STARTEK INC
Form S-3/A
May 25, 2004

As filed with the Securities and Exchange Commission on May 25, 2004

Registration No. 333-112894

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 4
to

Form S-3

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

StarTek, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**100 Garfield Street** **Denver, Colorado 80206** **(303) 399-2400**	**84-1370538**
(State or other jurisdiction of incorporation or organization)	*(Address, including zip code, and telephone number, including area code, of Registrant s principal executive office)*	*(I.R.S. Employer Identification Number)*

William E. Meade, Jr.
President, Chief Executive Officer and Director
100 Garfield Street
Denver, Colorado 80206
(303) 399-2400
(Name, address, including zip code, and telephone number, including area code, of agent for service of process)

Copies to:

Blair L. Lockwood, Esq. **Jeffrey A. Sherman, Esq.** **Michael M. McGawn, Esq.** **Faegre & Benson LLP** **1700 Lincoln Street, Suite 3200** **Denver, Colorado 80203** **(303) 607-3500**	**Kevin P. Kennedy, Esq.** **Simpson Thacher & Bartlett LLP** **3330 Hillview Avenue** **Palo Alto, California 94304** **(650) 251-5000**

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this Prospectus is not complete and may change. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This Prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated May 25, 2004

PRELIMINARY PROSPECTUS

3,200,000 Shares

StarTek, Inc.

Common Stock

This is an offering of shares of common stock of StarTek, Inc. All of the shares being offered are being sold by the selling stockholders. We will not receive any proceeds from the sale of shares by the selling stockholders.

Our common stock is listed on the New York Stock Exchange under the symbol SRT. On May 21, 2004, the last reported sale price of our common stock on the New York Stock Exchange was $32.93 per share.

Investing in our common stock involves risks. Risk Factors begin on page 6.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public Offering Price	$	$
Underwriting Discounts and Commissions	$	$
Proceeds to Selling Stockholders (before expenses)	$	$

One of the selling stockholders identified in this prospectus has granted the underwriters a 30-day option to purchase up to 480,000 additional shares of our common stock at the public offering price, less the underwriting discount, solely to cover over-allotments.

The underwriters expect to deliver the shares on or about , 2004.

SunTrust Robinson Humphrey

William Blair & Company

Thomas Weisel Partners LLC

, 2004

TABLE OF CONTENTS

	Page
Prospectus Summary	1

Risk Factors	6
Special Note on Forward-Looking Statements	15
Use of Proceeds	16
Dividend Policy	16
Market Price for Our Common Stock	16
Capitalization	17
Selected Consolidated Financial and Other Data	18
Management s Discussion and Analysis of Financial Condition and Results of Operations	20
Business	34
Management	42
Principal and Selling Stockholders	45
Description of Capital Stock	47
Certain United States Tax Consequences to Non-U.S. Holders	49
Underwriting	52
Notice to Canadian Residents	56
Legal Matters	58
Experts	58
Where You Can Find More Information	58
Incorporation of Certain Documents by Reference	58
Index to Consolidated Financial Statements	F-1
Form of Underwriting Agreement	
Consent of Ernst & Young LLP	

You should rely only on the information contained in this prospectus. Neither we nor the underwriters have authorized anyone, including the selling stockholders, to provide you with any information different from that contained in this prospectus. The selling stockholders are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where such offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of the prospectus or of any sale of this common stock.

Table of Contents

PROSPECTUS SUMMARY

The following is a short summary of our business. It may not contain all of the information that is important to you. To understand this offering fully, you should carefully read the entire prospectus, including the risk factors contained in this prospectus and the financial statements, related notes and other information incorporated by reference into this document. Unless the context requires otherwise in this prospectus, StarTek, we, us, and our refer to StarTek, Inc. and its subsidiaries. Unless otherwise indicated, the information in this prospectus assumes no exercise of the underwriters over-allotment option.

StarTek, Inc.

We are a leading provider of business process outsourced services, which consist of business process management and supply chain management services. Our business process management services include provisioning management, wireless telephone number porting, receivables management, wireless telephone activations, and high-end technical support and customer care services. Our supply chain management services include packaging, fulfillment, marketing support and logistics services.

Our revenue has grown from $205.2 million in 1999 to $231.2 million in 2003. During the same period, our operating profit has grown from $18.0 million to $31.3 million, representing an increase in our operating margin from 8.8% to 13.5% of revenue. All our growth was achieved organically by developing existing customers and adding new customers rather than through mergers or acquisitions.

Our Industry

An increasing number of businesses are seeking the services of third party outsourcers to address a wide range of their customer care needs, including technical support services and fulfillment/ logistics. As a result, we believe that outsourced customer care services will grow significantly in the coming years. Industry sources estimate that the worldwide customer care services market will grow from approximately $38.1 billion in 2002 to $68.2 billion in 2007, or a compounded annual growth rate of 12.3%. The largest geographic component of this market is the United States, which is expected to grow from $20.3 billion in 2002 to $35.1 billion in 2007, or a compounded annual growth rate of 11.6%. We believe that the main drivers behind this growth stem from the heightened desire by businesses to control costs and increase operating efficiencies, service capabilities and competitive advantage. In general, we believe that industries having higher levels of customer contact and service volume, such as telecommunications, financial services and retail, tend to seek outsourced services as a more efficient method for managing their technical support and customer care functions.

Within the worldwide customer care services market, industry sources estimate that two of the largest service categories are customer interaction and fulfillment/ logistics, the sizes of which are estimated to be over $30 billion and over $4 billion, respectively, in 2002. We believe that technical support/help desk services are the fastest growing component of the customer interaction category, driven by the desire of businesses in the telecommunications, information technology and consumer devices industries to outsource their customer support needs at a cost lower than they could achieve internally. We also believe that fulfillment/ logistics services will grow at a rate faster than the overall worldwide customer care services industry, owing to the need by businesses to achieve faster time to market, rapid inventory turns, greater focus on core competencies and lower costs.

Table of Contents

Our Competitive Strengths

We believe the following competitive strengths allow us to become an integral part of our clients businesses and contribute to our strong market position, and will enable us to continue to enhance our established presence as a leading provider of business process outsourced services:

Comprehensive Outsourced Services. We have the expertise and resources to become the one source provider for a significant portion of our clients business process needs, including assembly, order processing, distribution, technical support and customer care.

Ability to Accommodate Specialized Requirements. We have developed specialized expertise to address the needs of clients in technically-oriented industries, which generally entail critical, complex and high-volume market support requirements.

Scalable, Flexible Business Model. We believe our ability to rapidly deploy a new facility significantly differentiates us from our competitors, and our ability to quickly expand capacity allows our clients to rely on us to manage sudden changes in demand for their products.

Cost-Effective, High Quality Services. We enable clients to provide their customers with high-quality services that, for most of our clients, are at lower cost than they could achieve through in-house operations.

Technology-Enabled Service Delivery. We have combined commercially-available technology with our internally-developed business processes and systems to deliver a number of value-added functionalities, including advanced demand forecasting and scheduling capabilities for our clients.

