StarTek, Inc.
Form 10-K
March 06, 2015

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

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2014
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	84-1370538
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer Identification No.)

8200 E. Maplewood Ave., Suite 100 Greenwood Village, Colorado	80111
(Address of principal executive offices)	(Zip code)

(303) 262-4500
(Registrant’s telephone number, including area code)

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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

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

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x
The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant on June 30, 2014 was approximately $95.1 million. As of March 3, 2015, there were 15,417,122 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
Part III incorporates certain information by reference from the registrant's proxy statement to be delivered in connection with its annual meeting of stockholders to be held May 6, 2015. 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.

STARTEK, INC. AND SUBSIDIARIES
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Part I

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

ITEM 1. BUSINESS

BUSINESS OVERVIEW

STARTEK is a trusted business process outsourcing ("BPO") service provider with comprehensive contact centers around the world. Our employees, whom we call Brand Warriors, are at the forefront of customer care and represent our greatest asset. For over 25 years, these Brand Warriors have been committed to making a positive impact for our clients’ business results, enhancing the customer experience while reducing costs for our clients.

Our vision is to be the most trusted global service provider by passionately engaging with all of our stakeholders in a different and more meaningful way. We accomplish this by aligning with our clients’ business objectives. The STARTEK Advantage System is the sum total of our culture, customized solutions and processes that enhance our clients’ customer experience. The STARTEK Advantage System is focused on improving customer experience and reducing total cost of ownership for our clients. STARTEK has proven results for the multiple services we provide, including sales, order management and provisioning, customer care, technical support, receivables management, and retention programs. We manage programs using a variety of multi-channel customer interaction capabilities, including voice, chat, email, social media, IVR and back-office support. STARTEK has delivery centers in the United States, Philippines, Canada, Honduras and through its STARTEK@Home workforce.

We operate our business within three reportable segments, based on the geographic regions in which our services are rendered: Domestic, Asia Pacific and Latin America. As of December 31, 2014, our Domestic segment included the operations of nine facilities in the United States and one facility in Canada; our Asia Pacific segment included the

operations of four facilities in the Philippines; and our Latin America segment included the operations of two facilities in Honduras. Operations at our facility in Costa Rica, which were included in our Latin America segment, ceased in August 2014. The segment information included in Item 8, Note 16 of the Notes to Consolidated Financial Statements, is incorporated by reference in partial response to this Item 1.

Service Offerings

We provide customer experience management throughout the life cycle of our clients' customers. These service offerings include customer care, sales support, inbound sales, complex order processing, accounts receivable management, technical and product support, up-sell and cross-sell opportunities and other industry-specific processes. We provide these services by leveraging technology, agent performance tools, analytics and self-service applications to enable and empower our Brand Warriors.

Technical and Product Support. Our technical and product support service offering provides our clients' customers with high-end technical support services by telephone, e-mail, chat, facsimile and the Internet, 24 hours per day, seven days per week. Technical support inquiries are generally driven by a customer's purchase and use of a product or service, or by a customer's need for ongoing technical assistance.

Sales Support. Our revenue generation service supports every stage of the customer life cycle and includes end-to-end pre-sales and post-sales programs. Lead generation, direct sales, account management, retention programs, and marketing analysis and modeling are all available. We have the ability to increase customer purchasing levels, implement product promotion programs, introduce new products and enhanced service offerings, secure additional customer orders and handle inquires related to post-sales support. Unique service offerings are tailored to meet the specific needs of consumers.

Provisioning and Order Processing. Our suite of order processing services range from enterprise level large-scale project management to direct-to-consumer order processing. Complex order processing services provide clients with large-scale project management and direct relationship management for their large enterprise customers. These services include full life cycle order management and technical sales support for high-end telecommunications services, such as wire line, wireless, data and customer premise equipment. In addition, we process order fallout from our clients' automated systems, complete billing review and revenue recovery and perform quality assurance. Direct-to-consumer services include provisioning, order processing and transfer of accounts between client service providers.

Receivables Management. We provide first and third party collections services directly for our clients. We provide these services for our clients in the telecommunication, cable and media and healthcare industries. Brand Warriors help our clients reduce bad debt write-offs and recover past due balances in an efficient, compliant and empathetic manner, which promotes and protects our clients' brands and helps them retain customers.

Healthcare Services. Healthcare services focus on four major segments of the market: providers, payers, pharmaceutical and device manufacturer businesses. Our service offerings include customer care, sales support, accounts receivable management, remote patient care and medical triage. Our healthcare professionals include licensed RN's who compliantly support patients and doctors with their healthcare service needs.

Up-sell and Cross-sell Programs. Whether providing direct response services for marketing campaigns or enabling companies to test new offerings with existing customers, STARTEK is an expert at converting opportunities to sales. Companies invest time and money to develop up-sell and cross-sell opportunities with their customers and we consistently outsell other internal and external providers.

Our goal is to provide higher conversion rates and improve the average revenue per sale. We select managers and representatives who not only have a sales mentality, but are dedicated to helping customers. We utilize a proven sales training methodology that all sales and service representatives employ and they are supported by dedicated management teams. By working with our clients and providing a true sales team culture, we are able to achieve superior results.

Additional Services. We provide other industry-specific processes, including training curriculum development, workforce management, customer analytics, quality monitoring services, CCaaS (call center in a box technology platform) and dispositions. These services include technology enabled and human interactions.

Our Solutions Team engages with clients to understand their specific goals and anticipate the needs of their customers. By leveraging the STARTEK Advantage System, the Team customizes solutions to meet clients' goals.

CUSTOMER TRENDS

Our clients are increasingly focused on improving customer engagement and reducing total overall cost of ownership. We deliver a high level of customer satisfaction, as evidenced by our clients' customer service awards and ranking of STARTEK relative to other outsourced partners. Our clients value a combination of on-shore, near-shore, offshore and home agent delivery platforms to optimize customer support costs. In response to the demand for offshore solutions we now operate in four facilities in The Philippines. In recognition of market demand for near shore solutions we now operate in two facilities in Honduras.

Clients are also trying to decrease the number of contacts it takes for their customers to enjoy their products or services. Process improvement has driven further efficiencies for resolution of those contact issues. We are committed to delivering solutions through which we partner with our clients to achieve and deliver these efficiency gains. We believe we are positioned to benefit from this trend as we have developed a comprehensive suite of services that drive continuous improvement on front and back-office transactions.

KEY COMPETITIVE DIFFERENTIATORS

STARTEK Advantage System

The sum total of the STARTEK culture, the STARTEK Operating Platform, customized solutions for every client program and our continuous improvement process is our STARTEK Advantage System. The STARTEK Advantage System empowers and enables our leaders to deliver consistent execution of operational results while driving year-over-year improvement for our clients' critical business requirements.

STARTEK's culture is built on trust and servant leadership. Servant leadership puts the employees first and leads with a focus on solving problems and promoting personal development. We are a gathering of like-minded professionals determined to make a positive impact for our employees, our clients and our stakeholders.

STARTEK Operating Platform provides the core processes which allow us to be consistent in our service offering across sites and geographies. It includes execution and innovation in every area of the operation including on-boarding and enabling employees, executing against goals, evaluating and improving performance, and enhancing our clients' businesses.

STARTEK deploys solutions that leverage what we have now, what we have learned from experience across a breadth of clients and industries and what we hear and understand from our clients' goals. We will deliver the right people with the right leadership enabled by the right technology and empowered by the right tools to make a meaningful impact on our clients' businesses. The acquisition of Ideal Dialogue gives us the ability to offer a solution for improving customer interactions and, subsequently, customer satisfaction. Ideal Dialogue has developed a unique methodology for training and measuring how we can better engage with customers to improve the customer experience.

We offer a variety of customer management solutions that provide front to back-office capabilities utilizing the right delivery platform including onshore, near shore, offshore and STARTEK@Home sourcing alternatives. We also offer multi-channel customer interactions, including voice, chat, email and social media. We believe that we are differentiated by our client centric culture, quality of execution and results, flexibility and competitive pricing.

Customization

Our solution configuration is aligned with our clients' unique requirements. We are flexible in designing solutions around clients' strategic goals, and we provide experienced management teams that bring together a trained, productive workforce, equipped with the right tools and technology.

Consistent Performance

Performance is core to the STARTEK Operating Platform. Our clients expect consistent performance against the fundamentals of the business no matter the location or method of the service delivery. The operating platform sets the stage for us to drive continuous improvement and focus on the value-add aspects of our clients' businesses.

Cost Competitive

We are confident in our ability to be cost competitive with solutions that meet our clients' needs. Through clearly understanding their needs and striving to reach goal congruency, we can assure that our collective financial goals are aligned in the most efficient way.

STRATEGY

Successful outsourcing partnerships strike a balance by delivering a better customer experience to clients through an efficient support model while generating a fair return for our stakeholders. We have a Brand Warrior behind everything we do. Our employees and customer service agents are called Brand Warriors because they are on the front lines for our clients' brands, which creates loyalty for our clients' products and services. Our mission is to return value to our stakeholders by promoting and protecting our clients' brands by enabling and empowering us, as Brand Warriors, through servant leadership. Our clients' business objectives become our business objectives, as we seek to become their trusted partner. Every day, we strive to better understand our clients' markets and competitive challenges so that we can play a more effective role as a trusted partner in their businesses. We seek to build customer loyalty and reduce clients' costs through specific actionable continuous improvement efforts. Management believes that empowering and enabling Brand Warriors is the most important way we can deliver the best possible consistent customer experience. STARTEK's leadership team is committed to driving year-over-year continuous improvement for our clients' businesses, not only in customer experience, but in total cost of ownership.

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

- grow our existing client base by deepening and broadening our relationships,
- add new clients and continue to diversify our client base,
- improve the profitability of our business through operational improvements and increased utilization,
- expand our global delivery platform to meet our clients' needs,
- broaden our service offerings by providing more innovative and technology-enabled solutions, and
- expand into new verticals.

During 2014, STARTEK acquired Collection Center, Inc. ("CCI"), a receivables management company located in Bismarck, North Dakota focused on third party collection services for healthcare providers. This complements our first party receivables management capabilities and enhances our portfolio of service offerings to healthcare providers as well as our other verticals.

During 2013, STARTEK acquired two companies that expand our reach with new and existing customers. Ideal Dialogue, Inc. is a company dedicated to improving client engagement through over 50 years of academic study in the science of human communication. STARTEK also acquired RN's On Call, which operates a nurse telephone triage and patient support service company. Registered nurses, specialized professionals, para-medical resources, call center specialists, quality/compliance officers and work flow analysts provide patient support. The phones are answered by certified medical professionals who can provide patients with immediate assistance by utilizing a combination of medical protocols, on call physicians and standing orders. The acquisition launched STARTEK Health, a division of STARTEK, dedicated to providing service to payers, providers, pharmaceutical companies and medical device producers. STARTEK Health has a website dedicated to showcasing capabilities for the healthcare industry at

www.startekhealth.com.

The STARTEK Health division is focused on understanding the business aims of the industry including a focus on increasing service levels while faced with the expected increase in cost of delivering care. Industry reforms are further escalating administrative and compliance costs, shifting the focus on trimming operational expenses. At STARTEK Health, we understand these pressures, along with the need to remain flexible given the new healthcare reform mandates, growth in the aging population, varying communication needs of the multiple demographics requiring support, and the desire to achieve improved member satisfaction in a more competitive environment.

HISTORY OF THE BUSINESS

STARTEK was founded in 1987. At that time, our business was centered on supply chain management services, which included packaging, fulfillment, marketing support and logistics services. After our initial public offering on June 19, 1997, we continued to focus on operating customer care contact centers and grew to include our current suite of offerings as described in the "Business Overview" section of this Form 10-K.

SEASONALITY

Our business can be seasonal, dependent on our clients' marketing programs and product launches, which are often geared toward the end of summer and the winter holiday buying season. Our cable and satellite providers also bring a seasonal element towards special sports programming. We also have some seasonality with our healthcare clients.

INDUSTRY

The $64 billion BPO industry is growing approximately 6% a year. Over the past several years, companies handling their own customer care requirements has decreased from 80% to 75%. Clients are recognizing the value and expertise that can be found by outsourcing activities, such as those we provide. Outsourcing allows them to focus on core competencies, leverage economies of scale and control variable costs of the business while accessing new technology and trained expert personnel. We believe that outsourced service providers, including ourselves, will continue to benefit from these outsourcing trends. This industry continues to be very fragmented. The top 10 providers control roughly 30% of the market share. There has been some consolidation over the years with the largest providers currently at over $3 billion in revenue.

COMPETITION

We compete with a number of companies that provide similar services on an outsourced basis, including business process outsourcing companies such as Teleperformance; Convergys Corporation; Transcom; NCO Group; Sitel Corporation; Sykes Enterprises, Incorporated; TeleTech Holdings, Inc. and Alorica. We compete with the aforementioned companies for new business and for the expansion of existing business within the clients we currently serve. Many of these competitors are significantly larger than us in revenue, income, number of contact centers and customer service agents, number of product offerings and market capitalization. We believe that while smaller than many of our competitors, we are able to compete because of our focus and scale as well as our ability to add value to our clients' business. We believe our success is contingent more on our targeted service offering and performance delivery to our clients than our overall size. Several of our competitors merged during the last three years, which increased the size and reach of those competitors, which may affect our competitive position. There are also many companies actively pursuing sale so further consolidation in the industry is expected. There are integration challenges involved in consolidations, which may provide us with an opportunity to deliver superior customer service to existing and new clients. We have maintained an opportunistic view of acquisitions, primarily focused on diversification and strategic value in line with our strategic plan.

