STARTEK INC
Form 10-Q
July 31, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

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.)
44 Cook Street, 4th Floor **Denver, Colorado** (Address of principal executive offices)	**80206** (Zip code)

(303) 399-2400

(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 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 x No o

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

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock, $0.01 Par Value 14,857,654 shares as of July 15, 2009.

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STARTEK, INC. AND SUBSIDIARIES

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

Our business and results of operations are subject to risks and uncertainties, many of which are beyond our ability to control or predict. Because of these risks and uncertainties, actual results may differ materially from those expressed or implied by forward-looking statements, and investors are cautioned not to place undue reliance on such statements, 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, 2008.

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Part I. Financial Information

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

STARTEK, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(Dollars in thousands, except per share data)

(Unaudited)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Revenue	$ 73,290	$ 65,467	$ 144,001	$ 130,050
Cost of services	60,161	57,163	120,149	112,279
Gross profit	13,129	8,304	23,852	17,771
Selling, general and administrative expenses	10,889	10,227	20,581	20,317
Impairment losses and restructuring charges		5,500	6,437	5,608
Operating income (loss)	2,240	(7,423)	(3,166)	(8,154)
Net interest and other (expense) income	(103)	90	(178)	400
Income (loss) from continuing operations before income taxes	2,137	(7,333)	(3,344)	(7,754)
Income tax expense (benefit)	810	(2,745)	(683)	(2,763)
Net income (loss) from continuing operations	1,327	(4,588)	(2,661)	(4,991)
Income from discontinued operations, net of tax (including gain on disposal of $6,937 during the six months ended June 30, 2009)		69	4,640	141
Net income (loss)	$ 1,327	$ (4,519)	$ 1,979	$ (4,850)
Basic net income (loss) per share from:				
Continuing operations	$ 0.09	$ (0.31)	$ (0.18)	$ (0.34)
Discontinued operations		0.00	0.31	0.01
Net income (loss)	$ 0.09	$ (0.31)	$ 0.13	$ (0.33)
Diluted net income (loss) per share from:				
Continuing operations	$ 0.09	$ (0.31)	$ (0.18)	$ (0.34)
Discontinued operations		0.00	0.31	0.01
Net income (loss)	$ 0.09	$ (0.31)	$ 0.13	$ (0.33)

See notes to condensed consolidated financial statements.

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STARTEK, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Dollars in thousands, except share and per share data)

	As of			
		June 30, 2009 (Unaudited)		**December 31, 2008**
ASSETS				
Current assets:				
Cash and cash equivalents	$	19,827	$	9,580
Investments		498		8,437
Trade accounts receivable, less allowance for doubtful accounts of $32 and $32, respectively		55,782		51,510
Income tax receivable		1,550		2,675
Deferred income tax assets		730		2,185
Derivative asset		996		
Prepaid expenses and other current assets		3,144		3,273
Total current assets		82,527		77,660
Property, plant and equipment, net		55,556		59,608
Long-term deferred income tax assets		8,164		8,946
Other assets		704		650
Total assets	$	146,951	$	146,864
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Accounts payable	$	5,406	$	6,193
Derivative liability		97		2,323
Accrued liabilities:				
Accrued payroll		8,003		9,158
Accrued compensated absences		4,831		4,856
Accrued restructuring costs		2,032		995
Other accrued liabilities		4,234		2,317
Current portion of long-term debt				3,295
Other current liabilities		1,146		954
Total current liabilities		25,749		30,091
Long-term debt, less current portion				3,199
Accrued restructuring costs		4,470		1,714
Deferred rent liability		4,203		4,501
Other liabilities		286		340
Total liabilities		34,708		39,845
Commitments and contingencies				
Stockholders equity:				
Common stock, 32,000,000 non-convertible shares, $0.01 par value, authorized; 14,857,654 and 14,813,912 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively		149		148
Additional paid-in capital		65,490		64,440
Accumulated other comprehensive income (loss), net of tax		1,779		(415)
Retained earnings		44,825		42,846
Total stockholders equity		112,243		107,019

Total liabilities and stockholders equity	$	146,951	$	146,864

See notes to condensed consolidated financial statements.

