StarTek, Inc.
Form 10-Q
November 09, 2018

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

Form 10-Q

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

For the quarterly period ended September 30, 2018
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)

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 every Interactive Data File required to be submitted 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 such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer”, “smaller reporting company”, and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company x
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

As of October 31, 2018, there were 37,060,558 shares of Common Stock outstanding.

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NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including the following:

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

Our business and results of operations are subject to risks and uncertainties, many of which are beyond our ability to control or predict. Because of these risks and uncertainties, actual results may differ materially from those expressed or implied by forward-looking statements, and investors are cautioned not to place undue reliance on such statements, which speak only as of the date thereof. Important factors that could cause actual results to differ materially from our expectations and may adversely affect our business and results of operations, include, but are not limited to, those items described herein or set forth in the Definitive Proxy Statement filed with the Securities and Exchange Commission ("SEC") on June 13, 2018, the Form 8-K/A filed with SEC on October 5, 2018 and this Quarterly Report on Form 10-Q for the quarter ended September 30, 2018. Unless otherwise noted in this report, any description of "us," "we," or "our," refers to StarTek, Inc. ("STARTEK") and its subsidiaries.

CHANGE IN FILING STATUS

In accordance with the SEC's expanded definition of Smaller Reporting Companies effective September 10, 2018, STARTEK now qualifies for Smaller Reporting Company status. As such, it has decided to take advantage of the relief provided from Items 3. and 1A.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2018	2017	2018	2017
Revenue	$151,509	$119,819	$261,732	$233,817
Cost of services	128,747	99,762	222,087	196,265
Gross profit	22,762	20,057	39,645	37,552
Selling, general and administrative expenses	22,818	14,219	38,075	27,827
Transaction related fees	3,898	—	3,898	—
Impairment losses and restructuring charges, net	2,621	—	2,621	—
Operating income (loss)	(6,575)	5,838	(4,949)	9,725
Share of profit of affiliates	47	137	22	874
Interest expense, net	(4,114)	(1,343)	(7,387)	(2,379)
Exchange gains (losses), net	705	(272)	(1,163)	134
Income (loss) before income taxes	(9,937)	4,360	(13,477)	8,354
Income tax expense	953	1,505	1,187	2,429
Net income (loss)	$(10,890)	$2,855	$(14,664)	$5,925
Net income (loss) attributable to non-controlling interests	11	481	(55)	1,536
Net income (loss) attributable to Startek shareholders	$(10,901)	$2,374	$(14,609)	$4,389
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(2,341)	(476)	(4,565)	(904)
Change in fair value of derivative instruments	(562)	—	(562)	—
Pension amortization	$(483)	(567)	$(966)	(1,134)
Comprehensive income (loss)	$(14,276)	$1,812	$(20,757)	$3,887
Comprehensive income (loss) attributable to non-controlling interests	11	481	(55)	1,536
Comprehensive income (loss) attributable to Startek shareholders	$(14,287)	$1,331	$(20,702)	$2,351
Net income (loss) per common share - basic	$(0.32)	$0.11	$(0.54)	$0.21
Weighted average common shares outstanding - basic	33,812	20,767	27,289	20,767
Net income (loss) per common share - diluted	$(0.32)	$0.11	$(0.54)	$0.21
Weighted average common shares outstanding - diluted	33,812	20,767	27,289	20,767

See Notes to Consolidated Financial Statements.