Our Growth Strategy

We have achieved significant organic growth in our operations as measured by the number of our business process outsourcing facilities, customers, employees, revenue and net income. We expect that our service offerings, which we believe are among the leading types of services that companies may consider for outsourcing, combined with what we believe to be a trend towards businesses focusing on their core competencies, have positioned us well for future growth. The principal elements of our growth strategy are to:

Use Our Expertise in Complex Process Management to Address Untapped Opportunities. Through our experience serving clients in technically-oriented industries, we have developed specialized skills in outsourcing complex processes involving sophisticated customer interaction and highly efficient fulfillment processes. We intend to apply our existing process management expertise, as well as expertise we develop in the future, to address new client opportunities.

Strengthen Strategic Partnerships and Long-Term Relationships with Existing Clients. We seek to develop long-term client relationships, primarily with Fortune 1000 companies. We believe our client-oriented, value-added, integrated approach to addressing clients needs distinguishes us from our competitors and plays a key role in our ability to attract and retain clients on a long-term basis.

Further Strengthen Our Management Team with Key Hires. Since 2001, we have strengthened our senior and middle management ranks through the hiring or promotion of experienced personnel. We intend to continue to recruit for key positions in our organization, particularly in sales and marketing, so that we may further capitalize on the market position and competitive momentum we have developed to date.

Expand Our Client Base in New Vertical Markets. We are currently seeking to expand the industries to which we provide our wide spectrum of business process outsourced services by targeting select clients in markets in which we believe we offer an attractive value proposition to potential clients.

Maintain a Disciplined Approach to Expansion. We plan to grow our revenue organically through staged expansion of the services we provide to our existing or potential clients, or through rapid deployment of capacity to assist our clients in responding to demand for their products or services.

Table of Contents

Explore International Opportunities. We will continue to explore international opportunities. We will evaluate international locations for potential new facilities in regions that offer labor cost advantages and technical, language and quality support capabilities meeting or exceeding our clients requirements.

Corporate Information

The predecessor to our business was founded in 1987, and we have provided business process outsourced services since our inception, initially through two of our operating subsidiaries, StarTek USA, Inc. and StarTek Europe, Ltd. On December 30, 1996, we incorporated in Delaware as a holding company for our wholly-owned operating subsidiaries, and on June 19, 1997 we completed an initial public offering of our common stock. In 1998, we formed StarTek Pacific, Ltd., a Colorado corporation, and Domain.com, Inc., a Delaware corporation, as additional wholly-owned subsidiaries. In 2001, we formed StarTek Canada Services, Ltd., a Nova Scotia, Canada corporation, which is also a wholly-owned subsidiary.

Our principal office is located at 100 Garfield Street, Denver, Colorado 80206, our telephone number is (303) 399-2400, and our Internet address is www.startek.com. Our web site does not constitute a part of this prospectus.

Table of Contents

The Offering

Common stock offered by selling stockholders	3,200,000 shares
Common stock to be outstanding after this offering	14,433,251 shares
Use of proceeds	We will not receive any of the proceeds from the sale of the shares by the selling stockholders.
New York Stock Exchange symbol	SRT

The number of shares of our common stock to be outstanding after the offering set forth above is based on 14,433,251 shares outstanding as of May 21, 2004. The number of outstanding shares excludes an aggregate of:

361,170 shares of common stock reserved for future issuance under our stock option plans; and

1,009,150 shares of common stock reserved for issuance upon exercise of stock options outstanding as of May 21, 2004, at a weighted average exercise price of $23.80 per share.

4

Table of Contents

Summary Consolidated Financial and Other Data

The following table summarizes financial and other data regarding our business. You should read this information together with the consolidated financial statements and the notes to those statements included elsewhere in this prospectus. See Selected Consolidated Financial and Other Data.

	Year Ended December 31,			Three Months Ended March 31,	
	2001	2002	2003	2003	2004
	(Dollars in thousands, except per share data)			(Unaudited)	
Statement of Operations Data:					
Revenue	$ 182,576	$ 207,864	$ 231,189	$ 50,528	$ 64,695
Gross profit	44,954	50,859	59,788	12,187	18,349
Operating profit	19,016	28,297	31,299	5,837	10,525
Net interest income and other	4,318	1,986	4,048	779	612
Loss on impaired investments	(15,452)	(6,210)			
Income before income taxes	7,882	24,073	35,347	6,616	11,137
Net income	4,871	15,166	22,198	4,154	6,872
Earnings per share:					
Basic	$ 0.35	$ 1.07	$ 1.56	$ 0.29	$ 0.48
Diluted	$ 0.34	$ 1.05	$ 1.52	$ 0.29	$ 0.46
Weighted average common shares outstanding:					
Basic	14,053,484	14,140,765	14,243,273	14,203,794	14,358,046
Diluted	14,168,044	14,385,389	14,623,066	14,479,587	14,830,633
Other Data:					
Net cash provided by operating activities	$ 25,868	$ 21,141	$ 27,407	$ 17,055	$ 7,193
Purchases of property, plant and equipment	$ 19,016	$ 5,877	$ 23,867	$ 1,845	$ 2,248
Facilities in operation (end of period)(1)	16	15	17	15	19

	As of March 31, 2004
	(In thousands) (Unaudited)
Balance Sheet Data:	
Cash and cash equivalents	$ 17,866
Investments	40,475
Working capital	88,706
Total assets	170,057
Long-term debt, less current portion	7,512
Total stockholders equity	$ 136,089

(1) Includes facilities open and providing services to clients, including our corporate headquarters. Excludes a facility in Aurora, Colorado, a portion of which is subleased to a third party. We do not currently provide services from this facility.

5

Table of Contents

RISK FACTORS

You should carefully consider each of the risks described in this prospectus and all of the other information in this prospectus and the documents we incorporate by reference before you decide to buy our common stock. If any of these risks or uncertainties occurs, the trading price of our common stock could decline, and you may lose all or part of the money you paid to buy our common stock.

Risks Related to Us and Our Business

Over 80% of our revenue in the past several years has been received from our four largest clients. The loss or reduction in business from any of these clients would harm our business and results of operations.

The following table represents revenue concentrations of our principal clients:

	Year Ended December 31,			Three Months Ended March 31,	
	2001	2002	2003	2003	2004
AT&T Wireless Services, Inc.	19.1%	26.3%	38.1%	36.0%	43.7%
T-Mobile, a subsidiary of Deutsche Telekom	6.5%	12.2%	16.1%	12.7%	28.2%
AT&T Corporation	10.8%	13.3%	13.1%	14.2%	10.4%
Microsoft Corporation	48.4%	34.4%	21.7%	25.4%	10.0%

The loss of a principal client, a material reduction in the amount of business we receive from a principal client, or the loss, delay or termination of a principal client s product launch or service offering would harm our business, revenue and operating results. We may not be able to retain our principal clients, and if we were to lose any of our principal clients we may not be able to timely replace the revenue generated by the lost clients. In addition, the revenue we generate from our principal clients may decline or grow at a slower rate in future periods than it has in the past. In the event we lose any of our principal 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 harm that the loss of a principal client would have on our operating results and financial condition. As discussed below, AT&T Wireless Services, Inc. has entered an agreement to be acquired, and there can be no assurance that if AT&T Wireless Services is acquired the acquiror will continue to use our services.