Some competitors offer a broader range of services than we do, which may result in clients and potential clients consolidating their use of outsourced services with larger competitors, rather than using our services. We primarily compete with the aforementioned companies on the basis of price and quality. As such, our strategy is to execute the STARTEK Advantage System on our clients' metrics and rank among the top of all of their outsourced vendors, while continuing to be a cost-effective solution and driving year over year improvement. We view our competitive advantage as being a large enough company to offer the breadth of service offerings that are often requested by clients while being agile enough to quickly respond to their needs. In other words, engaging with our clients in a more meaningful way and focusing on their customer engagement in a more meaningful way.

CLIENTS

We provide service to clients from locations in North America, Latin America and Asia Pacific. Approximately 62% of our revenue is derived from clients within the telecommunications industry and 28% from clients within the cable and media industry.

Our three largest customers, T-Mobile USA, Inc. ("T-Mobile"), AT&T Inc. ("AT&T") and Comcast Cable Communications Management, LLC ("Comcast"), account for a significant percentage of our revenue. While we believe that we have good relationships with these clients, a loss of a large program from one of these clients, a significant reduction in the amount of business we receive from a principal client, renegotiation of pricing on several programs simultaneously for one of these clients, the delay or termination of a principal clients' product launch or service offering, or the complete loss of one or more of

these principal clients would adversely affect our business and our results of operations. Also, our clients may unilaterally reduce their use of our services under our contracts without penalty.

On July 28, 2011, we entered into a new master services agreement with T-Mobile effective July 1, 2011, which covers all services that we provide to T-Mobile. The new master services agreement with T-Mobile replaces the previous master services agreement dated October 1, 2007, has an initial term of five years and will automatically renew for additional one-year periods thereafter, but may be terminated by T-Mobile upon 90 days written notice.

On January 25, 2013, we entered into a new master services agreement with AT&T Services, Inc., which expires December 31, 2015 and may be extended upon mutual agreement, but may be terminated by AT&T with written notice. Our work for AT&T is covered by several contracts for a variety of different lines of AT&T business. These contracts expire between 2015 and 2017. Our initial master services agreement covering all AT&T work had been extended through January 31, 2013.

On January 4, 2014, we signed a new master services agreement with Comcast, effective June 22, 2013. The new master services agreement covers all services provided to Comcast, has an initial term of one year, and will automatically renew for additional one-year periods unless either party gives notice of cancellation. This new agreement provides for the same services as the original master services agreement that was signed in 2011 and would have expired in 2014. Neither party gave notice of termination; therefore, the contract has renewed for the year ending June 22, 2015, but Comcast may terminate the agreement upon 90 days written notice.

GOVERNMENT AND ENVIRONMENTAL REGULATION

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

EMPLOYEES AND TRAINING

As of December 31, 2014, we employed approximately 11,800 employees. Approximately 3,300 were employed in the United States and approximately 8,500 were employees in foreign countries. None of our employees were members of a labor union or were covered by a collective bargaining agreement during 2014. We believe the overall relations with our workforce are good.

CORPORATE INFORMATION

Our principal executive offices are located at 8200 E. Maplewood Ave., Suite 100, Greenwood Village, Colorado 80111. Our telephone number is (303) 262-4500. Our website address is www.startek.com. Our stock currently trades on the New York Stock Exchange ("NYSE") under the symbol SRT.

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

and our Code of Ethics and Business Conduct.

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

ITEM 1A. RISK FACTORS

A substantial portion of our revenue is generated by a limited number of clients. The loss or reduction in business from any of these clients would adversely affect our business and results of operations.

Revenue from our three largest clients, T-Mobile, AT&T and Comcast, accounted for 30.7%, 22.1% and 16.3%, respectively, of our revenues for the year ended December 31, 2014.

We may not be able to retain our principal clients. If we were to lose any of our principal clients, we may not be able to timely replace the revenue generated by them. Loss of a principal client could result from many factors, including consolidation or economic downturns in our clients' industries, as discussed further below.

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

Our contracts generally do not contain minimum purchase requirements and can generally be terminated by our customers on short notice without penalty.

We enter into written agreements with each client for our services and seek to sign multi-year contracts with our clients. However these contracts generally permit termination upon 30 to 90 days notice by our clients, do not designate us as our clients' exclusive outsourced services provider, do not penalize our clients for early termination, hold us responsible for work performed that does not meet predefined specifications and do not contain minimum purchase requirements or volume commitments. Accordingly, we face the risk that our clients may cancel or renegotiate contracts we have with them, which may adversely affect our results. If a principal client canceled or did not renew its contract with us, our results would suffer. In addition, because the amount of revenue generated from any particular client is generally dependent on the volume and activity of our clients' customers, as described above, our business depends in part on the success of our clients' products. The number of customers who are attracted to the products of our clients may not be sufficient or our clients may not continue to develop new products that will require our services, in which case it may be more likely for our clients to terminate their contracts with us. Moreover, clients who may not terminate their contacts with us without cause could generally reduce the volume of services they outsource to us, which would have an adverse effect on our revenue, results of operations and overall financial condition.

We depend on several large clients in the telecommunications industry and our strategy partially depends on a trend of telecommunications companies continuing to outsource services. If the telecommunications industry suffers a downturn or the trend toward outsourcing reverses, our business will suffer.

Our key clients in the telecommunications industry include companies in the wire-line, wireless, cable and broadband lines of business. Currently, our business is largely dependent on continued demand for our services from clients in this industry and on trends in this industry to purchase outsourced services. A significant change in this trend could have a materially adverse effect on our financial condition and results of operations.

Client consolidation could result in a loss of business that would adversely affect our operating results

The telecommunications industry has had a significant level of consolidation discussion. We cannot assure that additional consolidations will not occur in which our clients acquire additional businesses or are acquired themselves. Such consolidations may decrease our business volume and revenue, which could have an adverse effect on our business, results of operations and financial condition.

Our lack of a wide geographic diversity outside of North America may adversely affect our ability to serve existing customers or limit our ability to obtain new customers.

Although we currently conduct operations in Canada, the Philippines and Honduras, we do not have a wide geographic diversity. Our lack of such diversity could adversely affect our business if one or more of our customers decide to move their existing business process outsourcing services offshore. It may also limit our ability to gain new clients that may require business process service providers to have this greater flexibility across differing geographies.

The movement of business process outsourcing services to other countries has been extensively reported in the press. Most analysts continue to believe that many outsourced services will continue to migrate to other countries with lower wages than those prevailing in the U.S.

If we decide to open facilities in, or otherwise expand into, additional countries, we may not be able to successfully establish operations in the markets that we target. There are certain risks inherent in conducting business in other countries including, but not limited to, exposure to currency fluctuations, difficulties in complying with foreign laws, unexpected changes in government programs, policies, regulatory requirements and labor laws, difficulties in staffing and managing foreign operations, political instability, and potentially adverse tax consequences. There can be no assurance that one or more of such factors will not have a material adverse effect on our business, growth prospects, results of operations, and financial condition.

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

Our profitability is influenced by our facility capacity utilization. The majority of our business involves technical support and customer care services initiated by our clients' customers, and as a result, our capacity utilization varies, and demands on our capacity are, to some degree, beyond our control. We have experienced, and in the future may experience periods of idle capacity from opening new facilities where forecasted volume levels do not materialize. In addition, we have experienced, and in the future may experience idle peak period capacity when we open a new facility or terminate or complete a large client program. These periods of idle capacity may be exacerbated if we expand our facilities or open new facilities in anticipation of new client business because we generally do not have the ability to require a client to enter into a long-term contract or to require clients to reimburse us for capacity expansion costs if they terminate their relationship with us or do not provide us with anticipated service volumes. From time to time, we assess the expected long-term capacity utilization of our facilities. Accordingly, we may, if deemed necessary, consolidate or close under-performing facilities in order to maintain or improve targeted utilization and margins.

In 2012, the decision was made to consolidate the business performed in Enid, Oklahoma into another U.S. facility. Enid reopened in the third quarter of 2013. In February 2012, we received a customer notification of its intent to reduce its business in our Decatur, Illinois and Jonesboro, Arkansas facilities. The Decatur facility closed in January 2013. We secured new business for the Jonesboro facility and continued to sell to this capacity until February 2014, when we announced the closure of this site. Operations ceased in the second quarter of 2014 when the business transitioned to another facility. In February 2013, we announced the closure of our Cornwall, Ontario facility due to an end-of-life client program. In the fourth quarter of 2013, we recognized impairment losses in our Latin America segment associated with the furniture, fixtures and leasehold improvements at our site in Costa Rica after an impairment analysis indicated estimated future cash flows were insufficient to support the carrying values. We subsequently announced the closure of our Costa Rica facility in June 2014 and ceased operations in Costa Rica in August 2014. We did not incur any impairment losses in 2014. During 2014, we recognized $2.1 million in restructuring charges related to facility closures.

We may incur further impairment losses and restructuring charges in future years related to any additional closures. There can be no assurance that we will be able to achieve or maintain optimal facility capacity utilization.

If client demand declines due to economic conditions or otherwise, we would not leverage our fixed costs as effectively, which would have a material adverse effect on our results of operations and financial condition.

Our operations in Canada, the Philippines and Honduras subject us to the risk of currency exchange fluctuations.

Because we conduct a material portion of our business outside the United States, in Canada, the Philippines and Honduras, we are exposed to market risk from changes in the value of the Canadian dollar, Philippine peso and the Honduran lempira. Material fluctuations in exchange rates impact our results through translation and consolidation of the financial results of our foreign operations and, therefore, may negatively impact our results of operations and financial condition. We have contracts wherein the revenue we earn is denominated in U.S. dollars, but the costs we

incur to fulfill our obligations under those contracts are denominated in Canadian dollars, Philippine pesos and, to a lesser extent, the Honduran lempira. Therefore, the fluctuations in the U.S. dollar to the Canadian dollar, Philippine peso, or Honduran lempira exchange rates can cause significant fluctuations in our results of operations. We engage in hedging activities relating to our exposure to such fluctuations in the value of the Canadian dollar and the Philippine peso. During 2014, we did not enter into hedging agreements for the Honduran lempira. Our hedging strategy, including our ability to acquire the desired amount of hedge contracts, may not sufficiently protect us from further strengthening of these currencies against the U.S. dollar.

As a global company, we are subject to social, political and economic risks of doing business in many countries.

We conduct a significant portion of our business and employ a substantial number of people outside of the United States. During 2014, we generated approximately 57.2% or $143.0 million of our revenue from operations outside the United States. Circumstances and developments related to international operations that could negatively affect our business, financial condition or results of operations include, but are not limited to, the following factors:

- difficulties and costs of staffing and managing international operations in certain regions;
- differing employment practices and labor issues;
- local businesses and cultural factors that differ from our usual standards and practices;
- volatility in currencies;
- currency restrictions, which may prevent the transfer of capital and profits to the United States;
- unexpected changes in regulatory requirements and other laws;
- potentially adverse tax consequences;
- the responsibility of complying with multiple and potentially conflicting laws, e.g., with respect to corrupt practices, employment and licensing;
- the impact of regional or country-specific business cycles and economic instability;
- political instability, uncertainty over property rights, civil unrest, political activism or the continuation or escalation of terrorist activities; and
- access to capital may be more restricted, or unavailable on favorable terms or at all in certain locations.

Our global growth (including growth in new regions in the United States) also subjects us to certain risks, including risks associated with funding increasing headcount, integrating new offices, and establishing effective controls and procedures to regulate the operations of new offices and to monitor compliance with regulations such as the Foreign Corrupt Practices Act and similar laws.

Although we have committed substantial resources to expand our global platform, if we are unable to successfully manage the risks associated with our global business or to adequately manage operational fluctuations, our business, financial condition and results of operations could be harmed.

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

Our success is largely dependent on our ability to recruit, hire, train and retain qualified employees. Our business is labor intensive and, as is typical for our industry, continues to experience high personnel turnover. Our operations, especially our technical support and customer care services, generally require specially trained employees, which, in turn, requires significant recruiting and training costs. Such turnover adversely affects our operating efficiency, productivity and ability to fully respond to client demand, thereby adversely impacting our operating results. Some of this turnover can be attributed to the fact that we compete for labor not only with other call centers but also with other similar-paying jobs, including retail, services industries, food service, etc. As such, improvements in the local economies in which we operate can adversely affect our ability to recruit agents in those locations. Further increases in employee turnover or failure to effectively manage these high attrition rates would have an adverse effect on our results of operations and financial condition.

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

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

During the past economic downturns, we, like a number of companies in our industry, sought to limit our labor costs by limiting salary increases and payment of cash bonuses to our employees. From time to time, the local economies in some of the locations in which we operate experience growth, which causes pressure on labor rates to remain competitive within the local economies. If these growth trends continue, we may need to further increase salaries or otherwise compensate our employees at higher levels in order to remain competitive. Higher salaries or other forms of compensation are likely to increase our cost of operations. If such increases are not offset by increased revenue, they will negatively impact our financial results. Conversely, if labor rates decrease due to higher unemployment in the current economic downturn, our cost of operations may decrease. In the past, some of our employees have attempted to organize a labor union, and economic and legislative changes may encourage organizing efforts in the future, which, if successful, could further increase our recruiting and training costs and could decrease our operating efficiency and productivity.