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

	September 30, 2018	March 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$14,133	$17,693
Restricted cash	6,392	5,226
Trade accounts receivable, net	145,156	110,545
Prepaid expenses and other current assets	19,462	18,772
Total current assets	$185,143	$152,236
Property, plant and equipment, net	35,784	25,814
Deferred income tax assets, net	4,354	4,481
Intangible assets, net	139,158	110,320
Goodwill	240,553	153,368
Investment in affiliates	10,877	10,911
Prepaid expenses and other non-current assets	12,412	9,511
Total assets	$628,281	$466,641
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$24,898	$20,672
Accrued expenses and other current liabilities	81,328	70,263
Short term debt	28,010	23,871
Current tax liabilities, net	673	3,160
Total current liabilities	$134,909	$117,966
Deferred income tax liabilities, net	17,026	17,711
Long term debt	150,336	127,133
Accrued expenses and other non-current liabilities	9,976	9,686
Total liabilities	$312,247	$272,496
Commitments and contingencies	—	—
Stockholders' equity:		
Common stock, 60,000,000 non-convertible shares, $0.01 par value, authorized; 37,060,558 and 20,766,667 shares issued and outstanding at September 30, 2018 and March 31, 2018, respectively	$371	$208
Additional paid-in capital	296,185	153,702
Accumulated other comprehensive loss	(6,495)	(402)
Accumulated deficit	(21,425)	(6,815)
Equity attributable to Startek shareholders	$268,636	$146,693
Non-controlling interest	47,398	47,452
Total stockholders' equity	$316,034	$194,145
Total liabilities and stockholders' equity	$628,281	$466,641

See Notes to Consolidated Financial Statements.

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

	Six Months Ended September 30, 2018	2017
Operating Activities		
Net income (loss)	$(14,664)	$5,925
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	12,643	8,699
Provision for doubtful accounts	1,726	242
Share-based compensation expense	249	—
Deferred income taxes	(366)	(98)
Share of profit of affiliates	(22)	(874)
Changes in operating assets and liabilities:		
Trade accounts receivable	(1,586)	(6,824)
Prepaid expenses and other assets	(2,937)	(3,538)
Accounts payable	(690)	2,718
Income taxes, net	(3,759)	(997)
Accrued and other liabilities	9,865	1,508
Net cash provided by operating activities	459	6,761
Investing Activities		
Purchases of property, plant and equipment	(4,511)	(7,555)
Distributions received from affiliates	—	1,315
Cash acquired in Aegis Transactions	1,496	—
Net cash used in investing activities	(3,015)	(6,240)
Financing Activities		
Proceeds from the issuance of common stock	115	—
Proceeds (payments) on long term debt	(2,800)	664
Proceeds from other debts, net	4,089	3,589
Net cash provided by financing activities	1,404	4,253
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(1,242)	(36)
Net (decrease) increase in cash and cash equivalents and restricted cash	(2,394)	4,738
Cash and cash equivalents and restricted cash at beginning of period	$22,919	$19,511
Cash and cash equivalents and restricted cash at end of period	$20,525	$24,249

See Notes to Consolidated Financial Statements.

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

	Common Stock		Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Equity attributable to Startek shareholders	Non-controlling interest	Total stockholders' equity
	Shares	Amount						
Balance, March 31, 2018	20,766,667	$ 208	$ 153,702	$ (402)	$ (6,815)	$ 146,693	$ 47,452	$ 194,145
Purchase accounting entries due to the Aegis Transactions	16,226,392	162	142,119	(396)	—	141,885	—	141,885
Common stock issued	67,499	1	115	—	—	116	—	116
Share-based compensation	—	—	249	—	—	249	—	249
Changes to other comprehensive loss	—	—	—	(5,697)	—	(5,697)	—	(5,697)
Net loss	—	—	—	—	(14,609)	(14,609)	(55)	(14,664)
Balance, September 30, 2018	37,060,558	$ 371	$ 296,185	$ (6,495)	$ (21,425)	$ 268,636	$ 47,398	$ 316,034

STARTEK, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(In thousands, except per share data)
(Unaudited)

1. OVERVIEW AND BASIS OF PRESENTATION

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

Business

STARTEK is a business process outsourcing company operating in thirteen countries and employing over 45,000 employees worldwide, serving over 250 clients in a variety of industries.