Our client base is concentrated in a few select industries and our strategy partially depends on a trend of companies in these industries to outsource non-core services. If these industries suffer a downturn or the trend toward outsourcing reverses, our business will suffer.

Our current client base generally consists of companies engaged in the telecommunications and computer software industries, with over 80% of our revenue in the three months ended March 31, 2004, and over 65% of our revenue in fiscal 2003, coming from the telecommunications industry. Our business and growth is largely dependent on continued demand for our services from clients in these industries and other industries we may target in the future, and on trends in those industries to purchase outsourced services. Consolidation in our targeted industries may decrease the potential number of buyers for our services. We are particularly vulnerable on this issue given the relatively few significant customers we currently serve and the concentration of these customers in the telecommunications industry. For example, AT&T Wireless Services, our largest customer, has announced that it has entered an agreement to be acquired by Cingular Wireless LLC in a transaction that Cingular and AT&T Wireless Services expect to close as soon as late 2004. Any transaction between these companies is subject to regulatory approvals and other contingencies. Neither Cingular nor the other principal bidders for AT&T Wireless Services are our customers, and there can be no assurance that if AT&T Wireless Services is acquired the acquiror will continue to use our services. If AT&T Wireless Services or its successor discontinues the use of our services or materially reduces the volume of business conducted with us, our business, financial condition and results of operations would be harmed. Moreover, a general and continuing economic downturn in the telecommunications and technology industries

Table of Contents

or in other industries we target, or a slowdown or reversal of the trend in these industries to outsource services we provide, could harm our business, results of operations, growth prospects, and financial condition.

The revenue we receive from Microsoft Corporation has declined in recent periods and we believe will continue to decline throughout 2004. If we are unable to replace this revenue, our business and results of operations will be harmed.

The revenue we generate from Microsoft Corporation, which is primarily from sales of supply chain management services, has steadily declined over the past several years, decreasing from a high of $159.1 million in 1999 to $50.1 million in 2003. In addition, revenue from Microsoft Corporation declined from $12.8 million in the three months ended March 31, 2003 to $6.5 million in the three months ended March 31, 2004. We expect that the revenue we receive from Microsoft Corporation will continue to decline throughout 2004 and may become an insignificant portion of our overall revenue stream in subsequent years. While we hope to replace this business with other supply chain management clients or by selling other business process outsourced services to new and existing clients, we may not be successful in these efforts. If we are unable to replace this revenue, our business and results of operations will be harmed.

Our markets are highly competitive. If we do not compete effectively, we may lose our existing business or fail to gain new business.

The markets in which we operate are highly competitive, and we expect competition to persist and intensify in the future. We view in-house operations of our existing and potential clients to be our most significant competitor. Many of our clients or potential clients have in-house capabilities enabling them to perform some or all of the services we provide. Our performance and growth could be impeded if clients or potential clients decide to shift to their in-house operations services they currently outsource, or if potential clients retain or increase their in-house capabilities.

Our other competitors include small firms offering limited supply chain management services, divisions of large companies and independent firms. We anticipate that competition from low-cost, offshore providers of outsourced services will increase in the near future and that such providers will remain an important competitor group. A number of our competitors have or may develop greater name recognition or financial and other resources than we have. Similarly, additional competitors with greater name recognition and resources than we have may enter the markets in which we operate. Some competitors may offer a broader suite of services than we do, which may result in potential clients consolidating their use of outsourced services with our competitors rather than using our services. Competitive pressures from current or future competitors could also result in substantial price erosion, which could harm our revenue, margins, and financial condition.

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

We typically enter into written agreements with each client for our services, although we perform some supply chain management services on a purchase order basis. We seek to sign multi-year contracts with our clients, but our contracts, including our contracts with our principal clients, generally:

- do not contain minimum volume commitments or purchase requirements;
- 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; and
- hold us responsible for work performed that does not meet pre-defined specifications.

Accordingly, we face the risk that our clients may cancel contracts we have with them or materially reduce the volume of business we do for them, which may harm our results. If a principal client cancelled our contract with it or materially reduced the volume of business we do for it, our results would suffer. In

Table of Contents

addition, because the amount of revenue generated from any particular client is generally dependent on end customers purchase and use of that client s products, 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 or materially reduce the volume of business we do for them.

Our existing and potential clients are currently decreasing the number of vendors they are using to outsource their business process services. If we lose more business than we gain as a result of this consolidation, our business and results of operations will be harmed.

Our existing clients, such as Microsoft Corporation, as well as a number of clients we are currently targeting, have begun to decrease the number of firms they rely on to outsource their business process outsourced services. We believe these clients are taking this action in order to increase accountability and decrease their costs. If this consolidation results in us losing one or more of our clients, our business and results of operations will be harmed. In addition, this consolidation could make it more difficult for us to secure new clients, which could limit our growth opportunities.

We generate revenue based on the demand for, and inquiries generated by, our clients products and services. If our clients products and services are not successful, our revenue and results of operations will be harmed.

In substantially all of our client relationships, we generate revenue based, in large part, on the amount of products and services demanded by our clients customers. The amount of our revenue also depends on the number and duration of customer inquiries. Consequently, the amount of revenue generated from any particular client is dependent upon consumers interest in and use of that client s products or services. If customer interest in any products or services offered by our clients and for which we provide outsourced services were to diminish, our revenue would be harmed.

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

Our strategy depends in part on our ability to continually increase the productivity level we are able to achieve. We face significant price pressure arising from our clients desire to decrease their operating costs, and from other competitors operating in our targeted markets. Price pressure is particularly pronounced when we compete for new clients and when we negotiate for an extension of the term of an agreement with an existing client. Price pressure may also be more pronounced during periods of economic uncertainty. Accordingly, our ability to maintain our operating margins depends on our ability to continually improve our productivity and reduce our operating costs. If we are not able to achieve sufficient improvements in productivity to adequately compensate for decreases in the prices we can charge for our services, our results of operations will be harmed.

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

Approximately 23.8% of our total assets as of March 31, 2004 consisted of investment securities. We have made investments in publicly-traded debt, equity and equity-linked securities, and the market prices of the securities have been volatile. We have also invested in limited partnerships that own marketable securities, and we are generally unable to sell these limited partnership interests or withdraw our capital from these investment partnerships without 30 to 60 days prior notice to the general partner. We periodically review investments available for sale for other than temporary declines in fair value, and write down investments to their fair value when such a decline has occurred. In 2001, we recognized a loss on impaired investments totaling $15.5 million related to our investments in Six Sigma, LLC and Gifts.com, Inc., and in 2002 we recognized a loss on impaired investments totaling $6.2 million related to a decline in the value of investments we determined to be other than temporary. Unrealized gains or losses on investments acquired as trading securities are recognized as they occur. Future adverse changes in market conditions or poor operating

Table of Contents

results of companies in which we have invested could result in losses. Such charges harm our reported financial results in the period during which they are recognized.