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STARTEK, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Dollars in thousands)

(Unaudited)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Operating Activities		
Net income (loss)	$ 1,979	$ (4,850)
Income from discontinued operations	4,640	141
Loss from continuing operations	(2,661)	(4,991)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation	7,798	9,085
Impairment of property, plant and equipment	1,756	4,070
Non-cash compensation cost	937	614
Deferred income taxes	1,407	(1,612)
Other, net	(1)	16
Changes in operating assets and liabilities:		
Trade accounts receivable, net	(4,316)	(863)
Prepaid expenses and other assets	81	12
Accounts payable	(872)	758
Income taxes, net	1,172	(1,532)
Accrued and other liabilities	3,558	3,895
Net cash provided by continuing operating activities	8,859	9,452
Cash (used in) provided by discontinued operating activities	(2,335)	141
Net cash provided by operating activities	6,524	9,593
Investing Activities		
Purchases of investments available for sale		(10,899)
Proceeds from disposition of investments available for sale	8,021	9,469
Purchases of property, plant and equipment	(5,032)	(12,733)
Net cash provided by (used in) continuing investing activities	2,989	(14,163)
Cash provided by discontinued investing activities	7,075	
Net cash provided by (used in) investing activities	10,064	(14,163)
Financing Activities		
Principal payments on borrowings	(6,855)	(2,179)
Principal payments on line of credit	(22,236)	(43,093)
Proceeds from line of credit	22,236	43,093
Proceeds from issuance of common stock	112	
Principal payments on capital lease obligations	(99)	(25)
Net cash used in continuing financing activities	(6,842)	(2,204)
Cash provided by discontinued financing activities		
Net cash used in financing activities	(6,842)	(2,204)
Effect of exchange rate changes on cash	501	(570)
Net increase (decrease) in cash and cash equivalents	10,247	(7,344)
Cash and cash equivalents at beginning of period	9,580	23,026
Cash and cash equivalents at end of period	$ 19,827	$ 15,682

Supplemental Disclosure of Cash Flow Information				
Cash paid for interest	$	141	$	348
Income taxes paid	$	644	$	1,384
Property, plant and equipment acquired or refinanced under long-term debt	$	257	$	385

See notes to condensed consolidated financial statements.

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STARTEK, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America 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 during the three and six months ended June 30, 2009, are not necessarily indicative of operating results that may be expected during any other interim period of 2009 or the year ending December 31, 2009. We have evaluated all subsequent events through July 31, 2009, the date the financial statements were issued.

The consolidated balance sheet as of December 31, 2008, was derived from audited financial statements at that date, but does not include all information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the StarTek, Inc. Annual Report on Form 10-K for the year ended December 31, 2008.

Certain reclassifications have been made to 2008 information to conform to 2009 presentation due to the presentation of discontinued operations (see Note 5).

Unless otherwise noted in this report, any description of us refers to StarTek, Inc. and our subsidiaries. The assets and liabilities of our foreign operations that are recorded in foreign currencies are translated into U.S. dollars at exchange rates prevailing at the balance sheet date. Revenues and expenses are translated at the weighted-average exchange rate during the reporting period.

Recently Adopted Accounting Pronouncements

Effective January 1, 2009, we adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157), for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value on a recurring basis (at least annually) for which SFAS No. 157 was previously adopted. Refer to Note 9, Fair Value Measurements, of this Form 10-Q for additional information on the adoption of SFAS No. 157.

Effective January 1, 2009, we adopted Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (SFAS No. 161). SFAS No. 161 requires entities to provide greater transparency through additional disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133) and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, results of operations and cash flows. Refer to Note 8, Derivative Instruments, of this Form 10-Q for additional information on the adoption of SFAS No. 161.

We adopted Statement of Financial Accounting Standards No. 141(R), Business Combinations (SFAS No. 141(R)), which significantly changed the accounting for and reporting of business combination transactions. This standard was effective for us for business combination transactions for which the acquisition date was on or after January 1, 2009. No business combination transactions occurred during the six months ended June 30, 2009.

We adopted FASB Staff Position No. 115-2 and SFAS No. 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP No. 115-2 and SFAS No. 124-2), in the second quarter of 2009. FSP No. 115-2 and SFAS No. 124-2 modifies the other-than-temporary impairment guidance for debt securities through increased consistency in the timing of impairment recognition and enhanced disclosures related to the credit and noncredit components of impaired debt securities that are not expected to be sold. In addition, increased disclosures are required for both debt and equity securities regarding expected cash flows, credit losses, and securities with unrealized losses. Refer to Note 7, Investments , of this Form 10-Q for the relevant disclosures required by adoption of FSP No. 115-2 and SFAS No. 124-2. The adoption of FSP No. 115-2 and SFAS No. 124-2 did not have a material impact on our financial statements.

We adopted FASB Staff Position No. 107-1 and APB Opinion No. 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP No. 107-1 and APB Opinion No. 28-1), in the second quarter of 2009. FSP No. 107-1 and APB Opinion No. 28-

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1 requires fair value disclosures for financial instruments that are not reflected in the Condensed Consolidated Balance Sheets at fair value. Prior to the issuance of FSP No. 107-1 and APB Opinion No. 28-1, the fair values of those assets and liabilities were disclosed only annually. With the issuance of FSP No. 107-1 and APB Opinion No. 28-1, we are now required to disclose this information on a quarterly basis, providing quantitative and qualitative information about fair value estimates for all financial instruments not measured in the Condensed Consolidated Balance Sheets at fair value. The adoption of FSP No. 107-1 and APB Opinion No. 28-1 did not have a material impact on our financial statements.