On July 20, 2018, Company completed the previously announced acquisition of all of the issued and outstanding shares of capital stock of CSP Alpha Midco Pte Ltd, a Singapore private limited company (“Aegis”), from CSP Alpha Holdings Parent Pte Ltd, a Singapore private limited company (the “Aegis Stockholder”), in exchange for the issuance of 20,600,000 shares of common stock of the Company, par value $.01 per share (the “Common Stock”). Concurrently, the Aegis Stockholder purchased 166,667 newly issued shares of Common Stock at a price of $12 per share for a total cash payment of $2,000,000. As a result of the consummation of such transactions (the “Aegis Transactions”), the Aegis Stockholder became the holder of 20,766,667 shares of Common Stock, representing approximately 55% of the outstanding Common Stock. For accounting purposes, the Aegis Transactions are treated as a reverse acquisition and Aegis is considered the accounting acquirer. Accordingly, Aegis’ historical financial statements replace the Company’s historical financial statements following the completion of the Aegis Transactions, and the results of operations of both companies will be included in the Company’s financial statements for all periods following the completion of the Aegis Transactions.

In addition, on July 20, 2018, in connection with the consummation of the Aegis Transactions, the Company and the Aegis Stockholder entered into a Stockholders Agreement, pursuant to which the Company and the Aegis Stockholder agreed to, among other things: (i) certain rights, duties and obligations of the Aegis Stockholder and the Company as a result of the transactions contemplated by the Transaction Agreement and (ii) certain aspects of the management, operation and governance of the Company after consummation of the Aegis Transactions.

Please see Note 3, "Business Acquisitions," for further information.

Fiscal year end

Upon filing of the 8-K/A on October 5, 2018, the fiscal year end of the Company was changed back to December 31 by the Board of Directors. Therefore, the Company will be filing a transitional report form 10-KT for the nine months ended December 31, 2018. As a result, some of the future financial information presented herein will be based on a December 31 year end.

Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by GAAP for complete financial statements.

These financial statements reflect all adjustments (consisting only of normal recurring entries, except as noted) which, in the opinion of management, are necessary for fair presentation. The results of operations for interim periods are not necessarily indicative of full year results.

The consolidated balance sheet as of March 31, 2018, included herein was derived from the audited financial statements as of that date, but does not include all disclosures including notes required by GAAP. As such, the information included in this quarterly report on Form 10-Q should be read in conjunction with the audited consolidated financial statements and accompanying notes of Aegis included in our Form 8-K/A filed with the Securities and Exchange Commission on October 5, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements reflect the financial results of all subsidiaries that are more than 50% owned and over which the Company exerts control. When the Company does not have majority ownership in an entity but exerts significant influence over that entity, the Company accounts for the entity under the equity method of accounting. All intercompany balances are eliminated in consolidation. Where our ownership of a subsidiary was less than 100%, the non-controlling interest is reported on our Condensed Consolidated Balance Sheets. The non-controlling interest in our consolidated net income is reported as "Net income (loss) attributable to non-controlling interests" on our Condensed Consolidated Statements of Comprehensive Income (Loss). These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto contained in our Form 8-K/A for the fiscal year ended March 31, 2018 filed with the SEC on October 5, 2018.

Use of Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and
assumptions that affect the amounts reported in the consolidated financial statements. Significant items subject to such estimates and assumptions include the useful lives of property, plant and equipment, intangibles and goodwill, purchase price allocations, revenue recognition, reserves for doubtful receivables, valuation allowances for deferred tax assets, the valuation of derivative financial instruments, measurements of stock-based compensation, assets and obligations related to employee benefits, and income tax uncertainties and
other contingencies. Management believes that the estimates used in the preparation of the consolidated financial statements are reasonable. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates. Any changes in estimates are adjusted prospectively in the Company's consolidated financial statements.

Revenue

On April 1, 2018, the Company adopted Accounting Standards Codification 606, Revenue from Contracts with Customers, (Topic 606). Topic 606 replaces numerous industry specific requirements and converges the accounting guidance on revenue recognition with International Financial Reporting Standards 15 (IFRS 15). Topic 606 utilizes a five-step process, for revenue recognition that focuses on transfer of control, rather than transfer of risks and rewards. It also provided additional guidance on accounting for contract acquisition and fulfillment costs.

Business Combinations

The Company accounts for business acquisitions under the acquisition method of accounting in accordance with ASC 805, Business Combinations, by recognizing identifiable tangible and intangible assets acquired, liabilities assumed, and non-controlling interests in the acquired business at their fair values. The excess of the cost of the acquired business over the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed is recorded as goodwill. Acquisition related costs are expensed as incurred.

