



# Positioned for Growth

StarTek 2006 Annual Report





# Positioned for

## MISSION

Our Company mission is to provide our clients and their customers with the highest level of professionalism and service as we continue to find innovative ways to grow and improve profitability and shareholder value in a dynamic and fun environment.





# Growth

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# LETTER TO SHAREHOLDERS

## GROWTH, PROFITABILITY, STABILITY AND VISION

Fiscal year 2006 was certainly a year of challenges for StarTek. Despite our revenue growth of 9.8%, margins and earnings were lower. StarTek added 2 new clients and opened 3 new sites, but experienced startup issues and increased attrition. Additionally, we launched a new product suite called Intelligent Enterprise.

StarTek changed and adapted substantially in 2006 to meet these challenges of a changing world of customer care. After examining our market position and trends impacting the various markets we were operating in, we made several strategic decisions to better compete in the highly competitive call center and outsourcing industry. In 2006 we repositioning our business with a focus on the communications sector, launched new leading-edge products, and increased our sales and marketing efforts.

We decided to focus our efforts on the industries where we felt the greatest opportunity for StarTek's success. To that end, we limited our investments in solutions designed for the financial and healthcare

communications industry.

In 2007, we are concentrating on initiatives that we believe will not only improve our competitive position, but also extend and expand our service offerings for the communications niche. We revamped our product development strategy, ensuring that our resources were applied to the right initiatives with a high level of focus and energy.

We also redoubled our sales and marketing efforts, ensuring that our key messages were being driven home to the target market - the communications industry.

We are very optimistic about the customer care outsourcing industry. IDC estimates that the U.S. customer management services market, which accounted for approximately 5.9% of the U.S. business process outsourcing services market in 2005, is expected to grow at a 12.5% compounded annual growth rate to \$24.6 billion in 2010. Outsourcing of non-core activities, such as those we provide, offers companies the ability to focus on their core

**In 2006 we repositioned our business with a focus on the communications sector, launched new leading-edge products, and increased our sales and marketing efforts.**

industries. At the same time, we saw increased opportunities in the communications industry where consolidation and convergence was evident. We felt that this would drive the need for more and higher quality customer care services. Therefore, by year end, we had directed all of our focus on the

competencies, leverage economies of scale and control variable costs of the business while accessing new technology and trained expert personnel.

Perhaps the most critical part of our strategy is our focus on our people. Our over 8,000 employees

## Perhaps the most critical part of our strategy is our focus on our people.

continue to demonstrate the expertise, motivation and the staying power to secure our position as an expert in the communications outsourced services industry. This value proposition is undoubtedly what differentiates us from our competition. We appreciate the efforts of our employees and expect even greater things from them in the future.

At StarTek, we believe our business of supplying high-quality customer care for the communications industry presents major growth opportunities. Our customers are growing their businesses and seeking to work with StarTek on new customer care solutions. We believe we are strategically positioned to seize those opportunities.

We look forward to StarTek's continued success in the customer care industry and we thank you for your continued support of StarTek.

Sincerely,



A handwritten signature in white ink, appearing to read 'Larry Jones'.

**Larry Jones**  
President & CEO



A handwritten signature in white ink, appearing to read 'Ed Zschau'.

**Ed Zschau**  
Chairman of the Board

## At StarTek, we believe our business of supplying high-quality customer care for the communications industry presents major growth opportunities.



# YOUR FIRST CALL FOR CUSTOMER CARE

Every year StarTek handles over 50 million customer care and acquisition, technical support, and receivables management calls for some of the world's largest and most prestigious organizations. Widely known for its expertise in customer care for the communications industry, StarTek ranks consistently in the top 10 outsourcing companies.

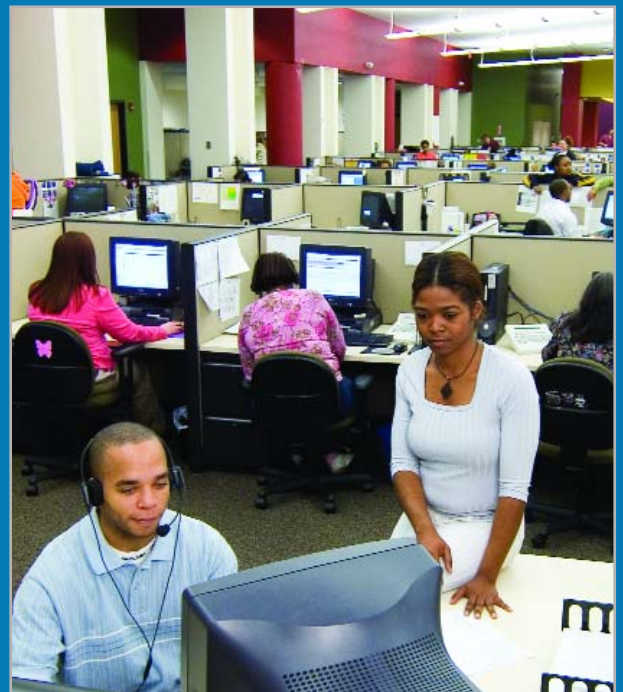
Since 1987 StarTek has partnered with its clients to solve strategic business challenges so that fast-moving businesses can improve customer retention, increase revenue and reduce costs through an improved customer experience. These robust solutions leverage industry knowledge, best business practices, highly skilled agents, proven operational excellence and flexible technology.




Clients rely upon StarTek because we enable them to deliver the ultimate customer experience.

For StarTek, our overriding goal is to ensure that each and every time your company interacts with a customer, it's a positive, brand-affirming experience for that customer. We step into your customer's shoes to help you better understand your customers, make them more valuable, and deliver a higher quality customer experience.

No matter which business processes StarTek owns for a client, our passionate commitment to client success sets us truly apart from other outsourcers. Our reputation, industry awards, and client successes are generating more interest than ever before, as companies recognize that customer satisfaction and loyalty are key to long-term, profitable growth. StarTek, with its 20 years of customer experience management, is ideally positioned to help these companies meet their goals.





StarTek has more than 8,000 customer care representatives with extensive communications industry experience.

## WELL POSITIONED FOR GROWTH

StarTek is poised for the next stage of the company's growth. With the rapid expansion of converged communications, the timing could not be better for StarTek to shift its focus back to what it does best: delivering added-value customer care for the communications industry.

The communications sector represents the largest revenue opportunity for customer care providers like StarTek. However, currently no individual outsourcing player in the customer care industry accounts for more than 7% of market share.

As demand for customer care services climbs to \$51.4 billion by 2010, StarTek is well-positioned within the communications industry to capture a significant portion of this increase in demand, with an estimated, current share of 2% of total communication industry spending.

### **Capitalizing on Conversations**

StarTek's renewed focus is on the vibrant communications outsourced services sector, where the current buzz word is convergence.

Long gone are the days where communications merely meant talking on a fixed-line telephone. Wireline, wireless, video, and data are all converging with dramatic results for both service providers and their customers.

Communications providers face constant attacks to their business models as they try to keep pace with the technological advances that push them into new frontiers. As the expert in customer care for the

Our strategy is simple: provide a consistent high level of services, up-sell and cross-sell smartly, and reduce costs through innovative, self-help technology. We will expand our current service and product offerings to give clients true end-to-end solutions from one source, and support emerging markets including quad-play, IP television, and digital media. We will continue to be a strategic partner to our clients, enabling them to achieve their business objectives, while we grow our revenues and client

**We will continue to be a strategic partner to our clients, enabling them to achieve their business objectives, while we grow our revenues and client base.**

communications industry, communications convergence puts StarTek in a strong position to capitalize on the opportunities that will arise to help service providers gain and maintain competitive advantage through customer service differentiation.

### **Communications without Borders**

Convergence affects everyone. Cable, media and entertainment, wireless and voice/VoIP companies are facing the same issues from different perspectives as the lines between the communications, media and content markets blur.

Bringing success into focus will require service providers to master a critical component: customer care.

The convergence conversation will center on how StarTek can best help our clients improve services, expand their client base, and achieve greater profitability.


base. To fulfill this vision in 2007, we are working to ensure we have the ideal mix of talent and infrastructure to profitably grow the business without impact to service quality.

### **Eyes to the Future**

StarTek is a committed partner to its clients and its shareholders.

As we look to 2007, we will accelerate organic growth and take a customer-centric and client-first approach. There may be times when we will identify acquisitions where StarTek can expand its world-class management team. But most importantly, we will continue to deliver operational excellence and focus on profitable customer contract terms. Come grow with us.



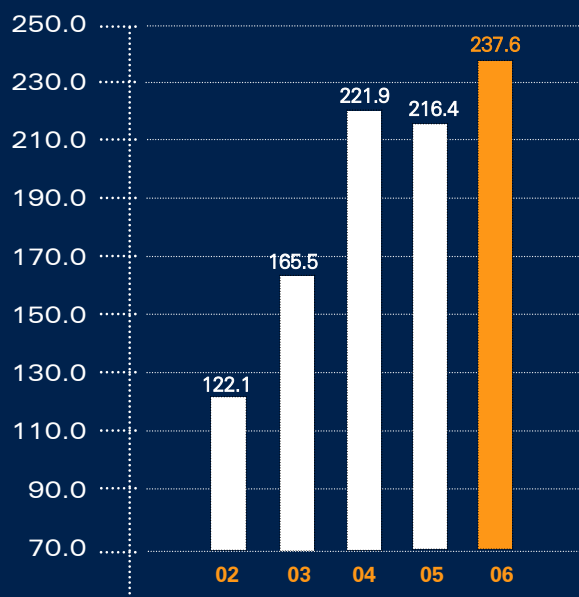


StarTek has 19 operational contact centers throughout North America and opened 3 new sites in 2006.

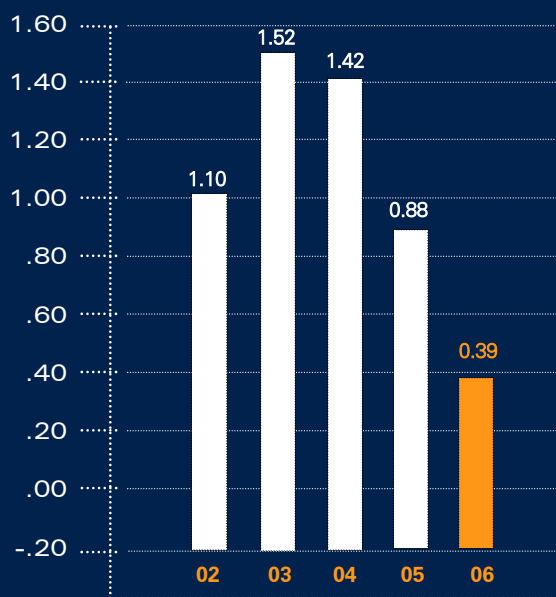
To be a dominant leader of customer care dedicated to the communications industry, StarTek will:

- Focus on reinvesting in the growth of the business
- Be flexible to grow organically and, when the time is right, through acquisitions
- Strategically open new sites
- Acquire new clients
- Strengthen our management team
- Develop our people
- Execute our vision

# FINANCIAL SNAPSHOT



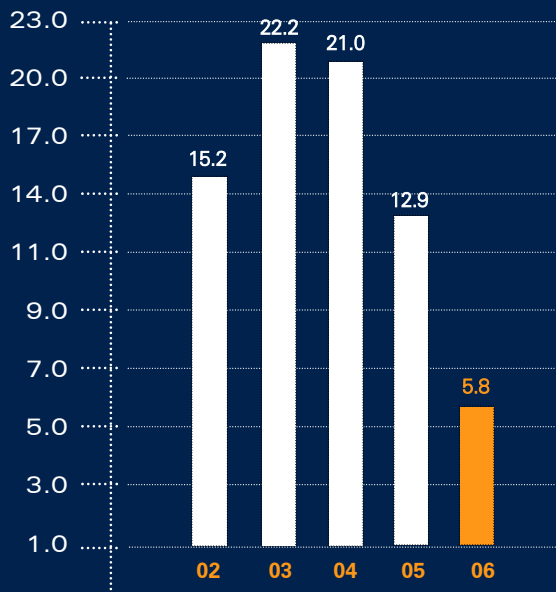
\*Revenue - dollars in millions



Diluted Net Income Per Share

9.8% revenue increase over 2005

Cash and Investments totaled \$39.4 Million on December 31, 2006



Net Income - dollars in millions

\*The results of operations of the Supply Chain Management Services platform and StarTek Europe, Ltd. have been classified as discontinued operations during all periods presented in our Consolidated Financial Statements and related Notes. Accordingly, amounts presented in our Consolidated Financial Statements and related Notes may differ from amounts previously disclosed in our filings with the Securities and Exchange Commission. Please refer to Note 4, "Discontinued Operations" for further discussion of these transactions.



# COMPANY PROFILE

StarTek, Inc. (NYSE: SRT) is a leading provider of high value business process outsourcing services to the communications industry. Since 1987 StarTek has partnered with its clients to solve strategic business challenges so that fast-moving businesses can improve customer retention, increase revenue and reduce costs through an improved customer experience. These robust solutions leverage industry knowledge, best business practices, highly skilled agents, proven operational excellence and flexible technology. The StarTek comprehensive service suite includes customer care, sales support, complex order processing, accounts receivable management, technical support and other industry-specific processes. Headquartered in Denver, Colorado, StarTek provides these services from 19 operational facilities in the US and Canada. For more information visit the Company's website at [www.StarTek.com](http://www.StarTek.com) or contact us at 800-541-1130.

## StarTek Difference

We are experts at seamlessly integrating with our clients and extending their brand. StarTek's unique blend of proven business processes and nurtured partnerships have resulted in consistently high industry ratings (in the top 10%) for overall customer satisfaction, service levels, performance, and cycle time.

## Our Philosophy

StarTek provides business process optimization services that lower operational costs, improve quality, and add value to your organization.

## Our Experience

Since 1987, StarTek has been known for its nimbleness and flexibility, consistently leading to high industry ratings and establishing a reputation for excellent customer service.

## Our People

StarTek has over 235 supervisors, 60 operations managers, and 100% of its site directors and regional VPs and more than 8000 customer care representatives with extensive communications industry experience.

# INVESTOR INFORMATION

## Board of Directors

### Ed Zschau

Chairman of the Board, StarTek, Inc.  
Visiting Lecturer at Princeton University

### Kay Norton

Director, StarTek, Inc.  
President, University of Northern Colorado

### Albert C. Yates

Director, StarTek, Inc.  
President Emeritus, Colorado State University

### Larry Jones

President, Chief Executive Officer, Interim Chief Financial Officer and Director, StarTek, Inc.

### Corporate Headquarters:

44 Cook Street, 4th Floor  
Denver, Colorado 80206  
Telephone: (303) 399-2400

### Internet address:

[www.startek.com](http://www.startek.com)

### Independent Registered Public Accounting Firm:

Ernst & Young, LLP  
Denver, Colorado

### Registrar of Stock and Transfer Agent:

UMB Bank P.O. Box 419064, Kansas City, MO  
64141-6064  
Telephone: (800) 884-4225 or (816) 860-7786  
Send email to: [stock.transfer@umb.com](mailto:stock.transfer@umb.com)

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

Form 10-K

(Mark One)

- ☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2006  
or  
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from to

Commission file number 1-12793

StarTek, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

84-1370538

(I.R.S. employer  
Identification No.)

44 Cook Street, 4<sup>th</sup> Floor  
Denver, Colorado

(Address of principal executive offices)

80206

(Zip code)

(303) 399-2400

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, \$.01 par value

New York Stock Exchange, Inc.

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

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

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 ☒ No ☐

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

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

Large Accelerated Filer ☐

Accelerated Filer ☒

Non-Accelerated Filer ☐

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

As of March 1, 2007, 14,725,791 shares of common stock were outstanding. The aggregate market value of common stock held by non-affiliates of the registrant on June 30, 2006, was \$119.0 million, based upon the closing price of the registrant's common stock as quoted on the New York Stock Exchange composite tape on such date. Shares of common stock held by each executive officer and director and by each person who owned 5% or more of the outstanding common stock as of such date have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the registrant's proxy statement to be delivered in connection with its 2007 annual meeting of stockholders. With the exception of certain portions of the proxy statement specifically incorporated herein by reference, the proxy statement is not deemed to be filed as part of this Form 10-K.



## Forward-Looking Statements

*All statements contained in this Form 10-K that are not statements of historical facts are forward-looking statements that involve substantial risks and uncertainties. Forward-looking statements are preceded by terms such as “may,” “will,” “should,” “anticipates,” “expects,” “believes,” “plans,” “future,” “estimate,” “continue,” “intends,” “budgeted,” “projections,” “outlook” and similar expressions. The following are important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. These factors include, but are not limited to, risks relating to our revenue from our principal clients, concentration of our client base in the communications industry, consolidation in the communications industry, trend of communications companies to out-source non-core services, management turnover, dependence on and requirement to recruit qualified employees, labor costs, need to add key management personnel and specialized sales personnel, considerable pricing pressure, capacity utilization of our facilities, collection of note receivable from sale of Supply Chain Management Services platform, inability to utilize current capital loss carry-forwards, defense and outcome of pending class action lawsuit, lack of success of our clients’ products or services, risks related to our contracts, decreases in numbers of vendors used by clients or potential clients, inability to effectively manage growth, risks associated with advanced technologies, highly competitive markets, foreign exchange risks and other risks relating to conducting business in Canada, lack of a significant international presence, potentially significant influence on corporate actions by our largest stockholder, volatility of our stock price, geopolitical military conditions, interruption to our business, increasing costs of or interruptions in telephone and data services, compliance with SEC rules, fluctuations in the value of our investment securities portfolio, and variability of quarterly operating results. These factors include risks and uncertainties beyond our ability to control, and in many cases we cannot predict the risks and uncertainties that could cause actual results to differ materially from those indicated by use of forward-looking statements. Similarly, it is impossible for management to foresee or identify all such factors. As such, investors should not consider the foregoing list to be an exhaustive statement of all risks, uncertainties, or potentially inaccurate assumptions. All forward-looking statements herein are made as of the date hereof, and we undertake no obligation to update any such forward-looking statements. All forward-looking statements herein are qualified in their entirety by information set forth in “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk Factors” appearing elsewhere in this Form 10-K.*

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

## Item 1. Business

### Business Overview

StarTek is a leading provider of high value business process outsourcing services to the communications industry. We partner with our clients to meet their business objectives and improve customer retention, increase revenues and reduce costs through an improved customer experience. Our robust solutions leverage industry knowledge, best business practices, highly skilled agents, proven operational excellence and flexible technology. The StarTek comprehensive service suite includes customer care, sales support, complex order processing, accounts receivable management, technical support and other industry-specific processes. We provide these services from 19 operational facilities in the US and Canada.

Our business is providing high-end **Customer Service Offerings** through the effective deployment of **People** and **Technology**.

**Customer Service Offerings** - We provide our clients with an outsourced customer care service offering so that they can focus on their core business and preserve capital. Our service offering includes customer care, sales support, complex order processing, accounts receivable management and other industry-specific processes. We are well positioned to help our clients implement the convergence of product lines, including wireline, wireless, cable and broadband. Under each service offering, we deliver a transparent extension of our clients’ brands.

**Customer Care.** We provide customer care management throughout the life cycle of our clients’ customers. These programs include management of customer acquisition, service activation, renewals, account inquiries, complaint resolutions, product information and billing support. These services are aimed at seamlessly managing the relationships between our clients and their customers in a manner that cultivates customer retention and loyalty.

**Sales Support.** Through our sales support service we seek to increase the revenue generation of our clients through cross-selling and up-selling our clients’ products to their customers. We have the capability to increase customer purchasing levels, implement product

promotion programs, introduce our clients' customers to new products, secure and process additional customer orders and handle inquiries related to product shipments and billing.

*Complex Order Processing.* Our complex order processing services provide our clients with large scale project management and direct relationship management for our clients' large enterprise customers. This service includes order management and technical sales support for high-end communications services, such as wireline, wireless, data and customer premise equipment. In addition, we also process order fallout from our clients' automated systems, complete billing review and revenue recovery, and perform quality assurance. Our services enable a client to provide large scale project management and customer relations services to their customers in a more efficient and cost-effective way.

*Accounts Receivable Management.* We provide billing, credit card support and first party collections through our receivables management services. These services allow our clients to reduce the risk of non-payment by automatically transferring the calls made by delinquent customers to us, at which point our representatives encourage the customers to pay their bill in order to continue their service. Customers may bring their bill current through credit or debit card payments, electronic checks or money orders. This service allows us to help our clients reduce their day's sales outstanding and write-offs for bad debt.

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

*Other.* We provide other industry-specific processes including technical support, number portability and directory management. We provide number portability services to facilitate the process when our clients' customers wish to keep their phone number when changing service providers. Our number portability services, which include both automated and live agent interaction, facilitate pre-port validation, data collection, automatic processing of port-out/in requests, direct and automated interface with the service order activation platform, fallout management tool and port request tracking and archiving. We also provide 411 directory listing management services.

*Domain.com.* Through our subsidiary, Domain.com, Inc., we own a portfolio of branded vertical market internet web sites and currently manage or lease to third parties a number of those sites, including airlines.com, wedding.com, wholesale.com, electronics.com, doctors.com, and hospitals.com. This business, though profitable, represents only a small part of total revenue and is expected to continue to remain an immaterial portion of our business.

**People** - Our success is driven by our people, who we believe are industry trained experts in providing the communications industry with proven business practices and solutions to help our clients achieve their business goals. Many of the members of our management team, in addition to our trained customer service representatives, have backgrounds in the communications industry, thereby bringing a depth of experience to the table when seeking out the best solutions for our clients. We believe that this expertise in our human capital is what allows us to succeed in providing excellent account management and tailored solutions in serving the communications marketplace.

**Technology** - Our ability to deliver exceptional service to our clients is enhanced by our technology infrastructure. Through our technology, we are able to rapidly respond to ever-changing client demands in a tailored yet cost-effective and efficient manner. We are capable of handling large call volumes at each of our contact centers through our reliable and scalable contact center solutions. We staff our IT personnel such that we can support our infrastructure and still have the capability to design programs to meet the specific needs of our clients.

Over the past few years, we have made significant investments in our technological capabilities. Specifically, we have made investments in enhanced interactive voice response technology, information management reporting infrastructure and capabilities, enhanced systems security solutions and other contact center solutions.

## **Customer Trends**

In collaborating with our clients, we have observed a few emerging trends in the communications industry. Our clients are increasingly focused on: (1) improving customer satisfaction and retention; (2) improving the customer experience through right-shoring; and (3) increasing sales per subscriber or user. StarTek provides some of the industry's highest customer satisfaction as evidenced by our clients' customer service awards and our clients' ranking of StarTek relative to other outsourced partners. Many of our clients have realized the value of cultural and language familiarity available from on-shore providers as a way to improve the



customer experience particularly surrounding voice-enabled services. StarTek has demonstrated to our clients our success in increasing revenue per subscriber by incorporating up-sell and cross-sell methodologies during customer interactions.

### **Key Competitive Differentiators**

Our belief is that our company is differentiated on the following levels: our industry expertise; our reputation for operational excellence; our flexible technology; and our people.

*Our industry expertise.* We have extensive expertise in servicing the communications industry as a result of our many long-term relationships servicing companies in this industry. Our service offerings are tailored to meet the business needs of our communications industry clients. In addition, many of our employees, particularly within management, have backgrounds in the communications industry.

*Our reputation for operational excellence.* We provide some of the industry's highest customer satisfaction as evidenced by our clients' customer service awards and our clients' ranking of StarTek relative to their internal contact centers as well as against competing outsourced partners. We strive to continually improve our operational performance and seek feedback from our clients.

*Our flexible technology.* Our ability to deliver exceptional service to our clients is enhanced by our technology infrastructure. Through our technology, we are able to rapidly respond to ever-changing client demands in a tailored, yet cost-effective, efficient and flexible manner.

*Our people.* Our business depends significantly on our ability to hire and retain the right individuals at both the customer service representative and managerial level. This has a direct effect on our operational results and our ability to deliver the high-quality service that our clients demand. Accordingly, we strive to create a culture that is focused on recognition and development of our employees by providing adequate training, managerial support, fair compensation, smart hiring practices and merit-based recognition programs.

### **Strategy**

We seek to become a market leader in providing high-value services to clients in the communications industry. Our approach is to develop relationships with our clients that are partnering and collaborative in nature and create industry-based solutions to meet our clients' business needs. To be a leader in the market, our strategy is to:

- grow our existing client base by deepening and broadening our relationships,
- add new clients in the communications segment and continue to diversify our client base,
- improve the profitability of our business through operational improvements and securing higher margin business,
- add new services to broaden our offering to the communications segment and
- make prudent acquisitions to expand our business scale and service offerings.

### **History of the Business**

We were founded in 1987. At that time, our business was centered on supply chain management services, which included packaging, fulfillment, marketing support and logistics services.

After our initial public offering on June 19, 1997, we began operating contact center services, which primarily focused on customer care and grew to include our current suite of offerings as described in the "Business Overview" section of this Form 10-K. We also expanded internationally through our StarTek Europe, Ltd. operating subsidiary. Through StarTek Europe, Ltd., we provided call center and supply chain management services from two facilities located in Hartlepool, England.

We sold our StarTek Europe, Ltd. operating subsidiary on September 30, 2004. On December 16, 2005, we sold our supply chain management services platform. Consequently, the results of operations of both StarTek Europe, Ltd. and our supply chain management services platform have been reported as discontinued operations for all periods presented in our financial information in this Form 10-K.

As of December 31, 2006, we provided business process outsourcing services, including customer care, sales support, complex order processing, accounts receivable management, technology support and other industry-specific processes through 19 operational

facilities in the United States of America and Canada. We also generated a small amount of revenue from our Domain.com platform, as described previously.

On January 5, 2007, A. Laurence Jones was appointed as our new President, Chief Executive Officer and Interim Chief Financial Officer, succeeding Steven D. Butler. Effective December 29, 2006 our Chief Financial Officer resigned and we currently are conducting a search to fill the position. Effective January 30, 2007, we terminated approximately 300 employees at our Petersburg, Virginia facility as a result of a client's reduction in volume. We plan to utilize this facility as a location for new business.

While generally our business is not seasonal, it does fluctuate quarterly based on our clients' product offerings as well as their customer interaction volume. See Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, "Risk Factors," for a more complete description of the seasonality of our business.

## **Industry**

According to IDC, a leading provider of industry research and market intelligence, it is currently estimated that worldwide spending on business process outsourcing services totaled approximately \$384.5 billion in 2005 and is expected to grow to \$618 billion by 2010. IDC also estimates that spending on business process outsourcing services from the Americas, which includes the United States, Canada and Latin America, will represent approximately 70% of this market through 2010. This IDC report, published in November 2006, also estimates that the U.S. customer management services market, which accounted for approximately 5.9% of the U.S. business process outsourcing services market in 2005, is expected to grow at a 12.5% compound annual growth rate to \$24.6 billion in 2010.

Outsourcing of non-core activities, such as those we provide, offers companies the ability to focus on their core competencies, leverage economies of scale and control variable costs of the business while accessing new technology and trained expert personnel. As the business environment continues to evolve, it has become more difficult and expensive for some companies to maintain the necessary personnel and product capabilities in-house to provide business process services on a cost-effective basis. Accordingly, our anticipation is that outsourced customer care services will grow significantly in the coming years.