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

In June 2011, Chad A. Carlson was named as our President and Chief Executive Officer. Lisa Weaver became the Chief Financial Officer in October of 2011. Joe Duryea was hired to lead Sales & Marketing in April 2012 and departed the company in May 2014. Rod Leach became the Senior Vice President of Global Operations in August 2012 and is currently General Manager of our STARTEK Health and Emerging Services division. Jay Kirksey became the Senior Vice President, Global Human Resources in February 2013, Emily Millar was promoted to Senior Vice President, Client Solutions and Strategy in July 2013 and Pat Hain was promoted to Senior Vice President, Information Services in July 2013. Pete Martino was hired to lead Global Operations in January 2014 and is currently General Manager of Customer Support Services and Kamalesh Dwivedi was hired as our Chief Information Officer in October 2014. We must successfully integrate any new management personnel whom we hire within our organization in order to achieve our operating objectives. Changes in other key management positions may temporarily affect our financial performance and results of operations as the new management becomes familiar with our business. Accordingly, our future financial performance will depend to a significant extent on our ability to motivate and retain key management personnel.

Our strategy partially depends on a trend of companies continuing to outsource non-core services.

Our existing clients and a number of clients we are currently targeting have been decreasing the number of firms they rely on to outsource their business process outsourced services. Due to financial uncertainties and the potential reduction in demand for our clients' products and services, our clients and prospective clients may decide to further consolidate the number of firms on which they rely for their business process outsourced services to reduce costs. Under these circumstances, our clients may cancel current contracts with us, or we may fail to attract new clients, which will adversely affect our financial condition. In addition, they may seek price reductions on our contracts as means to lower their costs. If global economic and market conditions remain uncertain or persist, spread, or deteriorate further, we may experience material impacts on our business, operating results, and financial condition.
Our business relies heavily on technology and computer systems, which subjects us to various uncertainties.
We have invested significantly in sophisticated and specialized telecommunications and computer technology and have focused on the application of this technology to meet our clients' needs. We anticipate that it will be necessary to continue to invest in and develop new and enhanced technology on a timely basis to maintain our competitiveness. Significant capital expenditures may be required to keep our technology up-to-date. There can be no assurance that any of our information systems will be adequate to meet our future needs or that we will be able to incorporate new technology to enhance and develop our existing services. Moreover, investments in technology, including future investments in upgrades and enhancements to software, may not necessarily maintain our competitiveness. Our future success will also depend in part on our ability to anticipate and develop information technology solutions that keep pace with evolving industry standards and changing client demands.

Increases in the cost of telephone and data services or significant interruptions in such services could adversely affect our business.
We depend on telephone and data services provided by various local and long distance telephone companies. Because of this dependence, any change to the telecommunications market that would disrupt these services or limit our ability to obtain services at favorable rates could affect our business. We have taken steps to mitigate our exposure to the risks associated with rate fluctuations and service disruption by entering into long-term contracts with various providers for telephone and data services and by investing in redundant circuits. There is no obligation, however, for the vendors to renew their contracts with us or to offer the same or lower rates in the future, and such contracts are subject to termination or modification for various reasons outside of our control. In addition, there is no assurance that a redundant circuit would not also be disrupted. A significant increase in the cost of telephone services that is not recoverable through an increase in the price of our services or any significant interruption in telephone services, could

adversely affect our business.

Unauthorized disclosure of sensitive or confidential client and customer data could expose us to protracted and costly litigation and penalties and may cause us to lose clients.

We are dependent on IT networks and systems to process, transmit and store electronic information and to communicate among our locations around the world and with our alliance partners and clients. Security breaches of this infrastructure could lead to shutdowns or disruptions of our systems and potential unauthorized disclosure of confidential information. We are also required at times to manage, utilize and store sensitive or confidential client or customer data. As a result, we are subject to contractual terms and numerous U.S. and foreign laws and regulations designed to protect this information, such as various U.S. federal

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and state laws governing the protection of health or other individually identifiable information. If any person, including any of our employees, negligently disregards or intentionally breaches our established controls with respect to such data or otherwise mismanages or misappropriates that data, we could be subject to monetary damages, fines and/or criminal prosecution. Although we maintain cyber liability insurance, such insurance may not adequately or timely compensate us for all losses we may incur. Unauthorized disclosure of sensitive or confidential client or customer data, whether through systems failure, employee negligence, fraud or misappropriation, could damage our reputation and cause us to lose clients. Similarly, unauthorized access to or through our information systems or those we develop for our clients, whether by our employees or third parties, could result in negative publicity, legal liability and damage to our reputation, business, financial condition, results of operations and cash flows.

We process, transmit and store personally identifiable information and unauthorized access to or the unintended release of this information could result in a claim for damage or loss of business and create unfavorable publicity.

We process, transmit and store personally identifiable information, both in our role as a service provider and as an employer. This information may include social security numbers, financial and health information, as well as other personal information. As a result, we are subject to certain contractual terms as well as federal, state and foreign laws and regulations designed to protect personally identifiable information. We take measures to protect against unauthorized access and to comply with these laws and regulations. We use the Internet as a mechanism for delivering our services to clients, which may expose us to potential disruptive intrusions. Unauthorized access, system denials of service, or failure to comply with data privacy laws and regulations may subject us to contractual liability and damages, loss of business, damages from individual claimants, fines, penalties, criminal prosecution and unfavorable publicity, any of which could negatively affect our operating results and financial condition. In addition, third party vendors that we engage to perform services for us may have an unintended release of personally identifiable information.

We are required to comply with laws governing the transmission, security and privacy of protected health information. In relation to our acquisition of a business process outsourcing provider focusing on health care, we are required to comply with applicable laws governing the transmission, security and privacy of health information, including, among others, the standards of The Health Insurance Portability and Accountability Act (“HIPAA”). The failure to comply with any of these laws could make it difficult to expand our recently acquired health care business process outsourcing business and/or cause us to incur significant liabilities.

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

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

If we make acquisitions, we could encounter difficulties that harm our business.

We may acquire companies, products, or technologies that we believe to be complementary to our business. If we engage in such acquisitions, we may have difficulty integrating the acquired personnel, operations, products or technologies. Acquisitions may dilute our earnings per share, disrupt our ongoing business, distract our management and employees, increase our expenses, subject us to liabilities, and increase our risk of litigation, all of which could harm our business. If we use cash to acquire companies, products, or technologies, it may divert resources otherwise available for other purposes or increase our debt. If we use our common stock to acquire companies, products, or technologies, we may experience a change of control or our stockholders may experience substantial dilution or both.

If we are unable to meet the debt covenant requirements under our revolving credit facility, potential growth and results of operations may suffer.

As of December 31, 2014, we had a $15.0 million secured revolving credit facility with Wells Fargo Bank, which has a term of four years, maturing February 28, 2016. As of December 31, 2014, we had $4.6 million outstanding borrowings on our credit facility. In February 2015, we increased our borrowing capacity to $18.5 million. If we do not meet the debt covenant requirements under the credit facility with Wells Fargo Bank, we may lose an important source of liquidity and be unable to meet short-term cash needs required for growth opportunities and we could face adverse effects on our financial statements, including payments for waivers or higher interest rate obligations.

Our largest stockholder has the ability to significantly influence corporate actions.

A. Emmet Stephenson, Jr., one of our co-founders, owned approximately 19.0% of our outstanding common stock as of March 3, 2015. Under an agreement we have entered into with Mr. Stephenson, so long as Mr. Stephenson beneficially owns 10% or more (but less than 30%) of our outstanding common stock, Mr. Stephenson will be entitled to designate one of our nominees for election to the board, although he has not currently exercised this right. In addition, our bylaws allow that any holder of 10% or more of our outstanding common stock may call a special meeting of our stockholders. The concentration of voting power in Mr. Stephenson's hands, and the control Mr. Stephenson may exercise over us as described above, may discourage, delay or prevent a change in control that might otherwise benefit our stockholders.

Our stock price has been volatile and may decline significantly and unexpectedly.

The market price of our common stock has been volatile, and could be subject to wide fluctuations, in response to quarterly variations in our operating results, changes in management, the degree of success in implementing our business and growth strategies, announcements of new contracts or contract cancellations, announcements of technological innovations or new products and services by us or our competitors, changes in financial estimates by securities analysts, the perception that significant stockholders may sell or intend to sell their shares, or other events or factors we cannot currently foresee. We are also subject to broad market fluctuations, given the overall volatility of the current U.S. and global economies, where the market prices of equity securities of many companies experience substantial price and volume fluctuations that have often been unrelated to the operating performance of such companies. These broad market fluctuations may adversely affect the market price of our common stock. Additionally, because our common stock trades at relatively low volume levels, any change in demand for our stock can be expected to substantially influence market prices thereof. The trading price of our stock varied from a low of $6.01 to a high of $9.85 during 2014.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Smaller reporting companies are not required to provide the information required by this item; however, there were none.

ITEM 2. PROPERTIES

As of December 31, 2014, we owned or leased the following facilities, containing in the aggregate approximately 853,000 square feet:

Properties	Year Opened	Approximate Square Feet	Leased or Owned
Domestic:			
U.S. Facilities			
Greeley, Colorado	1998	35,000	Leased
Enid, Oklahoma	2000	47,500	Company Owned
Grand Junction, Colorado	2000	54,500	Leased
Lynchburg, Virginia	2004	41,300	Leased
Mansfield, Ohio	2008	50,000	Leased
Greenwood Village, Colorado	2012	14,100	Leased
Lutz, Florida	2013	3,600	Leased
Colorado Springs, Colorado	2013	41,000	Leased (a)
Myrtle Beach, South Carolina	2014	54,500	Leased
Bismarck, North Dakota	2014	3,200	Leased
Canadian Facilities			
Kingston, Ontario	2001	49,000	Leased
Asia Pacific:			
Philippine Facilities			
Makati City, Philippines	2008	78,400	Leased
Ortigas, Philippines	2010	127,000	Leased
Angeles City, Philippines	2013	61,100	Leased
Iloilo, Philippines	2014	97,400	Leased
Latin America:			
Honduras Facility			
San Pedro Sula, Honduras	2011	65,200	Leased
Tegucigalpa, Honduras	2014	30,100	Leased

(a) Our Colorado Springs, Colorado lease agreement was amended in June 2014 to incorporate an additional 13,000 square feet.

Substantially all of our facility space can be used to support any of our business process outsourced services. We believe our existing facilities are adequate for our current operations. We intend to maintain efficient levels of excess capacity to enable us to readily provide for needs of new clients and increasing needs of existing clients.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Part II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET FOR COMMON STOCK

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Our common stock has been listed on the NYSE under the symbol "SRT" since the effective date of our initial public offering on June 19, 1997. The following table sets forth the quarterly high and low sales prices of our common stock as reported on the NYSE for the periods shown:

	High	Low
2014		
First Quarter	$7.15	$6.01
Second Quarter	$7.83	$6.65
Third Quarter	$7.85	$6.51
Fourth Quarter	$9.85	$7.18
2013		
First Quarter	$5.99	$3.93
Second Quarter	$7.24	$4.14
Third Quarter	$6.51	$4.58
Fourth Quarter	$6.60	$5.84

HOLDERS OF COMMON STOCK

As of March 3, 2015, there were approximately 1,464 stockholders of record and 15,417,122 shares of common stock outstanding. See Item 1A. "Risk Factors," set forth in this Form 10-K for a discussion of risks related to control that may be exercised over us by our principal stockholders.

DIVIDEND POLICY

On January 22, 2007, our board of directors announced it would not declare a quarterly dividend on our common stock in the first quarter of 2007, and did not expect to declare dividends in the near future, making the dividend paid in November 2006 the last quarterly dividend that will be paid for the foreseeable future. We plan to invest in growth initiatives in lieu of paying dividends.

STOCK REPURCHASE PROGRAM

Effective November 4, 2004, our board of directors authorized repurchases of up to $25 million of our common stock. The repurchase program will remain in effect until terminated by the board of directors, and will allow us to repurchase shares of our common stock from time to time on the open market, in block trades and in privately-negotiated transactions. Repurchases will be implemented by the Chief Financial Officer consistent with the guidelines adopted by the board of directors, and will depend on market conditions and other factors. Any repurchased shares will be held as treasury stock, and will be available for general corporate purposes. Any repurchases will be made in accordance with SEC rules. As of the date of this filing, no shares have been repurchased under this program.

The balance of the information required by Item 201 of Regulation S-K is omitted in accordance with the regulatory relief available to smaller reporting companies.

ITEM 6. SELECTED FINANCIAL DATA

Smaller reporting companies are not required to provide the information required by this item.

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

The following discussion analyzes our consolidated financial condition as of December 31, 2014 and 2013, and our consolidated results of operations for the years then ended. We are considered a "smaller reporting company" under applicable regulations of the SEC and are therefore eligible for relief from certain disclosure requirements. In accordance with such provisions, we have elected to provide our audited consolidated statements of operations and comprehensive loss, cash flows and changes in stockholders' equity for two, rather than three, years.