We adopted Statement of Financial Accounting Standards No. 165, Subsequent Events (SFAS No. 165), in the second quarter of 2009. SFAS No. 165 establishes the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. Refer to this Note 1, Basis of Presentation, for the related disclosures. The adoption of SFAS No. 165 did not have a material impact on our financial statements.

Recently Issued Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (SFAS No. 168). SFAS No. 168 will become the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP), superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF), and related accounting literature. SFAS No. 168 reorganizes the thousands of GAAP pronouncements into roughly 90 accounting topics and displays them using a consistent structure. Also included is relevant Securities and Exchange Commission guidance organized using the same topical structure in separate sections. SFAS No. 168 will be effective for financial statements issued for reporting periods that end after September 15, 2009. This will have an impact on our financial statements since all future references to authoritative accounting literature will be references in accordance with SFAS No. 168.

2. SEGMENT INFORMATION

We operate within three business segments, U.S., Canada and Offshore. The business segments align with those regions in which our services are rendered. As of June 30, 2009, the U.S. segment included the operations of our thirteen facilities in the U.S., the Canada segment included the operations of our five facilities in Canada and the Offshore segment included the operations of our facility in Makati City, Philippines. We use gross profit as our measure of profit and loss for each business segment and do not allocate selling, general and administrative expenses to our business segments.

Information about our reportable segments, which correspond to the geographic areas in which we operate, is as follows:

	For the Three Months Ended June 30, 2009	For the Three Months Ended June 30, 2008	For the Six Months Ended June 30, 2009	For the Six Months Ended June 30, 2008
Revenue:				
United States	$ 52,033	$ 41,767	$ 101,397	$ 81,725
Canada	19,232	23,700	38,413	48,325

Offshore		2,025				4,191		
Total	$	73,290	$	65,467	$	144,001	$	130,050
Gross profit:								
United States	$	10,085	$	6,239	$	18,882	$	14,245
Canada		3,268		2,065		5,014		3,526
Offshore		(224)				(44)		
Total	$	13,129	$	8,304	$	23,852	$	17,771

3. NET INCOME (LOSS) PER SHARE

Basic and diluted net income (loss) per common share is computed on the basis of our weighted average number of common shares outstanding, as determined by using the calculations outlined below:

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	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Income (loss) from continuing operations	$ 1,327	$ (4,588)	$ (2,661)	$ (4,991)
Income from discontinued operations, net of tax		69	4,640	141
Net income (loss)	$ 1,327	$ (4,519)	$ 1,979	$ (4,850)
Weighted average shares of common stock	14,782	14,706	14,768	14,706
Dilutive effect of stock options	30		11	
Common stock and common stock equivalents	14,812	14,706	14,779	14,706
Basic net income (loss) per share from:				
Continuing operations	$ 0.09	$ (0.31)	$ (0.18)	$ (0.34)
Discontinued operations		0.00	0.31	0.01
Net income (loss)	$ 0.09	$ (0.31)	$ 0.13	$ (0.33)
Diluted net income (loss) per share from:				
Continuing operations	$ 0.09	$ (0.31)	$ (0.18)	$ (0.34)
Discontinued operations		0.00	0.31	0.01
Net income (loss)	$ 0.09	$ (0.31)	$ 0.13	$ (0.33)

Diluted earnings per share is computed on the basis of our weighted average number of common shares outstanding plus the effect of dilutive outstanding stock options and non-vested restricted stock using the treasury stock method. Anti-dilutive securities totaling 2,156 and 2,993 in the three and six months ended June 30, 2009, respectively, were not included in our calculation because the stock options exercise prices were greater than the average market price of the common shares during the periods and anti-dilutive securities totaling 1,867 and 1,624 in the three and six months ended June 30, 2008, respectively, were not included in our calculation due to our net loss from continuing operations during those periods.

4. IMPAIRMENT LOSSES AND RESTRUCTURING CHARGES

Impairment Losses

During the six months ended June 30, 2009, we incurred $1,756 of impairment losses in our Canadian segment, due to the impairment of certain long-lived assets for which the carrying value of those assets is not recoverable. These assets are located in a facility for which we are uncertain about our ability to generate future cash flows to support the carrying value of these assets. The long-lived assets include computer and telephone equipment, furniture and fixtures, leasehold improvements and software. Refer to Note 9, Fair Value Measurements, of this Form 10-Q, for additional information on the fair value measurements for all assets and liabilities that are measured at fair value in the Condensed Consolidated Financial Statements.

Restructuring Charges

In August 2007, August 2008, December 2008 and February 2009, we closed facilities in Hawkesbury, Ontario, Big Spring, Texas, Petersburg, Virginia and Regina, Saskatchewan, respectively. We have recorded restructuring charges related to lease costs and other expenses related to the facility closures. In accordance with Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS No. 146), we recognized the liability when it was incurred, instead of upon commitment to a plan. A significant assumption used in determining the amount of estimated liability incurred in closing a facility is the estimated liability for future lease payments on vacant facilities. 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 our Condensed Consolidated Statements of Operations.