In general, we believe that industries having higher levels of customer contact and service volume, such as communications, tend to be more likely to seek outsourced services as a more efficient method for managing their technical support and customer care functions. Based on a 2006 IDC report, companies that outsource their customer management function seek value from the companies they outsource to by meeting customer quality expectations, offering a balanced geographical mix of services, and offering a suite of business process outsourced services including sales and marketing functionality. We believe that outsourced service providers, including ourselves, will continue to benefit from these outsourcing trends.

## **Competition**

We believe that our competitive differentiators are our industry expertise, our reputation for operational excellence, our flexible technology and our people. We compete primarily with in-house process outsourcing operations of our current and potential clients. Such in-house operations include customer care, technical support, internet operations and e-commerce support. We also compete with a number of companies that provide similar services on an outsourced basis, including technical support and customer care companies such as APAC Customer Services, Inc.; ClientLogic; Convergys Corporation; NCO Group; PeopleSupport, Inc.; Sitel Corporation; Sykes Enterprises, Incorporated; TeleTech Holdings, Inc.; and West Corporation. We compete with the aforementioned companies for new business, for expansion of existing business, and within the companies we currently serve. Many of these competitors are significantly larger than us in revenue, income, number of contact centers and customer agents, number of product offerings, and market capitalization. We believe that while smaller than many of our competitors, we are able to compete because of our flexibility and ability to react quickly and efficiently to integrate client technology into our contact centers. We believe our success is contingent more on our quality of service than our overall size.

## **Clients**

As mentioned previously, we seek to become the expert provider of outsourced customer care and related services for the communications industry as we believe that we possess expertise in servicing clients within that industry. Accordingly, more than 95% of our revenue is derived from customers within that industry. Our two largest customers, AT&T Inc. (formerly Cingular Wireless LLC and AT&T Corporation) and T-Mobile (a subsidiary of Deutsche Telekom), account for a significant percentage of our revenue. In 2006, AT&T Inc. accounted for 52.7% of our revenue and T-Mobile accounted for 21.2% of our revenue. In 2005, AT&T

Inc. accounted for 63.6% and T-Mobile accounted for 23.9% of our revenue. In 2004, AT&T Inc. accounted for 63.5% and T-Mobile accounted for 28.0% of our revenue. While we believe that we have good relationships with these clients, a loss of one or more of these principal clients could adversely affect our business and our results of operations (see Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and "Risk Factors").

### **Government and Environmental Regulation**

We are subject to numerous federal, state, and local laws in the states and territories in which we operate, including tax, environmental and other laws that govern the way we conduct our business.

### **Employees and Training**

Our success in recruiting, hiring, training, and retaining large numbers of full and part-time skilled employees, and obtaining large numbers of hourly employees during peak periods is critical to our ability to provide high quality outsourced services. In the labor market, we compete not only with other contact centers, but with similar paying jobs within the communities in which we are located. During 2006, we experienced difficulties hiring and retaining agents as we faced economic pressures in and around certain of our site locations. Please refer to Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* as well as "Risk Factors" for further discussion of risks surrounding our ability to recruit and retain personnel.

As of December 31, 2006, we employed approximately 8,300 employees. We believe the demographics surrounding our facilities, and our reputation, stability, and compensation plans should allow us to continue to attract and retain qualified employees. None of our employees were members of a labor union or were covered by a collective bargaining agreement during 2006.

### **Corporate Information**

We were founded in 1987 and on June 19, 1997, we completed an initial public offering of our common stock. We conduct our business through our wholly owned operating subsidiaries, StarTek USA, Inc., StarTek Canada Services, Ltd., and Domain.com, Inc. We are a Delaware corporation headquartered in Denver, Colorado. Our principal executive offices are located at 44 Cook Street, 4<sup>th</sup> Floor, Denver, Colorado 80206. Our telephone number is (303) 262-4500. Our website address is [www.startek.com](http://www.startek.com). Our stock currently trades on the New York Stock Exchange under the ticker symbol SRT.

### **Web Site Availability of Reports**

Copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) and 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") are available free of charge through our web site ([www.startek.com](http://www.startek.com)) as soon as reasonably practicable after we electronically file the material with, or furnish it to, the Securities and Exchange Commission ("SEC"). We also make the charters for the Compensation Committee, Audit Committee and Governance and Nominating Committee of our Board of Directors, as well as our Corporate Governance Guidelines and our Code of Ethics and Business Conduct, available on the "Investor Relations" page of our corporate web site. Any of these materials are available in print upon request.

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

### **Item 1A. Risk Factors**

See "*Management's Discussions and Analysis of Financial Condition and Results of Operations – Risk Factors*" under Item 7 of this Form 10-K.

### **Item 1B. Unresolved Staff Comments**

None.



## Item 2. Properties

As of December 31, 2006, we owned or leased the following facilities, containing in aggregate approximately 867,000 square feet, 844,000 of which was dedicated to operating facilities:

<b>Properties</b>	<b>Year Opened</b>	<b>Approximate Square Feet</b>	<b>Leased or Owned</b>
<i>U.S. Facilities</i>			
Greeley, Colorado	1998	35,000	Company Owned
Laramie, Wyoming	1998	22,000	Company Owned (b)
Grand Junction, Colorado	1999	46,350	Leased
Greeley, Colorado	1999	88,000	Company Owned
Big Spring Texas	1999	30,000	Leased
Enid, Oklahoma	2000	47,500	Company Owned
Grand Junction, Colorado	2000	54,500	Leased
Decatur, Illinois	2003	37,500	Leased
Alexandria, Louisiana	2003	40,000	Leased
Lynchburg, Virginia	2004	38,600	Leased
Collinsville, Virginia	2004	49,250	Leased
Denver, Colorado	2004	23,000	Leased (a)
Petersburg, Virginia	2005	39,600	Leased (c)
<i>Canadian Facilities</i>			
Kingston, Ontario	2001	49,000	Company Owned
Kingston, Ontario	2001	20,000	Leased
Cornwall, Ontario	2001	73,800	Leased
Regina, Saskatchewan	2003	62,000	Leased
Sarnia, Ontario	2003	37,200	Leased
Thunder Bay, Ontario	2006	33,000	Leased
Hawkesbury, Ontario	2006	41,000	Leased

(a) Company headquarters, which houses executive and administrative employees.

(b) Our Laramie facility ceased operations in February 2006 and reopened in October 2006.

(c) Our Petersburg facility began operations in January 2006 and ceased operations at the end of January 2007 due to a decrease in demand from one client.

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

## Item 3. Legal Proceedings

We and six of our present and former directors and officers have been named as defendants in West Palm Beach Firefighters' Pension Fund v. StarTek, Inc., et al. (U.S. District Court, District of Colorado) filed on July 8, 2005, and John Alden v. StarTek, Inc., et al. (U.S. District Court, District of Colorado) filed on July 20, 2005. Those actions have been consolidated by the federal court. The consolidated action is a purported class action brought on behalf of all persons (except defendants) who purchased shares of our common stock in a secondary offering by certain of our stockholders in June 2004, and in the open market between February 26, 2003, and May 5, 2005 (the "Class Period"). The consolidated complaint alleges that the defendants made false and misleading public statements about us and our business and prospects in the prospectus for the secondary offering, as well as in filings with the SEC and in press releases issued during the Class Period, and that the market price of our common stock was artificially inflated as a result.

The complaints allege claims under Sections 11 and 15 of the Securities Act of 1933 (the “Securities Act”), and under Sections 10(b) and 20(a) of the Exchange Act. The plaintiffs in both cases seek compensatory damages on behalf of the alleged class and award of attorneys’ fees and costs of litigation. We believe we have valid defenses to the claims and intend to defend the litigation vigorously. On May 23, 2006, we and the individual defendants moved the court to dismiss the action in its entirety. Two stockholder derivative lawsuits related to these aforementioned claims were also filed against various of our present and former officers and directors on November 16, 2005, and December 22, 2005, alleging breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, and unjust enrichment. The derivative actions, which have been consolidated, name us as a nominal defendant. On April 18, 2006, we and the individually named defendants filed a motion to dismiss the derivative actions.

It is not possible at this time to estimate the possibility of a loss or the range of potential losses arising from these claims. We may, however, incur material legal fees with respect to our defense of these claims. The claims have been submitted to the carriers of our executive and organization liability insurance policies. The policies have primary and excess coverage that we believe will be adequate to defend this case and are subject to a retention for securities claims. These policies provide that we are responsible for the first \$1.0 million in legal fees. As of March 1, 2007, we had incurred legal fees related to these suits of more than 90% of our \$1.0 million deductible.

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

#### **Item 4. Submission of Matters to a Vote of Security Holders**

No matters were submitted to a vote of security holders during the three months ended December 31, 2006.

#### **Item 5. Market for the Registrant’s Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities**

##### **Market Price of Common Stock**

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

	<b>High</b>	<b>Low</b>	<b>Dividend Per Share</b>
2006			
First Quarter	\$ 24.50	\$ 17.71	\$ 0.36
Second Quarter	\$ 24.47	\$ 12.56	\$ 0.25
Third Quarter	\$ 14.83	\$ 10.83	\$ 0.25
Fourth Quarter	\$ 15.46	\$ 11.65	\$ 0.25
2005			
First Quarter	\$ 28.50	\$ 16.25	\$ 0.42
Second Quarter	\$ 17.00	\$ 11.32	\$ 0.36
Third Quarter	\$ 17.10	\$ 12.40	\$ 0.36
Fourth Quarter	\$ 18.35	\$ 11.85	\$ 0.36

We did not declare a dividend payable in the first quarter of 2007 and do not expect to pay dividends in the foreseeable future.

## **Holders of Common Stock**

As of March 1, 2007, there were 57 stockholders of record and 14,725,791 shares of common stock outstanding. See Item 7, *“Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk Factors”* set forth in this Form 10-K for a discussion of risks related to control that may be exercised over us by our principal stockholders.

## **Dividend Policy**

On January 22, 2007, our board of directors announced it would not declare a quarterly dividend on our common stock in the first quarter of 2007, making the dividend paid in November 2006 the last quarterly dividend that will be paid in the foreseeable future. We plan to invest in growth initiatives in lieu of paying dividends. We had been paying quarterly dividends since August of 2003.

## **Stock Repurchase Program**

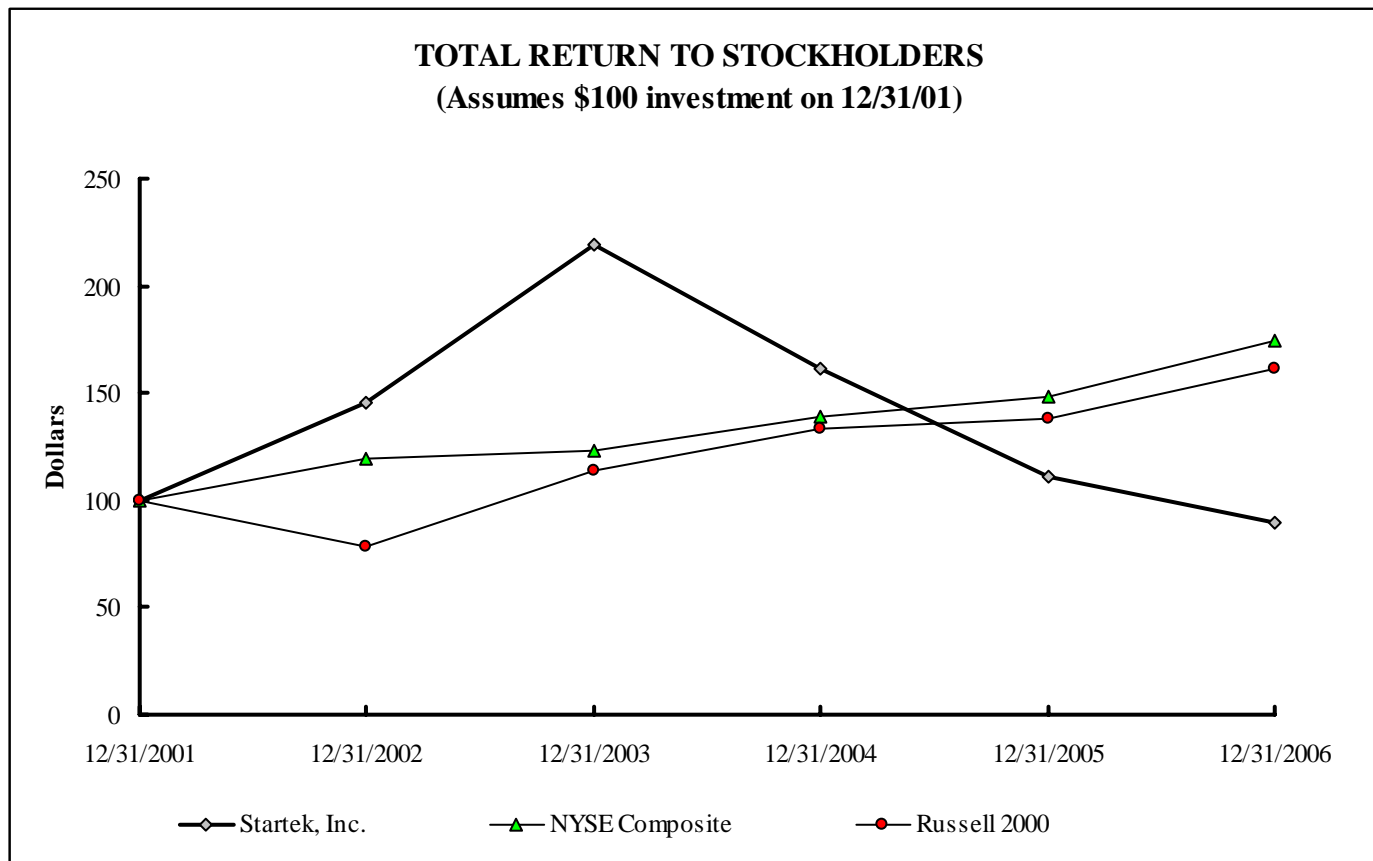
Effective November 4, 2004, our board of directors authorized repurchases of up to \$25 million of our common stock. The repurchase program will remain in effect until terminated by the board of directors, and will allow us to repurchase shares of our common stock from time to time on the open market,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

Information about our equity compensation plan will be included in our definitive proxy statement to be delivered in connection with our 2007 annual meeting of stockholders and is incorporated herein by reference. For further description of our equity compensation plans, see Note 11, “Stock Options,” to our Consolidated Financial Statements, which are included in Item 15, *“Exhibits and Financial Statement Schedules,”* of this Form 10-K.



## Stock Performance Graph

The graph below compares the cumulative total stockholder return on our common stock over the past five years with the cumulative total return of the New York Stock Exchange Composite Index (“NYSE Composite”) and of the Russell 2000 Index (“Russell 2000”) over the same period. We do not believe stock price performance shown on the graph is necessarily indicative of future price performance.



The information set forth under the heading “Stock Performance Graph” is not deemed to be “soliciting material” or to be “filed” with the SEC or subject to the SEC’s proxy rules or to the liabilities of Section 18 of the Exchange Act, and the graph shall not be deemed to be incorporated by reference into any of our prior or subsequent filings under the Securities Act or the Exchange Act.

## Item 6. Selected Financial Data

The following selected financial data should be read in conjunction with the Consolidated Financial Statements and Notes thereto which are included in Item 15, “*Exhibits and Financial Statement Schedules*,” of this Form 10-K. Additionally, the following selected financial data should be read in conjunction with “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” which is included in Item 7 of this Form 10-K.

	2006	2005	2004	2003	2002
	(In thousands, except per share data)				
<b>Consolidated Statement of Operations Data:</b>					
Revenue	\$ 237,612	\$ 216,371	\$ 221,906	\$ 165,537	\$ 122,155
Cost of services	201,424	167,223	164,363	114,291	83,599
Gross profit	36,188	49,148	57,543	51,246	38,556
Selling, general and administrative expenses	30,247	28,435	27,451	25,446	20,061
Operating profit	5,941	20,713	30,092	25,800	18,495
Net interest and other income	2,126	1,479	3,532	4,048	1,986
Loss on impaired investments	-	-	-	-	(6,210)
Income from continuing operations before income taxes	8,067	22,192	33,624	29,848	14,271
Income tax expense	2,303	8,177	12,747	11,125	5,280
Income from continuing operations	5,764	14,015	20,877	18,723	8,991
(Loss) gain on discontinued operations, net of tax*	-	(1,155)	99	3,475	6,175
Net income	\$ 5,764	\$ 12,860	\$ 20,976	\$ 22,198	\$ 15,166
Net income per share from continuing operations:					
Basic	\$ 0.39	\$ 0.96	\$ 1.44	\$ 1.31	\$ 0.64
Diluted	\$ 0.39	\$ 0.95	\$ 1.41	\$ 1.28	\$ 0.63
Net income per share including discontinued operations:					
Basic	\$ 0.39	\$ 0.88	\$ 1.45	\$ 1.56	\$ 1.07
Diluted	\$ 0.39	\$ 0.88	\$ 1.42	\$ 1.52	\$ 1.05
Weighted average shares outstanding:					
Basic	14,680	14,629	14,455	14,243	14,141
Diluted	14,714	14,681	14,780	14,623	14,385
<b>Balance Sheet Data:</b>					
Total assets	\$ 155,735	\$ 153,914	\$ 166,872	\$ 153,607	\$ 140,421
Total debt	\$ 15,968	\$ 5,650	\$ 9,363	\$ 104	\$ 6,482
Total stockholders' equity	\$ 118,382	\$ 128,164	\$ 136,883	\$ 133,000	\$ 114,594
<b>Other Selected Financial Data:</b>					
Capital expenditures, net of proceeds	\$ 19,767	\$ 9,379	\$ 17,839	\$ 23,736	\$ 5,839
Depreciation and amortization	\$ 16,758	\$ 13,364	\$ 12,546	\$ 10,045	\$ 9,220
Cash dividends declared per common share	\$ 1.11	\$ 1.50	\$ 1.58	\$ 0.73	\$ -

\* See Item 7, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations - Discontinued Operations*” and Note 4, “*Discontinued Operations*,” to our Consolidated Financial Statements, which is included at Item 15, “*Exhibits and Financial Statement Schedules*,” of this Form 10-K.

## Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

### Executive Overview

StarTek is a leading provider of high value business process outsourcing services to the communications industry. We partner with our clients to meet their business objectives and improve customer retention, increase revenues and reduce costs through an improved

customer experience. Our robust solutions leverage industry knowledge, best business practices, highly skilled agents, proven operational excellence and flexible technology. The StarTek comprehensive service suite includes customer care, sales support, complex order processing, accounts receivable management, technical support and other industry-specific processes. We provide these services from 19 operational facilities in the US and Canada. Our business is providing high-end customer service offerings through the effective deployment of people and technology.

On December 16, 2005, we completed the sale of our supply chain management services platform to a third party. Prior to the sale, we provided packaging, fulfillment, marketing support and logistics services through this operational platform. We also provided business process outsourcing services from two facilities in Hartlepool, England through our operating subsidiary, StarTek Europe, Ltd., until September 30, 2004, when this subsidiary was sold to a third party. The results of operations of our supply chain management services platform and our StarTek Europe, Ltd. business have been reported as discontinued operations in all periods presented.

Our 2006 results of operations were largely affected by the opening and subsequent ramp of three new call centers during the first two quarters of the year. Capital expenditures related to these call centers were approximately \$9.8 million during 2006, contributing to a decline in our cash and cash equivalents and investments balances from \$45.6 million in 2005 to \$39.4 million in 2006. In November 2006, we financed certain of our capital expenditures related to the build-out of these new sites with a secured U.S. dollar-denominated promissory note and a secured Canadian dollar-denominated equipment loan, thereby bringing our total debt outstanding, including current portion, to \$16.0 million as of December 31, 2006. The ramp of these new call centers also affected our consolidated statement of operations for 2006 as we incurred higher fixed costs, affecting both gross and operating margins, to support the three new facilities. We also experienced increased attrition which resulted in a prolonged ramp period at these sites as we sought to hire large numbers of agents in a short period of time.

Revenue increased 9.8% in 2006 when compared with the previous year due to clients new to StarTek since the latter half of 2005, some of which were serviced by the new centers opened in 2006. However, we experienced significant staffing challenges in several of our sites, as a result of economic pressures and increased competition for labor in several of the locations in which we operate. This led to a decline in the amount of revenue and margins we were able to generate from our existing clients as we were unable to effectively leverage the fixed costs of certain facilities. Likewise, we experienced a decline in both revenue and gross margin as a result of having more agents in training due in part to increased agent attrition at our sites and changes in our clients' service offerings. We were also affected by a strengthening Canadian dollar versus the U.S. dollar during the year. Net income declined from \$12.9 million in 2005 to \$5.8 million in 2006, primarily driven by these factors.

In January 2007, we terminated approximately 300 employees at our Petersburg, Virginia facility as a result of one of our clients' reduction in call volume. We plan to utilize this facility as a location for new business.



## Results of Operations

Due to the December 16, 2005, sale of our supply chain management services platform and the September 30, 2004, sale of StarTek Europe, Ltd., the results of operations related to these lines of business have been reported as discontinued operations for all periods presented.

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

	Year Ended December 31,					
	2006		2005		2004	
			(Dollars in thousands)			
Revenue	\$ 237,612	100.0%	\$ 216,371	100.0%	\$ 221,906	100.0%
Cost of services	201,424	84.8%	167,223	77.3%	164,363	74.1%
Gross profit	36,188	15.2%	49,148	22.7%	57,543	25.9%
Selling, general and administrative expenses	30,247	12.7%	28,435	13.1%	27,451	12.4%
Operating profit	5,941	2.5%	20,713	9.6%	30,092	13.6%
Net interest and other income	2,126	0.9%	1,479	0.7%	3,532	1.6%
Income from continuing operations						
before income taxes	8,067	3.4%	22,192	10.3%	33,624	15.2%
Income tax expense	2,303	1.0%	8,177	3.8%	12,747	5.7%
Income from continuing operations	5,764	2.4%	14,015	6.5%	20,877	9.4%
(Loss) gain on discontinued operations	-	0.0%	(1,155)	-0.5%	99	0.0%
Net income	\$ 5,764	2.4%	\$ 12,860	5.9%	\$ 20,976	9.5%

### 2006 Compared to 2005

**Revenue.** Revenue increased 9.8%, or \$21.2 million, to \$237.6 million in 2006 compared to 2005. This increase was driven by \$36.7 million in revenue from clients new to StarTek since the latter half of 2005. Offsetting this increase was a 9.0% decline in revenue from our largest client as a result of fewer operating hours, increased agent attrition driven by local economic pressures at some of our sites and increased agents in training. Although agents generate revenue while they are in training, they do so at a lower billing rate than they would generate in production. The loss of revenues from a smaller client who ceased outsourcing to us in late 2005 as well as overall staffing issues in certain of our locations also offset increases in revenue from new clients. Revenue declined approximately \$12.5 million due to our inability to fill seats due to economic pressures at several of our sites. We continue to implement programs at our sites aimed at better recruiting and training to help reduce overall attrition at these sites.

**Cost of Services.** Cost of services increased \$34.2 million, or 20.5%, to \$201.4 million during 2006 largely as a result of volume delivered by clients new to StarTek since the latter half of 2005 including volume derived from three new call center locations that became operational during the first two quarters of 2006. Gross margin declined from 22.7% in 2005 to 15.2% during 2006. This decline was the result of staffing challenges, revenue mix, and decreased ability to leverage fixed costs at our sites. We were also affected by a \$3.9 million decline, net of hedges, in the value of the U.S. dollar versus the Canadian dollar. More specifically, gross margin generated from servicing our largest client drove much of the decline in gross profit due to lower revenue resulting from the aforementioned inability to fill seats due to economic pressures at several of our sites, which resulted in a decreased ability to leverage fixed costs. Additionally, gross margins earned from our largest client were affected by increased agents in training due to changes in the client's service offerings, fewer operating hours and wage increases. Gross profit was also impacted by higher fixed costs as a percentage of revenue as we ramped three new call center facilities during the year.

**Selling, General and Administrative Expenses.** As a percentage of revenue, selling, general and administrative expenses declined from 13.1% in 2005 to 12.7% in 2006. This decline was driven by changes in our fixed cost structure resulting from a 2005 program aimed at bringing our fixed costs more in line with our operations. However, selling, general and administrative expenses of \$30.2 million during 2006 represented a dollar increase of \$1.8 million when compared to the previous year. This increase was largely the result of increased costs to support three new call centers opened during 2006, increased legal fees, and stock-based compensation expense related to the implementation of FAS No. 123(R).

*Operating Profit.* 2006 operating profit declined from \$20.7 million in 2005 to \$5.9 million. Operating margin declined to 2.5% in 2006 from 9.6% in 2005. These declines were the result of declines in gross margin and increases in selling, general and administrative expenses, as discussed previously.

*Net Interest and Other Income.* Net interest and other income of \$2.1 million in 2006 was \$0.6 million higher than in 2005 due in part to higher year-over-year investment income. In addition, we recovered approximately \$0.6 million in cash from our investment in Six Sigma, LLC, for which we had recognized impairment losses in 2001 and 2002. These year-over-year increases were partially offset by a gain of approximately \$0.8 million from the sale of our Greeley East facility in 2005.

*Income Tax Expense.* Our effective income tax rate for 2006 was 28.5%, down from 36.8% in 2005. Accordingly, income tax expense declined by \$5.9 million to \$2.3 million in 2006. The change in our effective tax rate was partially the result of a \$0.4 million reserve reversal related to the favorable settlement of an outstanding tax audit recognized during the first quarter of 2006. Additionally, as a result of the cash recovery on our investment in Six Sigma, as discussed previously, as well as capital gains in our investment portfolio during 2006, we were able to reverse \$0.3 million of a capital loss valuation allowance. Both of these items had the effect of decreasing our 2006 effective tax rate.

*Discontinued Operations.* We completed the sale of our supply chain management service platform on December 16, 2005. Accordingly, the results of operations from this platform have been reported as discontinued operations for all periods presented. The sale of this platform had no effect on our 2006 consolidated statement of operations. In 2005, we realized a \$0.3 million gain and associated tax expense of \$0.1 million as a result of this sale. We also realized a loss from the platform's results of operations of \$2.2 million and a tax benefit of \$0.8 million in 2005.

*Net Income.* Net income declined to \$5.8 million in 2006 from \$12.9 million in 2005. This decline was driven by lower operating margins and was partially offset by a lower income tax rate as well as higher net interest and other income, as discussed previously.

#### **2005 Compared to 2004**

*Revenue.* Revenue declined 2.5% to \$216.4 million in 2005 compared to 2004. This decline was driven by changes in revenue mix from our second largest client, declining business from a utility client and year-over-year revenue decline from our largest client. Revenue mix from our second largest client resulted in a reduction in revenue as volume shifted away from higher-margin, higher-priced services, such as wire line number portability (WLNP), towards lower-price, lower-margin services. We generated lower revenue year-over-year from our largest client, despite having experienced higher volume and revenue during the first three quarters of 2005. This overall decline in revenue was the result of a significant amount of volume in fourth quarter of 2004 that was billed at premium rates as this client merged with another company. As a result, our revenue from this client decreased year-over-year, despite increases in volume in 2005.

Offsetting these declines in revenue from 2004 to 2005 was an increase in volume on one of our larger clients. We began servicing this client late in 2004 and, as such, did not receive a full year of revenue from this client. In 2005, we provided services to this client for a full year and, by the end of 2005, had nearly doubled the number of service lines we provided to this client compared to 2004. Also offsetting the aforementioned year-over-year revenue declines was incremental revenue from new clients announced during the latter half of 2005.