Goodwill and Intangible Assets

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 is "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.

If the carrying amount of a reporting unit exceeds its fair value, "Step 1" is performed to determine if goodwill is impaired and to measure the amount of impairment loss to recognize, if any. This 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.

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 have elected to perform the annual impairment assessment for goodwill in the fourth quarter.

Intangible assets acquired in a business combination are recorded at fair value using generally accepted valuation methods appropriate for the type of intangible asset. Intangible assets with definite lives are amortized over the estimated useful lives and are reviewed for impairment at least annually, or more frequently if indicators of impairment arise.

Foreign Currency Matters

The Company has operations in Argentina and its functional currency has historically been the Argentine Peso. The Company monitors inflation rates in countries in which it operates as required by US GAAP. Under ASC 830-10-45-12, an economy must be classified as highly inflationary when the cumulative three-year rate exceeds 100%.

In May 2018, a discussion document prepared by the Center for Audit Quality SEC Regulations Committee and its International Practices Task Force describes inflation data for Argentina through April 2018. Considering this data and more recent data for May 2018, all of the three-year cumulative inflation rates commonly used to evaluate Argentina’s inflation currently exceed 100%.

Therefore, the Company will consider Argentina to be highly inflationary beginning on July 1, 2018. In accordance with ASC 830, the functional currency of the Argentina business will be changed to USD, which will require remeasurement of the local books to USD. Exchange gains and losses will be recorded through net income as opposed to through other comprehensive income as had been done historically. Translation adjustments from prior periods will not be removed from equity.

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” for further information.

Common Stock Warrant Accounting

We account for common stock warrants as equity instruments, based on the specific terms of our warrant agreement. For more information refer to Note 11, "Share-Based Compensation."

Recent Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-14, Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20): Disclosure

Framework - Changes to the Disclosure Requirements for Defined Benefit Plans (“ASU 2018-14”). The amendment makes minor changes to the disclosure requirements for employers that sponsor defined benefit pension and/or other postretirement benefit plans. The new guidance eliminates requirements for certain disclosures that are no longer considered cost beneficial and requires new ones that the FASB considers pertinent. ASU No. 2018-14 is effective for fiscal years ending after December 15, 2020. The Company is evaluating the impact of the adoption of ASU No. 2018-14 on its financial statement disclosures.

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220) (“ASU 2018-02”), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows for stranded tax effects in accumulated other comprehensive income resulting from the U.S. Tax Cuts and Jobs Act to be reclassified to retained earnings. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted. We are currently evaluating the impact of adopting the new standard.

In August 2017, FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815) ("ASU 2017-12"), Targeted Improvements to Accounting for Hedging Activities. The amendments in this ASU better align an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To meet that objective, the amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The guidance is effective for annual reporting periods beginning after December 15, 2018, including interim reporting periods within those annual reporting periods. We do not expect the adoption of ASU 2017-12 will have a material impact on our consolidated financial statements.

In July 2017, FASB issued a two-part ASU, No. 2017-11, I. Accounting for Certain Financial Instruments with Down Round Features and II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception ("ASU 2017-11"). Part I of this ASU addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of this ASU addresses the difficulty of navigating Topic 480, Distinguishing Liabilities from Equity, because of the existence of extensive pending content in the FASB Accounting Standards Codification®. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests. The ASU is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other organizations, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. In conjunction with the Amazon transaction agreement, we adopted this ASU in January 2018. Adoption resulted in treatment of the warrants as equity in our consolidated financial statements.

In May 2017, FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718) ("ASU 2017-09"), Scope of Modification Accounting. The amendments in this ASU provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity should account for the effects of a modification unless all the following are met: 1. The fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification; 2. The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and 3. The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The guidance is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. We adopted this ASU in January 2018.

In January 2017, FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350) ("ASU 2017-04"), Simplifying the Test for Goodwill Impairment. To simplify the subsequent measurement of goodwill, the amendments eliminate Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable. The guidance is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019 and early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We do not expect the adoption of ASU 2017-04 will have a material impact on our consolidated financial statements.