Advanced technologies could make our services less competitive, and we may not be able to respond adequately to the development of any such technologies.

Technologies that our clients or competitors already possess or may in the future develop or acquire may decrease the costs or increase the efficiency of services with which we compete. For instance, software downloading and changes in software packaging have harmed demand for our supply chain management services. As a result, our supply chain management services, which once constituted the majority of our business, have declined significantly as we have shifted our focus and resources to providing business process management services. Other aspects of our business could be similarly affected by technological changes in business services. We believe that our principal competitors currently have greater technological capabilities than we do and we must invest in our technology to remain competitive in our current businesses and to be able to compete for new business. We may not be able to develop and market any new services that use or effectively compete with existing or future technologies, and any such services may not be commercially successful. Furthermore, our competitors may have greater resources to devote to research and development than we do, and accordingly may have an ability to develop and market new technologies with which we are not able to successfully compete.

Several constraints may impede our ability to grow our business.

Our future growth depends on our ability to initiate, develop and maintain new client relationships, as well as our ability to maintain relationships with our existing principal clients. To generate new business we may need to increase the size of our sales and marketing staff. We may also need to increase our capacity through the addition of facilities and the recruitment and training of additional management and service personnel. If we do not adequately increase the strength of our sales force or expand our capacity, we may not grow as fast as we expect, which could harm our stock price.

If we do not effectively manage our growth or control costs related to growth, our results of operations will suffer.

We intend to grow our business by expanding our client base and increasing the services we provide to existing clients. Growth could place significant strain on our management, employees, operations, operating and financial systems, and other resources. To accommodate significant growth we would be required to expand and improve our information systems and procedures and train, motivate, and manage a growing workforce, all of which would increase our costs. Our systems, procedures, and personnel may not be adequate to support our future operations. Further, we may not be able to maintain or accelerate our current growth, effectively manage our expanding operations, or achieve planned growth on a timely and profitable basis. If we are unable to manage our growth efficiently or if growth does not occur, our business, results of operations, and financial condition could suffer.

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 relatively high personnel turnover. Our operations, especially our technical support and customer care services, generally require specially trained employees. Increases in our employee turnover rate could increase our recruiting and training costs and decrease our operating efficiency and productivity. Also, 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 when we undertake new client relationships in industries in which we have not previously provided services. We intend to enter the financial services and health care markets, which may require us to recruit, hire and train personnel with

experience relevant to those industries. In addition, 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. federal government, employee benefit costs, employment tax rates, and other labor related expenses) could cause our business, operating profits, and financial condition to suffer.

We experienced declines in our revenue in 2000 and 2001, and we may experience future declines in revenue.

Our revenue declined from $205.2 million in 1999 to $200.8 million in 2000 and $182.6 million in 2001. These declines were caused primarily by the phase-out of our work for Microsoft Corporation in Asia, and to a lesser extent were related to a sluggish global economy. Similarly, our operating profit declined from $26.2 million in 2000 to $19.0 million in 2001, due to the decreases in our revenue and increased expenses. While our revenue and operating profit increased in 2002 and 2003, our revenue and operating profit are highly dependent on our principal client relationships and on general economic conditions both domestically and abroad. We believe that we, as well as a number of our clients, are particularly vulnerable to recession or other significant economic events or downturns. Declines in the general economy could once again cause our financial results to suffer. In the event our financial results deteriorate, the market price of our common stock is likely to fall.

Our lack of a significant international presence may harm our ability to serve existing customers or limit our ability to obtain new customers.

Although we currently conduct operations in Canada and the United Kingdom, we do not have a significant international presence. This lack of international operations could harm our business if one or more of our customers decide to move their existing business process services offshore. Our lack of a significant international presence may also limit our ability to gain new clients who may require business process service providers to have this flexibility.

The movement of business process services to other countries, particularly India, has been extensively reported by 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 United States. Accordingly, unless and until we develop additional international operations, we may be competitively disadvantaged versus a number of our competitors who have already devoted significant time and money to operating offshore. 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.

We face risks inherent in conducting business in Canada and the United Kingdom.

International operations, which prior to February 2002 included operations in Singapore in addition to our current operations in Canada and the United Kingdom, accounted for 48.3% of our revenue in the three months ended March 31, 2004, 32.3% of our revenue in fiscal 2003, 24.3% of our revenue in fiscal 2002, and 21.5% of our revenue in fiscal 2001. There are risks inherent in conducting international business, including:

- competition from local businesses or established multinational companies, who may have firmly established operations in particular foreign markets giving them an advantage regarding labor and material costs;
- 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.

One or more of these factors may have an impact on our international operations. Our lack of significant international operating experience may result in any of these factors impacting us to a greater degree than

they impact our competitors. To the extent one or more of these factors harms our international operations, it could harm our business, results of operations, growth prospects, and financial condition as a whole.

Our operations in Canada and the United Kingdom subject us to the risk of currency exchange fluctuations.

Because we conduct a material portion of our business in Canada and the United Kingdom, we are exposed to market risk from changes in the value of the Canadian dollar, and to a lesser extent the British pound. Fluctuations in exchange rates impact our results though translation and consolidation of the financial results of our foreign operations, and therefore may impact our results of operations and financial condition. A significant change in the value of the dollar against the currency of one or more countries where we operate may have a negative impact on our results. Our results of operations have been negatively impacted by the increase in the value of the Canadian dollar in relation to the value of the U.S. dollar during 2003 and the first quarter of 2004 because our contracts are denominated in U.S. dollars while our costs of doing business in Canada are denominated in Canadian dollars. Further increases in the value of the Canadian dollar or currencies in other foreign markets in which we operate in relation to the value of the U.S. dollar would further increase such costs and harm our results of operations. Because our results of operations have been impacted by fluctuations in the Canadian dollar, in March 2004 we began to hedge a portion of our exposure to such fluctuations, and we intend to closely monitor our hedging policy to be consistent with our future growth strategy. However, hedging activities may not eliminate all of our foreign currency risk.

If we experience an interruption to our business, our results of operations may suffer.