OVERVIEW

STARTEK is a comprehensive contact center and business process outsourcing services company with employees we call Brand Warriors who, for over 25 years have been committed to making a positive impact on our clients’ business results. Our mission is to enable and empower our Brand Warriors to promote our clients’ brands every day and bring value to our stakeholders. We accomplish this by aligning with our clients’ business objectives.

STARTEK has proven results for the multiple services we provide, including sales, order management and provisioning, customer care, technical support, receivables management, and retention programs. We manage programs using a variety of multi-channel customer interactions, including voice, chat, email, social media and back-office support. STARTEK has delivery centers in the United States, Philippines, Canada and Honduras and through its STARTEK@Home workforce.

SIGNIFICANT DEVELOPMENTS DURING THE YEAR ENDED DECEMBER 31, 2014

Collection Center, Inc. (CCI) Acquisition
On October 1, 2014, we acquired Collection Center, Inc., a healthcare receivables management company with a location in Bismarck, North Dakota.

Heredia, Costa Rica
We ceased operations in Costa Rica in August 2014. We recorded a restructuring reserve of $1.3 million for employee related costs and facility related costs. Our lease in Costa Rica terminated in December 2014 and we expect the restructuring plan to be complete in the second quarter of 2015.

Iloilo, Philippines
We started operations in Iloilo, Philippines in June 2014.

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

IT Platform Initiative
During the second quarter of 2014, we began implementation of the last phase of our IT transformation project by outsourcing our data centers. We recognized $1.7 million in restructuring charges during 2014 and will recognize additional restructuring charges of approximately $1.0 million through 2015.

Colorado Springs, Colorado
Our healthcare division expanded into a new larger facility in Colorado Springs in March 2014.

Jonesboro, Arkansas
In February 2014, we announced the closure of our Jonesboro, Arkansas site. Operations ceased in the second quarter of 2014 when the business transitioned to another facility.

Tegucigalpa, Honduras
In February 2014, we opened a new contact center in Tegucigalpa, Honduras. We are developing a permanent leased contact center, which is expected to be complete in the second quarter of 2015.

Myrtle Beach, South Carolina
We started operations in Myrtle Beach in February 2014.

RESULTS OF OPERATIONS — YEARS ENDED DECEMBER 31, 2014 AND DECEMBER 31, 2013

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

	For the Years Ended December 31,							
	2014				2013			
	(in 000s)		(% of Total)		(in 000s)		(% of Total)	
Domestic:								
Revenue	$130,574		52.2	%	$120,928		52.3	%
Cost of services	117,634		53.6	%	107,637		52.0	%
Gross profit	$12,940		42.5	%	$13,291		54.6	%
Gross profit %	9.9	%			11.0	%		
Asia Pacific:								
Revenue	85,785		34.3	%	$81,082		35.1	%
Cost of services	70,593		32.1	%	71,108		34.4	%
Gross profit	15,192		49.9	%	$9,974		41.0	%
Gross profit %	17.7	%			12.3	%		
Latin America:								
Revenue	33,721		13.5	%	$29,247		12.6	%
Cost of services	31,381		14.3	%	28,187		13.6	%
Gross profit	2,340		7.7	%	$1,060		4.4	%
Gross profit %	6.9	%			3.6	%		
Company Total:								
Revenue	$250,080		100.0	%	$231,257		100.0	%
Cost of services	219,608		100.0	%	206,932		100.0	%
Gross profit	$30,472		100.0	%	$24,325		100.0	%
Gross profit %	12.2	%			10.5	%		

Revenue

Revenue increased by $18.8 million, or 8.1%, to $250.1 million in 2014 from $231.3 million in 2013. The Domestic segment increase of $9.6 million was due to $20.6 million of new business and growth from existing programs, partially offset by $7.3 million of volume reductions, $1.9 million of pricing reductions, and $1.8 million of site closures. Asia Pacific revenues grew $4.7 million due to $14.0 million of growth from existing and new clients, partially offset by $1.6 million of lost revenues and $7.7 million of volume reductions. The increase in the Latin America segment of $4.5 million was due to $10.5 million in growth from existing and new clients in our Honduras facilities, partially offset by Costa Rica reductions of $4.0 million of lost programs and $2.0 million reduction due to the closure.

Cost of Services and Gross Profit

Gross profit as a percentage of revenue increased by 1.7% due to operational efficiency gains and capacity utilization excluding the new capacity additions in 2014. These gains were partially offset by new facility ramp related costs and price reductions, primarily in the domestic segment. Cost of services in the Domestic segment increased by approximately $10.0 million due to a $21.4 million investment in growth, partially offset by $7.8 million of reductions related to volume declines and other reductions for closed locations. Domestic gross profit as a percentage of revenue decreased to 9.9% in 2014 from 11.0% in 2013 due to the dilutive effect of new business ramps and new facility openings. Cost of services in the Asia Pacific segment decreased by approximately $0.5 million and gross profit as a percentage of revenue increased by approximately 5.4%. Cost of services in Latin America increased by

approximately $3.2 million and gross profit as a percentage of revenue increased by 3.3%. Both the Asia Pacific and Latin America margin improvements were due to higher capacity utilization in existing locations, and improved labor efficiencies.

Selling, General and Administrative Expenses

Selling, general and administrative expenses remained comparable at 12.6% for 2014 and 12.5% for 2013. The increase from $28.8 million to $31.4 million in 2014 was primarily due to increased selling expenses associated with new revenue and investments in growth initiatives.

Impairment Losses and Restructuring Charges, Net

No impairment losses were incurred during 2014. During 2013, we recognized $0.5 million in impairment losses in our Latin America segment associated with the furniture, fixtures and leasehold improvements at our site in Costa Rica after an impairment analysis indicated estimated future cash flows were insufficient to support the carrying values. Operations at our facility in Costa Rica ceased in August 2014.

Restructuring charges totaled $4.0 million for the year ended December 31, 2014, which primarily consisted of the following:

- $0.8 million for employee related and facility costs due to the closure of the Jonesboro, Arkansas facility, offset by a gain of $0.2 million for the early termination of our lease;
- $1.3 million for employee related costs and facility related costs due to the closure of the Heredia, Costa Rica facility;
- $0.3 million for corporate restructuring; and
- $1.7 million for outsourcing our data centers. We will recognize additional charges through the first quarter of 2015 as we complete this transformation.

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

Interest and Other Income (Expense), Net

Interest and other income (expense), net for 2014 was six thousand dollars of expense, which includes a gain on disposal of assets related to the sale of our Laramie, Wyoming property of $0.2 million and a gain of $0.4 million related to the currency translation adjustment balance that was previously recorded within stockholders’ equity for a dormant subsidiary we dissolved. These gains of $0.6 million were partially offset by interest expense of $0.6 million, which includes $0.2 million related to a sale-leaseback transaction and $0.2 million related to interest on our credit facility and amortization of loan fees.

Interest and other income (expense), net for 2013 was $1.6 million of expense, which includes losses on disposal of assets related to our IT transformation project of $1.0 million, a loss on a sale leaseback transaction of $0.5 million and a loss on disposal of assets previously held for sale of $0.1 million.

Income Tax Expense

Income tax expense for 2014 was $0.5 million compared to $0.2 million in 2013. The current period income tax expense is primarily the tax impact of the income tax provision for Canadian operations. Our U.S. operations have a valuation allowance recorded on U.S. deferred tax assets and we have tax holidays in Costa Rica, Honduras and for certain facilities in the Philippines.

Net Loss

As a result of the factors described above, net loss was $5.5 million for the year ended December 31, 2014, compared to $6.4 million for the year ended December 31, 2013.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are cash flows generated by operating activities and from available borrowings under our revolving credit facility. We have historically utilized these resources to finance our operations and make capital expenditures associated with capacity expansion, upgrades of information technologies and service offerings, and business acquisitions. Due to the timing of our collections of receivables due from our major customers, we have historically needed to draw on the line of credit periodically for ongoing working capital needs. Based on current expectations, we believe our cash from operations and capital resources will be sufficient to operate our business for at least the next 12 months.

As of December 31, 2014, working capital totaled $22.8 million and our current ratio was 1.72:1, compared to working capital of $31.6 million and a current ratio of 2.11:1 at December 31, 2013.

Net cash flows provided by operating activities in 2014 were $4.4 million compared to net cash provided by operating activities of $6.2 million for 2013. The $1.9 million decrease in net cash flows from operating activities was due to $0.9 million in higher earnings and a decrease of $1.2 million in cash used to fund working capital, which was more than offset by a $4.1 million decrease in non-cash reconciling items. The $1.2 million in cash used to fund working capital was primarily related to an increase of $3.2 million for prepaid maintenance contracts, offset by an increase in restructuring payments of $1.9 million. Cash flows from operating activities can vary significantly from year to year depending upon the timing of operating cash receipts and payments, especially accounts receivable and accounts payable.

Net cash used in investing activities in 2014 of $13.3 million primarily consisted of $11.7 million of capital expenditures related to new facility build-out and expansions and cash paid for acquisitions of $3.4 million, partially offset by the proceeds from the sale of assets of $1.1 million from the sale of our Laramie, Wyoming property and the sale of other miscellaneous assets at various facilities and full collection of a note receivable of $0.6 million. Of the $3.4 million paid for acquisitions, $2.6 million was paid to acquire Collection Center, Inc., which closed on October 1, 2014, with the remaining $0.8 million representing continuing payments for our acquisition of RNs On Call. This compares to 2013 net cash used in investing activities of $5.6 million, which primarily consisted of $8.8 million of capital expenditures and cash paid for acquisitions of $2.1 million, partially offset by the proceeds from the sale of assets of $3.4 million and proceeds from a sale leaseback transaction of $1.3 million.

Net cash provided by financing activities in 2014 of $3.4 million was primarily due to net advances on our line of credit of $3.6 million, partially offset by payments on long-term debt of $0.2 million and payments on capital lease obligations of $0.2 million. This compares to 2013 net cash provided by financing activities of $1.2 million primarily attributable to borrowings from our line of credit.

Cash and cash equivalents held by the Company's foreign subsidiaries was $1.3 million and $1.0 million at December 31, 2014 and 2013, respectively. Under current tax laws and regulations, if cash and cash equivalents held outside the United States are distributed to the United States in the form of dividends or otherwise, we may be subject to additional U.S. income taxes and foreign withholding taxes.

Secured Revolving Credit Facility. We have a secured revolving credit facility, with a borrowing capacity of $15.0 million at December 31, 2014, which can increase to $20.0 million at our option, to provide liquidity for working capital needs and a source of financing growth opportunities. After consideration of $4.6 million of borrowings outstanding under the credit facility and letters of credit outstanding thereunder of $0.06 million, our remaining borrowing capacity was $10.3 million at December 31, 2014. In February 2015, we increased our borrowing capacity to $18.5 million.

Debt Covenants. Our secured revolving credit facility contains standard affirmative and negative covenants that may limit or restrict our ability to sell assets, incur additional indebtedness and engage in mergers and acquisitions. We were in compliance with all debt covenants at December 31, 2014.

CONTRACTUAL OBLIGATIONS

As a smaller reporting company we are not required to provide tabular disclosure of contractual obligations.

OFF-BALANCE SHEET ARRANGEMENTS

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

VARIABILITY OF OPERATING RESULTS

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of consolidated financial statements requires us to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. We base our accounting estimates on historical experience and other factors that we believe to be reasonable under the circumstances. Actual results could differ from those estimates.
We have discussed the development and selection of critical accounting policies and estimates with our Audit Committee. We believe that the following critical accounting policies involve our more significant judgments and estimates used in the preparation of our consolidated financial statements.
Impairment of Long-Lived Assets

We periodically, on at least an annual basis, evaluate potential impairments of our long-lived assets. In our annual evaluation or when we determine that the carrying value of a long-lived asset may not be recoverable, based upon the existence of one or more indicators of impairment, we evaluate the projected undiscounted cash flows related to the assets. If these cash flows are less than the carrying values of the assets, we measure the impairment based on the excess of the carrying value of the long-lived asset over the long-lived asset's fair value. Where appropriate we use a probability-weighted approach to determine our future cash flows, based upon our estimate of the likelihood of certain scenarios, primarily whether we expect to sell new business within a current location. These estimates are consistent with our internal projections and external communications and public disclosures. Our projections contain assumptions pertaining to anticipated levels of utilization and revenue that may or may not be under contract but are based on our experience and/or projections received from our customers. If our estimate of the probability of different scenarios changed by 10%, the impact to our financial statements would not be material. No impairment losses were incurred during 2014. During the year ended December 31, 2013, we recognized impairment losses in our Latin America segment associated with the furniture, fixtures and leasehold improvements at our site in Costa Rica after an impairment analysis indicated estimated future cash flows were insufficient to support the carrying values. Given that the impairment losses were valued using internal estimates of future cash flows, we have classified the remaining fair value of long-lived assets as Level 3 in the fair value hierarchy.

Impairment of Goodwill and Intangible Assets

We evaluate goodwill for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of goodwill may not be recoverable. Goodwill is evaluated for impairment by first performing a qualitative assessment to determine whether a quantitative goodwill test is necessary. If it is determined, based on qualitative factors, the fair value of the reporting unit may be more likely than not less than the carrying amount or if significant changes related to the reporting unit have occurred that could materially impact fair value, a quantitative goodwill impairment test would be required. We can elect to forgo the qualitative assessment and perform the quantitative test.