In June 2016, FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326) ("ASU 2016-13"), Measurement of Credit Losses on Financial Instruments. The standard significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The standard will replace today's "incurred loss" approach with an "expected loss" model for instruments measured at amortized cost. For available-for-sale debt securities, entities will be required to record allowances rather than reduce the carrying amount, as they do today under the other-than-temporary impairment model. It also simplifies the accounting model for purchased credit-impaired debt securities and loans. This ASU is effective for annual periods beginning after December 15, 2019, and interim periods therein. Early adoption is permitted for annual periods beginning after December 15, 2018, and interim periods therein. We do not expect the adoption of ASU 2016-13 will have a material impact on our consolidated financial statements.

In February 2016, FASB issued ASU 2016-02, Leases (Topic 842) (“ASU 2016-02”). These amendments require the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases currently classified as operating leases under ASC 840 “Leases”. These amendments also require qualitative disclosures along with specific quantitative disclosures. These amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. Entities are required to apply the amendments at the beginning of the earliest period presented using a modified retrospective approach. We are currently evaluating the impact that the adoption of ASU 2016-02 will have on our consolidated financial statements, and we anticipate that adoption of ASU 2016-02 will have an impact to the financial statement presentation of right of use asset, lease liability, amortization expense, and lease expense.

In May 2014, the FASB issued ASU 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, 2017. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. We have completed our assessment of the impact of Topic 606 and have concluded that our historical revenue recognition practices are in compliance with the new standard. However, we have included additional qualitative and quantitative disclosures about our revenues as is required by Topic 606. We utilized the Modified Retrospective transition method. Please refer to Note 5 "Revenue" for additional information.

3. BUSINESS ACQUISITIONS

Aegis Transactions

On July 20, 2018, the Company completed the acquisition of all of the issued and outstanding shares of capital stock of Aegis from the Aegis Stockholder in exchange for the issuance of 20,600,000 shares of the Common Stock in the Aegis Transactions. Concurrently, the Aegis Stockholder purchased 166,667 newly issued shares of the Common Stock at a price of $12 per share for a total cash payment of $2 million. As a result of the consummation of the Aegis Transactions, the Aegis Stockholder now holds 20,766,667 shares of the Common Stock, which is equivalent to approximately 55% of the total outstanding Common Stock.

In accordance with ASC 805, Business Combinations, the transaction was accounted for as a reverse acquisition. As such, Aegis is considered to be the accounting acquirer. Therefore, Aegis’ historical financial statements replace the Company’s historical financial statements following the completion of the Aegis Transactions, and the results of operations of both companies will be included in the Company’s financial statements for all periods subsequent to July 20, 2018.

Because the Aegis Transactions are considered a reverse acquisition, the fair value of the purchase consideration is calculated based on the Company's stock price as it is considered to be more reliably determinable than the fair value of Aegis' private stock. Consideration is calculated based on the Company's closing stock price of $6.81 on July 20, 2018.

The following table summarized the estimated fair values of the identifiable assets acquired and liabilities assumed as of the acquisition date. These estimates are preliminary, pending final evaluation of certain assets, and therefore are subject to revisions that may result in adjustments to the values presented below:

	Amount
Stock consideration	$140,286
Cash consideration	2,000
Total allocable purchase price	$142,286

	Amount
Cash and cash equivalents	$1,496
Other current assets	46,570
Property, plant and equipment, net	15,930
Identifiable intangible assets	34,570
Goodwill	87,185
Other non-current assets	3,204
Current liabilities	(20,663)
Non-current liabilities	(26,006)
Preliminary purchase price	$142,286

The goodwill recognized was attributable primarily to the acquired workforce, increased utilization of our global delivery platform and other synergistic benefits. Goodwill from this acquisition is not expected to be deductible for tax purposes.