Our operations depend on our ability to protect our facilities, clients products, confidential client information, computer equipment, telecommunications equipment, and software systems against damage from Internet interruption, fire, power loss, telecommunications interruption, e-commerce interruption, natural disaster, theft, unauthorized intrusion, computer viruses, other emergencies, and the ability of our suppliers to deliver component parts quickly. We maintain procedures and contingency plans to minimize the detrimental impact of adverse events, but if such an event occurs our procedures and plans may not be successful in protecting us from losses or interruptions. In the event we experience temporary or permanent interruptions or other emergencies at one or more of our facilities, our business could suffer and we may be required to pay contractual damages to our clients, or allow our clients to renegotiate their arrangements with us. Although we maintain property and business interruption insurance, such insurance may not adequately or timely compensate us for all losses we may incur. Further, our telecommunication systems and networks, and our ability to timely and consistently access and use telephone, Internet, e-commerce, e-mail, facsimile connections, and other forms of communication are substantially dependent upon telephone companies, Internet service providers, and various telecommunication infrastructures. If such communications are interrupted on a short- or long-term basis, our services would be similarly interrupted and delayed.

Our quarterly operating results have historically varied and may not be a good indicator of future performance.

We have experienced and may continue to experience, quarterly variations in revenue and operating results as a result of a variety of factors, many of which are outside our control, including:

- timing of existing and future client product launches or service offerings;
- expiration or termination of client projects;
- timing and amount of costs incurred to expand capacity in order to provide for further revenue growth from existing and future clients;
- seasonal nature of some clients businesses;
- cyclical nature of high technology clients businesses; and
- changes in the amount and growth rate of revenue generated from our principal clients.

Table of Contents

In addition, our revenue has historically been higher in the fourth quarter of each calendar year than in other quarters due to timing of client marketing programs and product launches, which are typically geared toward the holiday buying season. As a result of the decrease in our supply chain management business over the past several years, as well as a shift in the mix of services we provide, we are not currently experiencing the same level of seasonal fluctuations in our business as we have in the past. However, changes in the mix of services we provide our clients or entering into contracts with new clients may increase our exposure to seasonal fluctuations.

We depend on our key management personnel and the loss of service of one or more key executives could cause our business to suffer.

Our success to date has depended in part on the skills and efforts of our senior management, particularly our Chairman, A. Emmet Stephenson, Jr., and our President and Chief Executive Officer, William E. Meade, Jr. Mr. Stephenson has a verbal advisory agreement with us, but there can be no assurance that we can retain his services. In May 2001, we entered into an employment agreement with Mr. Meade providing for, among other things, the services of Mr. Meade as our President and Chief Executive Officer through May 2006. Either we or Mr. Meade may terminate his employment for any reason upon 90 days written notice, and upon termination by either party other than for cause or death, Mr. Meade would be entitled to receive one year s annual base salary. The loss of Mr. Stephenson or Mr. Meade, or our inability to hire and retain other qualified officers, directors and key employees could have a harmful effect on our growth prospects, results of operations, and financial condition.

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

During the recent economic downturn, 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. If the recent economic upturn in the United States continues or accelerates, we may need to increase salaries or otherwise compensate our employees at higher levels in order to remain competitive and avoid losing personnel. In addition, employees at certain of our Canadian facilities have attempted to organize labor unions, which, if successful, could increase our labor costs or result in work stoppages. Higher salaries or other forms of compensation or work stoppages are likely to increase our cost of operations, and if such cost increases are not more than offset by increased revenue they will harm our financial results.

If we do not use our facilities efficiently, our profitability will suffer.

Our profitability is influenced by our facilities 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 periods of idle capacity, particularly in our multi-client supply chain management facilities. 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. 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. There can be no assurance that we will be able to achieve or maintain optimal facilities capacity utilization.

We are relying on a relatively new management team to grow our business.

In the past three years we have appointed a new Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer. In addition, we have hired a number of additional management-level employees, many of them into newly-created positions, in the past year. We must successfully integrate all new management and other key positions within our organization in order to achieve our operating objectives. Our future

financial performance will depend to a significant extent on our ability to motivate and retain key management personnel. Competition for qualified management personnel is intense and in the event we experience further changes in our senior management positions, we cannot be assured that we will be able to recruit suitable replacements. Even if we are successful, changes in key management positions may temporarily harm our financial performance and results of operations as new management becomes familiar with our business. We do not maintain key person life insurance on any of our executive officers, and with the exception of Mr. Meade, our Chief Executive Officer, have generally not entered into noncompetition agreements with our executive officers.

Geopolitical military conditions, including terrorist attacks and other acts of war, may materially and adversely affect the markets in which we operate and our results of operations.

Terrorist attacks and other acts of war, and any response to them, may lead to armed hostilities and such developments could cause substantial business uncertainty. Such uncertainty could result in potential clients being reluctant to enter into new business relationships, which would harm our ability to win new business. Armed hostilities and terrorism may also directly impact our facilities, personnel and operations, as well as those of our suppliers and customers. Furthermore, severe terrorist attacks or acts of war may result in temporary halts of commercial activity in the affected regions, possibly resulting in reduced demand for our services. These developments could impair our business and push down the trading price of our common stock.

Our largest stockholder, together with members of his family, will own 37.8% of our outstanding shares following this offering and will have the ability to significantly influence major corporate actions.

A. Emmet Stephenson, Jr., our Chairman of the Board and co-founder, his wife Toni E. Stephenson, and two trusts controlled by Mr. Stephenson s sister own 59.9% of our outstanding common stock currently. Following this offering, Mr. and Mrs. Stephenson will beneficially own an aggregate of approximately 37.8% of our outstanding common stock, or 34.4% if the underwriters over-allotment option is exercised in full. As a result, Mr. Stephenson and his wife will continue to be our largest stockholders and together may be able to elect our entire Board of Directors and to control substantially all other matters requiring action by our stockholders. Under an agreement to take effect upon consummation of this offering, so long as Mr. Stephenson, together with members of his family, beneficially owns 30% or more of our outstanding common stock, Mr. Stephenson will be entitled to designate our nominees for one less than a majority of the directors to be elected to our board if our board consists of an odd number of directors, or two less than a majority of the nominees if our board consists of an even number of directors. So long as Mr. Stephenson, together with members of his family, 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. In addition, upon consummation of this offering we will be obligated to amend our bylaws to 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. and Mrs. Stephenson s hands, and the control Mr. Stephenson may exercise over us as our Chairman and as described above, may discourage, delay or prevent a change in control that might otherwise benefit our stockholders.

Risks Related to this Offering and our Common Stock

Future sales of our common stock could depress our stock price.

After the consummation of this offering, Mr. Stephenson, our Chairman of the Board, together with his wife, will own 37.8% of our common stock, or 34.4% if the underwriters exercise their over-allotment option in full. Sales of substantial amounts of this common stock, or the perception that these sales might occur, may result in a decline in the prevailing market prices for our common stock. We, Mr. Stephenson and the selling stockholders, as well as our executive officers and directors, have agreed with certain exceptions not to sell shares of our common stock for a period of 90 days following this offering. However, the underwriters may waive this restriction and allow us or them to sell shares at any time. Shares of common stock subject to these lockup agreements will become eligible for sale in the public market upon expiration of these lock-up

agreements, subject to limitations imposed by Rule 144 under the Securities Act. In addition, we have executed a registration rights agreement with Mr. Stephenson and his wife pursuant to which either or both of them may require us to file a registration statement to register the sale of some or all of their shares of our common stock. Among other things this agreement will give Mr. Stephenson and his wife the ability to cause us to establish a resale shelf registration statement and to sell all of their shares of our common stock within a 120 day period, through an underwritten offering, block trades or open market sales of our stock. See Description of Capital Stock Registration Rights Agreement. The filing of a registration statement relating to the sale of shares of our stock by Mr. Stephenson or his wife, or the perception that we may file such a registration statement, could have an adverse impact on the market price for our common stock.