*Cost of Services.* Cost of services increased \$2.9 million, or 1.7%, to \$167.2 million during 2005. Gross profit decreased \$8.4 million to \$49.1 million and gross margin declined from 25.9% to 22.7% during 2005, compared to the prior year. The decline in gross margin was attributable to the aforementioned revenue mix from our second largest client and premium pricing on services provided to our largest client during the fourth quarter of 2004, which realized a higher margin than services provided in 2005. In addition, we incurred additional costs associated with ramping new clients and opening a new site in Petersburg, Virginia, which became operational on January 5, 2006. The strengthening of the Canadian dollar versus the U.S. dollar also contributed to year-over-year margin decline, resulting in a \$5.1 million negative impact on gross profit, as we incur certain expenses associated with our Canadian facilities in Canadian dollars while associated revenue is earned in U.S. dollars.

*Selling, General, and Administrative Expenses.* During the first quarter of 2005, we began implementing a cost realignment strategy aimed at bringing our fixed costs more in line with our operations. As a result, we decreased corporate headcount during 2005, but these savings were offset by approximately \$1.2 million in severance expensed during the year. We also had a full year of fixed costs associated with three new call centers opened throughout 2004. These factors led to an increase in selling, general and administrative expense of \$1.0 million, or 3.6%, in 2005 when compared to 2004.

*Operating Profit.* Operating profit declined approximately \$9.4 million to \$20.7 million during 2005 when compared to 2004 as a result of the factors discussed above. As a percent of revenue, operating profit declined from 13.6% in 2004 to 9.6% in 2005.

*Net Interest and Other Income.* Net interest and other income was \$2.1 million lower in 2005 than in 2004 as we experienced lower income and gains from our investment portfolio in 2005. This was the result of a change in our investment policy and changing market conditions. Partially offsetting this decline was a gain from the sale of our Greeley East facility in the third quarter of 2005, which resulted in a gain of approximately \$0.8 million.

*Income Tax Expense.* We experienced a year-over-year decrease in income tax expense of \$4.6 million to \$8.2 million in 2005. Our effective tax rate for the year declined from 37.9% in 2004 to 36.8% in 2005. This decline was driven by the positive effects of state tax return true-up activity and higher than normal work opportunity credits. A \$0.6 million valuation allowance relating to capital loss carry-forwards that management does not believe will be offset by sufficient future capital gains partially offset the lower effective tax rate.

*Discontinued Operations.* On December 16, 2005, we completed the sale of our Supply Chain Management Services platform. Consequently, the results of operations from this segment have been reported as discontinued operations for all periods presented. In conjunction with the sale, we realized a \$0.3 million gain and associated tax expense of \$0.1 million in 2005. We also realized a loss from the platform's results of operations of \$2.2 million and a tax benefit of \$0.8 million in 2005. In 2004, we realized income from the platform's results of operations of \$4.3 million and associated tax expense of \$1.6 million.

On September 30, 2004, we sold StarTek Europe, Ltd. (StarTek Europe), our operating facility in the United Kingdom. As a result, the results of operations from this segment have been reported as discontinued operations in 2004 and all periods prior to its sale. In conjunction with the sale, we realized a loss of \$2.3 million and a tax benefit of \$0.9 million, in 2004. We also realized a loss from the operations of StarTek Europe of \$1.8 million and a tax benefit of \$0.6 million in 2004.

For a more complete description of both the sale of our Supply Chain Management Services platform and StarTek Europe, Ltd., please refer to Note 4 "Discontinued Operations," to our Consolidated Financial Statements, which are included at Item 15, *Exhibits and Financial Statement Schedules*, of this Form 10-K.

*Net Income.* Net income declined \$8.1 million from \$21.0 million in 2004 to \$12.9 million in 2005. This decline was driven by decreases in gross profit, net interest and other income and discontinued operations as well as an increase in selling, general and administrative expense, partially offset by a lower effective tax rate.

## **Liquidity and Capital Resources**

As of December 31, 2006, we had working capital of \$65.7 million, which represented a decline of \$6.3 million from December 31, 2005. This decline was caused by declines of \$6.2 million in cash and cash equivalents and investments and \$2.9 million in income tax receivable, partially offset by increases in accounts receivable during 2006. The decline in cash and cash equivalents and investments was primarily caused by capital expenditures made during the build-out of our three new call centers opened in 2006. Declines in income taxes receivable were the result of differences in estimated quarterly tax payments. The offsetting increase in accounts receivable was the result of a larger revenue base during 2006 and a longer days sales outstanding, as discussed below. Cash generated from operating activities was \$18.9 million during 2006, compared to \$45.5 million in 2005.

We have historically financed our operations, liquidity requirements, capital expenditures, and capacity expansion primarily through cash flows from operations, and to a lesser degree, through various forms of debt and leasing arrangements. In addition to funding basic operations, our primary uses of cash typically relate to capital expenditures to upgrade our existing information technologies and service offerings, investments in our facilities and, historically, the payment of dividends. We believe that cash flows from operations and cash provided by short-term borrowings, when necessary, will adequately meet our ongoing operating requirements and scheduled principal and interest payments on existing debt. Any significant future expansion of our business may require us to secure additional cash resources. Our liquidity could be significantly impacted by large cash requirements to expand our business or a decrease in demand for our services, particularly from any of our principal clients, which could arise from a number of factors, including, but not limited to, competitive pressures, adverse trends in the business process outsourcing market, industry consolidation, adverse circumstances with respect to the industries we service, and any of the other factors we describe more fully in the "Risk Factors" section of this item of our 2006 Form 10-K.

**Net Cash Provided by Operating Activities.** Net cash provided by operating activities declined \$26.6 million during the year ended December 31, 2006, compared to 2005. This decline was attributable to a \$7.1 million decline in net income, as discussed previously in “Management’s Discussion and Analysis,” and a \$5.8 million increase in accounts receivable during 2006 compared to a \$10.7 million decrease during 2005. In 2006, accounts receivable was higher due to a larger revenue base compared to the same period of 2005 resulting from the addition of multiple new clients since the first half of 2006. In addition, days sales outstanding increased from 64 days as of December 31, 2005, to 69 days as of December 31, 2006, primarily as a result of the timing of payments from a couple of our large clients.

**Net Cash Used in Investing Activities.** Net cash provided by investing activities was \$2.6 million during 2006, compared to cash used in investing activities of \$17.2 million in 2005. In 2006, we sold a large portion of our equity securities, the proceeds of which were used to help fund the build-out and subsequent ramp of three new call centers that were placed into service during the first two quarters of 2006. This generated net proceeds from investment dispositions of \$22.4 million in 2006, compared to net purchases of investments of \$7.8 million in 2005. During 2005, we were in the process of implementing a more conservative investing approach and therefore were transitioning the holdings in our portfolio under the transition provisions of this new policy. This, combined with the fact that we were investing more of our cash during 2005, led to higher net investment purchases in 2005 and therefore a higher cash usage with respect to investing. Subsequent to the build-out of our three new sites, we financed some of the equipment we purchased for these sites using a combination of two secured debt facilities, described more fully in the “Net Cash used in Financing Activities” and “Outstanding Debt” portions of this section.

Offsetting the increases in cash provided by investing activities was an additional \$4.7 million in capital expenditures related to the build-out of our three new call center facilities opened in 2006 as well as a decline in proceeds from the disposition of property, plant and equipment.

During 2006, we used a significant amount of our capital expenditures for capacity expansion. In 2007, we plan to use our capital expenditures for continued information technology infrastructure improvements and development of new service offerings. We may use our capital expenditures towards further capacity expansion when and if it is needed. Our actual capital expenditures may vary depending on the infrastructure required in order to give quality service to our clients based on our continual assessment of capacity needs. We believe our existing facilities are adequate for our current operations, but additional capacity expansion, including opening additional facilities, may be required to support our future growth. While we strive to make the best use of the operating facilities we have, management intends to maintain a certain amount of excess capacity to enable us to readily provide for the needs of new clients and the increasing needs of existing clients.

**Net Cash Used in Financing Activities.** Net cash used in financing activities declined \$20.6 million during 2006 when compared to 2005. This decline was driven by proceeds from borrowings and lower dividend payments during 2006 as well as higher debt principal repayments in 2005. In December 2006, we entered into two debt facilities: a Canadian dollar secured equipment loan and a secured promissory note. These debt facilities were meant to finance, and were secured by, assets placed at our three new call center sites opened during the first half of 2006. These debt facilities are described in more detail below. During the year ended December 31, 2006, we paid dividends of \$1.11 per share, a decrease of \$0.39 per share compared to the comparable dividend payments during the year ended December 31, 2005. In addition, in 2005, we had higher debt principal repayments due to repayments of amounts outstanding on our line of credit at the end of 2004.

**Outstanding Debt.** We currently have four debt facilities in use: a \$10.0 million secured equipment loan, a \$10.0 million unsecured revolving line of credit, a \$9.6 million Canadian dollar secured equipment loan and a \$4.9 million secured promissory note:

**\$10.0 million Secured Equipment Loan.** Borrowings under the \$10.0 million secured equipment loan bear interest at a fixed rate of 3.65% per annum. The loan is secured by certain furniture, telephone and computer equipment. As of December 31, 2006, we had \$3.1 million outstanding under this loan.

**Line of Credit.** We also maintain a \$10.0 million unsecured line of credit with Wells Fargo Bank, N.A. (the Bank) which we use to finance regular, short-term operating expenses. On June 29, 2005, we amended and renewed this agreement such that the last day under which the Bank will make advances under the line of credit will be June 30, 2007. Borrowings under this line of credit bear interest at either a fluctuating rate per annum that is 1% below the Prime Rate or at a fixed rate per annum determined by the Bank to be 1.5% above LIBOR. The interest rate on this facility was 7.25% as of December 31, 2006. Under this line of credit, we must generate net profit after tax of at least \$1 on a rolling four-quarter basis, measured quarterly, and are not permitted to incur net losses in any two consecutive quarterly periods. We were required to hold a tangible net worth of \$94.7 million at December 31, 2006, and at the close of each subsequent quarter, we are required to have a minimum tangible net worth equal to the minimum tangible net



worth we were required to have at the end of the prior fiscal period plus 25% of net income (if positive). No amounts were outstanding under this line of credit as of December 31, 2006, and we were in compliance with all of our debt covenants related to this facility.

*Canadian Dollar Secured Equipment Loan.* On November 17, 2006, StarTek Canada Services, Ltd., one of our subsidiaries, borrowed approximately \$9.6 million Canadian dollars from Wells Fargo Equipment Finance Company, Inc. These borrowings are guaranteed by StarTek, Inc. and our subsidiary, StarTek USA, Inc., and are secured by fixed assets and tenant improvements at certain of our Canadian facilities. Under the guarantee agreement, if StarTek Canada Services, Ltd. fails to pay its obligations under the loan agreement when due, the loan guarantors agree to punctually pay any indebtedness, along with interest and certain expenses incurred on behalf of Wells Fargo Equipment Finance Company, Inc. to enforce the guarantee, to Wells Fargo Equipment Finance Company, Inc. The loan will be repaid in 48 monthly installments of \$225 thousand, which reflects an implicit annual interest rate of 5.77%. We may elect to prepay amounts due under this loan provided that we notify Wells Fargo Equipment Finance Company, Inc. at least 30 days prior in writing and that we pay a prepayment premium, as stipulated in the loan agreement. This agreement and the related guarantee have been incorporated by reference to this Form 10-K as Exhibits 10.74 and 10.75, respectively. As of December 31, 2006, we had \$9.4 million Canadian (\$8.1 million U.S.) outstanding under this loan.

*Secured Promissory Note.* On November 17, 2006, our subsidiary, StarTek USA, Inc., borrowed approximately \$4.9 million from Wells Fargo Equipment Finance, Inc. The loan will be repaid with interest in 48 monthly installments of \$115 thousand. The borrowings bear interest at an annual rate of 6.38% and are secured by fixed assets and tenant improvements at certain of our U.S. facilities. The borrowings may be repaid early without penalty. The promissory note and related guarantee have been incorporated by reference to this Form 10-K as Exhibits 10.76 and 10.77, respectively. As of December 31, 2006, approximately \$4.8 million was outstanding under this note. The promissory note is guaranteed by StarTek, Inc. and our subsidiary, StarTek Canada Services, Ltd. Under the guarantee agreement, if StarTek USA, Inc. fails to pay its obligations under the loan agreement when due, the guarantors agree to full and prompt payment of each and every debt, liability and obligation of every type and description that StarTek USA, Inc. may now or in the future owe.

*Dividend Information.* On January 22, 2007, our board of directors announced it would not declare a quarterly dividend on our common stock in the first quarter of 2007, making the dividend paid in November 2006 the last quarterly dividend that will be paid in the foreseeable future. We plan to invest in growth initiatives in lieu of paying dividends. We had been paying quarterly dividends since August of 2003.

**Contractual Obligations.** Other than operating leases for certain equipment and real estate and commitments to purchase goods and services in the future, in each case as reflected in the table below, we have no off-balance sheet transactions, unconditional purchase obligations or similar instruments and we are not a guarantor of any other entities' debt or other financial obligations, other than the Canadian Dollar Secured Equipment Loan and the Secured Promissory Note, as described previously. The following table presents a summary, by period, of the future contractual obligations and payments we have entered into as of December 31, 2006:

	<b>Less Than One Year</b>	<b>One to Three Years</b>	<b>Four to Five Years</b>	<b>More than Five Years</b>	<b>Total</b>
Long-term debt, including current portion <sup>(1)</sup>	\$ 5,654	\$ 7,025	\$ 3,289	\$ -	\$ 15,968
Operating leases <sup>(2)</sup>	3,905	7,084	5,588	2,095	18,672
Purchase obligations <sup>(3)</sup>	5,966	2,324	-	-	8,290
Total contractual obligations	<u>\$ 15,525</u>	<u>\$ 16,433</u>	<u>\$ 8,877</u>	<u>\$ 2,095</u>	<u>\$ 42,930</u>

- (1) Long-term debt consists of our \$10.0 million 3.65% fixed rate equipment loan, our Canadian dollar secured equipment loan and our secured promissory note as discussed above, and debt associated with our Greeley North facility, which is forgiven at a rate of \$26 thousand per year as long as we remain in the facility. For a more complete description of these debt instruments, please see Note 7, "Debt," to our Consolidated Financial Statements, which are included at Item 15, *Exhibits and Financial Statement Schedules*, of this Form 10-K
- (2) We lease facilities and equipment under various non-cancelable operating leases. Included in these totals are the expected future lease payments related to our facility in Petersburg, Virginia, where we terminated approximately 300 employees in January 2007 due to one of our clients' reduction in call volume. We anticipate utilizing the facility as a location for new business.
- (3) Purchase obligations include commitments to purchase goods and services that in some cases may include provisions for cancellation.

**Other Factors Impacting Liquidity.** Effective November 4, 2004, our board of directors authorized purchases of up to \$25 million of our common stock. The repurchase program will remain in effect until terminated by the board of directors and will allow us to repurchase shares of our common stock from time to time on the open market, in block trades and in privately-negotiated transactions. Repurchases will be implemented by the Chief Financial Officer consistent with the guidelines adopted by the board of directors from time to time and will depend on market conditions and other factors. Any repurchased shares will be made in accordance with SEC rules. We have not yet repurchased any shares pursuant to this board authorization.

Our business currently has a high concentration on a few principal clients. The loss of a principal client and/or changes in timing or termination of a principal client's product launch or service offering would have a material adverse effect on our business, liquidity, operating results, and financial condition. These client relationships are further discussed in the section entitled "Risk Factors" in this section and in Note 8 "Principal Clients," to our Consolidated Financial Statements, which are included at Item 15, *Exhibits and Financial Statement Schedules*, of this Form 10-K. To limit our credit risk, management from time to time will perform credit evaluations of our clients. Although we are directly impacted by the economic conditions in which our clients operate, management does not believe substantial credit risk existed as of December 31, 2006.

Although management cannot accurately anticipate effects of domestic and foreign inflation on our operations, management does not believe inflation has had, or is likely in the foreseeable future to have, a material adverse effect on our results of operations or financial condition.

### **Variability of Operating Results**

Our business has been seasonal only to the extent that our clients' marketing programs and product launches are geared toward the holiday buying season. For 2007, we anticipate lower variations in quarterly revenue than has historically been the case. However, we have experienced and expect to continue to experience some quarterly variations in revenue and operating results due to a variety of factors, many of which are outside our control, including: (i) timing and amount of costs incurred to expand capacity in order to provide for volume growth from existing and future clients; (ii) changes in the volume of services provided to principal clients; (iii)

expiration or termination of client projects or contracts; (iv) timing of existing and future client product launches or service offerings; (v) seasonal nature of certain clients' businesses; and (vi) cyclical nature of certain high technology clients' businesses.

### **Critical Accounting Estimates**

Our discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of our financial statements require us to make estimates that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. We base our accounting estimates on historical experience and other factors that we believe to be reasonable under the circumstances. However, actual results may vary from these estimates due to factors beyond our control or due to changes in these assumptions or conditions. We have discussed the development and selection of critical accounting policies and estimates with our Audit Committee. The following is a summary of our critical accounting policies and estimates we make in preparing our consolidated financial statements:

### **Revenue Recognition**

We invoice our business process outsourcing services clients monthly in arrears and recognize revenue for such services when completed. For substantially all of our contractual arrangements for business process outsourcing services, we recognize revenue based either on the billable hours or minutes of each customer service representative, at rates provided in the client contract, or on a rate-per-transaction basis. The contractual rates can fluctuate based on our performance against certain pre-determined criteria related to quality and performance. Additionally, some clients are contractually entitled to penalties when we are out of compliance with certain quality and/or performance obligations defined in the client contract. Such penalties are recorded as a reduction to revenue as incurred based on a measurement of the appropriate penalty under the terms of the client contract.

The provision of business process outsourcing services to our clients generally does not involve multiple elements in the context of Emerging Issues Task Force ("EITF") Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables." We provide initial training to customer service representatives upon commencement of new business process outsourcing services contracts and recognize revenues for such training as the services are provided based upon the production rate (i.e., billable hours and rates related to the training services as stipulated in our contractual arrangements). Accordingly, the corresponding training costs, consisting primarily of labor and related expenses, are recognized as incurred. Likewise, some client contracts stipulate that we are entitled to bonuses should we meet or exceed these predetermined quality and/or performance obligations. These bonuses are recognized as incremental revenue in the period in which they are earned.

Prior to the sale of our supply chain management services platform, substantially all of our contractual arrangements with supply chain management services clients were based on the volume, complexity and type of components involved in the handling of our clients' products. We invoiced our supply chain management services clients upon shipment and recognized revenues on a gross basis in accordance with EITF Issue No. 99-19, "Reporting Revenue Gross as a Principal vs. Net as an Agent," when such services were completed and the related goods were shipped.

### **Impairment of Long-Lived Assets**

We periodically, on at least an annual basis, evaluate potential impairments of our long-lived assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." When we determine that the carrying value of long-lived assets may not be recoverable based upon the existence of one or more indicators of impairment, we evaluate the projected undiscounted cash flows related to the assets. If these cash flows are less than the carrying values of the assets, we measure the impairment based on the excess of the carrying value of the long-lived asset over the long-lived asset's fair value. We recognized no impairment losses on assets held for use during the years ended December 31, 2006, 2005, or 2004.

### **Investments**

We have historically invested in investment grade corporate bonds, convertible bonds, mutual funds, commercial paper, various forms of equity securities, option contracts, non-investment grade bonds, and alternative investment partnerships. 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 or held to maturity securities are classified as investments available for sale.

We amended our investment policy in October 2006. Under the new policy, we may invest in certain US Government and government-sponsored securities, repurchase agreements, option contracts, investment grade corporate obligations, corporate debt securities, municipal securities, mortgage-backed securities, money market and mutual funds, subject to the terms of the new policy. The Chief Financial Officer is responsible for oversight of the investment portfolio.

Trading securities and investments available for sale are carried at their respective 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 financial 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. Temporary changes in the fair market value of investments available for sale are reflected in stockholders' equity. Changes in the fair market value of trading securities are reflected in net interest and other income. As of December 31, 2006, we did not hold any trading or held-to-maturity investments.

We exercise judgment in periodically evaluating investments for impairment. Investments are evaluated for other-than-temporary impairment in accordance with the provisions of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." We consider factors such as market conditions, the industry sectors in which the issuer of the investment operates, the viability and prospects of each entity, and the length of time that fair value has been less than cost. 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. No investments were determined to be other-than-temporarily impaired during 2006 or 2005. During 2006, we recovered cash from an investment that had previously been written off. This cash recovery is more fully described in Note 9 "Net Interest and Other Income," to our Consolidated Financial Statements, included in Item 15, "*Exhibits and Financial Statement Schedules*."

## **Income Taxes**

We account for income taxes using the liability method as prescribed by SFAS No. 109, *Accounting for Income Taxes*. Deferred income taxes reflect net effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. We are subject to foreign income taxes on our foreign operations. We are required to estimate our income taxes in each jurisdiction in which we operate. This process involves estimating our actual current tax exposure, together with assessing temporary differences resulting from differing treatment of items for tax and financial reporting purposes. The tax effects of these temporary differences are recorded as deferred tax assets or deferred tax liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax return in future years for which we have already recorded the expense in our financial statements. Deferred tax liabilities generally represent tax items that have been deducted for tax purposes, but have not yet been recorded as expenses in our financial statements.

We believe our deferred tax assets other than those that carry a valuation allowance will be realized through the reversal of our existing temporary differences and the execution of available tax planning strategies. Additional valuation allowances may be required if we are unable to execute our tax planning strategies or generate future taxable income. The valuation allowance that has been established will be maintained until there is sufficient positive evidence to conclude that it is more likely than not that the related deferred tax assets will be realized. When sufficient positive evidence occurs, our income tax expense will be reduced to the extent we decrease the amount of our valuation allowance. The increase or reversal of all or a portion of our tax valuation allowance could have a significant negative or positive impact on future earnings.

## **Accrued Health Insurance**

On January 1, 2006, all of our employees in the United States that were categorized as "exempt" under the Fair Labor Standards Act (FLSA) initiated coverage under a fully-insured health care insurance plan and our employees categorized as "non-exempt" under FLSA initiated coverage under a self-insured plan. Accordingly, as of December 31, 2006, we had accrued \$75 thousand related to these plans. Our actual liability under these plans may differ significantly from this estimate. We have stop-losses at both an individual and corporate level which limit our total exposure on these plans. During 2005, our employee health care insurance coverage was managed under a self-insured plan for all of our employees in the United States that were categorized as "exempt." Also during 2005, our employee health care insurance for all "non-exempt" employees in the United States was managed under a limited medical liability fully-insured plan. As of December 31, 2005, our liability balance of \$462 thousand reflected an estimate of



the liability amount that we considered to be appropriate given industry statistics, our employee base, expert opinion and management judgment.

## Risk Factors

***Over 70% of our revenue in the past several years has been received from our two largest clients. The loss or reduction in business from any of these clients would adversely affect our business and results of operations.***

The following table represents revenue concentration of our principal clients:

	Year Ended December 31,		
	2006	2005 <sup>(1)</sup>	2004 <sup>(1)</sup>
AT&T Inc. (formerly Cingular Wireless, LLC and AT&T Corp.)	52.7%	63.6%	63.5%
T-Mobile	21.2%	23.9%	28.0%

<sup>(1)</sup> 2004 and 2005 data has been adjusted from amounts previously reported due to the merger of two of our clients, AT&T and Cingular. 2004 data has also been adjusted as a result of the sale of our Supply Chain Management platform in 2005, as discussed in Note 4 "Discontinued Operations," to our Consolidated Financial Statements, included in Item 15, "Exhibits and Financial Statement Schedules."

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 adversely affect our business, revenue and operating results. We may not be able to retain our principal clients or, 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. Loss of a principal client could result from many factors, including consolidation or economic downturns in our clients' industries, as discussed further below. A significant portion of our contract with AT&T (formerly Cingular Wireless, LLC) expires on May 31, 2007, pursuant to an extension agreement signed on December 21, 2006, which is included in this Form 10-K as Exhibit 10.86. We are working diligently to negotiate a renewal of this contract; however, if the contract is not ultimately renewed, it would have a material adverse effect on our results of operations and financial condition. Our contract with T-Mobile expires on August 1, 2007. We expect to negotiate a renewal of this contract, however, if this contract is not ultimately renewed, it would have a material adverse effect on our results of operations and financial condition. Our General Agreement with AT&T Corp. expires December 31, 2007. Two Orders under that General Agreement expire March 31, 2007 and another Order expires June 30, 2007. We expect to negotiate renewals, however, if this contract or any order under this contract is not ultimately renewed, it would have a material adverse effect on our results of operations and financial condition.

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

***Our client base is concentrated in the communications industry, which has recently experienced consolidation trends. As our clients' businesses change as a result of merger and acquisition activity, there is no guarantee that the newly formed companies will continue to use our services.***

Consolidation in the communications industry may decrease the potential number of buyers for our services. Likewise, there is no guarantee that the acquirer of one of our clients will continue to use our services after the consolidation is completed. We are particularly vulnerable on this issue given the relatively few significant clients we currently serve and the concentration of these clients in the telecommunications industry. For example, in late 2006, our client, Cingular Wireless, LLC, completed its merger with another of our clients, AT&T Inc., thereby further concentrating our revenue base. In December 2006, we signed a statement of work which renewed a portion of our business with Cingular Wireless, LLC and in March, 2007, we signed an extension pertaining to the previous contract with Cingular Wireless, LLC which extends that contract until May 31, 2007. There can be no assurance that the

newly merged AT&T Inc. businesses will continue to use our services in the future, nor are there any assurances that Cingular Wireless, LLC will sign an extension for the portion of our contract that expires on May 31, 2007. If we lose principal clients or our service volumes decrease as a result of principal clients being acquired, our business, financial condition and results of operations would be adversely affected. Our General Agreement with AT&T Corp. expires December 31, 2007. Two Orders under that General Agreement expire March 31, 2007 and another Order expires June 30, 2007. We expect to negotiate renewals, however, if this contract or any order under this contract is not ultimately renewed, it would have a material adverse effect on our results of operations and financial condition.

***Our client base is concentrated in the communications industry and our strategy partially depends on a trend of communications companies continuing to outsource non-core services. If the communications industry suffers a downturn or the trend toward outsourcing reverses, our business will suffer.***

Our current clients are almost exclusively communications companies, which includes companies in the wireline, wireless, cable and broadband lines of business. Over 95% of our revenue in 2006 was concentrated in the telecommunications industry. Our business and growth is largely dependent on continued demand for our services from clients in this industry and other industries we may target in the future, and on trends in those industries to purchase outsourced services. A general and continuing economic downturn in the telecommunications industry or in other industries we target, or a slowdown or reversal of the trend in these industries to outsource services we provide, could adversely affect our business, results of operations, growth prospects, and financial condition.

***We have experienced significant management turnover and need to recruit additional management personnel.***

On January 5, 2007, A. Laurence Jones was appointed President, Chief Executive Officer and Interim Chief Financial Officer as a successor to our former Chief Executive Officer, Steven D. Butler. In December 2006, our Chief Financial Officer, Rodd E. Granger, resigned. A search is currently underway to hire a new Chief Financial Officer. In addition, we are seeking to build a well-rounded management team to help execute on our future growth plans. Competition for qualified management personnel is intense and we cannot be assured that we will be able to recruit suitable candidates for all of these positions.