We expect to incur total restructuring charges related to our Canada segment of approximately $6,988 ($2,312 and $4,676 related to the Hawkesbury and Regina closures, respectively). We expect to incur total restructuring charges related to our U.S. segment of approximately $1,964 ($302 and $1,662 related to the Big Spring and Petersburg closures, respectively). The cumulative amount paid as of June 30, 2009 related to the closure of Hawkesbury, Regina and Petersburg is $1,123, $513 and $561, respectively. We expect completion of the Hawkesbury, Petersburg and Regina restructuring plans no later than 2012, 2013 and 2013 respectively; however, it may be earlier depending on our ability to sublease the respective facility or buy-out the applicable lease. During February 2009, we

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bought out the remainder of the lease at the Big Spring facility for approximately $184 and do not expect to incur any additional charges. Refer to Note 9, Fair Value Measurements, of this Form 10-Q, for additional information on the fair value measurements for all assets and liabilities, including restructuring charges, that are measured at fair value in the Condensed Consolidated Financial Statements.

A summary of the activity under the restructuring plans as of June 30, 2009, and changes during the six months ended June 30, 2009 is presented below:

	Facility-Related Costs						
	Hawkesbury	Regina	Canada Total	Big Spring	Petersburg	U.S. Total	Company Total
Balance as of January 1, 2009	$ 1,099	$	$ 1,099	$ 208	$ 1,402	$ 1,610	$ 2,709
Expense	16	4,436	4,452	31	198	229	4,681
Payments	(218)	(513)	(731)	(239)	(403)	(642)	(1,373)
Reclassification of long-term liability		136	136		(25)	(25)	111
Foreign currency translation adjustment	44	335	379				379
Balance as of June 30, 2009	$ 941	$ 4,394	$ 5,335	$	$ 1,172	$ 1,172	$ 6,507

5. DISCONTINUED OPERATIONS

On February 25, 2009, we entered into an agreement to sell the assets of Domain.com, our wholly owned subsidiary, to A. Emmet Stephenson, Jr., Inc. (Mr. Stephenson) in exchange for cash of $7,075. The assets of Domain.com consist of domain names, trademarks and corporation names. We conducted an auction for the assets and received bids from multiple parties, including Mr. Stephenson. Mr. Stephenson presented the highest bid, which represented the selling price, of $7,075 and the sale was completed effective February 25, 2009. Mr. Stephenson is one of our co-founders, has managed the Domain.com subsidiary since 2006 and owns approximately 20% of our common shares outstanding. Because the transaction involves a related party, the Audit Committee of our Board of Directors considered and approved the transaction.

The results of operations and cash flows of Domain.com have been reported in the Condensed Consolidated Statements of Operations as discontinued operations. The following table summarizes the results of discontinued operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Operating income from discontinued operations before income taxes	$	$ 110	$ 27	$ 226
Gain on the sale of discontinued operations			6,937	
Income tax expense		(41)	(2,324)	(85)
Income from discontinued operations, net of tax	$	$ 69	$ 4,640	$ 141

6. PRINCIPAL CLIENTS

The following table represents revenue concentration of our principal clients.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
AT&T Services, Inc. and AT&T Mobility, LLC, subsidiaries of AT&T, Inc.	64.2%	51.7%	64.5%	50.6%
T-Mobile USA, Inc., a subsidiary of Deutsche Telekom	22.0%	28.6%	21.4%	28.2%

The loss of a principal client and/or changes in timing or termination of a principal client s product launch, volume delivery or service offering would have a material adverse effect on our business, revenue, operating results, and financial condition. To limit our credit risk, management from time to time will perform credit evaluations of our clients. Although we are directly impacted by the economic conditions in which our clients operate, management does not believe substantial credit risk existed as of June 30, 2009.

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7. INVESTMENTS

Investments available for sale consisted of:

	Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of June 30, 2009:				
Corporate debt securities	$ 493	$ 5	$	$ 498
As of December 31, 2008:				
Corporate debt securities	$ 8,513	$ 9	$ (85)	$ 8,437

As of June 30, 2009, the investments in our portfolio have remaining contractual maturities within one year. There are no investments as of June 30, 2009 that have carried unrealized losses for longer than twelve months. Refer to Note 9, Fair Value Measurements, of this Form 10-Q, for additional information on the fair value measurements for all assets and liabilities, including investments, that are measured at fair value in the Condensed Consolidated Financial Statements. Proceeds from the sale of investment securities available for sale were $1,491 and $8,021 for the three and six months ended June 30, 2009, respectively, and $4,515 and $9,469 for the three and six months ended June 30, 2008, respectively. Gross realized gains included in other income were $0 and $5 for the three and six months ended June 30, 2009, respectively, and $0 and $0 for the three and six months ended June 30, 2008, respectively. Gross realized losses included in other income were $3 and $3 for the three and six months ended June 30, 2009, respectively, and $0 and $0 for the three and six months ended June 30, 2008, respectively. Original cost of investments available for sale is based on the specific identification method.