The quantitative goodwill impairment test is performed using a two-step process. The first step is to identify if a potential impairment exists by comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, the second step is performed to determine if goodwill is impaired and to measure the amount of impairment loss to recognize, if any. The second step compares the implied fair value of goodwill with the carrying amount of goodwill. If the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess.

For intangible assets, a qualitative assessment can also be performed to determine whether the existence of events and circumstances indicates it is more likely than not an intangible asset is impaired. Similar to goodwill, we can also elect to forgo the qualitative test for indefinite life intangible assets and perform the quantitative test. Upon performing the quantitative test, if the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

We estimate the fair value of our reporting units using a discounted cash flow analysis, which uses significant unobservable inputs, or Level 3 inputs, as defined by the fair value hierarchy. A discounted cash flow analysis requires us to make various judgmental assumptions about revenue, gross profit, growth rates and discount rates. While we believe we have made reasonable estimates and assumptions to calculate the fair value of the reporting units and intangible assets, it is possible a material change could occur. If our actual results are not consistent with our estimates and assumptions used to calculate fair value, we may be required to perform the second step, which could result in material impairments of our goodwill.

During 2014 all of our material reporting units that underwent a quantitative test passed the first step of the goodwill impairment analysis and therefore, the second step was not necessary. Our 2014 intangible asset impairment analysis did not result in an impairment charge.

Restructuring Charges

On an ongoing basis, management assesses the profitability and utilization of our facilities and in some cases management has chosen to close facilities. Severance payments that occur from reductions in workforce are in accordance with our postemployment plans and/or statutory requirements that are communicated to all employees upon hire date; therefore, severance liabilities are recognized when they are determined to be probable and reasonably estimable. Other liabilities for costs associated with an exit or disposal activity are recognized when the liability is incurred, instead of upon commitment to an exit plan. A significant assumption used in determining the amount of the estimated liability for closing a facility is the estimated liability for future lease payments on vacant facilities. We determine our estimate of sublease based on our ability to successfully negotiate early termination agreements with landlords, a third-party broker or management's assessment of our ability to sublease the facility based upon the market conditions in which the facility is located. 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. During 2014, we established accruals of approximately $2.4 million related to site closures and corporate restructuring. We did not incur any restructuring charges during 2013.

Accrued restructuring costs were valued using a discounted cash flow model. Significant assumptions used in determining the amount of the estimated liability for closing a facility are the estimated liability for future lease payments on vacant facilities and the discount rate utilized to determine the present value of the future expected cash flows. The cash flows consist of the future lease payment obligations required under the lease agreement. In the future, if we sublease for periods that differ from our assumption or if our estimate of a buy-out differs from our assumption, we may be required to record a gain or loss. Future cash flows also include estimated property taxes through the remainder of the lease term, which are valued based upon historical tax payments. Given that the restructuring charges were valued using our internal estimates using a discounted cash flow model, we have classified the accrued restructuring costs as Level 3 in the fair value hierarchy.

Derivative Instruments and Hedging Activities

We record derivative instruments as either an asset or liability measured at its fair value, with changes in the fair value of qualifying hedges recorded in other comprehensive income. As of December 31, 2014, we recorded a gross derivative liability related to our unrealized losses of approximately $1.3 million. Changes in a derivative's fair value are recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset the related results of the hedged item and requires that we must formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment.

We are generally able to apply cash flow hedge accounting, which associates the results of the hedges with forecasted future expenses. The current mark-to-market gain or loss is recorded in accumulated other comprehensive income and will be re-classified to operations as the forecasted expenses are incurred, typically within one year. During 2014 and 2013, our cash flow hedges were highly effective and hedge ineffectiveness was not material. While we expect that our derivative instruments that have been designated as hedges will continue to meet the conditions for hedge accounting, if hedges do not qualify as highly effective or if we do not believe that forecasted transactions will occur, the changes in the fair value of the derivatives used as hedges will be reflected in earnings.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income taxes reflect net effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. We are subject to foreign income taxes on our foreign operations. We are required to estimate our income taxes in each jurisdiction in which we operate. This process involves estimating our actual current tax exposure, together with assessing temporary differences resulting from differing treatment of items for tax and financial reporting purposes. The tax effects of these temporary differences are recorded as deferred tax assets or deferred tax liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period during which such rates are enacted. We record a valuation allowance when it is more likely than not that we will not realize the net deferred tax assets in a certain jurisdiction.

We consider all available evidence to determine whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become realizable. Management considers the scheduled

reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), and projected taxable income in assessing the realizability of deferred tax assets. In making such judgments, significant weight is given to evidence that can be objectively verified. Based on all available evidence, in particular our historical cumulative losses, recent operating losses and a U.S. pre-tax loss for the fiscal year ending December 31, 2014, we recorded a valuation allowance against our U.S. net deferred tax assets. The valuation allowance for deferred tax assets as of December 31, 2014 and 2013 was $22.3 million and $20.0 million, respectively. In order to fully realize the U.S. deferred tax assets, we will need to generate sufficient taxable income in future periods before the expiration of the deferred tax assets governed by the tax code. As of December 31, 2014, we had gross federal net operating loss carry forwards of approximately $39.2 million expiring beginning in 2030 and gross state net operating loss carry forwards of approximately $57.7 million expiring beginning in 2015.

We record tax benefits when they are more likely than not to be realized.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Risks

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

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

In order to hedge our exposure to foreign currency transactions and short-term intercompany transactions denominated in the CAD and PHP we had outstanding foreign currency exchange contracts as of December 31, 2014 with notional amounts totaling $45.7 million. The average contractual exchange rate for the CAD contracts is 1.11 and for the PHP contracts is 44.0.
As of December 31, 2014, we had net total derivative liabilities associated with these contracts with a fair value of $1.2 million, which will settle within the next 12 months. If the USD were to weaken against the CAD and PHP by 10% from current period-end levels, we would incur a loss of approximately $4.9 million on the underlying exposures of the derivative instruments. As of December 31, 2014, we have not entered into any arrangements to hedge our exposure to fluctuations in the Honduran lempira relative to the USD.

Interest Rate Risk

We currently have an $18.5 million secured credit facility, which can increase to $20.0 million. The interest rate on our credit facility is variable based upon the LIBOR index, and, therefore, is affected by changes in market interest rates. If the LIBOR increased 100 basis points, there would not be a material impact to our consolidated financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

StarTek, Inc. and Subsidiaries:

Reports of Independent Registered Public Accounting Firms
Consolidated Statements of Operations and Comprehensive Loss for the years ended December 31, 2014 and 2013
Consolidated Balance Sheets as of December 31, 2014 and 2013
Consolidated Statements of Cash Flows for the years ended December 31, 2014 and 2013
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2014 and 2013
Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of StarTek, Inc.

We have audited the accompanying consolidated balance sheet of StarTek, Inc. and subsidiaries (the “Company”) as of December 31, 2014, and the related consolidated statements of operations and comprehensive loss, cash flows, and stockholders’ equity for the year then ended. We also have audited the Company’s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the company’s internal control over financial reporting based on our audits. Our responsibility is to express an opinion on these financial statements and an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of StarTek, Inc. and subsidiaries as of December 31, 2014, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, StarTek, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework

(2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ EKS&H LLLP

March 6, 2015
Denver, Colorado

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of StarTek, Inc.

We have audited the accompanying consolidated balance sheet of StarTek, Inc. and subsidiaries as of December 31, 2013, and the related consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provided a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of StarTek, Inc. and subsidiaries at December 31, 2013, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP
Denver, Colorado
March 7, 2014

STARTEK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(In thousands, except per share data)

	Years Ended December 31,	
	2014	2013
Revenue	$250,080	$231,257
Cost of services	219,608	206,932
Gross profit	30,472	24,325
Selling, general and administrative expenses	31,397	28,828
Impairment losses and restructuring charges, net	3,965	94
Operating loss	(4,890)	(4,597)
Interest and other income (expense), net	(6)	(1,579)
Loss before income taxes	(4,896)	(6,176)
Income tax expense	564	230
Net loss	$(5,460)	$(6,406)
Other comprehensive (loss) income, net of tax:		
Foreign currency translation adjustments	(415)	(898)
Change in fair value of derivative instruments	599	(2,640)
Comprehensive loss	$(5,276)	$(9,944)
Net loss per common share - basic and diluted	$(0.35)	$(0.42)
Weighted average common shares outstanding - basic and diluted	15,394	15,339

See Notes to Consolidated Financial Statements.

STARTEK, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	As of December 31,	
	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	$5,306	$10,989
Trade accounts receivable, net	46,103	43,708
Deferred income tax assets	2	157
Derivative asset	48	—
Prepaid expenses	2,257	2,939
Other current assets	792	2,271
Total current assets	54,508	60,064
Property, plant and equipment, net	28,180	22,210
Long-term deferred income tax assets	1,429	2,151
Intangible assets, net	2,609	1,164
Goodwill	4,136	1,637
Other long-term assets	2,931	2,491
Total assets	$93,793	$89,717
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$10,434	$8,477
Accrued liabilities:		
Accrued payroll	5,522	9,196
Accrued compensated absences	2,309	2,469
Other accrued liabilities	3,040	1,901
Line of credit	4,640	1,000
Derivative liability	1,250	2,160
Deferred income tax liabilities	965	766
Other current liabilities	3,512	2,529
Total current liabilities	31,672	28,498
Deferred rent	1,593	1,445
Other liabilities	5,847	1,600
Total liabilities	39,112	31,543
Commitments and contingencies		
Stockholders' equity:		
Common stock, 32,000,000 non-convertible shares, $0.01 par value, authorized; 15,414,803 and 15,368,356 shares issued and outstanding at December 31, 2014 and 2013, respectively	154	154
Additional paid-in capital	76,056	74,273
Accumulated other comprehensive loss	(825)	(1,009)
Accumulated deficit	(20,704)	(15,244)
Total stockholders' equity	54,681	58,174
Total liabilities and stockholders' equity	$93,793	$89,717

See Notes to Consolidated Financial Statements.

STARTEK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended December 31,	
	2014	2013
Operating Activities		
Net loss	$(5,460)	$(6,406)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	10,379	12,527
Impairment losses	—	531
(Gains) losses on disposal of assets	(136)	1,074
(Gain) on dissolution of subsidiary	(413)	—
Loss on sale leaseback transaction	—	475
Share-based compensation expense	1,625	1,607
Amortization of deferred gain on sale leaseback transaction	(276)	(273)
Deferred income taxes	993	166
Income tax benefit related to other comprehensive income	(117)	—
Changes in operating assets and liabilities:		
Trade accounts receivable, net	(2,444)	(2,711)
Prepaid expenses and other assets	1,389	(1,958)
Accounts payable	948	435
Accrued and other liabilities	(2,108)	775
Net cash provided by operating activities	4,380	6,242
Investing Activities		
Proceeds from note receivable	645	658
Proceeds from sale of assets	1,135	3,394
Proceeds from sale leaseback transaction	—	1,337
Purchases of property, plant and equipment	(11,661)	(8,843)
Cash paid for acquisitions of businesses	(3,419)	(2,097)
Net cash used in investing activities	(13,300)	(5,551)
Financing Activities		
Proceeds from stock option exercises	41	141
Proceeds from line of credit	170,447	41,390
Principal payments on line of credit	(166,807)	(40,390)
Payment of payroll taxes relating to vesting of restricted stock	—	(6)
Net proceeds from the issuance of common stock	118	97
Principal payments on long-term debt	(183)	—
Principal payments on capital lease obligations	(200)	(19)
Net cash provided by financing activities	3,416	1,213
Effect of exchange rate changes on cash	(179)	(98)
Net (decrease) increase in cash and cash equivalents	(5,683)	1,806
Cash and cash equivalents at beginning of period	10,989	9,183
Cash and cash equivalents at end of period	$5,306	$10,989
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$548	$54
Cash paid for income taxes	$60	$533
Supplemental Disclosure of Noncash Investing Activities		
Assets acquired through capital lease and direct financing	$4,879	$1,413

See Notes to Consolidated Financial Statements.

STARTEK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholder's Equity
	Shares	Amount				
Balance, December 31, 2012	15,298,947	$153	$72,435	$ 2,529	$ (8,838)	$ 66,279
Stock options exercised	38,577	1	140	—	—	141
Stock issued for services	8,318	—	45	—	—	45
Restricted shares forfeited	(1,067)	—	(3)	—	—	(3)
Shares withheld for taxes on restricted stock vested	(823)	—	(6)	—	—	(6)
Issuance of common stock pursuant to Employee Stock Purchase Plan	24,404	—	97	—	—	97
Share-based compensation expense	—	—	1,565	—	—	1,565
Net loss	—	—	—	—	(6,406)	(6,406)
Change in accumulated other comprehensive income (loss)	—	—	—	(3,538)	—	(3,538)
Balance, December 31, 2013	15,368,356	154	74,273	(1,009)	(15,244)	58,174
Stock options exercised	14,383	—	41	—	—	41
Stock issued for services	12,670	—	90	—	—	90
Issuance of common stock pursuant to Employee Stock Purchase Plan	19,394	—	117	—	—	117
Share-based compensation expense	—	—	1,535	—	—	1,535
Net loss	—	—	—	—	(5,460)	(5,460)
Change in accumulated other comprehensive income (loss)	—	—	—	184	—	184
Balance, December 31, 2014	15,414,803	$154	$76,056	$ (825)	$ (20,704)	$ 54,681

See Notes to Consolidated Financial Statements.

STARTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014
(In thousands, except share and per share data)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

StarTek, Inc. ("STARTEK") is a comprehensive contact center and business process outsourcing services company. For over 25 years, we have partnered with our clients to effectively handle their customers throughout the customer life cycle. We have provided customer experience management solutions that solve strategic business challenges so that businesses can effectively manage customer relationships across all contact points. Headquartered in Greenwood Village, Colorado, we operate facilities in the U.S., Canada, the Philippines and Honduras. We operate within three business segments: Domestic, Asia Pacific and Latin America. Refer to Note 16, "Segment Information," for further information.

We are considered a "smaller reporting company" under the applicable disclosure rules of the Securities and Exchange Commission and accordingly, have elected to provide our audited statements of operations and comprehensive loss, cash flows and changes in stockholders' equity for two, rather than three, years.

Consolidation

Our consolidated financial statements include the accounts of all wholly-owned subsidiaries after elimination of significant intercompany balances and transactions.

Use of Estimates

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

Concentration of Credit Risk

We are exposed to credit risk in the normal course of business, primarily related to accounts receivable and derivative instruments. Historically, the losses related to credit risk have been immaterial. We regularly monitor credit risk to mitigate the possibility of current and future exposures resulting in a loss. We evaluate the creditworthiness of clients prior to entering into an agreement to provide services and on an on-going basis as part of the processes of revenue recognition and accounts receivable. We do not believe we are exposed to more than a nominal amount of credit risk in our derivative hedging activities, as the counter parties are established, well-capitalized financial institutions.

Foreign Currency

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. Resulting translation adjustments, net of applicable deferred income taxes, are recorded in accumulated other comprehensive income. Foreign currency transaction gains and losses are included in interest and other income (expense), net in our consolidated statements of operations and comprehensive loss. Such gains and losses were not material for any period presented.

Revenue Recognition

We invoice our clients monthly in arrears and recognize revenues for such services when completed. Substantially all of our contractual arrangements are based either on a production rate, meaning that we recognize revenue based on the billable hours or minutes of each call center agent, or on a rate per transaction basis. These rates could be based on the number of paid hours the agent works, the number of minutes the agent is available to answer calls, or the number of minutes the agent is actually handling calls for the client, depending on the client contract. Production rates vary by client contract and can fluctuate based on our performance against certain pre-determined criteria related to quality and performance. Additionally, some clients are contractually entitled to penalties when we are out of compliance with certain quality and/or performance obligations defined in the client contract. Such penalties are recorded as a reduction to revenue as incurred based on a measurement of the appropriate penalty under the terms of the client contract. Likewise, some client contracts stipulate that we are entitled to bonuses should

we meet or exceed these predetermined quality and/or performance obligations. These bonuses are recognized as incremental revenue in the period in which they are earned.

As a general rule, our contracts do not include multiple elements. We provide initial training to customer service representatives upon commencement of new contracts and recognize revenues for such training as the services are provided based upon the production rate (i.e., billable hours and rates related to the training services as stipulated in our contractual arrangements). Accordingly, the corresponding training costs, consisting primarily of labor and related expenses, are recognized as incurred.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is provided for known and estimated potential losses arising from sales to customers based on a periodic review of these accounts. There was no allowance for doubtful accounts as of December 31, 2014 or 2013.

Fair Value of Financial Instruments

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

Fair value is 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.

Accounting guidance for the measurement of fair value establishes a 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 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.

Refer to Note 8, “Fair Value Measurements,” for additional information on how we determine fair value for our assets and liabilities.

Cash and Cash Equivalents

We consider cash equivalents to be short-term, highly liquid investments readily convertible to known amounts of cash and so near their maturity at purchase that they present insignificant risk of changes in value because of changes in interest rates.

Restricted cash of $187 and $456 included in other current assets at December 31, 2014 and 2013 represents escrowed funds related to the sale-leaseback of our Greeley North property.

Derivative Instruments and Hedging Activities

Our derivative instruments consist of foreign currency forward contracts and are recorded as either an asset or liability measured at its fair value, with changes in the fair value of qualifying hedges recorded in other comprehensive income. Changes in a derivative's fair value are recognized currently in the statements of operations unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset the related results of the hedged item and requires that we must formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment.

We generally are able to apply cash flow hedge accounting which associates the results of the hedges with forecasted future expenses. The current mark-to-market gain or loss is recorded in accumulated other comprehensive income and will be re-classified to operations as the forecasted expenses are incurred, typically within one year. During 2014 and 2013, our cash flow hedges were highly effective and hedge ineffectiveness was not material. While we expect that our derivative instruments that have been designated as hedges will continue to meet the conditions for hedge accounting, if hedges do not qualify as highly effective or if we do not believe that forecasted transactions will occur, the changes in the fair value of the derivatives used as hedges will be reflected in earnings.

Property, Plant and Equipment

Property, plant, and equipment, are stated at depreciated cost. Additions and improvement activities are capitalized. Maintenance and repairs are expensed as incurred. Assets held under capital leases are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Depreciation and amortization is computed using the straight-line method based on their estimated useful lives, as follows:

	Estimated Useful Life
Buildings and building improvements	10-30 years
Telephone and computer equipment	3-5 years
Software	3 years
Furniture, fixtures, and miscellaneous equipment	5-7 years

We depreciate leasehold improvements associated with operating leases over the shorter of the expected useful life or remaining life of the lease. Amortization expense related to assets recorded under capital leases is included in depreciation and amortization expense.

Impairment of Long-Lived Assets

We periodically, on at least an annual basis, evaluate potential impairments of our long-lived assets. In our annual evaluation or when we determine that the carrying value of a long-lived asset may not be recoverable, based upon the existence of one or more indicators of impairment, we evaluate the projected undiscounted cash flows related to the assets. If these cash flows are less than the carrying values of the assets, we measure the impairment based on the excess of the carrying value of the long-lived asset over the long-lived asset's fair value. Our projections contain assumptions pertaining to anticipated levels of utilization and revenue that may or may not be under contract but are based on our experience and/or projections received from our customers.

Goodwill and Intangible Assets

Goodwill

Goodwill is recorded at fair value and not amortized, but is reviewed for impairment at least annually or more frequently if impairment indicators arise. Our goodwill is allocated by reporting unit and is evaluated for impairment by first performing a qualitative assessment to determine whether a quantitative goodwill test is necessary. If it is determined, based on qualitative factors, that the fair value of the reporting unit may be more likely than not less than carrying amount, or if significant adverse changes in our future financial performance occur that could materially impact fair value, a quantitative goodwill impairment test would be required. Additionally, we can elect to forgo the qualitative assessment and perform the quantitative test.

The first step of the quantitative test compares the fair value of the reporting unit to its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, there is a potential impairment and the second step must be performed. The second step compares the implied fair value of goodwill with the carrying amount of goodwill. If the carrying amount of goodwill exceeds the implied fair value, the excess is required to be recorded as an impairment.

The implied fair value of goodwill is determined by assigning the fair value of the reporting unit to all the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination. We define our reporting units to be the same as our operating segments and have elected to perform the annual impairment assessment for goodwill in the fourth quarter.

Intangible Assets

We amortize all acquisition-related intangible assets that are subject to amortization based using the straight-line method over the estimated useful life based on economic benefit as follows:

	Estimated Useful Life
Developed technology	8 years
Customer base and customer relationships	3-10 years
Trade name	6-7 years
Noncompete agreement	2 years

We perform a review of intangible assets to determine if facts and circumstances indicate that the useful life is shorter than we had originally estimated or that the carrying amount of assets may not be recoverable. If such facts and circumstances exist, we assess recoverability by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Impairments, if any, are based on the excess of the carrying amount over the fair value of those assets. If the useful life is shorter than originally estimated, we accelerate the rate of amortization and amortize the remaining carrying value over the new shorter useful life.

For further discussion of goodwill and identified intangible assets, refer to Note 3, "Goodwill and Intangible Assets."

Assets Held for Sale

We classify an asset as held for sale when the facts and circumstances meet the criteria for such classification, including the following (a) we have committed to a plan to sell the asset, (b) the asset is available for immediate sale, (c) we have initiated actions to complete the sale, (d) the sale is expected to be completed within one year, (e) the asset is being actively marketed at a price that is reasonable relative to its fair value and (f) the plan to sell is unlikely to be subject to significant changes or termination. Assets held for sale are reported at the lower of cost or fair value less costs to sell.

Restructuring Charges

On an ongoing basis, management assesses the profitability and utilization of our facilities and in some cases management has chosen to close facilities. Severance payments that occur from reductions in workforce are in accordance with our postemployment policy and/or statutory requirements that are communicated to all employees upon hire date; therefore, severance liabilities are recognized when they are determined to be probable and estimable. Other liabilities for costs associated with an exit or disposal activity are recognized when the liability is incurred, instead of upon commitment to an exit plan. A significant assumption used in determining the amount of the estimated liability for closing a facility is the estimated liability for future lease payments on vacant facilities. We determine our

estimate of sublease payments based on our ability to successfully negotiate early termination agreements with landlords, a third-party broker or management's assessment of our ability to sublease the facility based upon the market conditions in which the facility is located. 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.

Leases

Rent holidays, landlord/tenant incentives and escalations are included in some instances in the base price of our rent payments over the term of our operating leases. We recognize rent holidays and rent escalations on a straight-line basis over the lease term. The landlord/tenant incentives are recorded as deferred rent and amortized on a straight line basis over the lease term.

Assets held under capital leases are included in property, plant and equipment, net in our consolidated balance sheets and depreciated over the term of the lease. Rent payments under the leases are recognized as a reduction of the capital lease obligation and interest expense.

Deferred Gains on Sale and Leaseback Transactions
We amortize deferred gains on the sale and leaseback of properties under operating leases over the life of the lease. The amortization of these gains is recorded as a reduction to rent expense. The deferred gain is recorded in our consolidated balance sheet in other current liabilities.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income taxes reflect net effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. We are subject to foreign income taxes on our foreign operations. We are required to estimate our income taxes in each jurisdiction in which we operate. This process involves estimating our actual current tax exposure, together with assessing temporary differences resulting from differing treatment of items for tax and financial reporting purposes. The tax effects of these temporary differences are recorded as deferred tax assets or deferred tax liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period during which such rates are enacted. We record a valuation allowance when it is more likely than not that we will not realize the net deferred tax assets in a certain jurisdiction.

We record tax benefits when they are more likely than not to be realized. Our policy is to reflect penalties and interest as part of income tax expense as they become applicable.

Stock-Based Compensation

We recognize expense related to all share-based payments to employees, including grants of employee stock options, based on the grant-date fair values amortized straight-line over the period during which the employees are required to provide services in exchange for the equity instruments. We include an estimate of forfeitures when calculating compensation expense. We use the Black-Scholes method for valuing stock-based awards. See Note 11, “Share-Based Compensation and Employee Benefit Plans,” for further information regarding the assumptions used to calculate share-based payment expense.

Recently Issued Accounting Standards

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

In June 2014, the FASB issued ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force). The ASU clarifies that entities should treat performance targets that can be met after the requisite service period of a share-based payment award as performance conditions that affect vesting. Therefore, an

entity would not record compensation expense (measured as of the grant date without taking into account the effect of the performance target) related to an award for which transfer to the employee is contingent on the entity's satisfaction of a performance target until it becomes probable that the performance target will be met. The ASU does not contain any new disclosure requirements. The ASU is effective for reporting periods beginning after December 15, 2015. Early adoption is permitted. We do not expect the adoption of this standard to have a material impact on our financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). ASU 2014-09 amends the guidance for revenue recognition to replace numerous, industry-specific requirements and converges areas under this topic with those of the International Financial Reporting Standards. The ASU implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The

amendment also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendments in this ASU are effective for reporting periods beginning after December 15, 2016, and early adoption is prohibited. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. We are currently assessing the impact the adoption of ASU 2014-09, including possible transition alternatives, will have on our financial statements.

2. ACQUISITIONS

Collection Center, Inc.

On October 1, 2014, we acquired Collection Center, Inc. ("CCI"), a receivables management company for approximately $4,105, net of interest incurred. CCI specializes in providing collection services primarily in the healthcare industry and also in the financial services, utility and commercial industries.

We paid $2,610 of the purchase price in cash on the acquisition date with the remaining balance to be paid quarterly by September 2016. The remaining payments may be adjusted if certain quarterly revenue targets are not met. Minimal acquisition-related expenses were paid, which are recorded in selling, general and administrative expenses. Financial results from the date of acquisition are included in the results of operations within our Domestic segment.

The following summarizes the preliminary estimated fair values of the identifiable assets acquired as of the acquisition date. There were no other assets or liabilities acquired. The estimates of fair value of identifiable assets acquired are preliminary, pending completion of a valuation, thus are subject to revisions that may result in adjustment to the values presented below:

	Preliminary Estimate of Acquisition Date Fair Value
Customer relationships	$ 1,840
Trade name	130
Goodwill	2,135
Total purchase price	$ 4,105

The customer relationships and trade name have preliminary estimated useful lives of eight years and seven years, respectively. The goodwill recognized was attributable primarily to the acquired workforce and further expansion into the health care industry.