High turnover of senior management can adversely impact our stock price, our results of operations and our client relationships and may make recruiting for future management positions more difficult. In some cases, we may be required to pay significant amounts of severance to terminated management employees. In addition, we must successfully integrate any new management personnel that we hire within our organization in order to achieve our operating objectives, and changes in other key management positions may temporarily affect our financial performance and results of operations as new management becomes familiar with our business. Accordingly, our future financial performance will depend to a significant extent on our ability to motivate and retain key management personnel.

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

Our success is largely dependent on our ability to recruit, hire, train, and retain qualified employees. Our business is labor intensive and, as is typical for our industry, continues to experience high personnel turnover. Our operations, especially our technical support and customer care services, generally require specially trained employees. During 2006, we experienced a high rate of employee turnover, which, in turn, increased our recruiting and training costs and decreased our operating efficiency, productivity and ability to fully respond to client demand, thereby adversely impacting our results of operations during the year. Some of this turnover can be attributed to the fact that we compete for labor not only with other call centers, but also with other similar-paying jobs including retail, oil and gas industry labor, food service, etc. As such, improvements in the local economies in which we operate can adversely affect our ability to recruit agents in those locations. Further increases in employee turnover or failure to effectively address and remedy these high attrition rates would have an adverse effect on our results of operations and financial condition.

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

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

During the past economic downturns, we, like a number of companies in our industry, sought to limit our labor costs by limiting salary increases and payment of cash bonuses to our employees. During 2006, the local economies in some of the locations in which we operate experienced growth, thereby requiring us to increase labor rates at our facilities to remain competitive within the local economies. If the current economic upturn in the United States continues or accelerates, we may need to further increase salaries or otherwise compensate our employees at higher levels in order to remain competitive and avoid losing personnel. Likewise, in February 2007, the U.S. Congress was in the process of crafting a bill to increase the Federal Minimum wage. Higher salaries or other forms of compensation are likely to increase our cost of operations, and if such cost increases are not more than offset by increased revenue they will adversely affect our financial results. Some of our Canadian employees have attempted to organize a labor union, which if successful could further increase our recruiting and training costs and could decrease our operating efficiency and productivity.

***We may need to add specialized sales personnel in order to grow our business. We may have difficulty recruiting candidates for these positions.***

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 opportunities for new business from existing clients as well as obtain new clients, we may need to recruit specialized sales and marketing staff and introduce new products and services. If we are unable to recruit and retain sales people with the specialized skills and knowledge needed to attract new business, we will not be able to diversify our revenue base or increase our revenues. We believe that specialized sales personnel may be difficult to identify and recruit away from their present positions.

***We face considerable pricing pressure in our business, and if we are not able to continually increase our productivity our gross margins and results of operations will be adversely affected.***

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. In addition, our contract with our largest customer currently contains a tiered pricing structure, under which pricing declines as service volumes increase, and this has created increased pricing pressures in recent years. Accordingly, our ability to maintain our operating margins depends on the success of our efforts to improve our productivity and to 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 adversely affected.

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

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, including excess capacity during the past few years from opening new facilities where forecasted volume levels did not materialize. In addition, we have experienced, and in the future may experience, idle peak period capacity when we open a new facility or terminate or complete a large client program. These periods of idle capacity may be exacerbated if we expand our facilities or open new facilities in anticipation of new client business, because we generally do not have the ability to require a client to enter into a long-term contract or to require clients to reimburse us for capacity expansion costs if they terminate their relationship with us or do not provide us with anticipated service volumes. From time to time, we assess the expected long-term capacity utilization of our facilities. Accordingly, we may, if deemed necessary, consolidate or close under-performing facilities in order to maintain or improve targeted utilization and margins. There can be no assurance that we will be able to achieve or maintain optimal facilities capacity utilization.

***We may not collect on a \$740 thousand note receivable due from the purchasers of our Supply Chain Management Services platform.***

On December 16, 2005, we sold our Supply Chain Management Services platform. In connection with the transaction, we accepted a 5-year unsecured \$740 thousand note. The terms of the note call for the buyer to make quarterly interest payments to us at a fixed rate of 7% per annum for the first two years of the note. Thereafter, the buyer must pay us interest plus set principal amounts, in accordance with the terms of the note, with the entire balance due on or before December 16, 2010. The buyer of the Supply Chain Management Services platform is a startup company that commenced operations when the platform was purchased from us. Management actively monitors activity related to this note receivable and regularly assesses the collectibility of the principal and interest payments due. Currently, no allowance has been created to reserve for uncollectible amounts of this note receivable. If, in the future, we must create an allowance or write off uncollectible amounts of this loan, it could have a material effect on our results of operations.

***We are currently carrying a significant amount of capital loss carry-forwards for tax purposes. If we are not able to generate sufficient gains to offset these losses, our financial results may be adversely affected.***

In the past, our investment activities generated capital losses which we are allowed to carry forward and offset against future capital gains for up to five years. As of December 31, 2006, gross capital loss carry-forwards due to expire were as follows: \$54 thousand in 2007, \$3.9 million in 2008, \$444 thousand in 2009 and \$322 thousand in 2010. We currently hold no tax-basis valuation allowances against these capital loss carry-forwards. If we are unable to generate sufficient capital gains to offset these capital loss carry-forwards, our results of operations could be adversely affected.

***We and some of our former management employees are the subject of a class action lawsuit. The defense and ultimate outcome of these allegations could negatively affect our future operating results.***

We and six of our present and former directors and officers have been named as defendants in West Palm Beach Firefighters' Pension Fund v. StarTek, Inc., et al. (U.S. District Court, District of Colorado) filed on July 8, 2005, and John Alden v. StarTek, Inc., et al. (U.S. District Court, District of Colorado) filed on July 20, 2005. Those actions have been consolidated by the federal court. The consolidated action is a purported class action brought on behalf of all persons (except defendants) who purchased shares of our common stock in a secondary offering by certain of our stockholders in June 2004, and in the open market between February 26, 2003, and May 5, 2005 (the "Class Period"). The consolidated complaint alleges that the defendants made false and misleading public statements about us and our business and prospects in the prospectus for the secondary offering, as well as in filings with the SEC and in press releases issued during the Class Period, and that the market price of our common stock was artificially inflated as a result. The complaints allege claims under Sections 11 and 15 of the Securities Act, and under Sections 10(b) and 20(a) of the Exchange Act. The plaintiffs in both cases seek compensatory damages on behalf of the alleged class and award of attorneys' fees and costs of litigation. We believe we have valid defenses to the claims and intend to defend the litigation vigorously. On May 23, 2006, we and the individual defendants moved the court to dismiss the action in its entirety. Two stockholder derivative lawsuits related to these aforementioned claims were also filed against various of our present and former officers and directors on November 16, 2005, and December 22, 2005, alleging breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, and unjust enrichment. The derivative actions, which have been consolidated, name us as a nominal defendant. On April 18, 2006, we and the individually named defendants filed a motion to dismiss the derivative actions.

It is not possible at this time to estimate the possibility of a loss or the range of potential losses arising from these claims. We may, however, incur material legal fees with respect to our defense of these claims. The claims have been submitted to the carriers of our executive and organization liability insurance policies. The policies have primary and excess coverage that we believe will be adequate to defend this case and are subject to a retention for securities claims. These policies provide that we are responsible for the first \$1.0 million in legal fees. As of March 1, 2007, we had incurred legal fees related to these suits of more than 90% of our \$1.0 million deductible.

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



***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 or do not generate the anticipated call volumes, our revenue and results of operations will be adversely affected.***

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. In addition, if the reliability of our customers' products or services increases as a result of technological improvements, the volume of calls that we service may be reduced. If customer interest in or increased reliability of any products or services offered by our clients and for which we provide outsourced services result in reduced service volumes, our revenue would be diminished. StarTek utilizes forecasts made by our clients based on demand from their customers. If the actual call volumes are materially different than the forecasted volumes, our financial results could be adversely affected.

In 2006, we expanded our capacity to include three new facilities in response to new client contracts garnered during the latter half of 2005. As business associated with these new clients and additional facilities ramped, we experienced excess capacity and incurred additional costs as we worked towards bringing these facilities to normal operational levels. In January 2007, we announced that we would be closing our site in Petersburg, Virginia due to reduced client demand in that facility. If client demand declines, we would not leverage our fixed costs as effectively, which would have a material adverse effect on our results of operations and financial condition.

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

We enter into written agreements with each client for our services. We seek to sign multi-year contracts with our clients, however these contracts generally permit termination upon 30 to 90 days notice by our clients; do not designate us as our clients' exclusive outsourced services provider; do not penalize our clients for early termination; hold us responsible for work performed that does not meet pre-defined specifications; and do not contain minimum purchase requirements or volume commitments. Accordingly, we face the risk that our clients may cancel contracts we have with them, which may adversely affect our results. In addition, contracts currently in place with our two largest clients expire during 2007 and we cannot guarantee that they will be extended or renewed. If a principal client cancelled or did not renew their contract with us, our results would suffer. In addition, because the amount of revenue generated from any particular client is generally dependent on the volume and activity of our clients' customers, as described above, our business depends in part on the success of our clients' products. The number of customers who are attracted to the products of our clients may not be sufficient or our clients may not continue to develop new products that will require our services, in which case it may be more likely for our clients to terminate their contracts with us. Moreover, clients who may not terminate their contacts with us without cause could generally reduce the volume of services they outsource to us, which would have an adverse effect on our revenue, results of operations, and overall financial condition.

***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 vendor consolidation, our business and results of operations will be adversely affected.***

Our existing clients and 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 adversely affected. In addition, this consolidation could make it more difficult for us to secure new clients, which could limit our growth opportunities.

***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 increasing the number of services we provide to existing clients, by expanding our overall client base and, in the future, through mergers and acquisitions activity. 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 open additional facilities, expand and improve our information systems and procedures and hire, train, motivate, and manage a growing workforce, all of which would increase our costs. Our systems, facilities, 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. During the last few years, we incurred

costs related to excess capacity as we opened new facilities to accommodate for volume levels that did not materialize. As a result, our operating profits declined and our stock price was adversely impacted. 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.

***Failure to implement technological advancements could make our services less competitive.***

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. We believe that to remain competitive we must continue to invest in technology to be able to compete for new business and maintain service levels for clients. 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.

***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.

We anticipate that competition from low-cost, offshore providers of outsourced services will continue to increase in the 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 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, as discussed below, which could adversely affect our revenue, margins, and financial condition.

***Our operations in Canada subject us to the risk of currency exchange fluctuations.***

Because we conduct a material portion of our business in Canada, we are exposed to market risk from changes in the value of the Canadian dollar. Material fluctuations in exchange rates impact our results through translation and consolidation of the financial results of our foreign operations, and therefore may negatively impact our results of operations and financial condition. 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 2006, 2005 and 2004 because we have contracts wherein the revenue we earn is denominated in U.S. dollars yet the costs we incur to fulfill our obligations under those contracts are denominated in Canadian dollars. During 2006, 2005 and 2004, we engaged in limited hedging activities relating to our exposure to such fluctuations in the value of the Canadian dollar versus the U.S. dollar. We intend to continue hedging activities in 2007. However, currency hedges do not and will not eliminate our exposure to fluctuations in the Canadian dollar. The exchange rate impact of the weakening U.S. dollar on our results of operations during 2006, 2005 and 2004 was \$3.9, \$5.1 and \$5.3 million, respectively, net of hedges. Further increases in the value of the Canadian dollar or currencies in other foreign markets in which we may operate in relation to the value of the U.S. dollar would further increase such costs and adversely affect our results of operations.

***We face risks inherent in conducting business in Canada.***

Our operations in Canada accounted for 42.7% of our revenue in 2006, 43.7% of our revenue in 2005, and 50.4% of our revenue in 2004. There are risks inherent in conducting business internationally, 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 impact our international operations, it could adversely affect our business, results of operations, growth prospects, and financial condition as a whole.

***Our lack of a significant international presence outside of North America may adversely affect our ability to serve existing customers or limit our ability to obtain new customers.***

Although we currently conduct operations in Canada, we do not have a significant international presence. This lack of international operations outside of North America could adversely affect our business if one or more of our customers decide to move their existing business process outsourcing services offshore. Our lack of a significant international presence outside of North America 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 outsourcing services to other countries 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 outside of North America, we may be competitively disadvantaged compared to 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.

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

A. Emmet Stephenson, Jr., one of our co-founders, owned approximately 22.5% of our outstanding common stock as of March 1, 2007. Mr. Stephenson's spouse also owns shares of our common stock. Under an agreement we have entered into with Mr. Stephenson, 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, our bylaws allow that any holder of 10% or more of our outstanding common stock may call a special meeting of our stockholders. The concentration of voting power in Mr. Stephenson's hands and the control Mr. Stephenson may exercise over us as described above may discourage, delay or prevent a change in control that might otherwise benefit our stockholders.

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

The market price of our common stock has been volatile and could be subject to wide fluctuations in response to quarterly variations in our operating results, changes in management, 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, the perception that significant stockholders may sell or intend to sell their shares or other events or factors we cannot currently foresee. We are also subject to broad market fluctuations wherein the market prices of equity securities of many companies experience substantial price and volume fluctuations that have often been unrelated to the operating performance of such companies. These broad market fluctuations may adversely affect the market price of our common stock. Additionally, because our common stock trades at relatively low volume levels, any change in demand for our stock can be expected to substantially influence market prices thereof. The trading price of our stock varied from a low of \$10.83 to a high of \$24.50 during 2006.

***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 adversely affect 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 depress the trading price of our common stock.

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

Our operations depend on our ability to protect our facilities, computer equipment, telecommunications equipment, software systems and clients' products and confidential client information against damage from internet interruption, fire, power loss, telecommunications interruption, e-commerce interruption, natural disaster, theft, unauthorized intrusion, computer viruses, bomb threats and other emergencies. 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.

***Increases in the cost of telephone and data services or significant interruptions in such services could adversely affect our business.***

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

***Compliance with SEC rules requiring that we and our independent auditors assess the effectiveness of our internal controls over financial reporting may have adverse consequences.***

Section 404 of the Sarbanes-Oxley Act of 2002 ("Section 404") requires our management, on an annual basis, to assess the effectiveness of our internal control over financial reporting. Our independent auditors are then required to attest to this assessment. We have completed the process of documenting and testing our internal control over financial reporting in order to satisfy the requirements of Section 404, and the reports of our management and our independent auditors relating to our internal control over financial reporting are stated elsewhere in this Form 10-K. We constantly test and improve our controls as we identify certain deficiencies that we believe require remediation and this requires additional management time and other resources. If we incur significant expense relating to future compliance with Section 404, our operating results will be adversely impacted.

In addition, as our business develops and grows, we will be required to adapt our internal control systems and procedures to conform to our current business, and we will continue to work to improve our controls and procedures and to educate our employees in an effort to maintain an effective controls environment. However, if internal control deficiencies arise in the future, we may not be able to remediate such deficiencies in a timely manner. As a consequence, we may have to disclose in future filings with the SEC any material weaknesses in internal controls over our financial reporting system. Disclosures of this type could cause investors to lose confidence in our financial reporting and may negatively affect our stock price. Moreover, effective internal controls are necessary to produce reliable financial reports and to prevent fraud. If we have deficiencies in our internal controls over financial reporting it may negatively impact our business and operations.

***If we are unable to renew or replace sources of capital funding on satisfactory terms, potential growth and results of operations may suffer.***

We currently have four debt facilities in place, with \$16.0 million in debt outstanding as of December 31, 2006. One of these facilities, a \$10.0 million line of credit, is scheduled to expire in June 2007 (See Item 7a "*Quantitative and Qualitative Disclosure About Market Risk – Outstanding Debt*"). If we are unable to renew this line of credit or are unable to secure alternative sources of capital funding under satisfactory terms, we may be unable to meet short-term cash needs required for operations or growth opportunities.

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

Approximately 3.8% and 18.3% of our total assets as of December 31, 2006, and 2005, respectively, consisted of investment securities. During 2006, we made investments in publicly-traded debt, equity and equity-linked securities, and the market prices of the securities have been volatile. 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. Unrealized gains or losses on investments acquired as trading securities are recognized as they occur. Future adverse changes in market conditions or poor operating results of companies in



which we have invested could result in losses. Moreover, we implemented a more conservative investment policy in late 2006 and the resulting lower returns may adversely impact our financial results.

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

We have experienced and expect to 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 changes in the amount and growth rate of revenue generated from our principal clients; the timing of existing and future client product launches or service offerings; unanticipated volume fluctuations; 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; and seasonal nature of some clients' businesses. Prior to the sale of our supply chain management services platform, our revenue was historically 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. Due in part to the fact that we have sold the supply chain management services platform, we do not expect that we will be as affected by seasonal variations in our clients' businesses 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.

**Item 7a. Quantitative and Qualitative Disclosure About Market Risk**

In the normal course of business, we are exposed to certain market risks related to changes in interest rates and other general market risks, equity market prices, and foreign currency exchange rates. We have established an investment portfolio policy which provides for, among other things, investment objectives and portfolio allocation guidelines. This policy was last amended in October 2006. All of our investment decisions are currently supervised or managed by our Chief Financial Officer.

This discussion contains forward-looking statements subject to risks and uncertainties. Actual results could vary materially as a result of a number of factors, including but not limited to, changes in interest and inflation rates or market expectations thereon, equity market prices, foreign currency exchange rates, and those factors set forth in our Item 7 of this Form 10-K in the section entitled "Risk Factors."

**Interest Rate Sensitivity and Other General Market Risks**

**Cash and Cash Equivalents.** At December 31, 2006, we had \$33.4 million in cash and cash equivalents. Approximately \$17.2 million of this cash was invested in various money market funds, overnight investments and commercial paper which matures within the first three months of 2007 at a combined weighted average interest rate of approximately 5.45%. Cash and cash equivalents are not restricted. We consider cash equivalents to be short-term, highly liquid investments readily convertible to known amounts of cash, and so near their maturity they present insignificant risk of changes in value because of changes in interest rates. We do not expect any substantial loss with respect to our cash and cash equivalents as a result of interest rate changes, and the estimated fair value of our cash and cash equivalents approximates original cost.

**Outstanding Debt.** We currently have four debt facilities in use: a \$10.0 million secured equipment loan, a \$10.0 million unsecured revolving line of credit, a \$9.6 million Canadian dollar secured equipment loan and a \$4.9 million secured promissory note:

**\$10.0 million Secured Equipment Loan.** Borrowings under the \$10.0 million secured equipment loan bear interest at a fixed rate of 3.65% per annum. As of December 31, 2006, we had \$3.1 million outstanding under this loan.

**Line of Credit.** From time to time, we may borrow under our \$10.0 million line of credit for general corporate purposes, including working capital requirements, capital expenditures, and other purposes related to expansion of our capacity. At December 31, 2006, we had no amounts outstanding on this line of credit. Borrowings under this line of credit bear interest at the lender's prime rate less 1%, which was 7.25% as of December 31, 2006, although for certain borrowings, we may elect to pay a fixed rate equal to LIBOR plus 1.5%. We believe a hypothetical 10.0% increase in interest rates would not have a material adverse effect on our financial position. Increases in interest rates would, however, increase interest expense associated with future variable-rate borrowings by us, if any. We have not historically hedged our interest rates with respect to this or any of our other loans and we do not expect to hedge these rates in the future. As of December 31, 2006, we were in compliance with the all financial covenants pertaining to our line of credit. This line of credit is renewed every two years at the option of Wells Fargo and was last renewed in June of 2005. See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations – Risk Factors."

**Canadian Dollar Secured Equipment Loan.** On November 17, 2006, StarTek Canada Services, Ltd., one of our subsidiaries, borrowed approximately \$9.6 million Canadian dollars from Wells Fargo Equipment Finance Company, Inc. These borrowings are guaranteed by StarTek, Inc. and our subsidiary, StarTek USA, Inc., and are secured by fixed assets and tenant improvements at certain of our Canadian facilities. The loan will be repaid in 48 monthly installments of \$225 thousand, which reflects an implicit annual interest rate of 5.77%. We may elect to prepay amounts due under this loan provided that we notify Wells Fargo Equipment Finance Company, Inc. at least 30 days prior in writing and that we pay a prepayment premium, as stipulated in the loan agreement. This agreement and the related guarantee have been incorporated by reference to this Form 10-K as Exhibits 10.74 and 10.75, respectively. As of December 31, 2006, we had \$9.4 million Canadian dollars, or \$8.1 million U.S. dollars, outstanding under this loan.

**Secured Promissory Note.** On November 17, 2006, our subsidiary, StarTek USA, Inc., borrowed approximately \$4.9 million from Wells Fargo Equipment Finance, Inc. The promissory note is guaranteed by StarTek, Inc. and our subsidiary, StarTek Canada Services, Ltd. The loan will be repaid with interest in 48 monthly installments of \$115 thousand. The borrowings bear interest at an annual rate of 6.38% and are secured by fixed assets and tenant improvements at certain of our U.S. facilities. The borrowings may be repaid early without penalty. The promissory note and related guarantee have been incorporated by reference to this Form 10-K as Exhibits 10.76 and 10.77, respectively. As of December 31, 2006, approximately \$4.8 million was outstanding under this note.

Please refer to Note 7 “Debt,” to our Consolidated Financial Statements, which are included at Item 15, *Exhibits and Financial Statement Schedules*, of this Form 10-K, for further explanation of our debt arrangements.

**Investments Available for Sale.** At December 31, 2006, we had investments available for sale which, in the aggregate, had a cost basis and a fair market value of \$5.9 million. At December 31, 2006, investments available for sale consisted entirely of investment-grade corporate bonds. Our investment portfolio is subject to interest and inflation rate risks and will fall in value if market interest and/or inflation rates or market expectations relating to these rates increase.

A substantial decline in values of equity securities and equity prices in general could have a material adverse effect on our financial condition. Also, prices of common stocks we hold could generally be expected to be adversely affected by increasing inflation or interest rates or market expectations thereon, poor management, shrinking product demand, and other risks that may affect single companies or groups of companies, as well as adverse general economic conditions. At times we have partially hedged against some equity price changes; however, our hedging activities do not provide material protection against price fluctuations in securities we hold in our investment portfolio. The portion of our investment portfolio consisting of equity securities has declined significantly since 2004 and as of December 31, 2006, we no longer hold any equity securities in our portfolio. We do not anticipate that equity securities will be a significant portion of our investment portfolio in the foreseeable future, under the terms of our investment management policy.

Historically, options have been an immaterial part of our overall investment portfolio, and we expect options will remain an immaterial part of our overall risk management approach in the future.

The fair market value of and estimated cash flows from our investments in corporate bonds are substantially dependent upon the credit worthiness of certain corporations expected to repay their debts to us. If such corporations’ financial condition and liquidity adversely changes, our investments in these bonds would be materially and adversely affected.

The table below provides information as of December 31, 2006, about maturity dates and corresponding weighted average interest rates related to certain of our investments available for sale:

	Weighted Average Interest Rates	1 Year	2 Years	3 Years	4 Years	5 Years	Thereafter	Total	Fair Value
Corporate debt securities	6.85%	5,937	-	-	-	-	-	5,937	5,933
Total		<u>\$ 5,937</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 5,937</u>	<u>\$ 5,933</u>

Our cash and cash equivalents also included approximately \$17.2 million commercial paper with maturities of less than three months that bear interest at a weighted-average rate of 5.45%.

Management believes we have the ability to hold the foregoing investments until maturity, and therefore, if held to maturity, we would not expect the future proceeds from these investments to be affected, to any significant degree, by the effect of a sudden change in market interest rates. Declines in interest rates over time will, however, reduce our interest income derived from future investments.

**Trading Securities.** From time to time we purchase or write option contracts to partially hedge against fluctuations in the value of our investment portfolio. All such options are publicly-traded with standard market terms. Such options are classified as trading securities and are recorded at fair value with changes in fair value recognized in current period earnings. We do not designate such options as hedging instruments pursuant to SFAS No. 133. We held no trading securities as of December 31, 2006, and 2005.

We do not consider the risk of loss regarding our current investments in the event of nonperformance by any party to be substantial. Due to the potential limited liquidity of some of these instruments, the most recently traded price may be different from values that might be realized if we were to sell or close out the transactions. Management does not believe such differences are substantial to our results of operations, financial condition, or liquidity. The foregoing put options may involve elements of credit and market risks in excess of the amounts recognized in our financial statements. A substantial decline and/or change in value of equity securities, equity prices in general, international equity mutual funds, investments in limited partnerships, and/or call and put options could have a material adverse effect on our portfolio of trading securities. Also, trading securities could be materially and adversely affected by increasing interest and/or inflation rates or market expectations thereon, poor management, shrinking product demand, and other risks that may affect single companies or groups of companies, as well as adverse economic conditions generally.

### **Foreign Currency Exchange Risks**

Our Canadian subsidiary's functional currency is the Canadian dollar, which is used to pay labor and other operating costs in Canada. If an arrangement provides for us to receive payments in a foreign currency, revenue realized from such an arrangement may be lower if the value of such foreign currency declines. Similarly, if an arrangement provides for us to make payments in a foreign currency, cost of services and operating expenses for such an arrangement may be higher if the value of such foreign currency increases. For example, a 10% change in the relative value of such foreign currency could cause a related 10% change in our previously expected revenue, cost of services, and operating expenses. If the international portion of our business continues to grow, more revenue and expenses will be denominated in foreign currencies, which increases our exposure to fluctuations in currency exchange rates.

Approximately 42.7% of our expenses in 2006 were paid in Canadian dollars. A portion of our Canadian operations generate revenues denominated in U.S. dollars. During 2006, we purchased \$56.7 million in Canadian dollars for \$49.7 million U.S. under Canadian dollar forward contracts with Wells Fargo Bank in order to hedge our foreign currency risk with respect to these costs. During 2006, we recorded a gain of approximately \$768 thousand related to these forward contracts. As of December 31, 2006, we had \$379 in derivative liabilities associated with foreign exchange contracts. As of December 31, 2006, we had contracted to purchase \$30.0 million Canadian dollars to be delivered periodically through June 2007 at a purchase price which is no more than \$26.5 million and no less than \$25.1 million. We plan to continue to hedge our exposure to fluctuations in the Canadian dollar relative to the U.S. dollar, primarily through the use of forward purchase contracts.

### **Item 8. Financial Statement and Supplementary Financial Data**

Consolidated financial statements and supplementary data required by Item 8. are set forth herein at the pages indicated in Item 15(a).

### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

### **Item 9A. Controls and Procedures**

#### **Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Interim Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) under the Exchange Act). Based on such

evaluation, our Chief Executive Officer and Interim Chief Financial Officer concluded that, as of the end of such period, our disclosure controls and procedures are effective and are reasonably designed to ensure that all material information relating to us required to be included in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

### **Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Interim Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2006, based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2006.

Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included elsewhere herein.

Our management, including our Chief Executive Officer and Interim Chief Financial Officer, does not expect that our disclosure controls or our internal controls will prevent all possible errors or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

### **Changes in Internal Control over Financial Reporting**

There have been no significant changes to our internal control over financial reporting during the last fiscal quarter that have materially affected or are reasonably likely to affect our internal control over financial reporting.

### **Item 9B. Other Information**

None.

## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of StarTek, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that StarTek, Inc. maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). StarTek Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, management's assessment that StarTek, Inc. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, StarTek, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of StarTek, Inc. as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006 and our report dated March 14, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Denver, Colorado  
March 14, 2007

## **PART III**

### **Items 10 through 14**

Information required by Item 10. (Directors, Executive Officers and Corporate Governance), Item 11. (Executive Compensation), Item 12. (Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters), Item 13. (Certain Relationships and Related Transactions and Director Independence), and Item 14. (Principal Accountant Fees and Services) will be included in our definitive proxy statement to be delivered in connection with our 2007 annual meeting of stockholders and is incorporated herein by reference.

## **PART IV**

### **Item 15. *Exhibit and Financial Statement Schedules***

#### *(a) Document List*

1. *Financial Statements* Response to this portion of Item 15 is submitted per the Index to Consolidated Financial Statements, Supplementary Data, and Financial Statement Schedules in this Form 10-K.

2. *Supplementary Data and Financial Statement Schedules* Response to this portion of Item 15 is submitted per the Index to Financial Statements, Supplementary Data, and Financial Statement Schedules in this Form 10-K.

3. An *Index of Exhibits* follows the signature pages of this Form 10-K.

(b) The *Index of Exhibits* lists the exhibits filed with this report.



**STARTEK, INC. AND SUBSIDIARIES**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS, SUPPLEMENTARY DATA AND  
FINANCIAL STATEMENT SCHEDULES**

**Financial Statements:**

Report of Independent Registered Public Accounting Firm

Consolidated Statements of Operations, years ended December 31, 2006, 2005, and 2004

Consolidated Balance Sheets, as of December 31, 2006, and 2005

Consolidated Statements of Cash Flows, years ended December 31, 2006, 2005, and 2004

Consolidated Statements of Stockholders' Equity, years ended December 31, 2006, 2005, and 2004

Notes to Consolidated Financial Statements

**Financial Statement Schedules**

All schedules have been included in the Consolidated Financial Statements or notes thereto.

## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of StarTek, Inc.

We have audited the accompanying consolidated balance sheets of StarTek, Inc. as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of StarTek, Inc. at December 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 11 to the consolidated financial statements in 2006, StarTek, Inc. changed its method for accounting for Share-Based Payments in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of StarTek, Inc.'s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Denver, Colorado  
March 14, 2007

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

	<b>Year Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
Revenue	\$ 237,612	\$ 216,371	\$ 221,906
Cost of services	201,424	167,223	164,363
Gross profit	36,188	49,148	57,543
Selling, general and administrative expenses	30,247	28,435	27,451
Operating profit	5,941	20,713	30,092
Net interest and other income	2,126	1,479	3,532
Income from continuing operations before income taxes	8,067	22,192	33,624
Income tax expense	2,303	8,177	12,747
Income from continuing operations	5,764	14,015	20,877
Discontinued operations:			
(Loss) income from operations of discontinued operations	-	(2,153)	2,437
Gain (loss) on disposal of discontinued operations	-	300	(2,316)
Income tax benefit (expense)	-	698	(22)
(Loss) income from discontinued operations	-	(1,155)	99
Net income	\$ 5,764	\$ 12,860	\$ 20,976
Other comprehensive income, net of tax:			
Foreign currency translation adjustments, net of tax	(424)	380	820
Unrealized (loss) gain on available for sale securities, net of tax	(2)	(546)	(913)
Change in fair value of derivative instruments	(362)	127	-
Comprehensive income	\$ 4,976	\$ 12,821	\$ 20,883
Net income per share from continuing operations:			
Basic	\$ 0.39	\$ 0.96	\$ 1.44
Diluted	\$ 0.39	\$ 0.95	\$ 1.41
Net income per share including discontinued operations:			
Basic	\$ 0.39	\$ 0.88	\$ 1.45
Diluted	\$ 0.39	\$ 0.88	\$ 1.42
Dividends declared per common share	\$ 1.11	\$ 1.50	\$ 1.58

*See Notes to Consolidated Financial Statements.*

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

	<b>As of December 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 33,437	\$ 17,425
Investments	5,933	28,168
Trade accounts receivable, less allowance for doubtful accounts of \$16 and \$250, respectively	46,364	40,612
Income tax receivable	1,281	4,227
Prepaid expenses and other current assets	3,009	3,161
Total current assets	90,024	93,593
Property, plant and equipment, net	60,101	57,066
Long-term deferred tax assets	4,444	2,402
Other assets	1,166	853
Total assets	<u>\$ 155,735</u>	<u>\$ 153,914</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 6,061	\$ 4,694
Accrued liabilities:		
Accrued payroll	6,798	7,280
Accrued compensated absences	4,146	3,522
Accrued health insurance	77	462
Other accrued liabilities	338	806
Current portion of long-term debt	5,654	2,551
Short-term deferred income tax liabilities	754	1,108
Grant advances	173	1,150
Other current liabilities	329	50
Total current liabilities	24,330	21,623
Long-term debt, less current portion	10,314	3,099
Other liabilities	2,709	1,028
Total liabilities	<u>37,353</u>	<u>25,750</u>
Stockholders' equity:		
Common stock, 32,000,000 non-convertible shares, \$0.01 par value, authorized; 14,695,791 and 14,631,091 shares issued and outstanding at December 31, 2006 and 2005, respectively.	147	146
Additional paid-in capital	61,669	60,139
Cumulative translation adjustment	1,222	1,646
Unrealized gain on investments available for sale	1	3
Unrealized (loss) gain on derivative instruments	(235)	127
Retained earnings	55,578	66,103
Total stockholders' equity	<u>118,382</u>	<u>128,164</u>
Total liabilities and stockholders' equity	<u>\$ 155,735</u>	<u>\$ 153,914</u>

*See Notes to Consolidated Financial Statements.*

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

	<b>Year Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Operating Activities</b>			
Net income	\$ 5,764	\$ 12,860	\$ 20,976
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	16,758	13,364	12,546
Non-cash compensation cost	321	-	-
Deferred income taxes	(1,830)	(595)	(402)
Realized (gain) loss on investments	(128)	623	(1,981)
(Gain) loss on sale of assets	(98)	(1,083)	1,626
Changes in operating assets and liabilities:			
Sales of trading securities, net	-	2,929	2,926
Trade accounts receivable, net	(5,752)	10,679	(7,903)
Prepaid expenses and other assets	(361)	(549)	257
Accounts payable	939	(2,704)	(1,453)
Income taxes, net	2,946	8,405	(10,197)
Accrued and other liabilities	319	1,530	4,723
Net cash provided by operating activities	<u>18,878</u>	<u>45,459</u>	<u>21,118</u>
<b>Investing Activities</b>			
Purchases of investments available for sale	(351,108)	(733,935)	(271,673)
Proceeds from disposition of investments available for sale	373,466	726,126	286,077
Purchases of property, plant and equipment	(20,110)	(15,365)	(19,465)
Proceeds from disposition of property, plant and equipment	343	5,986	1,626
Net cash provided by (used in) investing activities	<u>2,591</u>	<u>(17,188)</u>	<u>(3,435)</u>
<b>Financing Activities</b>			
Proceeds from stock option exercises	1,112	327	4,477
Principal payments on borrowings	(2,798)	(4,594)	(7,751)
Dividend payments	(16,289)	(21,943)	(22,820)
Proceeds from borrowings	13,294	880	17,010
Net cash used in financing activities	<u>(4,681)</u>	<u>(25,330)</u>	<u>(9,084)</u>
Effect of exchange rate changes on cash	<u>(776)</u>	<u>(125)</u>	<u>55</u>
Net increase in cash and cash equivalents	16,012	2,816	8,654
Cash and cash equivalents at beginning of period	17,425	14,609	5,955
Cash and cash equivalents at end of period	<u>\$ 33,437</u>	<u>\$ 17,425</u>	<u>\$ 14,609</u>
<b>Supplemental Disclosure of Cash Flow Information</b>			
Cash paid for interest	\$ 237	\$ 253	\$ 328
Income taxes paid	\$ 3,013	\$ 9,486	\$ 19,611
Property, plant and equipment financed under long-term debt	\$ -	\$ -	\$ 10,000
Change in unrealized loss on investments available for sale, net of tax	\$ (2)	\$ (546)	\$ (913)

*See Notes to Consolidated Financial Statements.*

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

	<b>Common Stock</b>		<b>Additional</b>	<b>Retained</b>	<b>Accumulated</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Pain-In</b>	<b>Earnings</b>	<b>Other</b>	<b>Stockholders'</b>
			<b>Capital</b>		<b>Comprehensive</b>	<b>Equity</b>
					<b>Income (Loss)</b>	
Balance, December 31, 2003	14,351,011	\$ 144	\$ 53,917	\$ 77,031	\$ 1,908	\$ 133,000
Stock options exercised	255,000	2	4,475	-	-	4,477
Income tax benefit from stock options exercised	-	-	1,344	-	-	1,344
Dividends paid	-	-	-	(22,820)	-	(22,820)
Net income	-	-	-	20,976	-	20,976
Foreign currency translation adjustments, net of tax	-	-	-	-	820	820
Unrealized gain on investments available for sale, net of tax	-	-	-	-	(913)	(913)
Balance, December 31, 2004	14,606,011	\$ 146	\$ 59,736	\$ 75,186	\$ 1,815	\$ 136,883
Stock options exercised	25,080	-	327	-	-	327
Income tax benefit from stock options exercised	-	-	76	-	-	76
Dividends paid	-	-	-	(21,943)	-	(21,943)
Net income	-	-	-	12,860	-	12,860
Foreign currency translation adjustments, net of tax	-	-	-	-	380	380
Unrealized gain on investments available for sale, net of tax	-	-	-	-	(546)	(546)
Change in fair value of derivative instruments, net of tax	-	-	-	-	127	127
Balance, December 31, 2005	14,631,091	\$ 146	\$ 60,139	\$ 66,103	\$ 1,776	\$ 128,164
Stock options exercised	64,700	1	1,112	-	-	1,113
Income tax benefit from stock options exercised	-	-	97	-	-	97
Stock-based compensation expense	-	-	321	-	-	321
Dividends paid	-	-	-	(16,289)	-	(16,289)
Net income	-	-	-	5,764	-	5,764
Foreign currency translation adjustments, net of tax	-	-	-	-	(424)	(424)
Unrealized gain on investments available for sale, net of tax	-	-	-	-	(2)	(2)
Change in fair value of derivative instruments, net of tax	-	-	-	-	(362)	(362)
Balance, December 31, 2006	14,695,791	\$ 147	\$ 61,669	\$ 55,578	\$ 988	\$ 118,382

*See Notes to Consolidated Financial Statements.*



**STARTEK, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**  
(In thousands, except per share data)

**1. Basis of Presentation and Summary of Significant Accounting Policies**

We are a leading provider of business process optimization services for outsourced customer interactions. Since 1987, we have provided customer experience management solutions that solve strategic business challenges so that fast-moving businesses can effectively manage customer relationships across all contact points - web, voice, email, fax, and video. This blended solution helps companies create and maintain customer satisfaction and frees them to focus on preserving capital, while we deliver the ultimate customer experience. Headquartered in Denver, Colorado, we had 19 operational facilities across North America as of December 31, 2006. We operate in a single industry segment and all of our revenues are generated in North America.

***Consolidation***

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

***Reclassifications***

Certain reclassifications have been made to the 2005 and 2004 financial statements to conform to 2006 presentation.

Our Consolidated Statements of Cash Flows include a reclassification of \$1,981 of realized gains on investments in 2004 to conform to 2005 and 2006 presentation. This amount was previously included as part of proceeds from disposition of investments available for sale in our investing activities.

In December 2005, we sold certain assets and liabilities relating to our supply chain management services platform. In September 2004, we sold StarTek Europe, Ltd., our subsidiary in the United Kingdom. Consequently, the results of operations of the supply chain management services platform and StarTek Europe, Ltd. have been classified as discontinued operations during all periods presented in our Consolidated Financial Statements and related Notes. Accordingly, amounts presented in our Consolidated Financial Statements and related Notes may differ from amounts previously disclosed in our filings with the Securities and Exchange Commission ("SEC"). Please refer to Note 4, "Discontinued Operations" for further discussion of these transactions.

***Use of Estimates***

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires our management to make estimates and assumptions that affect amounts reported in our Consolidated Financial Statements and accompanying Notes. Actual results could differ from those estimates. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary.

***Foreign Currency Translation***

The assets and liabilities of our foreign operations that are recorded in foreign currencies are translated into U.S. dollars at exchange rates prevailing at the balance sheet date. Revenues and expenses are translated at the weighted-average exchange rate during the reporting period. Resulting translation adjustments, net of applicable deferred income taxes of \$248, \$230, and \$145 are reported as a separate component of other comprehensive income in our stockholders' equity for the years ended December 31, 2006, 2005, and 2004 respectively. Foreign currency transaction gains and losses are included in determining net income. Such gains and losses were not material for any period presented. Our operations in Canada generated 42.7%, 43.7% and 50.4% of our revenue during 2006, 2005, and 2004, respectively. The net value of our long-lived assets in Canada totaled \$20.0 and \$15.9 million as of December 31, 2006, and 2005, respectively.

## ***Revenue Recognition***

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

As a general rule, our contracts are not multiple element contracts in the context of Emerging Issues Task Force (“EITF”) Issue No. 00-21, “Revenue Arrangements with Multiple Deliverables.” We provide initial training to customer service representatives upon commencement of new contracts and recognize revenues for such training as the services are provided based upon the production rate (i.e., billable hours and rates related to the training services as stipulated in our contractual arrangements). Accordingly, the corresponding training costs, consisting primarily of labor and related expenses, are recognized as incurred.

**Domain.com operations** — Revenues from our Domain.com business are recognized as services are delivered and are an immaterial portion of our revenue.

**Supply Chain Management Services (“SCMS”)** — We sold our SCMS platform in December 2005. Prior to the sale, substantially all of our contractual arrangements with SCMS clients were based on the volume, complexity and type of components involved in the handling of our clients’ products. We invoiced our SCMS clients upon shipment and recognized revenues on a gross basis in accordance with EITF Issue No. 99-19, “Reporting Revenue Gross as a Principal vs. Net as an Agent,” when such services were completed and the related goods were shipped. The results of operations for our SCMS platform have been presented as a component of discontinued operations for all periods presented. See Note 4, “Discontinued Operations” for further discussion of the sale.

## ***Allowance for Doubtful Accounts***

An allowance for doubtful accounts is provided for known and estimated potential losses arising from sales to customers based on a periodic review of these accounts.

## ***Fair Value of Financial Instruments***

Financial instruments consist of cash and cash equivalents, investments, trade accounts receivable, accounts payable and long-term debt. Carrying values of cash and cash equivalents, trade accounts receivable, and accounts payable approximate fair value. Investments are reported at fair value. Management believes differences between the fair value and the carrying value of long-term debt is not material because interest rates approximate market rates for material items.

## ***Cash and Cash Equivalents***

We consider cash equivalents to be short-term, highly liquid investments readily convertible to known amounts of cash and so near their maturity they present insignificant risk of changes in value because of changes in interest rates. Cash and cash equivalents as of December 31, 2006, included commercial paper with maturities of less than three months which had an aggregate market value of \$17,157.

## ***Investments***

Investments available for sale have historically consisted of debt and equity securities reported at fair value, with unrealized gains, net of tax expense of \$2 and \$330 for 2006 and 2005, respectively, and losses reported as a separate component of stockholders’ equity. We amended our investment policy in October 2006. Under the new policy, we may invest in certain US Government and government-sponsored securities, repurchase agreements, investment grade corporate obligations, corporate debt securities, municipal

securities, mortgage-backed securities, money market and mutual funds, subject to the terms of the new policy. The Chief Financial Officer is responsible for oversight of the investment portfolio.

Investments are evaluated for other-than-temporary impairment if the fair value is below our cost for longer than 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. Other-than-temporary declines in fair value are reflected on the income statement as loss on impaired investments, though no impairments were recognized in 2006, 2005, or 2004. Original cost of investments available for sale is based on the specific identification method. Interest income from investments available for sale is included in net interest income and other. 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 as of the balance sheet date. Gross unrealized gains and losses from trading securities are reflected in income currently as part of net interest income and other.

### ***Derivative Instruments and Hedging Activities***

We follow the provisions of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" and related guidance ("FAS No. 133") for all of our derivative and hedging instruments. FAS No. 133 requires every derivative instrument (including certain derivative instruments embedded in other contracts) to be recorded in the consolidated balance sheet as either an asset or liability measured at its fair value, with changes in the fair value of qualifying hedges recorded in other comprehensive income. FAS No. 133 requires that changes in a derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset the related results of the hedged item and requires that we must formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment.

While we expect that our derivative instruments that have been designated as hedges will continue to meet the conditions for hedge accounting, if the hedges did not qualify as highly effective or if we did not believe that forecasted transactions would occur, the changes in the fair value of the derivatives used as hedges would be reflected in earnings. We do not believe we are exposed to more than a nominal amount of credit risk in our hedging activities, as the counterparty is an established, well-capitalized financial institution.

Our Canadian subsidiary's functional currency is the Canadian dollar, which is used to pay labor and other operating costs in Canada. However, our client contracts generate revenues which are paid to us in U.S. dollars. During 2006, we entered into Canadian dollar forward contracts with Wells Fargo Bank for \$56.7 million Canadian dollars to hedge our foreign currency risk with respect to these labor costs. During the years ended December 31, 2006, and 2005, we recorded gains of approximately \$768 and \$777, respectively, for the settled Canadian dollar forward contracts in our consolidated statements of operations. During the year ended December 31, 2004, we recorded a loss of approximately \$30 for the settled Canadian dollar forward contracts in our consolidated statements of operations. As of December 31, 2006, we had \$379 in derivative liabilities and a related tax benefit of \$144. As of December 31, 2005, we had \$203 in derivative assets and a related tax expense of \$76. As of December 31, 2006, we had contracted to purchase \$30.0 million Canadian to be delivered periodically through June 2007 at a purchase price which is no more than \$26.5 million and no less than \$25.1 million. We plan to continue to hedge our exposure to fluctuations in the Canadian dollar relative to the U.S. dollar, primarily through the use of forward purchase contracts.

We have elected cash flow hedge accounting under FAS No. 133 in order to associate the results of the hedges with forecasted future expenses. The current mark-to-market gain or loss is reflected in accumulated other comprehensive income in the balance sheet and will be re-classified to operations as the forecasted expenses are incurred, typically within one year.

### ***Legal Proceedings***

We reserve for legal contingencies when a liability for those contingencies has become probable and the cost is reasonably estimable, in accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies" ("FAS No. 5"). Any significant litigation or significant change in our estimates on our outstanding litigation could cause us to increase our provision for related costs, which, in turn, could materially affect our financial results. Any provision made for these anticipated costs are expensed to operating expenses in our Consolidated Statements of Income.

### ***Property, Plant and Equipment***

Property, plant, and equipment are stated at cost. Additions, improvements, and major renewals are capitalized. Maintenance, repairs, and minor renewals are expensed as incurred. Depreciation and amortization is computed using the straight-line method based on their estimated useful lives, as follows:

	<b><u>Estimated Useful Life</u></b>
Buildings and improvements	3-30 years
Telephone and computer equipment	3-5 years
Software	3 years
Furniture, fixtures, and miscellaneous equipment	5-7 years

We have negotiated certain rent holidays, landlord/tenant incentives, and escalations in the base price of the rent payments over the term of certain of our operating leases. In accordance with SFAS No. 13 "Accounting for Leases," FASB Technical Bulletin 88-1 "Issues Relating to Accounting for Leases," and FASB Technical Bulletin 85-3 "Accounting for Operating Leases with Scheduled Rent Increases," we recognize rent holidays and rent escalations on a straight-line basis over the lease term. The landlord/tenant incentives are recorded as deferred rent and amortized over the life of the related lease.

### ***Impairment of Long-Lived Assets***

We periodically, on at least an annual basis, evaluate potential impairments of our long-lived assets in accordance with FAS No. 144. When we determine that the carrying value of a long-lived asset may not be recoverable, based upon the existence of one or more indicators of impairment, we evaluate the projected undiscounted cash flows related to the assets. If these cash flows are less than the carrying values of the assets, we measure the impairment based on the excess of the carrying value of the long-lived asset over the long-lived asset's fair value. No impairment losses were recorded in 2006, 2005, or 2004 and we do not believe any impairments exist.

### ***Income Taxes***

We account for income taxes using the liability method of accounting for income taxes as prescribed by Statement of Financial Accounting Standard No. 109, "Accounting for Income Taxes" ("FAS No. 109"). Deferred income taxes reflect net effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. We are subject to foreign income taxes on our foreign operations.

### ***Stock-Based Compensation***

On January 1, 2006, we adopted Statement of Financial Accounting Standards Statement No. 123(R), "Share-based Payment" ("FAS No. 123(R)"). As such, during 2006, we began recognizing expense related to all share-based payments to employees, including grants of employee stock options, in our Condensed Consolidated Statements of Income based on the share-based payments' fair values over the period during which the employees are required to provide services in exchange for the equity instruments. We adopted this standard using the modified prospective method, which stipulates that compensation expense be recognized beginning with the effective date for all share-based payments granted after the effective date and for all awards granted to employees prior to the effective date of this statement that remain unvested on the effective date. We use the Black-Scholes method for valuing stock-based awards. See Note 11, "Stock Options," for further information regarding the assumptions used to calculate share-based payment expense.

### ***New Accounting Pronouncements***

In May 2005, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards Statement No. 154, "Accounting Changes and Error Corrections" ("FAS No. 154"). SFAS No. 154 is a replacement of Accounting Principles Board Opinion No. 20 ("APB 20") and FASB Statement No. 3. SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. FAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, and we adopted this standard on January 1, 2006 without a material impact on our consolidated results of operations, financial condition or cash flows.

In July 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109” (“FIN 48”). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. We do not expect the interpretation will have a material impact on our consolidated results of operations, financial condition or cash flows.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements” (“SAB No. 108”). SAB No. 108 provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for the purpose of determining if the current year financial statements are materially misstated. In the year of initial adoption, SAB No. 108 permits registrants to record the cumulative effect of initial adoption by recording the necessary correcting adjustments that are material under the dual method to the carrying values of assets or liabilities as of the beginning of that year, with an offsetting adjustment recorded in retained earnings. SAB No. 108 is effective no later than the first fiscal year ending after November 15, 2006. Adoption of this standard had no material affect on our consolidated financial position or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” (“FAS No. 157”). FAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently evaluating FAS No. 157 and have not yet determined the impact, if any, that adoption of FAS No. 157 will have on our consolidated results of operations, financial condition or cash flows.

## 2. Earnings Per Share

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

	Year Ended December 31,		
	2006	2005	2004
Net income available to common shareholders from continuing operations	\$ 5,764	\$ 14,015	\$ 20,877
(Loss) income from discontinued operations	-	(1,155)	99
Net income	<u>\$ 5,764</u>	<u>\$ 12,860</u>	<u>\$ 20,976</u>
Weighted average shares of common stock	14,680	14,629	14,455
Dilutive effect of stock options	<u>34</u>	<u>52</u>	<u>325</u>
Common stock and common stock equivalents	<u>14,714</u>	<u>14,681</u>	<u>14,780</u>
Basic net income (loss) per share from:			
Continuing operations	\$ 0.39	\$ 0.96	\$ 1.44
Discontinued operations	-	(0.08)	0.01
Net income	<u>\$ 0.39</u>	<u>\$ 0.88</u>	<u>\$ 1.45</u>
Diluted net income (loss) per share from:			
Continuing operations	\$ 0.39	\$ 0.95	\$ 1.41
Discontinued operations	-	(0.07)	0.01
Net income	<u>\$ 0.39</u>	<u>\$ 0.88</u>	<u>\$ 1.42</u>

Diluted earnings per share is computed on the basis of our weighted average number of common shares outstanding plus the effect of dilutive outstanding stock options using the treasury stock method. Anti-dilutive securities totaling 394,890, 463,259 and 106,042, for the years ended December 31, 2006, 2005, and 2004, respectively, were not included in our calculation because the stock options’ exercise prices were greater than the average market price of the common shares during the periods presented.

### 3. Investments

As of December 31, 2006, investments available for sale consisted of corporate medium term notes and corporate floating debt with a cost basis of \$5,937 and an estimated fair value of \$5,933. The estimated fair value of these notes included gross unrealized losses of \$4 and no gross unrealized gains. All of the investments in our portfolio as of December 31, 2006, had contractual maturities of one year or less. As of December 31, 2005, investments available for sale consisted of:

	<b>Basis</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Accumulated Interest</b>	<b>Estimated Fair Value</b>
Commercial paper	\$ 18,449	\$ -	\$ -	\$ 13	\$ 18,462
Corporate debt securities	7,995	7	-	-	8,002
Equity securities	1,681	45	(22)	-	1,704
Total	<u>\$ 28,125</u>	<u>\$ 52</u>	<u>\$ (22)</u>	<u>\$ 13</u>	<u>\$ 28,168</u>

As of December 31, 2005, equity securities consisted of exchange-traded funds (ETFs), mutual funds and publicly-traded equity securities. Corporate debt securities at December 31, 2005, consisted of corporate bonds and variable preferred debt securities. We had no investments at December 31, 2006, or 2005, that had carried unrealized losses for longer than twelve months and no securities were deemed other-than-temporarily impaired during either period. We were not invested in any trading securities as of December 31, 2006, or 2005.

A substantial decline and/or change in value of equity securities, equity prices in general, international equity mutual funds, investment limited partnerships, and/or call and put options, if held in our investment portfolio, could have a material adverse effect on our portfolio of securities. Also, trading securities could be materially and adversely affected by increasing interest and/or inflation rates or market expectations thereon, poor management, shrinking product demand, and other risks that may affect single companies, as well as groups of companies. Our risk of loss in the event of nonperformance by any party is not considered material.

### 4. Discontinued Operations

On December 16, 2005, we sold our supply chain management services platform. In connection with the transaction, we sold all of the inventory, prepaid assets, property, plant and equipment of our supply chain management services platform to a third party for \$5,750. We received approximately \$4,700 in cash after certain adjustments at closing, in addition to a 5-year, unsecured \$740 note. The terms of the note call for the buyer to make quarterly interest payments to us at a fixed rate of 7% per annum for the first two years of the note. Thereafter, the purchaser must pay us interest plus set principal amounts, per the terms of the note, with the entire balance due on or before December 16, 2010.

The results of operations of our supply chain management services platform have been classified as discontinued operations in all years presented. Included in discontinued operations was revenue from supply chain management services of \$5,949 and \$36,214 for the years ended December 31, 2005, and 2004, respectively. The supply chain management services platform had a net loss of \$1,342 and net income of \$2,664 for the years ended December 31, 2005, and 2004, respectively. Upon completion of the sale, we recorded a gain of \$300 and associated taxes of \$113 in discontinued operations in our Consolidated Statements of Income for the year ended December 31, 2005. Prior to the sale of the platform, we purchased components of our clients' products as an integral part of the platform's business. At the close of an accounting period, packaged and assembled products (together with other associated costs) were reflected as finished goods inventories pending shipment. Owned inventories were valued at the lower of average cost, which approximated actual cost, computed on a first-in, first-out basis, or market. Client-owned inventories were not valued in our balance sheet.