The following table summarizes the aggregate fair value of those investments in a gross unrealized loss position:

	As of June 30, 2009	As of December 31, 2008
Investments in a continuous unrealized loss position for less than 12 months		
Aggregate unrealized losses on corporate debt securities	$	$ (38)
Aggregate fair value of corporate debt securities		1,996
Investments in a continuous unrealized loss position for greater than 12 months		
Aggregate unrealized losses on corporate debt securities	$	$ (47)
Aggregate fair value of corporate debt securities		3,447

8. 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. The contracts cover periods commensurate with expected exposure, generally within six months, and are principally unsecured foreign exchange contracts. The market risk exposure is essentially limited to risk related to currency rate movements. Our Canadian and Philippine subsidiaries functional currencies are the Canadian dollar and the Philippine peso, respectively, which are used to pay labor and other operating costs in those countries. However, our client contracts primarily generate revenues which are paid to us in U.S. dollars. We have elected to follow cash flow hedge accounting under SFAS No. 133 in order to associate the results of the hedges with forecasted future expenses. The current mark-to-market gain or loss is recorded in accumulated other comprehensive income (AOCI) as a component of stockholders equity and will be re-classified to operations as the forecasted expenses are incurred, typically within one year. During the three and six months ended June 30, 2009 and 2008, our cash flow hedges were highly effective and there were no amounts charged to the Condensed Consolidated Statements of Operations for hedge ineffectiveness.

During the six months ended June 30, 2009, we entered into Canadian dollar forward contracts with Wells Fargo Bank for a notional amount of $13,500 Canadian dollars to hedge our foreign currency risk with respect to labor costs in Canada. As of June 30, 2009, we have not entered into any arrangements to hedge our exposure to fluctuations in the Philippine peso relative to the U.S. dollar.

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The following table shows the notional principal of our derivative instruments as of June 30, 2009:

	Currency	Notional Principal
Instruments qualifying as accounting hedges:		
Foreign exchange contracts	Canadian dollar	CDN $ 29,100

The above foreign exchange contracts are to be delivered periodically through December 2009 at a purchase price which is no more than $24,285 and no less than $23,968. The estimates of fair value are based on applicable and commonly used pricing models and prevailing financial market information as of June 30, 2009. Refer to Note 9, Fair Value Measurements, of this Form 10-Q, for additional information on the fair value measurements for all assets and liabilities, including derivative assets and derivative liabilities, that are measured at fair value in the Condensed Consolidated Financial Statements.

The following table shows our derivative instruments measured at gross fair value as reflected in the Condensed Consolidated Balance Sheet as of June 30, 2009:

	Fair Value of Derivatives Designated as Hedge Instruments
Derivative assets:	
Foreign exchange contracts	$ 996
Derivative liabilities:	
Foreign exchange contracts	$ (97)

The following table shows the effect of our derivative instruments designated as cash flow hedges in the Condensed Consolidated Statement of Operations for the three and six months ended June 30, 2009:

	Three Months Ended				
	June 30, 2009		June 30, 2008		
	Gain Recognized in AOCI	Gain Reclassified from AOCI into Income	Gain Recognized in AOCI	Gain Reclassified from AOCI into Income	Location of Gain Reclassified from AOCI into Income
Cash flow hedges:					
Foreign exchange contracts	$ 1,713	$ 23	$ 71	$ 26	Cost of services

	Six Months Ended				
	June 30, 2009		June 30, 2008		
	Gain Recognized in AOCI	Loss Reclassified from AOCI into Income	Loss Recognized in AOCI	Loss Reclassified from AOCI into Income	Location of Loss Reclassified from AOCI into Income
Cash flow hedges:					

Foreign exchange contracts	$	2,007	$	(1,629)	$	(41)	$	(182)	Cost of services

9. FAIR VALUE MEASUREMENTS

As of January 1, 2009, we adopted SFAS No. 157 for all non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements. We had previously adopted SFAS No. 157 for all financial assets and liabilities. SFAS No. 157 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions, and credit risk.

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SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The levels of the fair value hierarchy under SFAS No. 157 are described below:

Level 1	Valuation is based upon quoted prices for identical instruments traded in active markets.
Level 2	Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
Level 3	Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Investments

As of June 30, 2009 and December 31, 2008, our investments consisted entirely of corporate debt securities. Our corporate debt securities are valued using third-party broker statements. The value of the majority of our corporate debt securities is derived from quoted market information. The inputs to the valuation are generally classified as Level 1 given the active market for these securities, however, if an active market does not exist, the inputs are recorded at a lower level in the fair value hierarchy.