Ideal Dialogue Company, LLC

On March 18, 2013, we acquired Ideal Dialogue Company, LLC (“IDC”) for approximately $1,500 in cash. IDC uses analysis and unique methodologies based on more than 50 years of research in the science of human communication to optimize agent-customer interactions. IDC provides solutions that improve hiring, training, leadership development, quality monitoring and executive insight to enable customer management organizations to consistently create engaging conversations with customers.

We paid minimal acquisition-related expenses as part of the IDC purchase, which are recorded in selling, general and administrative expenses. Financial results of IDC from the date of acquisition are included in the results of operations within our Domestic segment.

We finalized our purchase price allocation during the three months ended December 31, 2013. The following summarizes the final purchase price allocation of the fair values of the assets acquired as of the acquisition date:

	Acquisition Date Fair Value
Property, plant and equipment	$ 13
Developed technology	390
Customer base	130
Trade name	70
Noncompete agreement	10
Goodwill	887
Total purchase price	$ 1,500

The goodwill recognized was attributable primarily to the assembled and trained workforce that developed the technology, expected synergies and other factors.

RN's On Call

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

As of December 31, 2014, we paid $1,406 of the purchase price and the remaining balance was paid in January 2015. Minimal acquisition-related expenses were paid, which are recorded in selling, general and administrative expenses. Financial results from the date of acquisition are included in the results of operations within our Domestic segment.

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

	Acquisition Date Fair Value
Customer base	$ 340
Goodwill	1,115
Total purchase price	$ 1,455

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

3. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The goodwill of $4,136 related to the acquisitions of IDC, RN's On Call and CCI was assigned to our Domestic segment.

We perform a goodwill impairment analysis at least annually (in the fourth quarter of each year), unless indicators of impairment exist in interim periods. We performed a quantitative assessment to determine if it was more likely than not that the fair value of each of our reporting units with goodwill exceeded its carrying value. In making this assessment, we evaluated overall business and overall economic conditions since the date of our acquisitions as well as expectations of projected revenues and cash flows, assumptions impacting the weighted average cost of capital and overall global industry and market conditions.

We concluded that the fair value of each reporting unit was in excess of its carrying value and goodwill was not impaired as of December 31, 2014.

Intangible Assets

The following table presents our intangible assets as of December 31, 2014:

	Gross Intangibles	Accumulated Amortization	Net Intangibles	Weighted Average Amortization Period (years)
Developed technology	$ 390	$ 85	$ 305	3.57
Customer base and customer relationships	2,310	182	2,128	4.36
Trade name	200	25	175	3.54
Noncompete agreement	10	9	1	0.50
	$ 2,910	$ 301	$ 2,609	4.21

Amortization expense of intangible assets was $115 and $186 for the years ended December 31, 2014 and 2013, respectively. We estimated future amortization expense for the succeeding years relating to the intangible assets resulting from acquisitions as follows:

Year Ending December 31,	Amount
2015	$ 387
2016	354
2017	343
2018	343
2019	334
Thereafter	848

We evaluated our intangible assets based on current economic and business indicators and determined they were not impaired
as of December 31, 2014.

4. IMPAIRMENT LOSSES AND RESTRUCTURING CHARGES

Impairment Losses

No impairment losses were incurred during 2014. We recognized impairment losses of $531 in the fourth quarter of 2013 in our Latin America segment associated with the furniture, fixtures and leasehold improvements at our site in Costa Rica after an impairment analysis indicated estimated future cash flows were insufficient to support the carrying values. The site was closed during 2014.

Disposal of Long-Lived Assets

During 2013, we implemented a plan to outsource a significant portion of our IT platform. As a result, we transferred certain IT assets to the provider, resulting in a loss on disposal of $966, which is included in interest and other income (expense), net. The useful life of the remaining impacted assets has been shortened to the transition period, resulting in accelerated depreciation charges of $637 in cost of services.

Assets Held for Sale

During 2013, we reclassified our Laramie, Wyoming facility, previously held for sale to assets held and used, as the held for sale criteria were no longer met due to the duration of the held for sale classification. We also reclassified our Enid, Oklahoma facility, previously held for sale, to assets held and used, as the held for sale criteria were no longer met due to the reopening of this site. The assets were measured at the carrying value of the assets before being classified as held for sale, adjusted for any depreciation expense that would have been recognized had the assets been

continuously held and used. As a result of this measurement, we recognized $151 and $271 of depreciation expense for the Laramie and Enid facilities, respectively, which is included in cost of services.
During the fourth quarter of 2013, we sold our Greeley, Colorado facility, previously held for sale, and during 2014 we sold our Laramie, Wyoming facility. Refer to Note 9, "Property, Plant and Equipment," for additional information.
As a result of the above transactions, we had no assets held for sale at December 31, 2014 or 2013.

Restructuring Charges

The table below summarizes the balance of accrued restructuring costs, which is included in other current liabilities in our consolidated balance sheets, and the changes during the years ended December 31, 2014 and 2013:

	Facility-Related/Employee-Related Costs						
	Victoria	Decatur	Regina	Jonesboro	Costa Rica	Corporate	Total
Balance as of January 1, 2013	$537	$86	$334	$—	$—	$—	$957
Expense (reversal)	(443)	(56)	—	—	—	—	(499)
Payments, net of receipts for sublease	(78)	(30)	(328)	—	—	—	(436)
Foreign currency translation adjustment	—	—	(6)	—	—	—	(6)
Balance as of December 31, 2013	$16	$—	$—	$—	$—	$—	$16
Expense (reversal)	(16)	—	—	801	1,342	279	2,406
Payments, net of receipts for sublease	—		—	(737)	(1,333)	(247)	(2,317)
Balance as of December 31, 2014	$—	$—	$—	$64	$9	$32	$105

We previously entered into a sublease agreement for our Victoria, Texas facility through December 31, 2014. The reserves listed above are net of expected sublease rental income. We had recorded an accrual for certain property taxes we still owed in Victoria, which were paid by the sublessee; therefore, we reversed the excess reserves of $16 no longer required as of December 31, 2014. Also, in connection with the sublease, the sublessee was making payments to us for certain furniture, fixtures, equipment and leasehold improvements in the facility. The note receivable has been fully collected as of December 31, 2014. During 2013, we reversed $443 of the restructuring reserve based on an updated analysis of pass-through expenses.

The Decatur, Illinois and Regina, Saskatchewan restructuring plans were completed in the first quarter of 2013 and we do not expect to incur any additional restructuring liabilities in future periods for either of these locations.

In February 2014, we announced the closure of our Jonesboro, Arkansas facility, which ceased operations in the second quarter of 2014 when the business transitioned to another facility. We established a restructuring reserve of $192 for employee related costs and recognized additional charges of $609 when the facility closed. The remaining costs are expected to be paid out through 2015. We also recognized a net gain of $256 related to the early termination of our lease.

In June 2014, we announced the closure of our Heredia, Costa Rica facility, included in our Latin America segment, which ceased operations in the third quarter of 2014. We established a restructuring reserve of $1,004 for employee related costs and recognized additional charges of $338 when the facility closed. The restructuring charges for those employees who continue to work after the notification date will be recognized over the service period. The remaining costs are expected to be paid out through the second quarter of 2015.

During 2014, we continued to pursue operating efficiencies through streamlining our organizational structure and leveraging our shared services centers in low-cost regions. We eliminated several positions as a result and incurred restructuring charges of $279. We expect to pay the remaining costs through 2015.

During the second quarter of 2014, we moved forward with our initiative to outsource our data centers and move to a hosted solutions model. We recognized $1,704 of restructuring charges as of December 31, 2014. Additional transition costs will be recognized through 2015 as restructuring charges as incurred in operating income and are expected to be approximately $1,000.

5. NET LOSS PER SHARE

Basic net loss per common share is computed on the basis of our weighted average number of common shares outstanding. Diluted earnings per share is computed on the basis of our weighted average number of common shares outstanding plus the effect of dilutive stock options and non-vested restricted stock using the treasury stock method. Securities totaling 2,412,337 and 2,302,417 for the years ended December 31, 2014 and 2013, respectively, have been excluded from loss per share because their effect would have been anti-dilutive.

6. PRINCIPAL CLIENTS

The following table represents revenue concentration of our principal clients:

	Years Ended December 31,			
	2014		2013	
	Revenue	Percentage	Revenue	Percentage
T-Mobile USA, Inc., a subsidiary of Deutsche Telekom (2)	$76,675	30.7 %	$64,095	27.7 %
AT&T Services, Inc. and AT&T Mobility, LLC, subsidiaries of AT&T, Inc. (1)	$55,265	22.1 %	$58,395	25.3 %
Comcast Cable Communications Management, LLC, subsidiary of Comcast Corporation (2)	$40,868	16.3 %	$45,887	19.8 %

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

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

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

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

On January 4, 2014, we entered into a new MSA with Comcast, effective June 22, 2013, which replaced the original MSA that was signed in 2011 and would have expired in 2014. The new MSA has an initial term of one year and will automatically renew for additional one-year periods unless either party gives notice of cancellation. Neither party gave notice of termination; therefore, the contract has renewed for the year ending June 22, 2015, but Comcast may terminate the agreement upon 90 days written notice.

7. DERIVATIVE INSTRUMENTS

We use derivatives to partially offset our business exposure to foreign currency exchange risk. We enter into foreign currency exchange contracts to hedge our anticipated operating commitments that are denominated in foreign currencies, including forward contracts and range forward contracts (a transaction where both a call option is purchased and a put option is sold). The contracts cover periods commensurate with expected exposure, generally three to twelve months, and are principally unsecured foreign exchange contracts. The market risk exposure is essentially limited to risk related to currency rate movements. We operate in Canada, the Philippines and Honduras. The functional currencies in Canada and the Philippines are the Canadian dollar and the Philippine peso, respectively, which are used to pay labor and other operating costs in those countries. We provide funds for these operating costs as our client contracts generate revenues, which are paid in U.S. dollars. In Honduras, our functional currency is the U.S. dollar and the majority of our costs are denominated in U.S. dollars. We have elected to designate our derivatives as cash flow hedges in order to associate the results of the hedges with forecasted expenses.

During the years ended December 31, 2014 and 2013, we entered into Canadian dollar forward contracts for a notional amount of 14,630 and 10,860 Canadian dollars, respectively, and during the years ended December 31, 2014 and 2013, we entered into Philippine peso non-deliverable forward contracts for a notional amount of 2,685,550 and

2,515,110 Philippine pesos, respectively. As of December 31, 2014, we have not entered into any arrangements to hedge our exposure to fluctuations in the Honduran lempira relative to the U.S. dollar.

The following table shows the notional amount of our foreign exchange cash flow hedging instruments as of December 31, 2014 and 2013:

	December 31, 2014		December 31, 2013	
	Local Currency Notional Amount	U.S. Dollar Notional Amount	Local Currency Notional Amount	U.S. Dollar Notional Amount
Canadian Dollar	9,670	$8,736	10,860	$10,448
Philippine Peso	1,627,920	36,989	1,511,910	35,948
		$45,725		$46,396

The Canadian dollar and Philippine peso foreign exchange contracts are to be delivered periodically through December 2015 at a purchase price of approximately $8,736 and $36,989, respectively, and as such we expect unrealized gains and losses recorded in accumulated other comprehensive income will be reclassified to operations as the forecasted expenses are incurred, typically within twelve months.

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

The following table shows the effect of our derivative instruments designated as cash flow hedges for the years ended December 31, 2014 and 2013:

	Gain (Loss) Recognized in AOCI, net of tax Years Ended December 31,		Gain (Loss) Reclassified from AOCI into Income Years Ended December 31,	
	2014	2013	2014	2013
Cash flow hedges:				
Foreign exchange contracts	$(2,232)	$(4,590)	$(3,186)	$(1,950)

8. FAIR VALUE MEASUREMENTS

Derivative Instruments and Hedging Activities

The values of our derivative instruments are derived from pricing models using inputs based upon market information, including contractual terms, market prices and yield curves. The 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

Accrued restructuring costs were valued using a discounted cash flow model. Significant assumptions used in determining the amount of the estimated liability for closing a facility are the estimated liability for future lease payments on vacant facilities and the discount rate utilized to determine the present value of the future expected cash flows. If the assumptions regarding early termination and the timing and amounts of sublease payments prove to be inaccurate, we may be required to record additional losses, or conversely, a future gain, in the consolidated statements of operations and comprehensive income (loss).

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

Long-Lived Assets

There were no long-lived assets impaired during 2014. As described in Note 4, "Impairment Losses and Restructuring Charges", during the year ended December 31, 2013, we recorded an impairment loss in our Latin America segment. We periodically, on at least an annual basis, evaluate potential impairments of our long-lived assets. In our annual evaluation or when we determine that the carrying value of a long-lived asset may not be recoverable, based upon the existence of one or more indicators of impairment, we evaluate the projected undiscounted cash flows related to the assets. If these cash flows are less than the carrying values of the assets, we measure the impairment based on the excess of the carrying value of the long-lived asset over the long-lived asset's fair value. Where appropriate, we use a probability-weighted approach to determine our future cash flows, based upon our estimate of the likelihood of certain scenarios, primarily whether we expect to sell new business within a current location. These estimates are consistent with our internal projections and external communications and public disclosures.

During 2013, we reclassified our Laramie, Wyoming facility from held for sale to held and used and sold the facility during 2014. Also during 2013, we sold our Greeley, Colorado facility (refer to Note 9, "Property, Plant and Equipment," for additional information) and reopened our Enid, Oklahoma facility; therefore, we had no assets held for sale at December 31, 2014 or 2013.