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, our 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, or other events or factors we cannot currently foresee. Additionally, the stock market has experienced substantial price and volume fluctuations that have affected the market prices of equity securities of many companies, and that have often been unrelated to the operating performance of such companies. These broad market fluctuations may harm 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 $21.51 to a high of $42.80 during 2003, and from a low of $33.38 to a high of $43.15 during the three months ended March 31, 2004.

If we fail to pay quarterly dividends to our common stockholders the market price of our shares of common stock could decline.

On May 5, 2004, we declared a cash dividend of $0.39 per share of common stock, or $5.6 million in the aggregate, payable May 24, 2004, to our stockholders of record on May 11, 2004. We also declared and paid dividends of $0.38 per share in February 2004, $0.37 per share in November 2003 and $0.36 per share in August 2003. See Dividend Policy.

Our ability to pay quarterly dividends will be at the discretion of our board of directors and will depend on, among other things, availability of funds, future earnings, capital requirements, contractual restrictions, our general financial condition and business conditions generally. The terms of our $10 million line of credit prohibit us from paying dividends in an amount that would cause us to fail to meet our financial covenants. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources. Any reduction or discontinuation of quarterly dividends could cause the market price of our shares of common stock to decline significantly. In addition, in the event our payment of quarterly dividends is reduced or discontinued, our failure or inability to resume paying dividends at historical levels could result in a persistently low market valuation of our shares of common stock.

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

The statements incorporated by reference or contained in this prospectus, including in the sections entitled Prospectus Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business, discuss our future expectations, contain projections of our results of operations or financial condition, and include other forward-looking information within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Our actual results may differ materially from those expressed in forward-looking statements made or incorporated by reference in this prospectus. Forward-looking statements that express our beliefs, plans, objectives, assumptions of future events or performance may involve estimates, assumptions, risks and uncertainties. Therefore, our actual results and performance may differ materially from those expressed in the forward-looking statements. Forward-looking statements often, although not always, include words or phrases such as the following: will likely result, are expected to, will continue, is anticipated, estimate, intends, plans, budgeted, projection, or outlook.

You should not unduly rely on forward-looking statements contained or incorporated by reference in this prospectus. Many important factors, in addition to those discussed in the section entitled Risk Factors and elsewhere in this prospectus and the information incorporated herein by reference, could cause actual results or outcomes to differ materially from those expressed in forward-looking statements. Any forward-looking statement speaks only as of the date on which that statement is made. We will not update any forward-looking statement to reflect events or circumstances that occur after the date on which such statement is made.

Table of Contents

USE OF PROCEEDS

We will not receive any of the proceeds from the sale of shares by the selling stockholders.

DIVIDEND POLICY

On May 5, 2004, we declared a cash dividend of $0.39 per share of common stock, or $5.6 million in the aggregate, payable May 24, 2004 to our stockholders of record on May 11, 2004. This dividend increased from the $0.38 per share dividend we declared and paid in February 2004, the $0.37 per share dividend we declared and paid in November 2003, and the $0.36 per share dividend we declared and paid in August 2003. Prior to August 2003, we did not pay any dividends on our common stock.

We expect to continue to pay quarterly dividends on our common stock. The payment of any dividends, however, will be at the discretion of our board of directors and will depend on, among other things, availability of funds, future earnings, capital requirements, contractual restrictions, our general financial condition and business conditions generally. The terms of our $10 million line of credit prohibit us from paying dividends in an amount that would cause us to fail to meet our financial covenants. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

MARKET PRICE FOR OUR COMMON STOCK

Our common stock has been listed on the New York Stock Exchange under the symbol SRT since June 19, 1997, the effective date of our initial public offering. The following table shows the high and low sales prices per share for our common stock on the New York Stock Exchange for the periods shown.

	High	Low
2002		
First Quarter	$24.95	$16.10
Second Quarter	$27.20	$21.46
Third Quarter	$26.76	$20.90
Fourth Quarter	$28.00	$20.25
2003		
First Quarter	$30.91	$21.51
Second Quarter	$28.85	$22.60
Third Quarter	$37.10	$25.67
Fourth Quarter	$42.80	$31.55
2004		
First Quarter	$43.15	$33.38
Second Quarter (through May 21, 2004)	$37.30	$31.17

At the close of business on May 21, 2004, there were 36 holders of record of our common stock.

Table of Contents

CAPITALIZATION

The following table sets forth our cash and cash equivalents and our consolidated capitalization as of March 31, 2004. You should read this table together with the sections of this prospectus entitled Selected Consolidated Financial and Other Data and Management s Discussion and Analysis of Financial Condition and Results of Operations, and our consolidated financial statements and the notes related thereto previously filed with the SEC and included elsewhere in this prospectus.

	As of March 31, 2004
	(Dollars in thousands, except per share data) (Unaudited)
Cash and cash equivalents	$ 17,866
Long-term debt	9,910
Stockholders equity:	
Common stock, $0.01 par value, 32,000,000 shares authorized, 14,424,591 shares issued and outstanding	144
Additional paid-in capital	55,628
Cumulative translation adjustment	327
Unrealized gain on investments available for sale	1,541
Retained earnings	78,449
Total stockholders equity	136,089
Total capitalization	$ 145,999

The table above excludes the following:

83,590 shares of common stock reserved for future issuance under our stock option plans as of March 31, 2004, not including 300,000 shares added to the plans on May 7, 2004; and

995,390 shares of common stock reserved for issuance upon exercise of stock options outstanding as of March 31, 2004, at a weighted average exercise price of $23.58 per share.

Table of Contents

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The table below presents a summary of our selected consolidated financial and other data. The selected consolidated balance sheet data at March 31, 2004 and the selected consolidated statement of operations data for the three months ended March 31, 2003 and 2004 presented below, which include all adjustments, consisting of normal recurring items, that we consider necessary for a fair presentation of our financial position and results of operations, are derived from our unaudited condensed consolidated financial statements previously filed with the SEC and included elsewhere in this prospectus. The selected consolidated balance sheet data at December 31, 2002 and 2003 and the selected consolidated statement of operations data for each of the three years in the period ended December 31, 2003 presented below are derived from our audited consolidated financial statements previously filed with the SEC and included elsewhere in this prospectus. The selected consolidated balance sheet data at December 31, 1999, 2000 and 2001 and the selected consolidated statement of operations data for the years ended December 31, 1999 and 2000 are derived from our audited consolidated financial statements previously filed with the SEC but not included elsewhere in this prospectus.