Derivative Instruments and Hedging Activities

Our derivative instruments are valued using third-party broker or counterparty statements. The value is derived from pricing models using inputs based upon market information, including contractual terms, market prices and yield curves. The inputs to the valuation pricing models are observable in the market, and as such are generally classified as Level 2 in the fair value hierarchy.

Restructuring Charges

SFAS No. 146 specifies that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, instead of upon commitment to an exit plan. On an ongoing basis, management assesses the profitability and utilization of our facilities and in some cases management has chosen to close facilities. 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, which we determine based on a third-party broker s assessment of our ability to successfully negotiate early termination agreements with landlords and/or to sublease the facility, 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 Condensed Consolidated Statements of Operations.

As described in Note 4, Impairment Losses and Restructuring Charges, during the six months ended June 30, 2009, we closed our facility in Regina, Saskatchewan, which resulted in $0 and $4,436 of accrued restructuring costs during the three and six months ended June 30, 2009. These costs were valued using a discounted cash flow model. The cash flows consist of the future lease payment obligations required under the lease agreement. We assumed that we would not sublease the vacant facility for the remainder of the lease term based on our knowledge of the Regina marketplace, as well as our historical inability to sublease our facilities in other locations in which we operate. In the future, if we are able to sublease the facility, we may be required to record a gain in the Condensed Consolidated Statements of Operations. Future cash flows also include estimated property taxes through the remainder of the lease term, which are valued based upon historical tax payments. The future cash flows were discounted using a rate of 3%. 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.

Impairment of Long-Lived Assets

As described in Note 4, Impairment Losses and Restructuring Charges, during the three and six months ended June 30, 2009, we recorded approximately $0 and $1,756 of impairment losses in our Canadian segment, due to the impairment of certain long-lived assets for which the carrying value of those assets is not recoverable. These assets are located in a facility for which we do not have long-term customer commitments and therefore, we are uncertain about our ability to generate future cash flows to support the carrying value of these assets. The long-lived assets include computer and telephone equipment, furniture and fixtures, leasehold improvements and software. For assets which were not recoverable through future cash flows or could not be used in another facility,

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we reduced the carrying value to fair value. The fair value of these long-lived assets after the impairment charge was $228. Given that the impairment losses were valued using internal estimates, we have classified the remaining fair value of long-lived assets 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. As required by SFAS No. 157, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Assets Measured at Fair Value on a Recurring Basis as of June 30, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Corporate debt securities	$ 498	$	$	$ 498
Derivative instruments		899		899
Total fair value of assets measured on a recurring basis	$ 498	$ 899	$	$ 1,397

	Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis During the Six Months ended June 30, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Property, plant and equipment, net	$	$	$ 228	$ 228
Total fair value of assets measured on a non-recurring basis	$	$	$ 228	$ 228
Liabilities:				
Accrued restructuring costs	$	$	$ 4,436	$ 4,436
Total fair value of liabilities measured on a non-recurring basis	$	$	$ 4,436	$ 4,436

10. DEBT

On June 26, 2009, we entered into a business loan agreement, promissory note and three commercial security agreements (together the Agreement) with UMB Bank Colorado, N.A. (UMB Bank) for a $15 million secured revolving line of credit. The Agreement is effective July 1, 2009 through August 1, 2010. This Agreement replaced our $10 million secured revolving line of credit with Wells Fargo Bank N.A., which expired by its terms on June 30, 2009. There was no balance outstanding on either the line of credit with UMB Bank or the previous line of credit with Wells Fargo Bank N.A. as of June 30, 2009.

Borrowings under the Agreement bear interest, at our option at the time of the borrowing, of the thirty, sixty or ninety day LIBOR index, plus 1.75%. The interest rate shall never be less than 3.25% per annum. Under the Agreement, we granted UMB Bank a security interest in all of our present and future accounts receivable, general intangibles, and owned real property. In addition, under the Agreement, we are subject to certain financial covenants, which include maintaining 1) a ratio of total liabilities to tangible net worth of less than 1.0 to 1.0, 2) a tangible net worth of at least $105 million, 3) unencumbered liquid assets, defined as cash, certificate of deposits and marketable securities, of at least $10 million measured on the last day of each fiscal quarter and 4) a cash flow coverage ratio, as defined in the Agreement, of greater than 1.50 to 1.0 measured on the last day of each fiscal quarter for the previous twelve months.

In addition, during the three months ended June 30, 2009, we paid off the remaining principal balance on the Secured Equipment Promissory Note between Wells Fargo Equipment Finance, Inc. and StarTek USA, Inc., our wholly owned subsidiary, and the Canadian Dollar Secured Equipment Loan between Wells Fargo Equipment Finance Company, Inc. and StarTek Canada Services, Ltd., our wholly owned subsidiary. The loans had original maturities in November 2010. The total payoff on these loans, including pre-payment penalties, was $5,688.