Fair Value Hierarchy

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

	Assets and Liabilities Measured at Fair Value on a Recurring Basis as of December 31, 2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Foreign exchange contracts	$—	$48	$—	$48
Total fair value of assets measured on a recurring basis	$—	$48	$—	$48
Liabilities:				
Foreign exchange contracts	$—	$1,250	$—	$1,250
Total fair value of liabilities measured on a recurring basis	$—	$1,250	$—	$1,250

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

	Liabilities Measured at Fair Value on a Non-Recurring Basis During the Year ended December 31, 2014
Liabilities:	

Accrued restructuring costs	$—	$—	$105	$105
Total fair value of liabilities measured on a non-recurring basis	$—	$—	$105	$105

	Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis During the Year ended December 31, 2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Property, plant and equipment, net	$—	$—	$531	$531
Total fair value of assets measured on a non-recurring basis	$—	$—	$531	$531
Liabilities:				
Accrued restructuring costs	$—	$—	$16	$16
Total fair value of liabilities measured on a non-recurring basis	$—	$—	$16	$16

9. PROPERTY, PLANT AND EQUIPMENT

Our property, plant and equipment as of December 31, 2014 and 2013, consisted of the following, by asset class:

	2014	2013
Land	$30	$70
Buildings and improvements	24,106	24,851
Telephone and computer equipment	37,677	40,414
Software	34,246	37,192
Furniture, fixtures, and miscellaneous equipment	16,446	16,909
Construction in progress	2,412	1,222
Assets acquired under capital leases	6,142	1,456
	121,059	122,114
Less accumulated depreciation	(92,429)	(99,870)
Less accumulated amortization on leased assets	(450)	(34)
Total property, plant and equipment, net	$28,180	$22,210

In June 2014, we sold the previously vacated owned property in Laramie, Wyoming for $689, which resulted in a gain of $195. The gain is recorded in our consolidated statements of operations and comprehensive loss in interest and other income (expense), net.

In December 2013, we completed a sale and sale-leaseback transaction involving land, building and related building improvements at our Greeley, Colorado properties. Sales proceeds, net of direct costs of the transaction, totaled approximately $4,731. Our Greeley North property was sold in a sale-leaseback transaction and is currently used for operating a call center and our Greeley West property was sold, which had been held for sale since 2011.

The Greeley North property transaction qualified for sale-leaseback accounting treatment under the provisions of ASC Topic 840-40, Sale-Leaseback Transactions. We evaluated the lease at inception and accounted for it as a capital lease by recording the revalued assets to building and capital lease obligation equal to its fair value of approximately $1,413. We also recognized a loss of approximately $475 on the sold property, which was measured as the difference between the net sales proceeds, as allocated based on the relative fair values, and the net book value of the sold assets. The loss was recorded in our consolidated statement of operations and comprehensive loss for the year ended December 31, 2013 in interest and other income (expense), net. The lease term is seven years with an option to extend.

The sale of the Greeley West property resulted in a loss of approximately $106, which is recorded in our consolidated statements of operations and comprehensive loss in interest and other income (expense), net.

10. DEBT

Line of Credit

Effective February 28, 2012, we entered into a secured revolving credit facility ("Credit Agreement") with Wells Fargo Bank, which has a maturity date of February 28, 2016. The amount we may borrow under the Credit Agreement is the lesser of the

borrowing base calculation and $15,000, and, so long as no default has occurred, we may increase the maximum availability to $20,000 in $2,500 increments. We may request letters of credit under the Credit Agreement in an aggregate amount equal to the lesser of the borrowing base calculation (minus outstanding advances) and $5,000. The borrowing base is generally defined as 85% of our eligible accounts receivable less reserves for foreign exchange forward contracts and other reserves as defined in the Credit Agreement. As of December 31, 2014, we had $4,640 outstanding borrowings on our credit facility and available capacity was $10,300, net of $60 of letters of credit backed by the facility.

Borrowings under the Credit Agreement bear interest at the daily three-month LIBOR index plus 2.50% to 3.00% depending on the calculation of the fixed charge coverage ratio, as defined in the Credit Agreement (3.38% at December 31, 2014). We will pay letter of credit fees on the average daily aggregate available amount of all letters of credit outstanding monthly at a rate per annum of 3.00% and a monthly unused fee at a rate per annum of 0.30% on the aggregate unused commitment under the Credit Agreement. Indebtedness under the Credit Agreement is guaranteed by certain of our present and future domestic subsidiaries. We granted Wells Fargo a security interest in all of our assets, including all cash and cash equivalents, accounts receivable, general intangibles, owned real property, equipment and fixtures. Under the Credit Agreement, we are subject to certain standard affirmative and negative covenants, including the following financial covenants: 1) maintaining a minimum adjusted EBITDA, as defined in the Credit Agreement, of no less than the cumulative month-end minimum amounts set forth in an amendment to the Credit Agreement and 2) limiting non-financed capital expenditures to no more than the cumulative month-end maximum amounts set forth in an amendment to the Credit Agreement. We were in compliance with all such covenants as of December 31, 2014.

In February 2015, the borrowing base was increased to $18,500. In September 2014, we entered into an Eighth Amendment to the Credit Agreement to include CCI as a subsidiary and guarantor. In June 2014, we entered into a Seventh Amendment to the Credit Agreement adjusting the financial covenants through the first quarter of 2015, which were previously agreed to in March 2014, constituting the Sixth Amendment to the Credit Agreement. The Sixth Amendment also amended certain definitions and fees. On February 25, 2013, the Company and Wells Fargo agreed on the financial covenants for 2013 and the first quarter of 2014, constituting the Third Amendment to the Credit Agreement. This amendment also clarified certain definitions and extended the term of the Credit Agreement one year to February 28, 2016. Other amendments to the Credit Agreement not specified further revised certain definitions.

The Company and Wells Fargo are required to agree on financial covenants for the remaining term of the Credit Agreement beyond March 2015, and failure to do so would constitute an event of default.

Financing Agreement

We entered into a financing agreement for the purchase of certain software licenses and related hardware for approximately $1,000, which were delivered and placed into service in April 2014. Monthly payments commenced July 2014. The current portion of $373 and the long term portion of $506 are included in other current liabilities and other liabilities, respectively, on the consolidated balance sheet.

11. SHARE-BASED COMPENSATION AND EMPLOYEE BENEFIT PLANS

We have a 2008 Equity Incentive Plan (the “Plan”), which reserved 900,000 shares of common stock for issuance pursuant to the terms of the Plan plus 274,298 shares that remained available for future issuance under prior plans on the effective date of the Plan, which was May 5, 2008. An Amended and Restated Plan was approved by our board of directors and stockholders at our annual meeting of stockholders in May 2014, which authorized an additional

500,000 shares of common stock for issuance. As of December 31, 2014, there were 489,654 shares available for future grant under the Plan. Our plan is administered by the Compensation Committee (the "Committee") of the Board of Directors. The types of awards that may be granted under the Plan include stock options, stock appreciation rights, restricted stock, restricted stock units, performance units or other stock-based awards. The terms of the awards granted under the Plan will expire no later than ten years from the grant date. The Committee determines the vesting conditions of awards; however, subject to certain exceptions, an award that is not subject to the satisfaction of performance measures may not fully vest or become fully exercisable earlier than three years from the grant date, and the performance period for an award subject to performance measures may not be shorter than one year.

At the beginning of each quarter, members of the board of directors, at their option, may elect to receive as compensation 1) stock options to purchase shares of common stock with a fair value equivalent of $22,500 (calculated using the Black-Scholes pricing model), 2) shares of common stock with a grant date fair value of $22,500, 3) deferred stock units with a fair value equivalent of $22,500 (calculated using the Black-Scholes pricing model), with ownership of the common stock vesting immediately or over a period determined by the Committee and stated in the award or 4) any combination of options and

common stock. Upon the date of grant, the members of the board of directors are immediately vested in the stock options or common stock.

Stock Options

A summary of stock option activity under the Plan as of December 31, 2014 is as follows:

	Shares	Weighted Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)
Outstanding as of January 1, 2014	2,316,724	$4.15	
Granted	441,556	7.24	
Exercised	(14,383)	2.84	
Forfeited	(322,560)	3.86	
Expired	(9,000)	32.18	
Outstanding as of December 31, 2014	2,412,337	$4.66	7.45
Vested and exercisable as of December 31, 2014	1,306,290	$4.27	6.63
Vested and expected to vest as of December 31, 2014	2,342,657	$4.60	7.40

The weighted-average grant date fair value of options granted during the years ended December 31, 2014 and 2013 was $4.79 and $3.44, respectively. The total fair value of shares vested during the years ended December 31, 2014 and 2013 was $752 and $965, respectively.

The assumptions used to determine the value of our stock-based awards under the Black-Scholes method are summarized below:

	2014	2013
Risk-free interest rate	1.90% - 3.0%	0.36% - 2.7%
Dividend yield	—%	—%
Expected volatility	60.6% - 67.1%	56.5% - 67.6%
Average expected life in years	7.0	7.0

The risk-free interest rate is based on the U.S. Treasury strip yield in effect at the time of grant with a term equal to the expected term of the stock option granted. Average expected life and volatilities are based on historical experience, which we believe will be indicative of future experience.

Restricted Stock Awards and Deferred Stock Units

There were no deferred stock units outstanding as of December 31, 2013 and none were granted during 2014. A summary of restricted stock awards activity under the Plan as of December 31, 2014 is as follows:

	Number of Restricted Shares	Weighted-Average Grant Date Fair Value
Nonvested balance as of January 1, 2014	3,334	$2.35
Vested	(3,334)	2.35
Nonvested balance as of December 31, 2014	—	$—

The total fair value of restricted stock awards vested during the years ended December 31, 2014 and 2013 was $8 and $41, respectively.

Share-based Compensation Expense

The compensation expense that has been charged against income for December 31, 2014 and 2013 was $1,625, and $1,607, respectively, and is included in selling, general and administrative expense. As of December 31, 2014, there was $1,900 of total unrecognized compensation expense related to nonvested stock options, which is expected to be recognized over a weighted-average period of 2.0 years.

Employee Stock Purchase Plan

Under the terms of our employee stock purchase plan ("ESPP"), eligible employees may authorize payroll deductions up to 10% of their base pay to purchase shares of our common stock at a price equal to 85% of the lower of the closing price at the beginning or end of each quarterly stock purchase period. A total of 400,000 shares were authorized under the ESPP and 88,081 shares were available for issuance as of December 31, 2014.

During 2014 and 2013, 19,394 and 24,404 shares were purchased under this plan at an average price of $6.07 and $3.97, respectively. Total expense recognized related to the ESPP during the years ended December 31, 2014 and 2013 was $27 and $26, respectively. The assumptions used to value the shares under the ESPP using the Black-Scholes method were as follows:

	2014	2013
Risk-free interest rate	0.02% - 0.05%	0.02% - 0.07%
Dividend yield	—%	—%
Expected volatility	20.7% - 23.5%	24.2% - 64.7%
Expected life	3 months	3 months

The weighted average grant date fair value of these shares was $1.38, and $1.07 per share during the years ended December 31, 2014 and 2013, respectively.

401(k) Plan

We have a safe harbor 401(k) plan that allows participation by all eligible employees as of the first day of the month following their hire date. Eligible employees may contribute up to the maximum limit determined by the Internal Revenue Code. Participants receive a matching contribution after completing one year of service. We match 100% of the participant's contribution for the first 3% and 50% of the participant's contribution for the next 2%. Company matching contributions to the 401(k) plan totaled $316 and $288 for the years ended December 31, 2014 and 2013, respectively.

12. INTEREST AND OTHER INCOME (EXPENSE), NET

Interest and other income (expense), net for the years ended December 31, 2014 and 2013 were composed of the following:

	Years Ended December 31,			
	2014		2013	
Interest income	$15		$88	
Interest (expense)	(621	)	(114	)
Gain (loss) on disposal of assets	136		(1,549	)
Other income (expense)	464		(4	)
Interest and other income (expense), net	$(6	)	$(1,579	)

13. INCOME TAXES

The domestic and foreign source component of income (loss) from continuing operations before income taxes was:

	Years Ended December 31,	
	2014	2013

U.S.	$(10,677)	$(15,452)
Foreign	5,781	9,276
Total	$(4,896)	$(6,176)

Significant components of the provision for income taxes from continuing operations were:

	Years Ended December 31,	
	2014	2013
Current:		
Federal	$(110)	$—
State	53	—
Foreign	(360)	(29)
Total current (benefit)	$(417)	$(29)
Deferred:		
Federal	$65	$25
State	4	2
Foreign	912	232
Total deferred expense	$981	$259
Income tax expense	$564	$230

GAAP requires all items be considered, including items recorded in other comprehensive income, in determining the amount of tax benefit that results from a loss from continuing operations that should be allocated to continuing operations.

Significant components of deferred tax assets and deferred tax liabilities included in the accompanying consolidated balance sheets as of December 31, 2014 and 2013 were:

	Years Ended December 31,	
	2014	2013
Current deferred tax assets (liabilities):		
Accrued restructuring costs	$36	$(41)
Other accrued liabilities	63	15
Derivative instruments	456	816
Prepaid expenses	(343)	(209)
Cumulative translation adjustment	(1,150)	(1,397)
Other	356	373