The amount of the Company's revenues and net loss since the July 20, 2018 acquisition date, included in our consolidated statements of comprehensive income (loss) for the three months ended September 30, 2018 were as follows:

	From July 20, 2018 through September 30, 2018
Revenues	$ 45,521
Net loss	$ (4,629)

The following table presents the unaudited pro forma information assuming the Aegis Transactions occurred on April 1, 2017. The unaudited pro forma information is not necessarily indicative of the results of operations that would have been achieved if the acquisition and related borrowings had taken place on that date:

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2018	2017	2018	2017
Revenues	$163,930	$189,191	$333,870	$377,168
Net income (loss)	$(8,909)	$(2,632)	$(16,225)	$2,601
Net income (loss) per common share - basic	$(0.26)	$(0.13)	$(0.59)	$0.13
Weighted average common shares outstanding - basic	33,812	20,767	27,289	20,767
Net income (loss) per common share - diluted	$(0.26)	$(0.13)	$(0.59)	$0.13
Weighted average common shares outstanding - diluted	33,812	20,767	27,289	20,767

These amounts have been calculated to reflect the additional amortization that would have been incurred assuming the Aegis Transactions occurred on April 1, 2017, together with the consequential tax effects.

Transaction related fees of approximately $3,898 and $3,898, comprised of transaction and integration costs, are identified separately on our consolidated statements of comprehensive income (loss) for the three and six months ended September 30, 2018, respectively.

ESM Holding Limited and Subsidiaries

On November 22, 2017, Aegis acquired ESM Holdings Limited ("ESM") and its subsidiaries, which provides business process outsourcing services for total consideration of $280,000. The acquisition was funded with cash of $153,910 and a $140,000 five year term loan.

4. GOODWILL AND INTANGIBLE ASSETS

Goodwill

We perform a goodwill impairment analysis at least annually (in the fourth quarter of each year) unless indicators of impairment exist in interim periods. The assumptions used in the analysis are based on the Company's internal budget. The Company projected revenue, operating margins and cash flows for a period of five years, and applied a perpetual long-term growth rate thereafter. These assumptions are reviewed annually as part of management's budgeting and strategic planning cycles. These estimates may differ from actual results. The values assigned to each of the key assumptions reflect the management's past experience as their assessment of future trends, and are consistent with external/internal sources of information.

As of March 31, 2018, we concluded that goodwill was not impaired. In addition, no indicators of impairment exist as of September 30, 2018.

The following table presents the changes in goodwill during the period:

	Amount
Opening balance, March 31, 2018	$153,368
Acquisition during the period	87,185
Ending balance, September 30, 2018	$240,553

Intangible Assets

The following table presents our intangible assets as of September 30, 2018.

	Gross Intangibles	Accumulated Amortization	Net Intangibles	Weighted Average Amortization Period (years)
Customer relationships	$ 70,660	$ 3,785	$ 66,875	10.8
Brand	49,500	3,143	46,357	13.5
Trademarks	14,410	189	14,221	7.6
Other intangibles	2,100	92	2,008	3.2
Software	12,890	3,193	9,697	3.0
	$ 149,560	$ 10,402	$ 139,158	$ —

Expected future amortization of intangible assets as of September 30, 2018 is as follows:

Years Ending December 31,	Amount
Remainder of 2018	$ 3,808
2019	14,498
2020	13,128
2021	11,779
2022	11,706
Thereafter	84,239

5. REVENUE

On April 1, 2018, the Company adopted Accounting Standards Codification 606, Revenue from Contracts with Customers, (Topic 606). Topic 606 replaces numerous industry specific requirements and converges the accounting guidance on revenue recognition with International Financial Reporting Standards 15 (IFRS 15). Topic 606 utilizes a five-step process, for revenue recognition that focuses on transfer of control, rather than transfer of risks and rewards. It also provided additional guidance on accounting for contract acquisition and fulfillment costs.

We have completed our assessment of the impact of Topic 606 and have concluded that our historical revenue recognition, contract acquisition cost, and fulfillment cost practices are in compliance with the new standard. However, we have included additional qualitative and quantitative disclosures about our revenues as is required by Topic 606.

The Company has unbilled revenue of $42,930 and $47,407 as of September 30, 2018 and March 31, 2018, respectively, which is included in Trade accounts receivable, net.