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11. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income, establishes standards for reporting and display of comprehensive income. Comprehensive income is defined essentially as all changes in stockholders equity, exclusive of transactions with owners. The following represents the components of other comprehensive income (loss):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net income (loss)	$ 1,327	$ (4,519)	$ 1,979	$ (4,850)
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax	224	(78)	136	(451)
Change in fair value of derivative instruments, net of tax	1,713	71	2,007	(41)
Unrealized gain (loss) on available for sale securities, net of tax	7	153	51	(67)
Comprehensive income (loss)	$ 3,271	$ (4,373)	$ 4,173	$ (5,409)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Accumulated foreign currency translation adjustments:				
Beginning balance	$ 1,002	$ 2,180	$ 1,090	$ 2,553
Translation adjustments, net of tax	224	(78)	136	(451)
Ending balance	$ 1,226	$ 2,102	$ 1,226	$ 2,102
Accumulated unrealized derivative (losses) gains:				
Beginning balance	$ (1,150)	$ (92)	$ (1,444)	$ 20
Gain (loss) reclassified to earnings, net of tax	14	16	(1,019)	(114)
Change in fair value of cash flow hedges, net of tax	1,699	55	3,026	73
Ending balance	$ 563	$ (21)	$ 563	$ (21)
Accumulated unrealized losses on available for sale securities:				
Beginning balance	$ (17)	$ (249)	$ (61)	$ (29)
Gain (loss) reclassified to earnings, net of tax	2		(1)	
Change in fair value of available for sale securities, net of tax	5	153	52	(67)
Ending balance	$ (10)	$ (96)	$ (10)	$ (96)

12. SHARE-BASED COMPENSATION

Compensation cost that has been charged against income related to share-based compensation for the three months ended June 30, 2009 and 2008 was $472 and $241, respectively and is included in selling, general and administrative expense. The compensation cost that has been charged for the six months ended June 30, 2009 and 2008 was $937 and $614, respectively. A summary of activity during the six months ended June 30, 2009 related to our equity awards is presented below.

Stock Options

A summary of option activity as of June 30, 2009, and changes during the six months then ended is presented below:

	Shares	Weighted Average Exercise Price
Outstanding as of January 1, 2009	1,629	$ 11.45
Granted	678	4.29
Exercised		
Forfeited	(111)	8.65
Expired	(34)	15.55
Outstanding as of June 30, 2009	2,162	$ 9.29

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Restricted Shares

Restricted share activity during the six months ended June 30, 2009 was as follows:

	Restricted Shares	Grant Date Fair Value
Non-vested balance as of January 1, 2009	62	$ 10.45
Granted	7	4.76
Vested	(14)	9.01
Forfeited	(3)	9.01
Non-vested balance as of June 30, 2009	52	$ 10.14

13. INCOME TAXES

The year-to-date effective tax rate for continuing operations decreased from 35.6% during the six months ended June 30, 2008 to 20.4% during the six months ended June 30, 2009. The primary difference between the periods is an increase in work opportunity credits and a larger impact from the change in the Canadian statutory tax rates in 2009 compared to 2008. Effective January 1, 2008, the Canadian statutory rate was reduced from 22.1% to 19.5% for fiscal year 2008 and to 19.0% for fiscal year 2009. The rate will continue to decrease each year until it is 15.0% by 2012.

Differences between U.S. statutory income tax rates and our effective tax rates for continuing operations for the six months ended June 30, 2009 and 2008 were:

	Six Months Ended June 30,	
	2009	2008
U.S. statutory tax rate	35.0%	35.0%
Effect of state taxes (net of Federal benefit)	4.3%	1.6%
Work opportunity credits	(17.2)%	7.2%
Effect of change in Canadian tax rate	(12.0)%	(5.4)%
Meals and entertainment	4.2%	(1.9)%
Other, net	6.1%	(0.9)%
Total	20.4%	35.6%

14. LITIGATION

In our Annual Report on Form 10-K filed March 3, 2009, we described two material pending litigation matters: West Palm Beach Firefighters Pension Fund v. StarTek, Inc., et al. (U.S. District Court, District of Colorado) filed on July 8, 2005, and John Alden v. StarTek, Inc., et al. (U.S. District Court, District of Colorado) filed on July 20, 2005 (the Litigation).

On July 20, 2009, we executed a Stipulation of Settlement (Stipulation) with lead plaintiffs to settle the Litigation. Under the terms of the Stipulation, defendants will pay $7,500 to completely resolve the Litigation, in exchange for a release of all claims by lead plaintiffs and class members and a dismissal of the Litigation with prejudice. StarTek s primary insurance carrier will contribute $6,900 and StarTek will contribute $600 to the Settlement Fund (as defined in the Stipulation). The settlement as set forth in the Stipulation is subject to various conditions, including preliminary approval by the United States District Court for the District of Colorado (the Court), notice to the class members, a final hearing, and final approval by the Court. We have accrued for our portion of the settlement due, or $600 in our Condensed Consolidated Statement of Operations during the three and six months ended June 30, 2009.