On September 30, 2004, we sold StarTek Europe, Ltd. (StarTek Europe), our operating subsidiary in the United Kingdom ("U.K.") which provided business process outsourcing services from two facilities in Hartlepool, England. The sale was completed pursuant to a Share Purchase Agreement among us, StarTek Europe and Taelus Limited, a U.K. company. Pursuant to the terms of the Share Purchase Agreement, we made a capital contribution to StarTek Europe immediately prior to completion of the transaction, in the form of a cash payment of \$450, a contribution of intercompany debt of \$2,824 owed to us by StarTek Europe and additional cash of \$200 contributed to fund operations, which offset a negative investment in StarTek Europe of \$1,608. Following these transactions,



we conveyed all of the issued and outstanding capital stock of StarTek Europe to Taelus Limited, together with a cash payment of \$450. The results of operations of StarTek Europe have been classified as discontinued operations for the year ended December 31, 2004. Included in discontinued operations for the year ended December 31, 2004, was revenue from StarTek Europe, Ltd. of \$2,970 and a loss on disposal of \$2,316. StarTek Europe had a net loss of \$1,136 for the year ended December 31, 2004.

## 5. Leases

We lease facilities and equipment under various non-cancelable operating leases. Some of these leases have renewal clauses that vary both in length and fee, based on our negotiations with the lessors. Rental expense, including equipment rentals, for 2006, 2005, and 2004 was \$4,416, \$3,690 and \$3,508, respectively. As of December 31, 2006, future minimum rental commitments for operating leases were:

	<b>Minimum Lease Payment</b>
2007	\$ 3,905
2008	3,675
2009	3,409
2010	2,983
2011	2,605
Thereafter	2,095
Total minimum lease payments	<u>\$ 18,672</u>

## 6. Property, Plant and Equipment

Our property, plant and equipment as of December 31, 2006, and 2005, consisted of the following, by asset class:

	<b>As of December 31,</b>	
	<b>2006</b>	<b>2005</b>
Land	\$ 1,685	\$ 1,685
Buildings and improvements	36,772	29,605
Telephone and computer equipment	45,091	37,878
Software	24,403	16,126
Furniture, fixtures, and miscellaneous equipment	19,553	16,867
Construction in progress	3,003	10,059
	<u>130,507</u>	<u>112,220</u>
Less accumulated depreciation	(70,406)	(55,154)
Total property, plant and equipment, net	<u>\$ 60,101</u>	<u>\$ 57,066</u>

## 7. Debt

As of December 31, 2006, and 2005, respectively, we had the following balances outstanding on our long-term debt facilities:

	<b>As of December 31,</b>	
	<b>2006</b>	<b>2005</b>
3.65% secured equipment loan	\$ 3,069	\$ 5,598
Secured equipment promissory note	4,772	-
Canadian dollar secured equipment loan	8,101	-
Greeley, Colorado promissory note	26	52
	<u>15,968</u>	<u>5,650</u>
Less current portion of long-term debt	(5,654)	(2,551)
Long-term debt, less current portion	<u>\$ 10,314</u>	<u>\$ 3,099</u>

As of December 31, 2006, future scheduled annual principal payments on long-term debt are:

	<u>Amount</u>
2008	\$ 3,637
2009	3,388
2010	3,289
	<u>\$ 10,314</u>

In addition to the debt facilities listed above, we maintain a \$10.0 million unsecured line of credit with Wells Fargo Bank, N.A. (the Bank) which we use to finance regular, short-term operating expenses. On June 29, 2005, we amended and renewed this agreement such that the last day under which the Bank will make advances under the line of credit will be June 30, 2007. Borrowings under this line of credit bear interest at either a fluctuating rate per annum that is 1% below the Prime Rate or at a fixed rate per annum determined by the Bank to be 1.5% above LIBOR. The interest rate on this facility was 7.25% and 6.25% as of December 31, 2006, and 2005, respectively. Interest expense associated with this facility totaled \$36 and \$21 for the years ended December 31, 2006, and 2005, respectively. Under this line of credit, we must generate net profit after tax of at least one dollar on a rolling four-quarter basis, measured quarterly, and are not permitted to incur net losses in any two consecutive quarterly periods. We were required to have a tangible net worth of \$94.7 million at December 31, 2006, and at the close of each subsequent quarter, we are required to have a minimum tangible net worth equal to the minimum tangible net worth we were required to have at the end of the prior fiscal period plus 25% of net income (if positive). No amounts were outstanding under this line of credit as of December 31, 2006, or 2005. We were in compliance with all of our debt covenants related to this facility as of December 31, 2006, and 2005.

#### ***Canadian Dollar Secured Equipment Loan***

On November 17, 2006, StarTek Canada Services, Ltd., one of our subsidiaries, borrowed approximately \$9,600 Canadian dollars from Wells Fargo Equipment Finance Company, Inc. These borrowings are secured by fixed assets and tenant improvements at certain of our Canadian facilities. The loan will be repaid in 48 monthly installments of \$225, which reflects an implicit annual interest rate of 5.77%. We may elect to prepay amounts due under this loan provided that we notify Wells Fargo Equipment Finance Company, Inc. at least 30 days prior in writing and that we pay a prepayment premium, as stipulated in the loan agreement.

These borrowings are absolutely and unconditionally guaranteed by StarTek, Inc. and our subsidiary, StarTek USA, Inc. (collectively, the "loan guarantors"). The guarantee was executed simultaneously with the secured equipment loan agreement and remains in force as long as there is an arrangement between the loan guarantors unless prior written consent is given by Wells Fargo Equipment Finance Company, Inc. Under the guarantee agreement, if StarTek Canada Services, Ltd. fails to pay its obligations under the loan agreement when due, the loan guarantors agree to punctually pay any indebtedness, along with interest and certain expenses incurred on behalf of Wells Fargo Equipment Finance Company, Inc. to enforce the guarantee, to Wells Fargo Equipment Finance Company, Inc. As such, as of December 31, 2006, the maximum potential amount that the loan guarantors would be required to pay upon default would be \$8,101 plus interest, as stated above.

The secured equipment loan and related guarantee have been incorporated by reference to this Form 10-K as Exhibits 10.74 and 10.75, respectively.

#### ***Secured Promissory Note***

On November 17, 2006, our subsidiary, StarTek USA, Inc., borrowed approximately \$4,900 from Wells Fargo Equipment Finance, Inc. The loan will be repaid with interest in 48 monthly installments of \$115. The borrowings bear interest at an annual rate of 6.38% and are secured by fixed assets and tenant improvements at certain of our U.S. facilities. The borrowings may be repaid early without penalty.

This promissory note is absolutely and unconditionally guaranteed by StarTek, Inc. and our subsidiary, StarTek Canada Services, Ltd. (collectively, the "note guarantors"). The guarantee was executed simultaneously with the promissory note agreement and remains in force regardless of whether the note is paid in full until the guarantee is revoked prospectively as to future transactions by written notice from Wells Fargo Equipment Finance, Inc. Under the guarantee agreement, if StarTek USA, Inc. fails to pay its obligations under the loan agreement when due, the guarantors agree to full and prompt payment of each and every debt, liability and obligation

of every type and description that StarTek USA, Inc. may now or in the future owe. As of December 31, 2006, the maximum potential amount that the guarantors would be required to pay upon default would be \$4,772 plus interest, as stated above.

The promissory note and related guarantee have been incorporated by reference to this Form 10-K as Exhibits 10.76 and 10.77, respectively.

### ***3.65% Secured Equipment Loan.***

We entered into a secured equipment loan with Wells Fargo Equipment Finance, Inc. in the amount of \$10,000 in February 2004. The loan bears interest at a fixed rate of 3.65% per annum. Principal and interest are payable in 48 monthly installments of \$224. The loan is secured by certain furniture, telephone and computer equipment. Interest expense associated with this agreement totaled \$162 and \$253 during the years ended December 31, 2006, and 2005, respectively.

### ***Greeley, Colorado Promissory Note.***

In 1998, we purchased land in Greeley, Colorado, on which we built our Greeley North facility. We financed the land through a non-interest bearing ten year promissory note, the balance of which declines at \$26 per year, without payment, over the ten year term so long as we do not sell or transfer the land or fail to continuously operate a customer service center thereon. As of December 31, 2006, the entire balance of this note was classified as current portion of long-term debt.

## **8. Principal Clients**

The following table represents revenue concentration of our principal clients:

	<b>Year Ended December 31,</b>		
	<b>2006</b>	<b>2005<sup>(1)</sup></b>	<b>2004<sup>(1)</sup></b>
AT&T Inc. (formerly Cingular Wireless, LLC and AT&T Corp.)	52.7%	63.6%	63.5%
T-Mobile, a subsidiary of Deutsche Telekom	21.2%	23.9%	28.0%

<sup>(1)</sup> 2004 and 2005 data has been adjusted from amounts previously reported due to the merger of two of our clients, AT&T and Cingular. 2004 data has also been adjusted as a result of the sale of our Supply Chain Management platform in 2005, as discussed in Note 4 "Discontinued Operations."

Our contract with AT&T Inc. (through our contract with Cingular Wireless, LLC) expired in December 2006 and a significant portion of the contract, including the customer care and accounts receivable management portions of the contract, has been extended through May 31, 2007, but has not yet been negotiated and renewed (see Exhibits 10.82 and 10.86 to this Form 10-K). The remaining portion of the contract, constituting the business care services portion of the contract, was renewed in December 2006 and expires in November 2008. This portion of the contract is included as Exhibits 10.85 and 10.83 to this Form 10-K.

Our T-Mobile contract expires in August 2007. There are currently no volume or revenue guarantees associated with either the T-Mobile or AT&T Inc. contracts.

The loss of a principal client and/or changes in timing or termination of a principal client's product launch, volume delivery or service offering would have a material adverse effect on our business, revenue, operating results, and financial condition. To limit our credit risk, management from time to time will perform credit evaluations of our clients. Although we are directly impacted by the economic conditions in which our clients operate, management does not believe substantial credit risk existed as of December 31, 2006.

## 9. Net Interest and Other Income

Net interest and other income for the years ended December 31, 2006, 2005, and 2004, were composed of the following:

	<b>Year Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
Interest income	\$ 1,433	\$ 1,500	\$ 1,765
Interest expense	(196)	(361)	(357)
Net gain on sale of assets	98	783	-
Recovery of previously impaired asset	663	-	-
Investment income and other	128	(443)	2,124
Net interest income and other	<u>\$ 2,126</u>	<u>\$ 1,479</u>	<u>\$ 3,532</u>

We recognized impairment losses in 2001 related to our investment in Six Sigma, LLC, which we determined was other-than-temporarily impaired due to the bankruptcy filing of Six Sigma, LLC. During 2006, we recovered \$663 in cash from the bankruptcy proceedings, and this amount was recognized in other income.

## 10. Income Taxes

Pre-tax net book income from continuing operations was:

	<b>Year Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
U.S.	\$ 4,302	\$ 17,462	\$ 28,682
Foreign	3,765	4,730	4,942
Total	<u>\$ 8,067</u>	<u>\$ 22,192</u>	<u>\$ 33,624</u>

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

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Current:			
Federal	\$ 1,398	\$ 6,809	\$ 6,433
State	246	621	856
Foreign	2,343	2,016	2,136
Total current	<u>\$ 3,987</u>	<u>\$ 9,446</u>	<u>\$ 9,425</u>
Deferred:			
Federal	\$ (393)	\$ (1,519)	\$ 2,965
State	(69)	(138)	299
Foreign	(930)	(227)	58
Net change in valuation allowance	(292)	615	-
Total deferred	<u>\$ (1,684)</u>	<u>\$ (1,269)</u>	<u>\$ 3,322</u>
Income tax expense	<u>\$ 2,303</u>	<u>\$ 8,177</u>	<u>\$ 12,747</u>

Income tax benefits associated with disqualifying dispositions of incentive stock options during 2006, 2005, and 2004 reduced income taxes by \$97, \$76, and \$1,344, respectively. Such benefits were recorded as an increase to additional paid-in capital.

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

	<b>Year Ended December 31,</b>	
	<b>2006</b>	<b>2005</b>
Current Deferred Tax (Liabilities) Assets:		
Bad debt allowance	\$ 6	\$ 94
Vacation accrual	463	380
Deferred revenue	36	59
Accrued expenses	-	(5)
Unrealized loss on investments	(3)	(5)
Loss on impaired investments available for sale	-	55
Self-funded insurance program	28	166
Prepays	(756)	(732)
Cumulative translation adjustment	(669)	(917)
Other	141	(203)
Net Current Deferred Tax (Liabilities) Assets	<u>\$ (754)</u>	<u>\$ (1,108)</u>
Long-Term Deferred Tax Assets (Liabilities):		
Depreciation, amortization, and gain/loss	\$ 1,251	\$ (922)
Loss on impaired investments	990	982
Foreign tax credit carryforward	554	554
Capital loss carryforward	2,121	2,403
Stock-based compensation	122	-
Deferred compensation	75	-
Other	214	554
Net Long-Term Deferred Tax Assets (Liabilities)	<u>\$ 5,327</u>	<u>\$ 3,571</u>
Subtotal	\$ 4,573	\$ 2,463
Valuation Allowance	(883)	(1,169)
Total Net Deferred Tax Asset (Liability)	<u><u>\$ 3,690</u></u>	<u><u>\$ 1,294</u></u>

Gross capital loss carry forwards due to expire are as follows: \$54 in 2007; \$3,901 in 2008; \$444 in 2009, and \$322 in 2010. During the first quarter of 2006, the settlement of an outstanding tax audit allowed us to release \$410 of a reserve previously established for that audit. During the fourth quarter of 2006, we reversed \$292 of a capital loss valuation allowance related to the cash recovery of our investment in Six Sigma (see Note 9, "Net Interest and Other Income") and investment portfolio gains. During the third quarter of 2005, we booked a \$600 tax-basis valuation allowance relating to capital loss carryforwards that were not offset by sufficient future capital gains before they expired in early 2007. We had a full valuation allowance on our foreign tax credit carryforwards in the amount of \$554 for 2006 and 2005. Foreign tax credit carryforwards due to expire are as follows: \$25 in 2011, \$4 in 2012, and \$525 in 2013.

Differences between U.S. federal statutory income tax rates and our effective tax rates for the years ended December 31, 2006, 2005, and 2004 were:

	<b>Year Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
US statutory tax rate	35.0%	35.0%	35.0%
Effect of state taxes (net of Federal benefit)	1.7%	2.4%	2.9%
Release of reserve for state audit settlements	-5.1%	0.0%	0.0%
Capital loss valuation allowance	-3.6%	0.0%	0.0%
Other, net	0.5%	-0.6%	0.0%
Total	<u>28.5%</u>	<u>36.8%</u>	<u>37.9%</u>

## 11. Stock Options

We maintain two equity compensation plans, the StarTek, Inc. Stock Option Plan and the Director Option Plan (together, “the Plans”), for the benefit of certain of our directors, officers and employees. The compensation cost that has been charged against income for those plans for the year ended December 31, 2006, was \$321 and is included in selling, general and administrative expense. The total income tax benefit recognized in our Condensed Consolidated Statements of Operations related to share-based compensation arrangements was \$92 for the year ended December 31, 2006.

The StarTek, Inc. Stock Option Plan was formed in 1997 and is designed to provide stock options, stock appreciation rights, and incentive stock options (cumulatively referred to as “options”) to key employees, officers, directors (other than non-employee directors), consultants, other independent contractors and any named subsidiary designated in the plan as a participant. The option plan stipulates that up to 2,100,000 options may be granted to eligible participants and that each option is convertible to one share of StarTek, Inc. common stock. As of December 31, 2006, 423,580 options were available for future grant under this plan. Options awards are made at the discretion of the Compensation Committee of the board of directors of StarTek, Inc. (the “Committee”), which is composed entirely of non-employee directors. Unless otherwise determined by the Committee, all options granted under the option plan vest 20% annually beginning on the first anniversary of the options’ grant date and expire at the earlier of: (i) ten years (or five years for participants owning greater than 10% of the voting stock) from the options’ grant date; (ii) three months after termination of employment for any reason other than cause or death; or (iii) six months after the participant’s death; or (iv) immediately upon termination for cause. We have made exceptions to these vesting provisions for certain of our executive officers and employees, which were subject to approval by the Compensation Committee of the board of directors. These amended agreements have been filed with the SEC as Exhibits 10.4, 10.21, 10.22, 10.26, 10.79 and 10.81 to this Annual Report on Form 10-K. Options granted under the option plan on and after June 12, 2006, vest as to 25% of the shares on the first anniversary of the date of grant and 2.0833% of the shares each month thereafter for 36 months.

The Director Option Plan was established to provide stock options to non-employee directors who are elected to serve on the StarTek, Inc. board of directors (the “Board”) and who serve continuously from commencement of their term (the “Participants”). The Director Option Plan provides for stock options to be granted for a maximum of 140,000 shares of common stock. As of December 31, 2006, 18,000 options were available for future grant under this plan. Each Participant is granted options to acquire 3,000 shares of common stock upon election to serve on the Board and is automatically granted options to acquire 3,000 shares of common stock on each date they are re-elected to the Board, typically coinciding with each annual meeting of stockholders. All options granted under the Director Option Plan fully vest upon grant and expire at the earlier of: (i) the date when the Participant’s membership on the Board is terminated for cause; (ii) ten years from option grant date; or (iii) one year after the Participant’s death.

Our 2007 proxy statement includes a proposal to increase the pool of shares reserved for issuance under our stock option plans by 500,000 shares, of which 488,000 would be reserved for the StarTek, Inc. Stock Option Plan and the balance would be reserved for the Director Option Plan. Additionally, our 2007 proxy statement includes a proposal to increase the number of shares granted upon the date of a director’s initial election to the board and upon a director’s re-election to the board to directors under the Director Option Plan from 3,000 to 6,000 beginning in 2007.

Prior to January 1, 2006, we accounted for stock-based awards to employees and non-employee directors under the intrinsic value recognition and measurement principles of Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees,” and related Interpretations (“APB 25”). Accordingly, no stock option-based employee compensation cost was



recognized in the income statement prior to 2006, as all stock options granted under those plans had an exercise price that was equal to the market value of the underlying stock on the grant date. On January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" ("FAS No. 123(R)") using the modified prospective method (see Note 1, "Basis of Presentation and Summary of Significant Accounting Policies," for further information regarding FAS No. 123(R) and the modified prospective method). Under the guidelines of FAS No. 123(R), pro forma disclosure is no longer an alternative. We use the Black-Scholes method for valuing stock-based awards. The assumptions used to determine the value of our stock-based awards under the Black-Scholes method are summarized below:

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Risk-free interest rate	4.53% - 5.11%	3.97% - 4.18%	1.43% - 4.57%
Dividend yield	6.63% - 9.02%	6.11% - 9.63%	3.66% - 5.77%
Expected volatility	42.57%	42.10%	60.60%
Expected life in years	4.1	7.0	7.0

The risk-free interest rate for periods within the contractual life of the option is based on either the four year or seven year U.S. Treasury strip yield in effect at the time of grant. Expected life and volatilities are based on historical experience, which we believe will be indicative of future experience.

The following table details the effect on net income and earnings per share had compensation expense for the share-based compensation arrangements been recorded during 2005 and 2004 based on the Black-Scholes method:

	<b>Year Ended December 31,</b>	
	<b>2005</b>	<b>2004</b>
Net income, as reported	\$ 12,860	\$ 20,976
Share-based employee (including non-employee directors) compensation expense that would have been included in the determination of net income if the fair value method had been applied to all awards, net of tax	(1,633)	(1,945)
Pro forma net income	<u>\$ 11,227</u>	<u>\$ 19,031</u>
Basic earnings per share		
As reported	\$ 0.88	\$ 1.45
Pro forma	<u>\$ 0.77</u>	<u>\$ 1.32</u>
Diluted earnings per share		
As reported	\$ 0.88	\$ 1.42
Pro forma	<u>\$ 0.76</u>	<u>\$ 1.29</u>

A summary of option activity under the Plans as of December 31, 2006, and changes during the years ended December 31, 2006, 2005 and 2004 are presented below:

	<b>Shares</b>	<b>Weighted-Average Exercise Price</b>	<b>Weighted-Average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Value (000s)</b>
Outstanding as of December 31, 2003	1,083,860	\$ 22.09		
Granted	170,700	34.77		
Exercised	(255,000)	17.61		
Forfeited	(212,330)	25.28		
Outstanding as of December 31, 2004	787,230	\$ 25.42		
Granted	578,000	16.10		
Exercised	(25,080)	15.06		
Forfeited	(358,660)	22.95		
Outstanding as of December 31, 2005	981,490	\$ 19.68		
Granted	282,840	13.29		
Exercised	(64,700)	17.19		
Forfeited	(259,430)	17.31		
Outstanding as of December 31, 2006	940,200	\$ 18.58	7.8	\$ 453
Exercisable as of December 31, 2006	431,400	\$ 24.86	6.4	\$ 79

The weighted-average grant-date fair value of options granted during the years ended December 31, 2006, and 2005 was \$2.94 and \$2.89, respectively. The total intrinsic value of options exercised during the years ended December 31, 2006, and 2005 was \$353 and \$221, respectively. The fair value of nonvested shares is determined based on the closing trading price of our common shares on the grant date.

As of December 31, 2006, there was \$1,029 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plans. That cost is expected to be recognized over a weighted-average period of 3.5 years. The total fair value of shares vested during the years ended December 31, 2006, and 2005 was \$130 and \$1,492, respectively.

Prior to our adoption of FAS No. 123(R), we accelerated 143,860 employee stock options, all with exercise prices of \$21.80 or above, such that they immediately vested as of December 30, 2005. The purpose of this action was to eliminate future compensation expense that we would otherwise have recognized upon implementation of FAS No. 123(R). The weighted-average exercise price of the options that were accelerated was \$28.92. Because the options prior to the acceleration had intrinsic values that were more than the intrinsic value of the options after acceleration, no compensation expense related to the acceleration was recognized in our Consolidated Statements of Income for the year ended December 31, 2005. All terms of options with an exercise price of less than \$21.80 remained unchanged.

## 12. Quarterly Data (Unaudited)

The following represents selected information from our unaudited quarterly income statements for the years ended December 31, 2006, and 2005. Amounts related to fiscal year 2005 as shown below may differ from amounts previously disclosed in our Forms 10-Q and 8-K due to the classification of the results of our supply chain management services platform into discontinued operations. This classification was made as a result of the sale of this platform, as discussed in Note 4, "Discontinued Operations."

<b>2006 Quarters Ended</b>				
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
Revenue	\$ 57,105	\$ 59,525	\$ 61,865	\$ 59,117
Gross profit	9,772	8,204	9,761	8,451
Selling, general and administrative expenses	7,573	7,389	7,533	7,752
Operating profit	2,199	815	2,228	699
Net income	<u>\$ 2,136</u>	<u>\$ 825</u>	<u>\$ 1,570</u>	<u>\$ 1,233</u>
Basic net income per share	<u>\$ 0.15</u>	<u>\$ 0.06</u>	<u>\$ 0.11</u>	<u>\$ 0.08</u>
Diluted net income per share	<u>\$ 0.14</u>	<u>\$ 0.06</u>	<u>\$ 0.11</u>	<u>\$ 0.08</u>
<b>2005 Quarters Ended</b>				
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
Revenue	\$ 53,338	\$ 50,991	\$ 53,877	\$ 58,165
Gross profit	12,694	11,343	12,524	12,587
Selling, general and administrative expenses	7,682	6,530	7,190	7,033
Operating profit	5,012	4,813	5,334	5,554
Income from continuing operations	3,354	2,668	3,651	4,342
Net (loss) income on discontinued operations	(708)	(25)	(477)	55
Net income	<u>\$ 2,646</u>	<u>\$ 2,643</u>	<u>\$ 3,174</u>	<u>\$ 4,397</u>
Basic net income (loss) per share:				
Continuing operations	\$ 0.23	\$ 0.18	\$ 0.25	\$ 0.30
Discontinued operations	(0.05)	-	(0.03)	-
Net income per basic share	<u>\$ 0.18</u>	<u>\$ 0.18</u>	<u>\$ 0.22</u>	<u>\$ 0.30</u>
Diluted net income (loss) per share:				
Continuing operations	\$ 0.23	\$ 0.18	\$ 0.25	\$ 0.30
Discontinued operations	(0.05)	-	(0.03)	-
Net income per diluted share	<u>\$ 0.18</u>	<u>\$ 0.18</u>	<u>\$ 0.22</u>	<u>\$ 0.30</u>

### 13. Reserves and Allowances

Year-to-year changes in our allowance for doubtful accounts is summarized below:

	Year Ended December 31,		
	2006	2005	2004
<b>Allowance for Doubtful Accounts</b>			
Balance at beginning of year	\$ 250	\$ 357	\$ 790
Reserve adjustment	(86)	(107)	(433)
Writeoffs	(148)	-	-
Recoveries	-	-	-
Balance at end of year	<u>\$ 16</u>	<u>\$ 250</u>	<u>\$ 357</u>

### 14. Litigation

We and six of our present and former directors and officers have been named as defendants in West Palm Beach Firefighters' Pension Fund v. StarTek, Inc., et al. (U.S. District Court, District of Colorado) filed on July 8, 2005, and John Alden v. StarTek, Inc., et al. (U.S. District Court, District of Colorado) filed on July 20, 2005. Those actions have been consolidated by the federal court. The consolidated action is a purported class action brought on behalf of all persons (except defendants) who purchased shares of our common stock in a secondary offering by certain of our stockholders in June 2004, and in the open market between February 26, 2003, and May 5, 2005 (the "Class Period"). The consolidated complaint alleges that the defendants made false and misleading public statements about us and our business and prospects in the prospectus for the secondary offering, as well as in filings with the SEC and in press releases issued during the Class Period, and that the market price of our common stock was artificially inflated as a result. The complaints allege claims under Sections 11 and 15 of the Securities Act of 1933, and under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. The plaintiffs in both cases seek compensatory damages on behalf of the alleged class and award of attorneys' fees and costs of litigation. We believe we have valid defenses to the claims and intend to defend the litigation vigorously. On May 23, 2006, we and the individual defendants moved the court to dismiss the action in its entirety. Two stockholder derivative lawsuits related to these aforementioned claims were also filed against various of our present and former officers and directors on November 16, 2005, and December 22, 2005, alleging breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, and unjust enrichment. The derivative actions, which have been consolidated, name us as a nominal defendant. On April 18, 2006, we and the individually named defendants filed a motion to dismiss the derivative actions.

It is not possible at this time to estimate the possibility of a loss or the range of potential losses arising from these claims. We may, however, incur material legal fees with respect to our defense of these claims. The claims have been submitted to the carriers of our executive and organization liability insurance policies. The policies have primary and excess coverage that we believe will be adequate to defend this case and are subject to a retention for securities claims. These policies provide that we are responsible for the first \$1,025 in legal fees. As of March 1, 2007, we had incurred legal fees related to these suits of more than 90% of our \$1,025 deductible.

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

### 15. Subsequent Event

On January 5, 2007, our board of directors appointed A. Laurence Jones as President, Chief Executive Officer and Interim Chief Financial Officer, effective immediately. Mr. Jones succeeded Steven D. Butler. Mr. Butler was paid a lump sum payment of salary, less applicable withholding, and vacation pay as if he had been employed through April 4, 2007. He is also entitled to receive severance pay, payable in equal monthly installments, through April 8, 2008 in the amount of his base salary as of January 5, 2007.

Effective January 30, 2007, we terminated approximately 300 employees at our Petersburg, Virginia site as a result of one of our client's reduction in call volume. We did not incur significant severance or transition costs with respect to this change. We plan to utilize this facility as a location for new business.

## SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Form 10-K to be signed on its behalf by the undersigned thereunto duly authorized.