Contracts with Customers
All of the Company's revenues are derived from written contracts with our customers. Generally speaking, our contracts document our customers' intent to utilize our services and the relevant terms and conditions under which our services will be provided. Our contracts do not contain minimum purchase requirements nor do they include termination penalties. Our customers may generally cancel our contract, without cause, upon written notice (generally ninety days). While our contracts do have stated terms, because of the facts stated above, they are accounted for on a month-to-month basis.
Our contracts give us the right to bill for services rendered during the period, which for the majority of our customers is a calendar month, with a few customers specifying a fiscal month.

Performance Obligations
We have identified one main performance obligation for which we invoice our customers, which is to stand ready to provide care services for our customers' clients. A stand-ready obligation is a promise that a customer will have access to services as and when the customer decides to use them. Ours is considered a stand-ready obligations because the delivery of the underlying service (that is, receiving customer contact and performing the associated care services) is outside of our control or the control of our customer.

Our stand-ready obligation involves outsourcing of the entire customer care life cycle, including:

- The identification, operation, management and maintenance of facilities, IT equipment, and IT and telecommunications infrastructure
- Management of the entire human resources function, including recruiting, hiring, training, supervising, evaluating, coaching, retaining, compensating, providing employee benefits programs, and disciplinary activities

These activities are all considered an integral part of the production activities required in the service of standing ready to accept calls as they are directed to us by our clients.

Revenue Recognition Methods

Because our customers receive and consume the benefit of our services as they are performed and we have the contractual right to invoice for services performed to date, we have concluded that our performance obligation is satisfied over time. Accordingly, we recognize revenue for our services in the month they are performed. This is consistent with our prior revenue recognition model.

According to our contracts, we are entitled to invoice for our services on a monthly basis. We invoice according to the hourly and/or per transaction rates stated in the contract for the various activities we perform. Some contracts include opportunities to earn bonuses or include parameters under which we will incur penalties related to performance in any given month. Bonus or penalty amounts are based on the current month's performance. Formulas are included in the contracts for calculation of any bonus or penalty. There is no other performance in future periods that will impact the bonus or penalty calculation in the current period. We estimate the amount of the bonus or penalty using the "most likely amount" method and we apply this method consistently. The bonus or penalty calculated is generally approved by the client prior to billing (and revenue being recognized).

Disaggregated Revenue

In the following table, revenue is disaggregated by vertical for the three and six months September 30, 2018 and 2017, respectively:

	Three Months Ended September 30,		Six Months Ended September 30,	
Vertical:	2018	2017	2018	2017
Telecom	$71,457	$76,682	$133,306	$151,592
Retail & E-Commerce	25,746	12,927	40,461	24,715
Media, Publishing and Entertainment	16,604	3,043	19,671	5,950
Financial services	9,017	8,349	18,090	14,718
Healthcare	5,396	1,976	7,216	3,868
Transport and Logistics	3,342	1,941	6,741	3,671
Other	19,947	14,901	36,247	29,303
Total	$151,509	$119,819	$261,732	$233,817

6. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per common share is computed based on our weighted average number of common shares outstanding. Diluted earnings per share is computed based on our weighted average number of common shares outstanding plus the effect of dilutive stock options, non-vested restricted stock, and deferred stock units, using the treasury stock method.

When a net loss is reported, potentially issuable common shares are excluded from the computation of diluted earnings per share as their effect would be anti-dilutive.

For the three and six month periods ended September 30, 2017, there were no dilutive securities as the accounting acquirer did not historically have stock compensation programs. Therefore, basic and diluted weighted average number of common shares outstanding for these periods are the same number.

For the three and six month periods ended September 30, 2018, 5 and 298 shares, respectively, were not included in the computation of diluted earnings per share because we reported a net loss and the effect would have been anti-dilutive.

7. IMPAIRMENT LOSSES AND RESTRUCTURING CHARGES

Impairment Losses

No impairment losses were incurred during the six months ended September 30, 2018.