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

15. SUBSEQUENT EVENT

On July 20, 2009, we executed a Stipulation of Settlement with lead plaintiffs to settle two pending litigation matters. Refer to Note 14, Litigation , for further information regarding the Stipulation of Settlement.

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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 related Notes included elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2008, and with the information under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2008.

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

BUSINESS DESCRIPTION AND OVERVIEW

StarTek is a provider of business process outsourcing services to the communications industry. We partner with our clients to meet their business objectives and improve customer retention, increase revenues and reduce costs through an improved customer experience. Our solutions leverage industry knowledge, best business practices, skilled agents, proven operational excellence and flexible technology. The StarTek comprehensive service suite includes customer care, sales support, complex order processing, accounts receivable management, technical support and other industry-specific processes. We operate our business within three reportable segments, based on the geographic regions in which our services are rendered: (1) the U.S., (2) Canada and (3) the Philippines (Offshore). As of June 30, 2009, our U.S. segment included the operations of our thirteen facilities in the U.S.; our Canada segment included the operations of our five facilities in Canada; and our Offshore segment included the operations of our facility in Makati City, Philippines. As of June 30, 2008, there were fourteen, six and zero operating centers in the U.S., Canada and Offshore, respectively. We use gross profit as our measure of profit and loss for each business segment and do not allocate selling, general and administrative expenses to our business segments.

We endeavor to achieve site optimization at all of our locations by routinely evaluating site performance. If local economic conditions, prevailing wage rates, or other factors, negatively impact the long-term financial viability of a location, management will from time to time make the decision to close a facility. As a result, we may incur impairment losses or restructuring charges in connection with the closure. Likewise, management is continually in pursuit of opportunities to open new locations in economically viable geographic markets in order to improve profitability and grow the business.

SIGNIFICANT DEVELOPMENTS DURING THE THREE AND SIX MONTHS ENDED JUNE 30, 2009

In February 2009, we closed our facility in Regina, Saskatchewan. The closure of our Regina facility was driven by market conditions, namely recruiting challenges in this location, which impacted the profitability of the site and management determined it was in our long-term interest to close the location. This closure resulted in approximately $2.9 million and $5.2 million less revenue during the three and six months ended June 30, 2009 and $0.1 million and $nil less gross profit during the three and six months ended June 30, 2009 compared to the comparable periods ended June 30, 2008. We also incurred restructuring charges of approximately $4.4 million during the six months ended June 30, 2009 related to the closure, which is discussed in further detail below.

On February 25, 2009, we entered into an agreement to sell the assets of Domain.com, our wholly owned subsidiary, to A. Emmet Stephenson, Jr., Inc. (Mr. Stephenson) in exchange for cash of $7.075 million. The assets of Domain.com consist of domain names, trademarks and corporation names. We conducted an auction for the assets and received bids from multiple parties, including Mr. Stephenson. Mr. Stephenson presented the highest bid, which represented the selling price, of $7.075 million and the sale was completed effective February 25, 2009. Mr. Stephenson is one of our co-founders, has managed the Domain.com subsidiary since 2006 and owns approximately 20% of our common shares outstanding. Because the transaction involves a related party, the Audit Committee of our Board of Directors considered and approved the transaction.

The results of operations and cash flows of Domain.com have been reported as discontinued operations.

RESULTS OF OPERATIONS THREE MONTHS ENDED JUNE 30, 2009 AND JUNE 30, 2008

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The following table presents selected items from our Condensed Consolidated Statements of Operations in thousands of dollars and as a percentage of revenue for the periods indicated.

	Three Months Ended June 30, 2009	% of Revenue	Three Months Ended June 30, 2008	% of Revenue	% Change Q2 2008 to Q2 2009
Revenue	$ 73,290	100.0%	$ 65,467	100.0%	11.9%
Cost of services	60,161	82.1%	57,163	87.3%	5.2%
Gross profit	13,129	17.9%	8,304	12.7%	58.1%
Selling, general and administrative expenses	10,889	14.9%	10,227	15.6%	6.5%
Impairment losses and restructuring charges		0.0%	5,500	8.4%	-100.0%
Operating income (loss)	2,240	3.0%	(7,423)	-11.3%	NM
Net interest and other (expense) income	(103)	-0.1%	90	0.1%	NM
Income (loss) from continuing operations before income taxes	2,137	2.9%	(7,333)	-11.2%	NM
Income tax expense (benefit)	810	1.1%	(2,745)	-4.2%	NM
Net income (loss) from continuing operations	1,327				