You should read this information together with the consolidated financial statements and the notes to those statements previously filed with SEC.

	Year Ended December 31,					Three Months Ended March 31,	
	1999	**2000**	**2001**	**2002**	**2003**	**2003**	**2004**
	(Dollars in thousands, except per share data)					(Unaudited)	
Statement of Operations Data:							
Revenue	$ 205,227	$ 200,750	$ 182,576	$ 207,864	$ 231,189	$ 50,528	$ 64,695
Cost of services	166,880	153,629	137,622	157,005	171,401	38,341	46,346
Gross profit	38,347	47,121	44,954	50,859	59,788	12,187	18,349
Selling, general and administrative expenses	20,338	20,950	25,938	22,562	28,489	6,350	7,824
Operating profit	18,009	26,171	19,016	28,297	31,299	5,837	10,525
Net interest income and other	2,814	4,655	4,318	1,986	4,048	779	612
Loss on impaired investments			(15,452)	(6,210)			
Income before income taxes	20,823	30,826	7,882	24,073	35,347	6,616	11,137
Income tax expense	7,800	11,406	3,011	8,907	13,149	2,462	4,265
Net income	$ 13,023	$ 19,420	$ 4,871	$ 15,166	$ 22,198	$ 4,154	$ 6,872
Earnings per share:							
Basic	$ 0.94	$ 1.39	$ 0.35	$ 1.07	$ 1.56	$ 0.29	$ 0.48
Diluted	$ 0.92	$ 1.36	$ 0.34	$ 1.05	$ 1.52	$ 0.29	$ 0.46
Weighted average common shares outstanding:							
Basic	13,874,556	14,016,851	14,053,484	14,140,765	14,243,273	14,203,794	14,358,046
Diluted	14,139,149	14,279,409	14,168,044	14,385,389	14,623,066	14,479,587	14,830,633
Other Data:							
Net cash provided by operating activities	$ 15,827	$ 11,052	$ 25,868	$ 21,141	$ 27,407	$ 17,055	$ 7,193
Purchases of property, plant and equipment	$ 12,593	$ 8,909	$ 19,016	$ 5,877	$ 23,867	$ 1,845	$ 2,248
	13	13	16	15	17	15	19

Facilities in operation (end of period)(1)

(see footnote on next page)

Table of Contents

	As of December 31,					As of March 31,
	1999	2000	2001	2002	2003	2004
	(Dollars in thousands)					(Unaudited)
Balance Sheet Data:						
Cash and cash equivalents	$ 11,943	$ 22,543	$ 14,282	$ 13,143	$ 5,955	$ 17,866
Investments	23,907	32,413	35,804	44,022	41,812	40,475
Working capital	40,214	56,146	59,129	80,379	77,226	88,706
Total assets	101,435	122,283	129,153	140,421	153,607	170,057
Long-term debt, less current portion	5,922	5,505	8,201	4,261	78	7,512
Total stockholders equity	$ 71,046	$ 91,964	$ 95,609	$ 114,594	$ 133,000	$ 136,089

(1) Includes facilities open and providing services to clients, including our corporate headquarters. Figures from 2000 and thereafter exclude a facility in Aurora, Colorado, a portion of which is subleased to a third party. We do not currently provide services from this facility.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

Overview

We are a leading provider of business process outsourced services, which consist of business process management and supply chain management services. Our business process management services include provisioning management, wireless telephone number porting, receivables management, wireless telephone activations, and high-end technical support and customer care services. Our supply chain management services include packaging, fulfillment, marketing support and logistics services. Currently, we provide services from 19 operational facilities, including our corporate headquarters, totaling over one million square feet in the United States, United Kingdom, and Canada.

Our revenue has grown from $205.2 million in 1999 to $231.2 million in 2003. During the same period, our operating profit has grown from $18.0 million to $31.3 million, representing an increase in our operating margin from 8.8% to 13.5% of revenue. All our growth was achieved organically by developing existing customers and adding new customers rather than through mergers or acquisitions. Our operating margin has increased as our mix of revenue has shifted to higher margin business process management services.

Revenue from our business process management services has grown from $31.8 million in 1999 to $165.1 million in 2003. Revenue from our supply chain management services has declined from $173.4 million in 1999 to $66.1 million in 2003. The results of our supply chain management services include the results of our European operations and insignificant revenues from other operations, including our Domain.com subsidiary. Business process management services constituted 86.2% of our revenue in the three months ended March 31, 2004, 71.4% of our revenue in fiscal 2003, and 15.5% of our revenue in fiscal 1999. Supply chain management services constituted 13.8% of our revenue in the three months ended March 31, 2004, 28.6% of our revenue in fiscal 2003, and 84.5% of our revenue in fiscal 1999.

We also recognize income from our investment portfolio. As of March 31, 2004, our portfolio constituted 23.8% of our total assets, and was comprised of investment-grade and non investment-grade corporate bonds, convertible bonds, mutual funds, alternative investment partnerships, common stock and options. Net interest income and other, which is primarily driven by gains or losses in our investment portfolio, has grown from $2.8 million in 1999 to $4.0 million in 2003.

Our business process management services typically generate higher margins than our supply chain management services. Our growth in revenue has been primarily based on growth in business process management services and we believe that it will continue to be our primary source of revenue growth. Expanding our business process management services will require significant capital expenditures because it will require us to open additional facilities. In addition, we expect our selling, general, and administrative expenses to slightly increase in the quarter immediately prior to commencement of operations at each new facility.

Revenue from our supply chain management services has decreased significantly, which is almost entirely due to the decrease in services provided to Microsoft. Our Microsoft business has declined from $159.1 million in 1999 to $50.1 million in 2003. In addition, revenue from Microsoft Corporation declined from $12.8 million in the three months ended March 31, 2003 to $6.5 million in the three months ended March 31, 2004. The decline resulted in part from the expiration of the Microsoft agreements in the UK and Singapore markets. As a result, we exited the Singapore market. The decrease in services we continue to provide to Microsoft is attributable to several factors, including a change in the manner Microsoft distributes its software and as a result of Microsoft decreasing the number of supply chain management vendors with which it deals. We anticipate that the supply chain management services we supply to Microsoft will continue to decline in 2004 and may become an insignificant portion of our overall revenue in subsequent years. However, we believe other opportunities exist that will enable us to continue to offer supply chain management services as an integral part of our business process outsourced services. Expanding our supply chain management services will require minimal capital expenditures because we believe we currently have sufficient capacity at our facilities for significant expansion. If we are unable to maintain or build our supply

chain management services business, we may be required to shut down our facilities dedicated to such services.