STARTEK, INC.  
(REGISTRANT)

By: /s/ A. LAURENCE JONES Date: March 15, 2007  
A. Laurence Jones  
President, Chief Executive Officer and  
Interim Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>/s/ A. LAURENCE JONES</u> A. Laurence Jones	Director, President, Chief Executive Officer and Interim Chief Financial Officer (Principal Executive Officer and Principal Financial Officer)	Date: March 15, 2007
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<u>/s/ SYLVIA A. CHURCH</u> Sylvia A. Church	Vice President and Controller (Principal Accounting Officer)	Date: March 15, 2007
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<u>/s/ ED ZSCHAU</u> Ed Zschau	Chairman of the Board	Date: March 15, 2007
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<u>/s/ ALBERT C. YATES</u> Albert C. Yates	Director	Date: March 15, 2007
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<u>/s/ P. KAY NORTON</u> P. Kay Norton	Director	Date: March 15, 2007
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**STARTEK, INC.**  
**INDEX OF EXHIBITS**

**Exhibits**

- 3.1 Restated Certificate of Incorporation of the Company (incorporated herein by reference to Form S-1 Registration Statement filed with the Securities and Exchange Commission on January 29, 1997).
- 3.2 Restated Bylaws of the Company (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on June 6, 2006).
- 3.3 Certificate of Amendment to the Certificate of Incorporation of StarTek, Inc. filed with the Delaware Secretary of State on May 21, 1999 (incorporated herein by reference to Form 10-K Annual Report filed with the Securities and Exchange Commission on March 8, 2000).
- 3.4 Certificate of Amendment to the Certificate of Incorporation of StarTek, Inc. filed with the Delaware Secretary of State on May 23, 2000 (incorporated herein by reference to Form 10-Q Quarterly Report filed with the Securities and Exchange Commission on August 14, 2000).
- 3.5 Amendment No.1 to the StarTek, Inc. Restated Bylaws (incorporated herein by reference to Form 10-Q Quarterly Report Filed with the Securities and Exchange Commission on November 9, 2004).
- 4.1 Specimen Common Stock certificate (incorporated herein by reference to Amendment No. 1 to Form S-1 Registration Statement filed with the Securities and Exchange Commission on March 7, 1997).
- 10.1† StarTek, Inc. Stock Option Plan (incorporated herein by reference to Amendment No. 1 to Form S-1 Registration Statement filed with the Securities and Exchange Commission on March 7, 1997).
- 10.2† Form of Stock Option Agreement (incorporated herein by reference to Amendment No. 1 to Form S-1 Registration Statement filed with the Securities and Exchange Commission on March 7, 1997).
- 10.3† StarTek, Inc. Director Stock Option Plan (incorporated herein by reference to Form S-1 Registration Statement filed with the Securities and Exchange Commission on January 29, 1997).

- 10.20† Employment Agreement between StarTek, Inc. and Steven D. Butler (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on May 17, 2005).
- 10.21† Option Agreement issued to Steven D. Butler (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on May 17, 2005).
- 10.22† Amended and Restated Option Agreement issued to Steven D. Butler (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on May 17, 2005).
- 10.23† Offer Letter for Rodd E. Granger, effective as of August 1, 2005 (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on August 8, 2005).
- 10.25† Offer letter for Patrick M. Hayes, effective as of June 12, 2006 (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on June 16, 2006).
- 10.26 Form of Option Agreement pursuant to StarTek, Inc. Stock Option Plan (four year vesting schedule) (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on June 16, 2006).
- 10.27† Compensation for Chairman of the Board (incorporated by reference to Item 1.01 of Form 8-K filed with the Securities and Exchange Commission on August 4, 2006).
- 10.33 Credit Agreement and \$10,000,000 Revolving Line of Credit Note dated June 30, 2003, between StarTek, Inc. and Wells Fargo Bank West, National Association (incorporated herein by reference to Exhibit 10.32 to Form 10-Q Quarterly filed with the Securities and Exchange Commission on August 14, 2003).
- 10.34 Renewal and Amended Credit Agreement by and between StarTek, Inc. and Wells Fargo NA (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on July 5, 2005).
- 10.35 Facility lease agreement dated July 25, 2001, between OGT Holdings Ltd. and StarTek Canada Services, Ltd. and StarTek USA, Inc. (incorporated herein by reference to Form 10-Q Quarterly Report filed with the Securities and Exchange Commission on August 14, 2001).
- 10.36 Facility Sublease dated July 1, 2001, between The Business Depot Ltd. and StarTek Canada Services, Ltd. (incorporated herein by reference to Form 10-Q Quarterly Report filed with the Securities and Exchange Commission on August 14, 2001).
- 10.39& Master Services Agreement and Statements of Work dated September 20, 2005, between StarTek, USA, Inc. and T-Mobile USA (incorporated herein by reference to Form 10-Q filed with the Securities and Exchange Commission on November 9, 2005).
- 10.42# AT&T General Agreement dated January 1, 2002, between StarTek, Inc. and AT&T Corp. (incorporated herein by reference to Form 10-Q Quarterly Report filed with the Securities and Exchange Commission on May 15, 2002).

- 10.45 Facility lease agreement dated February 14, 2003, between Cornwall Centre Limited and StarTek Canada Services, Ltd. (incorporated herein by reference to Exhibit 10.44 to Form 10-K Annual Report filed with the Securities and Exchange Commission on March 12, 2003).
- 10.46 Facility lease agreement dated February 24, 2003, between Cardwell Companies Inc. and StarTek USA, Inc. (incorporated herein by reference to Exhibit 10.45 to Form 10-K Annual Report filed with the Securities and Exchange Commission on March 12, 2003).
- 10.47 Registration Rights Agreement by and among StarTek, Inc. and A. Emmet Stephenson, Jr. (incorporated herein by reference to Form 10-K Annual Report filed with the Securities and Exchange Commission on March 9, 2004).
- 10.48 Investor Rights Agreement by and among StarTek, Inc., A. Emmet Stephenson Jr., and Toni E. Stephenson (incorporated herein by reference to Form 10-K Annual Report filed with the Securities and Exchange Commission on March 9, 2004).
- 10.49† Form of Indemnification Agreement between StarTek, Inc. and its Officers and Directors (incorporated herein by reference to Form 10-K Annual Report filed with the Securities and Exchange Commission on March 9, 2004).
- 10.50 Promissory Note to Wells Fargo Equipment Finance, Inc. (incorporated herein by reference to Form 10-K Annual Report filed with the Securities and Exchange Commission on March 9, 2004).
- 10.51 Facility lease agreement dated March 25, 2004, between StarTek USA, Inc. and Lynchburg Realth LLC (incorporated herein by reference to Form 10-Q Quarterly Report filed with the Securities and Exchange Commission on May 5, 2004).
- 10.52 Facility lease agreement dated May 21, 2004, between StarTek USA, Inc. and Crescent Real Estate Funding VIII, L.P. (incorporated herein by reference to Form 10-Q Quarterly Report filed with the Securities and Exchange Commission on August 9, 2004).
- 10.53 First amendment to facility lease agreement between StarTek USA, Inc. and Crescent Real Estate Funding VIII, L.P. (incorporated herein by reference to Form 10-K Annual Report filed with the Securities and Exchange Commission on August 9, 2004).
- 10.54 Facility lease agreement dated July 26, 2004, between StarTek USA, Inc. and Southern Terminals, Inc. (incorporated herein by reference to Form 10-Q Quarterly Report filed with the Securities and Exchange Commission on August 9, 2004).
- 10.55# Amendment No. 001 to the AT&T Wireless Services Provider Master Agreement dated April 1, 2004, between StarTek USA, Inc. and AT&T Wireless Service, Inc. (incorporated herein by reference to Form 10-Q Quarterly Report filed with the Securities and Exchange Commission on August 9, 2004).
- 10.56† Form of Executive Confidentiality and Non-competition Agreement (incorporated herein by reference to Current Report on Form 8-K filed with the Securities and Exchange Commission on September 14, 2004).
- 10.57 Share Purchase Agreement by and among StarTek, Inc., StarTek Europe Ltd. and Taelus Limited, dated September 30, 2004 (incorporated herein by to Form 8-K Annual Report filed with the Securities and Exchange Commission on October 6, 2004).
- 10.58† Amendment No. 2 to StarTek, Inc. Stock Option Plan (incorporated herein by reference to Form 10-Q Quarterly Report filed with the Securities and Exchange Commission on November 9, 2004).



- 10.59† Amendment No. 1 to StarTek, Inc. Director Stock Option Plan (incorporated herein by reference to Form 10-Q Quarterly Report filed with the Securities and Exchange Commission on November 9, 2004).
- 10.60† Amendment No. 2 to StarTek, Inc. Director Stock Option Plan (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on September 9, 2004).
- 10.61† Form of Option Agreement pursuant to StarTek, Inc. Director Stock Option Plan (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on September 9, 2004).
- 10.62 Agreement of Lease between StarTek USA, Inc. and South Crater Square Associates, LLC (incorporated by reference to Form 8-K filed with the Securities and Exchange Commission on October 11, 2005).
- 10.63 Facility Lease Agreement between StarTek Canada Services, Ltd. and The Corporation of The City of Thunder Bay (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on January 5, 2006).
- 10.64 Facility Lease Agreement between StarTek Canada Services, Ltd. and Agers Holdings, Ltd. (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on January 5, 2006).
- 10.65 Amendment No. 4 to StarTek, Inc. Stock Option Plan (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on June 6, 2006).
- 10.70 Personal Property Purchase Agreement between StarTek USA, Inc. and DPL Corporation Southeast (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on December 21, 2005).
- 10.71 Real Property Purchase Agreement between StarTek USA, Inc. and DPL Corporation Southeast (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on December 21, 2005).
- 10.72 Promissory Note between StarTek USA, Inc. and DPL Corporation Southeast (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on December 21, 2005).
- 10.74 Security Agreement between StarTek Canada Services, Ltd. and Wells Fargo Equipment Finance Company (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on November 21, 2006).
- 10.75 Form of Guaranty of StarTek Canada Obligations executed by StarTek, Inc. and StarTek USA, Inc. (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on November 21, 2006).
- 10.76 Promissory Note between StarTek USA, Inc. and Wells Fargo Equipment Finance, Inc. (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on November 21, 2006).
- 10.77 Form of Guaranty of StarTek USA Obligations executed by StarTek, Inc. and StarTek Canada Services, Ltd. (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on November 21, 2006).

- 10.78† Employment Agreement between StarTek, Inc. and A. Laurence Jones (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on January 8, 2007).
- 10.79† Option Agreement between StarTek, Inc. and A. Laurence Jones (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on January 8, 2007).
- 10.80† Restricted Stock Agreement between StarTek, Inc. and A. Laurence Jones (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on January 8, 2007).
- 10.81† Separation Agreement by and between StarTek, Inc. and Steven D. Butler (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on January 23, 2007).
- 10.82&\* Amendment dated December 21, 2006, to Call Center Services Statement of Work between StarTek USA, Inc. and Cingular Wireless, LLC.
- 10.83&\* Statement of Work dated December 21, 2006, between StarTek USA, Inc. and Cingular Wireless, LLC.
- 10.84†\* Amendment No. 5 to StarTek, Inc. Stock Option Plan.
- 10.85&\* Master Services Agreement between StarTek USA, Inc. and Cingular Wireless LLC
- 10.86&\* Amendment dated March 1, 2007, to Call Center Services Statement of Work between StarTek USA, Inc. and AT&T Mobility, LLC (f/k/a Cingular Wireless, LLC).
- 21.1\* Subsidiaries of the Registrant
- 23.1\* Consent of Ernst & Young, LLP, Independent Registered Public Accounting Firm.
- 31.1\* Certification of A. Laurence Jones pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\* Written Statement of the Chief Executive Officer and Interim Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

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\* Filed with this Form 10-K

† Management contract or compensatory plan or arrangement.

# The Securities and Exchange Commission has granted our request that certain material in this agreement be treated as confidential. Such material has been redacted from the exhibit as filed.

& Certain portions of this exhibit have been omitted pursuant to a request for confidential treatment and have been filed separately with the Securities and Exchange Commission.

**GAAMD-STAR01107-00**  
**To**  
**CALL CENTER SERVICES AGREEMENT**

This Amendment (GAAMD-STAR010107-00) is effective as of January 1, 2007, between **StarTek.**, a Delaware corporation and **Cingular Wireless LLC** a Delaware limited liability company ("Cingular ") on behalf of itself and its Affiliates, amends that certain Call Center Services Agreement,

**RECITALS**

WHEREAS Cingular and StarTek have entered into that certain Call Center Services Statement of Work dated April 1, 2004 ("SOW") to provide services to Cingular;

WHEREAS Cingular and Contractor desire to amend the Agreement to extend the term of the Agreement;

FOR AND IN CONSIDERATION of the mutual covenants contained herein, the parties agree to amend the Agreement as follows:

1. Section 4 "Term" of the SOW is hereby deleted in its entirety and replaced with the following:

Section 4 "Term" This SOW shall begin on April 1, 2004 and end on March 30, 2007.

2. The amendments made to the SOW by this Amendment (GAAMD-STAR010107-00) shall be effective as of the date of this Amendment. Except as amended by GAAMD-STAR010107-00, and as specifically stated in this Amendment, the SOW is not modified, revoked or superseded and remains in full force and effect.

IN WITNESS WHEREOF, the parties hereby execute this Amendment as of the date first written above.

**Cingular Wireless LLC**

**StarTek USA, Inc.**

By: \_\_\_\_\_

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

**Proprietary Information**

The information contained in this Agreement is not for use or disclosure outside CINGULAR, Supplier, their affiliated companies and their third party representatives, except under written Agreement by the contracting Parties.

\* Material has been omitted pursuant to a request for confidential treatment and such material has been filed separately with the Securities and Exchange Commission. An asterisk within brackets denotes omissions.

This Statement of Work GASOW-STAR100606-00 ("SOW") is issued pursuant to the Master Services Agreement No. GAMSAR-STAR081106-00 dated October 1, 2006 ("Agreement") between Cingular Wireless LLC ("Cingular") and StarTek USA Inc. ("StarTek") and the Agreement is incorporated by reference herein. Capitalized terms used in this SOW not otherwise defined herein shall have the definitions specified in the Agreement. If the SOW conflicts with the terms and conditions of the Agreement, the terms and conditions of the Agreement shall control unless set forth in the "Special Considerations" section of this SOW in which case the SOW shall govern and control.

Cingular hereby authorizes StarTek to perform the following Services:

## **1 SCOPE OF WORK**

- 1.1 StarTek customer services representatives ("CSRs") shall take and handle inbound customer care inquiries for Cingular's Business End User Care ("BEUC") program ("Program") which shall consist of the following four (4) line groups ("Line Group(s)"):

- a. GSM team
- b. TDMA team
- c. Telegence (Cingular Wireless billing system) team
- d. CARE (Cingular Wireless billing system) team

- 1.2 StarTek shall assist Cingular BEUC customers with the following issues [\*] days a week subject to applicable laws at the rates set forth in Exhibit B attached hereto. Any other business customer care activities or changes that result in the nature or type, market or mix of call to change shall be subject to Exhibit 5 of the Agreement.

- I. Account Maintenance
  - a. billing statement questions
  - b. adjustments
  - c. changes to features/services (e.g. up-selling services)
  - d. changes of billing information
  - e. customer issues relative to price plans
  - f. customer cancellation inquiries
  - g. adding / deleting promotions & features
  - h. contract inquiries and termination dates
  - i. rate plan changes
  - j. account updates
  - k. lost / stolen phone resolutions
  - l. cancel requests
  - m. promotion / plan clarification
  - n. programming phones
  - o. equipment and features instructions
  - p. voice mail resets
  - q. respond to coverage concerns
  - r. equipment (wireless cell phones and PDAs) changes
  - s. Migration of customers between billing application
  - t. Completion of downtime form and offline services
  - u. Escalated services/resolution
- II. Clerical/User ID Services
  - a. Activities directly related to data entry, updating, typing, filing, creation of job aids, updating agent communication web sites, maintenance of Cingular user IDs and such other activities as are approved by Cingular in writing.

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1.3 Services shall be performed [\*] as set forth in Exhibit B, at the hours of operations (“Hours of Operation”) set forth below by site (“Site”):

- |        |           |
|--------|-----------|
| a. [*] | [*] – [*] |
| b. [*] | [*]/[*]   |

Hours of Operation may be amended from time to time as set forth in Exhibit 5 of the Agreement. Cingular reserves the right to modify (decrease or increase) Services Hours of Operation upon [\*] calendar days written notice to StarTek. Cingular agrees to utilize the Change in Scope procedures to effect this change.

## 2. PRIMARY CONTACT INFORMATION

2.1 The following will perform the function of primary StarTek Project Manager for the Program for the duration of this SOW. StarTek will use reasonable commercial efforts to retain the resource in this position.

Cingular Contact(s)	StarTek Contact(s)
Name: [Contact]	Name: [Contact]
Address: 15 E. Midland Avenue Paramus, NJ 07652	Address: 44 Cook Street Denver, CO 80206
Phone: [Contact]	Phone: [Contact]
Cell: [Contact]	Cell: [Contact]
E-mail: [Contact]@cingular.com	E-mail: [Contact]@StarTek.com

## 3. TERM

3.1 The Term of this SOW shall commence on November 30, 2006 (“Effective Date”), and shall continue until midnight on November 30, 2008 (the “Initial Term”). The SOW may be terminated as allowed in the Agreement or in this SOW.

## 4. SERVICE SPECIFICATIONS AND REQUIREMENTS

4.1 The deliverables to be delivered by StarTek to Cingular pursuant to this SOW are listed in Exhibit A “Deliverables Matrix” (the “Deliverables”).

## 5. CINGULAR SYSTEMS USE AND DOWNTIME

- 5.1 Should Cingular systems become unavailable to StarTek, StarTek will follow the notification instructions contained in Cingular’s Downtime Policy as provided by Cingular. StarTek will utilize downtime forms to capture call information on the Cingular-provided downtime forms and will input into Cingular systems [\*] after restoration of the impacted systems. Cingular shall pay [\*] for this function. StarTek shall be excused from Performance Standards for the duration of the system outage.
- 5.2 If the telecommunications systems are in failure due to Cingular, Cingular may require StarTek’s CSRs to go into pure AUX state, whereby they are not receiving calls. Cingular shall still be charged the actual outage time incurred for the amount of time affected. StarTek shall be excused from Performance Standards for the duration of the outage.
- 5.3 The Cingular system will be completely down during certain after-hour times and other scheduled times throughout the year for maintenance. When practical, Cingular will advise StarTek of the scheduled maintenance at least [\*] prior to the times and dates that the systems will not be available due to maintenance.
- 5.4 Notwithstanding the foregoing, in the event of a StarTek system/telecommunications outage, StarTek will utilize CSRs’ billable time for offline work and training for the duration of the outage. Cingular shall [\*] for unutilized hours for the duration of a StarTek system outage.

**-SOW Continues Next Page-**

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## 6. PERFORMANCE STANDARDS:

- 6.1 Cingular and StarTek have developed the standards set forth in this SOW, (hereinafter "Performance Standards") to ensure the delivery of high quality, efficient customer service. Effective upon signature of this SOW by both parties ("Execution Date"), Performance Standard measurements for Sites existing on the Execution Date shall begin the month following the Execution Date, or for the Performance Standards related to First Call Resolution and Overall Customer Satisfaction, the next full or prorated per complete months remaining, as the case may be, calendar quarter. Performance Standards for Sites opening after the Execution Date shall be applicable to Services performed from a particular Site/Line Group ninety (90) days after Site opening, or as outlined in the Performance Measurements attached hereto as Exhibit C. Furthermore, anytime a particular Site/Line Group increases by more than [\*] over a two (2) month period, Performance Standards shall not apply with respect to such Site/Line Group until ninety (90) days after the incremental Site/Line Group staff has been in Production handling customer calls. Before the application of any of the Performance Standards, the parties agree to meet and discuss in good faith changes to the Performance Standards set forth and the relevant Cingular invoice credits and StarTek earned debits or bonuses with respect to such Performance Standards based on performance prior to such Performance Standards taking effect. Performance Standards hereunder shall be measured by Line Group at each Site and shall exclude calls handled by the IVR and those calls subject to waivers as set forth herein this SOW. Any invoice credits owed or debits earned by StarTek shall only apply to the Services invoiced for the particular Site/Line Group subject to Section 1.2 herein for which it was measured and shall be assessed to Billable Hours only. Any invoice debits earned by StarTek will be used to offset Cingular invoice credits only except for Section 6.3.3 Occupancy which may earn a true debit. Notwithstanding the foregoing, StarTek may earn a Bonus subject to Sections 6.3.1 and 6.3.2. Cingular invoice credits, StarTek earned debits to Cingular invoice credits, and bonuses will be calculated monthly and shall be applied on a quarterly basis.
- 6.2 Call Volume Forecasting / Staffing. Each month on a by Site/Line Group basis, Cingular shall provide StarTek three (3) written forecasts to be used by StarTek as a guide for recruitment, planning and staffing activities. The three (3) written forecasts are as follows:
1. [\*] with the required number of Full Time Equivalents ("FTEs") by Site/Line Group for recruitment purposes ("[\*]-Day Commitment")
  2. [\*] with the estimated daily number of calls by Site/Line Group for planning purposes
  3. [\*] with daily call arrival patterns by Site/Line Group

StarTek shall provide FTE staffing pursuant to the mutually agreed upon [\*] based upon the [\*], which will include an assumption of [\*] of initial Program training and [\*] of Nesting, by Site/Line Group. Notwithstanding the foregoing, in the event that Cingular requests training to extend beyond [\*] of initial Program training and [\*] of Nesting and StarTek determines that the change will affect StarTek's ability to staff accurately, the parties shall address the change subject to Exhibit 5 of the Agreement.

The mutually agreed upon [\*] represents a commitment by Cingular and StarTek with respect to staffing levels. Once the [\*] is agreed to, Cingular agrees to compensate StarTek for the Billable Hours incurred for the applicable months which shall be no less than [\*] of the [\*], and it is StarTek's responsibility to staff to the [\*] as mutually agreed upon. In cases where StarTek has duplicate Line Groups across Sites, StarTek reserves the right to increase or decrease volumes at a Site level as long as the [\*] remains unchanged

Each [\*] will be prepared on a Site/Line Group basis in [\*] intervals and will include estimated call volumes, estimated average handle times, estimated shrinkage percentages and, when available, any other information which would be relevant for StarTek in providing the Services.

Both Cingular and StarTek will need to agree upon the volume forecasts and related staffing when the [\*] from the previous [\*], as it may require additional new hire training. The parties shall mutually agree upon adjusted staffing for the modified forecast volumes pursuant to Exhibit 5 of the Agreement.

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Notwithstanding the foregoing, in the event a Site staffing decrease is the lesser of (a) [\*] or (b) [\*] of the Site, StarTek shall have [\*] days from receipt of written notice to decrease the [\*].

- a) The Performance Standards outlined here in this SOW may be changed by Cingular upon [\*] written notice to StarTek per the procedure outlined in Exhibit 5, Management Procedures for Change in Scope of the Agreement.
- b) Notwithstanding the foregoing, StarTek shall be waived for Performance Standards in breach under this SOW or the Agreement to the extent caused by Cingular or if actual call volume for such Program exceeds or is less than the [\*] for such Site/Line Group by more than [\*] or as otherwise set forth in this SOW or the Agreement.
- c) Failure to meet the same Performance Standard at the same Site/Line Group for [\*] shall be considered a material default.
- d) StarTek shall provide at least [\*] of the staffing pursuant to the [\*] and in any case shall use reasonable efforts to achieve [\*] of the staffing pursuant to the [\*], and Cingular shall provide at least [\*] of the Billable Hours pursuant to the [\*].

6.3 Performance Standards: The following Performance Standards shall apply to [\*] Groups only, and shall be subject to material default and the applicable Cingular invoice credit, StarTek earned debit to Cingular's invoice credit, or Bonus set forth herein.

6.3.1 First Call Resolution Rate ("FCR"): FCR will be measured quarterly by Site by the Telegence and CARE Line Groups which shall be considered one (1) Line Group for the purposes of FCR stack ranking and shall be ranked against Like Sites contingent up a sample size of at least [\*] per Site. Sample sizes of less than [\*] shall be excluded from the quarterly measurement. Cingular invoice credits and StarTek earned offset debits will be applied at the end of the quarter, by Site/Line Group pursuant to Exhibit C. New sites will be measured [\*] after the first call received in Production. Converted sites (Sites subject to Conversion training as described in Exhibit B herein) will be measured [\*] after the first call received in Production. The Cingular invoice credits and StarTek earned offset debits will be applied in the following fashion based on FCR scores:

below [*]% of Like sites	[*]% Cingular invoice credit
[*]-[*]% of Like Sites	[*]% Cingular invoice credit
[*]-[*]% of Like Sites	[*]% StarTek earned offset debit
[*]%+ of Like Sites	[*]% StarTek earned offset debit

Not to exceed [\*]% Cingular invoice credit

A [\*] may apply on a per Site basis if stretch targets are achieved for both FCR and Overall Satisfaction ("Bonus"). The stretch target for First Call Resolution is [\*] or better. The Bonus shall be calculated as follows: 1) The monthly invoice credit(s) /debit(s) shall be calculated ("Offset Result"), then (2) The Bonus shall be applied to the Offset Result.

6.3.2 Overall Customer Satisfaction ("OCS"): will be measured quarterly by Site by the Telegence and CARE Line Groups which shall be considered one (1) Line Group for the purposes of OCS stack ranking and ranked against Like Sites contingent up a sample size of at least [\*] per Site. Sample sizes of less than [\*] shall be excluded from the quarterly measurement. Cingular invoice credits and StarTek earned offset debits will be applied at the end of the quarter, by Site/Line Group pursuant to Exhibit C. New sites will be measured [\*] after the first call received in Production. Converted sites (Sites subject to Conversion training as described in Exhibit B.a herein) will be measured [\*] after the first call received in Production. The Cingular invoice credits and StarTek earned offset debits will be applied in the following fashion based on Overall Customer Satisfaction scores:

below [*]% of Like Sites	[*]% Cingular invoice credit
[*]-[*]% of Like Sites	[*]% Cingular invoice credit
[*]-[*]% of Like Sites	[*]% StarTek earned offset debit
[*]%+ of Like Sites	[*]% StarTek earned offset debit

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Not to exceed [%] Cingular invoice credit.

A [%] bonus may apply on a per Site basis if stretch targets are achieved for both FCR and Overall Satisfaction collectively ("Bonus"). The stretch target for Overall Customer Satisfaction is [%] or better. The Bonus shall be calculated as follows: 1) The monthly invoice credit(s) /debit(s) shall be calculated ("Offset Result"), then (2) The Bonus shall be applied to the Offset Result.

- 6.3.3 Occupancy Rate Target of [%]-[%]: The Occupancy Rate will be measured monthly and shall be determined by subtracting total idle time from total logged in time and dividing the difference by total logged in time. The Occupancy Performance Standard will be waived in the event that the actual Occupancy Rate is less than Cingular's 30-Day Rolling Forecast, which shall include the forecasted modification training for the month, by [%] or more, or if the actual Occupancy Rate is less than the 30-Day Commitment by [%] or more. Any individual days where the actual call volumes are less than the 30-Day Rolling Forecast by [%] or more and the Occupancy target is missed will be excluded from the monthly calculation of Occupancy. The Cingular invoice credits and StarTek earned debits will be applied in the following fashion based on Occupancy Rate scores:

below [%]	[%] Cingular invoice credit
above [%]	[%] StarTek earned debit

Not to exceed [%] Cingular invoice credit.

