost controls, and culling of less profitable business.

Gross Profit. Due to the foregoing factors, gross profit increased $8.8 million in 2000, or 22.9%, from $38.3 million in 1999 to $47.1 million in 2000. As a percentage of revenues, gross profit was 18.7% and 23.5% in 1999 and 2000, respectively.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $0.6 million, or 3.0%, from $20.3 million in 1999 to $20.9 million in 2000. As a percentage of revenues, selling, general and administrative expenses increased from 9.9% in 1999 to 10.4% in 2000.

Operating Profit. As a result of the foregoing factors, operating profit increased from $18.0 million in 1999 to $26.1 million in 2000. As a percentage of revenues, operating profit increased from 8.8% in 1999 to 13.1% in 2000.

Net Interest Income and Other. Net interest income and other was $2.8 million in 1999 and $4.7 million in 2000. The majority of net interest income and other continues to be derived from cash equivalents and investment balances, partially offset by interest expense incurred as a result of the Company's various debt and lease arrangements.

Income Before Income Taxes. As a result of the foregoing factors, income before income taxes increased $10.0 million, or 48.0%, from $20.8 million in 1999 to $30.8 million in 2000. As a percentage of revenues, income before income taxes increased from 10.2% in 1999 to 15.4% in 2000.

Income Tax Expense. Income tax expense for 1999 and 2000 reflects a provision for federal, state, and foreign income taxes at an effective rate of 37.5% and 37.0%, respectively.

Net Income. Based on the factors discussed above, net income increased $6.4 million, or 49.1%, from $13.0 million in 1999 to $19.4 million in 2000.

Liquidity and Capital Resources

Since its initial public offering in 1997, the Company has primarily financed its operations, liquidity requirements, capital expenditures, and capacity expansion through cash flows from operations, and to a lesser degree, through various forms of debt and leasing arrangements.

The Company had a $5.0 million secured line of credit with Wells Fargo Bank West, N.A. (the "Bank") that matured on April 30, 2001. The Company has established an unsecured $10.0 million line of credit with the Bank. Borrowing under the new line of credit bears interest at the Bank's prime rate minus 1% (3.75% as of December 31, 2001). Under this new line of credit, the Company is required to maintain minimum tangible net worth of $65.0 million and operate at a profit (excluding any adjustments of carrying value pertaining to Gifts.com, Inc). The Company may not pay dividends in an amount that would cause a failure to meet these financial covenants. As of December 31, 2001 and the date of this Form 10-K, the Company was in compliance with the financial covenants pertaining to the unsecured line of credit and $10.0 million was available under this line of credit.

On June 29, 2001, the Company purchased a 49,000 square foot building in Kingston, Ontario. The Company's investment in this facility totaled $7.1 million. The facility is principally used for a call center supporting a telecommunications client and for general office use and other services offered by the company.

As of December 31, 2001, the Company had cash, cash equivalents, and investment balances of $50.1 million, working capital of $59.1 million, and stockholders' equity of $95.6 million. Cash and cash equivalents are not restricted. See "*Quantitative and Qualitative Disclosure About Market Risk*" set forth herein for further discussions regarding the Company's cash, cash equivalents, investments available for sale, and trading securities.

Net cash provided by operating activities was $11.0 million and $25.9 million for the years ended December 31, 2000 and 2001, respectively. This increase was primarily a result of a decrease in net purchases of trading securities, partially offset by net changes in operating assets. Without the effect of net purchases/sales of trading securities, operating cash flows were $16,973, $24,720, and $19,534 in 1999, 2000, and 2001, respectively.

Net cash used in investing activities was $5.3 million and $34.5 million for the years ended December 31, 2000 and 2001, respectively. This increase was primarily due to an increase in purchases of property, plant, and equipment and the increased net purchases of investments available for sale.

Net cash provided by financing activities was $4.8 million and $1.1 million for the years ended December 31, 2000 and 2001, respectively. Financing activities, during both periods, consisted of principal payments on borrowings, offset by proceeds from exercises of employee stock options and borrowings.

The effect of currency exchange rate changes on translation of the Company's United Kingdom, Singapore and Canada operations was not substantial during the year 2001. Terms of the Company's agreements with clients and subcontractors are typically in US dollars except for certain agreements related to its United Kingdom and Canada operations. If the international portion of the Company's business continues to grow, more revenues and expenses will be denominated in foreign currencies, which increases the Company's exposure to fluctuations in currency exchange rates. See "*Quantitative and Qualitative Disclosure About Market Risk*" set forth herein for a further discussion of the Company's exposure to foreign currency exchange risks in connection with its investments.

Management believes the Company's cash, cash equivalents, investments, anticipated cash flows from future operations, and $10.0 million line of credit will be sufficient to support its operations, capital expenditures, and various repayment obligations under its debt and lease agreements for the foreseeable future. Liquidity and capital requirements depend on many factors, including, but not

limited to, the Company's ability to retain or successfully and timely replace its principal clients and the rate at which the Company expands its business, whether internally or through acquisitions and strategic alliances. To the extent funds generated from sources described above are insufficient to support the Company's activities in the short or long-term, the Company will be required to raise additional funds through public or private financing. No assurance can be given that additional financing will be available, or if available, it will be available on terms favorable to the Company.

Contractual Obligations (in thousands)

	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
Long-term debt(1)	$ 3,605	$ 5,116	$ 1,791	$ 1,294	$ 11,806
Operating leases(2)	1,211	1,702	1,457	2,516	6,886

	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
Total Contractual Obligations	$ 4,816	$ 6,818	$ 3,248	$ 3,810	$ 18,692

(1)
Long-term debt consists of fixed rate equipment loans ranging from 5.0% to 7.9%, v