We depend on our top four customers for over 85% of our revenue. In the three months ended March 31, 2004, AT&T Wireless Services accounted for 43.7% of our revenue, T-Mobile accounted for 28.2%, AT&T Corporation accounted for 10.4% and Microsoft Corporation accounted for 10.0%. In 2003, AT&T Wireless Services accounted for 38.1% of our revenue, Microsoft Corporation accounted for 21.7%, T-Mobile accounted for 16.1% and AT&T Corporation accounted for 13.1%. The loss of or a material reduction in business from any of these customers could have a material adverse effect on us. On February 17, 2004, AT&T Wireless Services, announced that it had entered an agreement to be acquired by Cingular Wireless LLC, and there can be no assurance that if AT&T Wireless Services is acquired the acquiror will continue to use our services.

Our industry is subject to significant price-based competition. Our strategy depends in part on our ability to continually increase the productivity level we are able to achieve. We face significant price pressure arising from our clients desire to decrease their operating costs, and from other competitors operating in our targeted markets. Price pressure may be more pronounced during periods of economic uncertainty. Accordingly, our ability to maintain our operating margins depends on our ability to continually improve our productivity and reduce our operating costs. If we are not able to achieve sufficient improvements in productivity to adequately compensate for decreases in the prices we can charge for our services, our results of operations will be harmed.

We are subject to fluctuations in foreign exchange rates, principally in the value of the US dollar relative to the Canadian dollar and British pound. A weakening US dollar will generally result in higher operating costs for us in Canada and, to a lesser extent, in the United Kingdom. In the three months ended March 31, 2004, 37.9% of our total expenses were denominated in Canadian dollars and 3.8% of our total expenses were denominated in British pounds. In fiscal 2003, 25.6% of our total expenses were denominated in Canadian dollars and 3.9% of our total expenses were denominated in British pounds and Euros. All of the revenue generated by our United States and Canadian operations are denominated in US dollars and the revenue generated by our United Kingdom operations, representing 2.1% of revenue in the three months ended March 31, 2004 and 2.5% of revenue in fiscal 2003, are denominated in British pounds and Euros. Prior to March 2004, we did not hedge our exposure to exchange rate fluctuations. Because our results of operations have been impacted by fluctuations in the Canadian dollar, in February 2004 we began to hedge a portion of our exposure to such fluctuations, and we intend to closely monitor our hedging policy to be consistent with our future growth strategy.

We will continue to explore international opportunities. We are evaluating international locations for potential new facilities in regions that offer labor cost advantages and technical, language and quality support capabilities meeting or exceeding our clients requirements. While we have historically operated in the United Kingdom and have recently continued our expansion in Canada, we are evaluating the addition of substantial capacity in other international locations, possibly India or the Philippines, with available technical support capacity sufficient to allow us to maintain our level of service quality, but with lower wage structures than those prevailing in the United States. We have planned for $5.3 million of capital expenditures in connection with international expansion in 2004, and we expect to incur slightly higher selling, general and administrative expenses in connection with this effort than we would in opening a domestic facility.

Basis of Presentation

We recognize revenue as business process management services are completed. We recognize revenue on supply chain management services when products are shipped. The results of our supply chain management services include the results of our European operations and insignificant revenues from other operations, including our Domain.com subsidiary. Substantially all of our significant arrangements with business process management services clients generate revenue based in large part on the number and duration of customer inquiries. Substantially all of our significant arrangements with supply chain management services clients

Table of Contents

generate revenue based in large part on the volume, complexity and type of components involved in the handling of clients products.

Our cost of services for business process management services includes labor, telecommunications, lease, depreciation and other expenses for facilities, and expenses related to maintaining information systems to meet clients needs. Our cost of services for supply chain management services include materials and freight expenses that are variable in nature, labor and certain facility expenses.

Selling, general and administrative expenses include all other operating expenses, including expenses related to technology support, sales and marketing, human resources, and other administrative functions not allocable to specific client services which generally tend to be either semi-variable or fixed.

Net interest income and other includes certain realized and unrealized gains and loss in our portfolio of investment securities, interest income and dividends from our portfolio of investment securities, net rental income from our facility in Aurora, Colorado, foreign currency exchange gains and losses and interest expense.

Critical Accounting Policies and Judgments

In preparing our financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We evaluate our estimates and judgments on an ongoing basis, including those related to bad debts, inventory valuations, property, plant, and equipment, intangible assets, income taxes, restructuring costs, contingencies, and litigation. We base our estimates and judgments on historical experience and on various other factors that management believes to be reasonable under the circumstances. Actual results may differ from these estimates.

We exercise judgment in evaluating our long-lived assets for impairment. Management believes our businesses will generate sufficient undiscounted cash flow to more than recover the investments it has made in property, plant, and equipment.

As part of cash management and in addition to holding cash and money market funds, we invest in investment-grade and non investment-grade corporate bonds, convertible bonds, mutual funds, alternative investment partnerships, real estate investment trusts and various forms of equity securities. These investments are classified as trading securities, investments held to maturity or investments available for sale, based on our intent at the date of purchase. Trading securities are liquid investments bought principally for selling in the near term. Debt securities that we have both the intent and ability to hold to maturity are classified as held to maturity. All other investments not deemed to be trading securities or held to maturity are classified as investments available for sale.

Trading securities and investments available for sale are carried at fair market values. Fair market values are determined by the most recently traded price of the security or underlying investment at the balance sheet date. Due to the potential limited liquidity of some of these instruments, the most recently traded price may be different from the value that might be realized if we were to sell or close out the transactions. We do not believe such differences are substantial to our results of operations, financial condition, or liquidity.

Changes in the fair market value of trading securities are reflected in net interest income and other. Temporary changes in the fair market value of investments available for sale are reflected in stockholders equity. We exercise judgment in periodically evaluating investments for impairment. Investments are evaluated for other-than-temporary impairment if the fair value was below our cost for six months. We then consider additional factors such as market conditions, the industry sectors in which the issuer of the investment operates, and the viability and prospects of each entity. A write-down of the related investment is recorded and is reflected as a loss on impaired investment when an impairment is considered other-than-temporary.

Table of Contents

Results of Operations

The following table presents selected items from our statement of operations in dollars and as a percentage of revenue for the periods indicated:

	Year Ended December 31,						Three Months Ended March 31,			
	2001		2002		2003		2003		2004	
	(Dollars in millions)						(Unaudited)			
Revenue	$182.6	100.0%	$207.9	100.0%	$231.2	100.0%	$50.5	100.0%	$64.7	100.0%
Cost of services	137.6	75.4	157.0	75.5	171.4	74.1	38.3	75.8	46.4	71.7
Gross profit	45.0	24.6	50.9	24.5	59.8	25.9	12.2	24.2	18.3	28.3
Selling, general and administrative expenses	26.0	14.2	22.6	10.9	28.5	12.3	6.4	12.7	7.8	12.1
Operating profit	19.0	10.4	28.3	13.6	31.3	13.5	5.8	11.5	10.5	16.2
Net interest income and other	4.3	2.4	2.0	1.0	4.0	1.7	0.8	1.6	0.6	0.9
Loss on impaired investments	(15.4)	(8.4)	(6.2)	(3.0)						
Income before income taxes	7.9	4.3	24.1	11.6	35.3	15.3	&			