Restructuring Charges

The table below summarizes the balance of accrued restructuring costs, which is included in other accrued liabilities in our consolidated balance sheets, and the changes during the six months ended September 30, 2018:

	Employee-related	Facilities-related	Total
Balance as of March 31, 2018	$ —	$ 1,868	$ 1,868
Accruals	2,360	1,087	3,447
Payments	(998)	(496)	(1,494)
Balance as of September 30, 2018	$ 1,362	$ 2,459	$ 3,821

Employee-related charges

In conjunction with the closing of the Aegis Transactions, we eliminated a number of positions which were considered redundant, under a company-wide restructuring plan. We established reserves for employee related costs of $2,360 across a number of geographies. We expect to pay the remaining costs by the end of third quarter 2019.

Facilities-related charges

In conjunction with the closing of the Aegis Transactions, we terminated various leases in the United States and the Philippines. We established a reserve for the remaining costs associated with the leases in the amount of $1,087. We expect to pay the remaining costs by the end of the first quarter of 2021.

The Company has ceased operations in the United Kingdom. Upon closure, the Company recorded a reserve for the remaining costs associated with the lease of $1,868. We expect to pay the remaining costs by the end of the second quarter 2019.

8. DERIVATIVE INSTRUMENTS

Cash flow hedges

Our locations in Canada and the Philippines primarily serve US-based clients. The revenues of these clients is billed and collected in US Dollars, but the expenses related to these revenues are paid in Canadian Dollars and Philippine Pesos. We enter into derivative contracts, in the form of forward contracts and range forward contracts (a transaction where both a call option is purchased and a put option is sold) to mitigate this foreign currency exchange risk. The contracts cover periods commensurate with expected exposure, generally three to twelve months. We have elected to designate our derivatives as cash flow hedges in order to associate the results of the hedges with forecasted expenses.

Unrealized gains and losses are recorded in accumulated other comprehensive income (“AOCI”) and will be re-classified to operations as the forecasted expenses are incurred, typically within one year. During the six months ended September 30, 2018 and 2017, our cash flow hedges were highly effective and hedge ineffectiveness was not material.

The following table shows the notional amount of our foreign exchange cash flow hedging instruments as of September 30, 2018:

	Local Currency Notional Amount	U.S. Dollar Notional Amount
Canadian Dollar	5,100	$ 3,986
Philippine Peso	1,342,000	24,915
		$ 28,901

Derivative assets and liabilities associated with our hedging activities are measured at gross fair value as described in Note 9, "Fair Value Measurements," and are included in prepaid expense and other current assets and accrued expenses and other current liabilities in our condensed consolidated balance sheets, respectively.

Non-designated hedges

We have also entered into foreign currency range forward contracts as required by our lenders. These hedges are not designated hedges under ASC 815, Derivatives and Hedging. These contracts generally do not exceed 3 years in duration.

Realized gains and losses and changes in fair value of these derivatives are recognized as incurred in Exchange gains (losses), net in the Condensed Consolidated Statements of Comprehensive Income (Loss). The following table presents these amounts for the three and six months ended September 30, 2018:

Derivatives not designated under ASC 815	For the Three Months Ended September 30, 2018	For the Six Months Ended September 30, 2018
Foreign currency range forward contracts	$ 1,046	$ 1,046
Interest rate swap	$ 13	$ 13

9. FAIR VALUE MEASUREMENTS

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy requires that the Company maximize the use of observable inputs and minimize the use of unobservable inputs. The levels of the fair value hierarchy are described below:
Level 1 - Quoted prices for identical instruments traded in active markets.
Level 2 - 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 - Unobservable inputs that cannot be supported by market activity and that are significant to the fair value of the asset, liability, or equity such as the use of certain pricing models, discounted cash flow models and similar techniques that use significant assumptions. These unobservable inputs reflect our own estimates of assumptions that market participants would use in pricing the asset or liability.

Derivative Instruments

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 the derivatives are classified as Level 2 in the fair value hierarchy.

The following tables set forth our assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy. These balances are included in Other current assets and Other current liabilities, respectively, on our balance sheet.

	As of September 30, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Foreign exchange contracts	$ —	$ 1,128	$ —	$ 1,128
Total fair value of assets measured on a recurring basis	$ —	$ 1,128	$ —	$ 1,128
Liabilities:				
Interest rate swap	$ —	$ 27		