Notwithstanding the foregoing, StarTek may only earn a debit for Occupancy if it is staffed to at least [%] of the mutually agreed upon 90 Day Commitment.

- 6.3.4 Productivity: The measurement for productivity will be measured monthly and shall be calculated as follows: Billable Hours minus breaks divided by Billable Hours. Productivity will be waived if voluntary go home time associated with low volumes drives lower productivity. The Cingular invoice credits will be applied in the following fashion based on Productivity scores:

below [%]	[%] Cingular invoice credit
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- 6.3.5 Call Transfer Rate for Telegence and CARE Site/Line Groups only: Target of [%] or less measured monthly. Call Transfer Rate will be determined by dividing the total number of transferred calls by the total number of calls answered by a live CSR. The parties acknowledge and agree that StarTek shall strive to meet the [%] goal set forth herein but shall not be subject to material default of this Program, the SOW or the Agreement for any failure to meet the target. The Call Transfer Rate Performance Standard will be waived if the average of other Like Sites is greater than or equal to [%]. Change management procedures set forth in Exhibit 5 of the Agreement will be invoked for process changes directly impacting Call Transfer Rates.

above [%]	[%] Cingular invoice credit
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- 6.3.6 Average Handle Time ("AHT"): The AHT target by Site/Line Group shall be provided by Cingular as part of the 30-Day Rolling Forecast and shall be measured monthly as it applies to material breach. The AHT Performance Standard will be waived if the actual AHT is greater than [%] over the target provided in the 30-Day Rolling Forecast or if the average of other Like Sites is [%] or greater. The AHT target provided in the 30-Day Rolling Forecast will be subject to material breach, however, will not be subject to credits or debits.

With respect to credits and debits, Cingular may receive the invoice credit set forth herein in the event the monthly AHT measurement is [%] or greater. Notwithstanding the foregoing, the AHT target shall be waived as it pertains to credits and debits if the actual AHT is greater than [%] over the target provided in the 30-Day Rolling Forecast or if the event the average of other Like Sites is [%] or greater. Change management procedures set forth in Exhibit 5 of the Agreement will be invoked if AHT targets need to change. The Cingular invoice credits will be applied in the following fashion:

above [%]	[%] Cingular invoice credit
-----------	-----------------------------

- 6.3.7 Short Call Rate: Shall mean calls that are less than [%] in length. The goal is not to exceed [%] and shall be measured monthly. Change in procedures shall be subject to Exhibit 5 of the Agreement.

## 7. Cap:

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The resulting StarTek earned debits and Cingular invoice credits for the applicable Performance Standard measurement set forth herein Section 6 will only be applied to the applicable Site's Line Group Billable Hours billed. The total Cingular invoice credit for all Performance Standards in aggregate in any month cannot exceed a maximum of [\*] per Site invoice. The total invoice debits to Cingular's invoice credit for all Performance Standards in aggregate in any month cannot exceed a maximum of a [\*] per Site invoice. Notwithstanding the foregoing, StarTek may earn a [\*] per monthly invoice upon attainment of FCR and OCS stretch targets.

## 8. Performance Standards Waivers

- 8.1 In addition to any other waivers set forth herein this SOW, StarTek shall be excused for failures to meet any Performance Standard and shall not be in breach of this SOW if such failure is caused by: a) Cingular; and/or b) third parties (hired or contracted) to provide system applications and/or system application services to or for Cingular (including carriers) (a and b collectively referred to as "Cingular/Service Provider") including without limitation acts or omissions of Cingular/Service Provider.
- 8.2 Notwithstanding anything to the contrary herein, in addition to waivers set forth herein this SOW, Cingular may choose to waive Performance Standards and applicable penalties at its sole discretion. Cingular must invoke this option in writing within [\*] of a missed Performance Standard.

## 9. PRICE

- 9.1 Services shall be compensated by Cingular to StarTek pursuant to the rates and charges detailed in Exhibit B which is attached hereto and fully incorporated herein by this reference. Such rates and charges do not include all applicable taxes.

## 10. TERMINATION FOR CONVENIENCE FEE

- 10.1 Cingular may Terminate this SOW for convenience with at least ninety (90) days prior written notice in accordance with Section 21 Cancellation and Termination of the Agreement.

## 11. DISPUTE RESOLUTION

Either party may give the other party written notice of any dispute not resolved in the normal course of business. The parties will attempt in good faith to promptly resolve any issue, dispute, or controversy arising out of or relating to this Agreement promptly by negotiation between the managers set forth below. Within [\*] after delivery of such notice, representatives of both parties will meet at a mutually acceptable time and place, and thereafter as often as they reasonably deem necessary, to exchange relevant information and to attempt to resolve the dispute within the time frames here:

	<u>Cingular Wireless</u>	<u>StarTek</u>
Within 10 days	[Contact]	[Contact]
Within 20 days	[Contact]	[Contact]
Within 30 days	[Contact]	[Contact]

If any dispute is not resolved in accordance with this process after [\*], the parties will escalate to the respective executive levels. Both parties agree to continue performance during the negotiation period set forth in this section of the SOW.

## 12. SPECIAL CONSIDERATIONS:

- 12.1 The terms set forth below shall be in addition to the terms set forth in the respective sections of the Agreement:
- 12.1.1 StarTek Responsibilities

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- a. Except as otherwise set forth in this SOW or the Agreement, Supplier will be responsible for supplying all StarTek personnel, facilities, technology subject to Section 50 of Agreement, services and materials necessary to perform the Services in accordance with the terms and conditions set forth in this SOW.
- b. [\*].
- c. [\*]. Cingular shall be responsible for other voice and data charges, including delivering voice and data to StarTek' data center hub(s), bandwidth exceeding StarTek' standards in existence as of the SOW Effective Date, and any dedicated security equipment required by Cingular. In the event Cingular utilizes [\*]. StarTek agrees to relinquish ownership at no cost to Cingular of any and all toll-free numbers associated with the Program to Cingular or another party specified by Cingular within [\*] of Cingular's request; provided that Cingular is current on all invoices.

#### 12.1.2 Training

- a. Training costs shall be billed as listed under Exhibit B.
- b. Initial new hire training: StarTek agrees to provide [\*] of initial Program training, and [\*] of Nesting, to StarTek' CSRs in accordance with Cingular provided Training Materials, and all retraining, ongoing soft-skills training, and customer service training at the rates set forth in Exhibit B, in order to perform the Services described in this SOW. If mutually agreed between the parties subject to Exhibit 5 of the Agreement, Cingular may provide Cingular trainers for initial train-the-trainer training programs.
- c. Cingular may request to extend the duration of initial Program training subject to Exhibit 5 of the Agreement.

#### 12.1.3. Quality Assessment

- a. StarTek will provide enough Quality Assessment ("QA") agents at the QA rate set forth in Exhibit B, to CSRs to meet the average number of observations monthly. Each CSR is monitored an average of six (6) scored evaluations per month by QA and Production staff/personnel collectively and other informal evaluations as agreed upon by the parties based upon individual CSR performance. Supervisors will use commercially reasonable efforts to provide feedback within [\*] if below goal and [\*] if within or above goal. Agents needing improvement will receive additional evaluations via various methods (side by side, additional monitoring, remote monitoring, double jacking, etc). QA agents will shadow CSRs while on the call without the CSR being aware they are being monitored. Calibration sessions between StarTek QA agents, StarTek supervisors and Cingular representatives will be held weekly to ensure scoring and feedback to CSRs is consistent. If StarTek fails to monitor an average of [\*] evaluations per month by QA and Production staff/personnel collectively as set forth above, StarTek will be advised of such deficiencies and StarTek will have [\*] to bring performance back to objective's standards. Cingular and StarTek may mutually agree to modify the standards upon written agreement signed by both parties, in the event AHT increases by [\*] from the previous month's 90-Day Commitment, Cingular and StarTek shall re-evaluate the QA staffing required to meet the obligations set forth herein

**IN WITNESS WHEREOF**, the parties have caused this Agreement to be executed by their duly authorized representatives:

**StarTek Customer Management Group Inc.**

**Cingular Wireless LLC**

By: \_\_\_\_\_

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Printed Name: \_\_\_\_\_

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Title: \_\_\_\_\_  
Date: \_\_\_\_\_

Title:  
Date:

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The information contained in this Agreement is not for use or disclosure outside Cingular Wireless, StarTek, their affiliated companies and their third party representatives, except under written Agreement by the contracting Parties.

**Exhibit A  
DELIVERABLES MATRIX**

SOW No: GASOW-CONV05  
MSA No: GAMSА-CONV050106-00  
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Deliverables/Specifications/Requirements	Delivery Date	Evidence of Success
<p><b>Deliverable Set # 1 – Reporting</b></p> <p><b>ACD Report:</b> Comprehensive report with data taken directly from the switch. Details total calls offered, calls handled, calls abandoned, average speed of answer, average handle time by live agent and downtime. Delivered to Cingular daily.</p> <p><b>Agent (PAR) Report:</b> Agent or Personal Accountability Reports provide queue performance statistics broken down by agent. Data elements include the number of ACD calls answered, the average time spent on each ACD call, the average time spent waiting between ACD calls, the time spend doing post-call work, the time spent logged into the system, Short calls, transfer rates, availability etc. Delivered to Cingular daily.</p> <p><b>Call Disposition Report:</b> offers call disposition detail by type code. StarTek may provide this report to Cingular subject to Exhibit 5 of the Agreement.</p> <p><b>System Outages Report:</b> Report provides a listing of the date, time, duration and description of any system outages to StarTek’ systems, root cause analysis, and preventive measures. Delivered to Cingular when system outages occur.</p> <p><b>Call Comparison:</b> Compares forecasted to actual call volume and answer performance.</p> <p><b>Combined FTE:</b> Report provides headcount and training data, as well as weekly attrition. Delivered to Cingular weekly.</p> <p><b>Attrition Training:</b> Report provides ongoing attrition training data, with class details (class size, dates, etc.). Delivered to Cingular weekly.</p> <p><b>Interval:</b> report provides one-half hour (1/2) interval call volume data. Delivered to Cingular daily.</p> <p><b>Invoice Detail:</b> Invoices will include detailed documentation including but not limited to, for each CSR; a list of CSR names, hours logged via the ACD, hours logged, and indicator for training or Production status.</p> <p><b>Weekly Quality Report:</b> Weekly roll up of quality performance to include: scores from evaluations completed by StarTek’ quality team, scores from evaluations completed by StarTek’ leadership team (team leads/supervisors), QA/Team Lead score variance, combined score, total evaluations completed by QA team, total evaluations completed by Team Leads.</p> <p><b>Monthly Quality Report</b> Monthly roll up of quality performance to include: scores from evaluations completed by StarTek’ quality team, scores from evaluations completed by StarTek’ leadership team (team leads/supervisors), QA/Team Lead score variance, combined score, total evaluations completed by QA team, total evaluations completed by Team Leads.</p>	<p>As indicated in report description</p>	<p>Accurate and timely reporting either pushed to recipients or available online.</p>

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**Exhibit A  
DELIVERABLES MATRIX**

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<b>Deliverable Set # 2 – Quarterly Program Reviews</b> <ul style="list-style-type: none"><li>StarTek will conduct quarterly Program reviews in person at Cingular Headquarters to cover Program highlights, overall account activity, budget analysis, review key reports and metrics at a management level, the incentive programs that were run and their results, and to ensure that stated agreed upon Program objectives are being met (return on investment or “ROI”). If Program objectives are not being met, team must collectively establish an action plan to be implemented within thirty (30) days to achieve measurable results within ninety (90) days.</li></ul>	Quarterly reviews as scheduled	<b><u>Evidence of Success:</u></b> <ul style="list-style-type: none"><li>Quarterly reviews are held as scheduled</li></ul>
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### Exhibit B Price

For Services performed under this SOW, StarTek shall be compensated in accordance with the pricing shown below:

<b>PROGRAM NAME</b>		Business End User Care Program
<b>LOCATION</b>		
<b>BILLABLE HOUR RATE BASED ON CSR TENURE IN MONTHS</b>	[*]	\$[*]
	[*]	\$[*]
	[*]	\$[*]
<b>DRUG SCREEN &amp; BACKGROUND CHECK: (US Sites only)</b>		Passed through at cost (Checks required as a result of attrition will be the responsibility of StarTek.)
<b>OVERTIME RATE &amp; HOLIDAY (by Site)</b>		[*]% premium above the applicable Billable Hour rate
<b>TRAINING RATE</b>		New Hire/Growth \$[*]
		Nesting [*]
		[*]
		[*]
		[*]

**Notes:**

- a. CSR tenure is determined based on the hire date of such CSR on any Cingular program. Except as otherwise stated in the SOW, the total amount payable by Cingular for the Services shall be determined by applying the stated rate of compensation to the Services actually performed by StarTek. The Premium and Overtime Rate shall apply if StarTek is able to and Cingular agrees to offer premium and overtime hours (to the extent such hours are in excess of 40 hours per week per CSR). [\*]. Should Cingular request that StarTek provide Services for the Program on any of the Holidays listed, Cingular shall compensate StarTek at the Holiday Rate as listed herein.
- b. Domestic Inbound/Outbound telecom. Cingular shall be client of record on the (800) service. Subject to Cingular's prior written approval of usage, domestic inbound and outbound telecom charges shall be a direct pass through.
- c. [\*].
- d. Clerical Support \$[\*].
  - [\*]
  - [\*]
  - [\*]
  - [\*]
  - [\*]
  - [\*]
  - [\*]
  - [\*]
  - [\*]
  - [\*]

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**AMENDMENT NO. 5**

**STARTEK, INC.**

**STOCK OPTION PLAN**

This Amendment No. 5 is effective as of January 5, 2007 with respect to the Stock Option Plan (the “Plan”) of StarTek, Inc. (the “Company”).

The Board of Directors of the Company approved an amendment to Section 5(a) and Section 6(a) of the Plan to permit the Committee to grant Options under the Plan with expiration terms that differ from those set forth in the Plan.

All defined terms not otherwise defined herein shall have the meanings set forth in the Plan.

The Plan is hereby amended as follows:

1. The first line of Section 5(a) of the Plan is amended to read in its entirety as follows:

“(a) OPTION PERIOD. Except as otherwise established by the Committee at the time when an ISO is granted, each ISO will expire as of the earliest of:”

2. The first line of Section 6(a) of the Plan is amended to read in its entirety as follows:

“(a) OPTION PERIOD. Except as otherwise established by the Committee at the time when a NSO is granted, each NSO will expire as of the earliest of:”

Except as amended hereby, the Plan is unchanged and remains in full force and effect.

**MASTER SERVICES AGREEMENT**

**Between**

**STARTEK**

**And**

**CINGULAR WIRELESS LLC**

**For**

**CALL CENTER SERVICES SUPPORT  
V.3**

**Agreement No: GAMSА-STAR081106-00**

**Effective Date:10/01/06**

\* Material has been omitted pursuant to a request for confidential treatment and such material has been filed separately with the Securities and Exchange Commission. An asterisk within brackets denotes omissions.

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- Cingular Corporate Information Security Policy Compliance by Business Partners, Vendors, Contractors Exhibit 3
- Monthly Scorecard Exhibit 4
- Management Procedures for Change in Scope Exhibit 5
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- Prime Supplier MBE/WBE/DVBE Participation Plan

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## 1. Preamble and Effective Date

This Master Services Agreement (hereinafter "Agreement"), dated as of the 11th day of August, 2006 (the "Effective Date") is made by and between Cingular Wireless LLC, a Delaware limited liability company, with its principal office located at 5565 Glenridge Connector, Atlanta, Georgia 30342, for the benefit of itself and its Affiliates (hereinafter "Cingular"), and StarTek USA, Inc., a Delaware corporation with its principal office located at 44 Cook Street, Denver, Colorado 80206 (hereinafter "StarTek").

## 2. Scope of Agreement

During the term of this Agreement, Cingular may authorize StarTek to perform work as specified in a Statement of Work ("SOW") issued by Cingular to StarTek. StarTek will be subject to the terms and conditions contained in each Order and StarTek will perform those services in accordance with the terms of the Order and this Agreement. Pricing shall be based on those rates negotiated for each SOW.

## 3. Non-Exclusive Market

It is expressly understood and agreed that this Agreement does not grant StarTek an exclusive privilege to provide to Cingular any or all Material and Services of the type described in this Agreement nor requires Cingular to purchase or license any Materials or Services. It is, therefore, understood that Cingular may contract with other manufacturers and StarTek for the procurement of comparable Services and that Cingular may itself perform the Services described here

## 4. Definitions.

4.1. "Affiliate" shall mean any entity which is owned or controlled by CINGULAR, or any partnership, joint venture, consortium or other such entity in which CINGULAR or its Affiliates have at least a forty percent (40%) ownership interest. In addition to the foregoing, for purposes of placing Orders with StarTek pursuant to Section 6, "Purchases by Affiliates" the term "Affiliate" shall also be deemed to include: (1) entities which own at least a forty percent (40%) ownership interest in Cingular as well as such entities' wholly owned subsidiaries; and (2) any of seven (7) rural telephone companies who are assignees of portions of Cingular's FCC license for MTA 006, pursuant to partitioning rights that were granted such companies as limited partners in BellSouth Carolinas PCS, L.P.

4.2. "Agreement" shall have the meaning specified in the section called "Entire Agreement."

4.3. "Average Handle Time" is defined as the total time a CSR is in talk time plus after-call wrap time plus hold time divided by the number of calls taken by that CSR in the measured period of time.

4.4. "Billable Hour" The time between the time a CSR clocks into and clocks out of Supplier's time keeping system for the purpose of performing agreed upon work for Cingular. This time shall include a maximum of fifteen (15) minutes per day of pre-shift instructions per CSR unless otherwise directed by Cingular. The Billable Hour does not include time for breaks, lunches, sick time, vacations, or Supplier sponsored events such as non-Cingular focus groups and non-Cingular development. Actual time in a Billable Hour for billing purposes is 60 minutes.

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4.5 **“Cancellation or Cancel”** means the occurrence by which either party puts an end to this Agreement or SOW placed under this Agreement for breach by the other and its effect is the same as that of “Termination” and, except as otherwise provided for herein, the canceling party also retains any remedy for breach of the whole Agreement or any unperformed balance.

4.6 **“Customer Service Representative”** or **“CSR”** means a StarTek employee who is contacted by and speaks with Cingular’s customers either via telephone, email or on-line chat sessions on behalf of Cingular. A CSR provides support, answers questions and solves problems related to Cingular's Products or Programs.

4.7 **“Information”** means all ideas, discoveries, concepts, know-how, trade secrets, techniques, designs, specifications, drawings, sketches, models, manuals, samples, tools, computer programs, technical information, and other confidential business, customer or personnel information or data, whether provided orally, in writing, or through electronic or other means.

4.8 **“Laws”** shall have the meaning specified in the section called “Compliance With Laws.”

4.9 **“Liability”** means all losses, damages, expenses, costs, penalties, fines, fees, including reasonable attorneys’ fees and expert witness fees arising from or incurred in connection with a claim or cause of action related to performance or omission of acts under this Agreement or any Order, including, but not limited to, claims or causes of actions brought by third parties.

4.10 **“Like Sites”** Those locations, both in sourced and outsourced, supporting same functions, and utilizing Seibel, Axys, Telegence, or CARE.

4.9 **“Nesting”** means the period after CSRs have completed the classroom training and are receiving inbound calls in the Production environment with mentoring and coaching.

4.10 **“Occupancy”** means the percentage of time the CSR is logged into CMS handling calls (any and all components of Average Handle Time) plus fifteen (15) minutes of closed key time per CSR/per day, compared to total time logged into CMS, and will be defined based on the CMS data elements as followings:

4.11 **“Billable Hour”** The time between the time a CSR clocks into and clocks out of Supplier’s time keeping system for the purpose of performing agreed upon work for Cingular. This time shall include a maximum of fifteen (15) minutes per day of pre-shift instructions per CSR unless otherwise directed by Cingular. The Billable Hour does not include time for breaks, lunches, sick time, vacations, or Supplier sponsored events such as non-Cingular focus groups and non-Cingular development. Actual time in a Billable Hour for billing purposes is 60 minutes.

4.12 **“Product”** or **“Program”** means Cingular’s wireless services and customer support services related thereto.

4.13 **“Production”** is defined as the mode when CSR’s, after successfully completing the proscribed new hire training program, are handling live calls from Cingular customers.

4.14 **“Project”** is defined as any effort for which a SOW is created in support of Cingular.

4.15 **“Quality Assessment”** is based upon the quality observations outlined in Section 56 of this Agreement. Total Quality Assessment score is the average of all observation scores performed within the performance period.

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4.16 **“Service(s)”** - means any and all labor or service provided in connection with this Agreement or an applicable Order, including but not limited to, consultation, engineering, installation, removal, maintenance, training, technical support, repair, and programming.

4.17 **“Service Level”** is defined as the percentage of Cingular’s Customers who will have access to a live CSR within the specified amount of time, as a percentage of total calls offered to StarTek’s ACD.

4.18 **“Short Call Rate”** shall mean calls, excluding the TDMA Line Group, which are less than twenty (20) seconds in length

4.19 **“Specs” or “Specifications”** mean (i) StarTek’s applicable specifications and descriptions, including any warranty statements, and (ii) Cingular’s requirements, specifications, and descriptions specified in, or attached to, this Agreement or an applicable Order, which shall control over an inconsistency with StarTek’s specifications and descriptions.

4.20 **“Statement of Work” (“SOW”)** means such memoranda or other written communications as may be delivered to StarTek for the purpose of ordering Services hereunder.

4.21 **“Team Leader”** means a StarTek employee of supervisory level.

4.22 **“Termination”** means the occurrence by which either party, pursuant to the provisions or powers of this Agreement or laws and regulations, puts an end to this Agreement and/or Orders placed under this Agreement other than for breach. On “Termination” all executory obligations are discharged, but any right based on breach of performance survives except as otherwise provided herein.

4.23 **“User(s)”** means Cingular and its authorized Third Parties, as well as each of their respective employees, agents, representatives and customers, if any, who use goods or services relating to, resulting from, or arising out of Products and/or Services provided by StarTek hereunder.

4.24 **“Warm Transfer”** is defined as the process of transferring a customer seeking information to the appropriate resource to assist the customer. During the call transfer, the transferring CSR will introduce the calling customer to the receiving CSR and provide a brief overview of the customer

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## **5. Access**

5.1 When appropriate, StarTek shall have reasonable access to Cingular's premises during normal business hours and at such other times as may be agreed upon by the parties in order to enable StarTek to perform its obligations under this Agreement. StarTek shall coordinate such access with Cingular's designated representative prior to visiting such premises. StarTek insures Cingular that only persons employed by StarTek or subcontracted by StarTek will be allowed to enter Cingular's premises. If Cingular requests StarTek or its Subcontractor to discontinue furnishing any person provided by StarTek or its Subcontractor from performing work on Cingular's premises, StarTek shall immediately comply with such request. Such person shall leave Cingular's premises promptly and StarTek shall not furnish such person again to perform work on Cingular's premises without Cingular's written consent. The parties agree that, where required by governmental regulations, it will submit satisfactory clearance from the U.S. Department of Defense and/or other federal, state, or local authorities.

5.2 Cingular may require StarTek or its representatives, including employees and subcontractors, to exhibit identification credentials or sign a Nondisclosure Agreement which Cingular may issue in order to gain access to Cingular's premises for the performance of Services. If, for any reason, any StarTek representative is no longer performing such Services, StarTek shall immediately inform Cingular. Notification shall be followed by the prompt delivery to Cingular of the identification credentials, if issued by Cingular, or a written statement of the reasons why said identification credentials cannot be returned.

5.3 StarTek shall insure that its representatives, including employees and subcontractors will, while on or off Cingular's premises, perform Services which (i) conform to the Specifications, (ii) protect Cingular's Material, buildings, and structures, (iii) do not interfere with Cingular's business operations, and (iv) perform such Services with care and due regard for the safety, convenience, and protection of Cingular, its employees, and property and in full conformance with the policies specified in the Cingular Code of Conduct, which prohibits the possession of a weapon or an implement which can be used as a weapon.

5.4 StarTek shall be responsible for insuring that all persons furnished by StarTek work harmoniously with all others when on Cingular's premises.

## **6. Amendments and Waivers**

6.1 This Agreement and any SOW placed hereunder may be amended or modified only by a written document signed by the authorized representative of both parties; provided that the parties may, mutually agree upon changes to the scope of work via the change process defined in Exhibit 5.

## **7. Assignment**

7.1 Cingular may assign this Agreement and its rights and may delegate its duties under this Agreement either in whole or in part, at any time and without StarTek's consent, to any present or future Affiliate or successor company of Cingular. Cingular shall give StarTek written notice of such assignment or delegation. The assignment shall not affect nor diminish any rights or duties that StarTek or Cingular may then or thereafter have as to services ordered by Cingular before the effective date of the assignment. Written notice to the StarTek releases and discharges Cingular, to the extent of the assignment, from all further duties under this Agreement, except with respect to services that Cingular ordered before the effective date of the assignment.

7.2 StarTek must have Cingular's written consent before StarTek assigns or otherwise delegates any work it is to perform under this Agreement, in whole or in part, or assigns any of its rights, interests or obligations

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hereunder. StarTek shall deliver to Cingular written notice of StarTek's intent to assign, at least thirty (30) days before assignment. Cingular shall consider void any assignment to which it has not consented, except where StarTek assigns its rights to receive monies pursuant to this Agreement. In such case, StarTek only needs to notify Cingular in writing. However, StarTek cannot assign monies due if StarTek tries to transfer to the assignee any of StarTek's other rights or obligations hereunder. StarTek shall not make an assignment that prevents Cingular from dealing solely and directly with StarTek on all matters pertaining to this Agreement. Such matters include amending this Agreement and/or settling amounts due either party by the other hereunder.

## **8. Call Flow and Script Approval**

8.1 Cingular shall be responsible for and must approve scripts, order forms, and report formats to be used by StarTek for Services provided pursuant to this SOW. If StarTek desires any changes whatsoever to the aforementioned scripts, forms or formats, then StarTek must obtain Cingular's prior written approval of such changes

## **9. Cancellation and Termination**

### **9.1 Cancellation**

a. If either party fails to cure a material default under this Agreement or applicable SOW within thirty (30) days after written notice, then, in addition to all other rights and remedies, the party not in default may Cancel this Agreement and/or the SOW under which the default occurred. Notwithstanding anything else in this Agreement, if the material default is a breach of the Compliance With Laws Section of this Agreement, the party not in default may, upon providing written notice, Cancel the Agreement immediately. Additional provisions for Cancellation of SOW(s) hereunder are set forth in this Agreement.

b. If StarTek is the party in default, Cingular may Cancel any SOW which may be affected by StarTek's default without any financial obligation or liability on the part of Cingular whatsoever, except to pay for the value of any Services retained by Cingular. If Cingular elects to reject any Services, StarTek promptly refund amounts, if any, previously paid by Cingular for such Services.

### **9.2 Termination**

a. Cingular may Terminate the Agreement, or any SOW in whole or in part, without any charge, liability or obligation whatsoever, upon 90 day written notice to StarTek. In such event, or if StarTek Cancels this Agreement or SOW as a result of Cingular's failure to cure a material default, Cingular shall pay StarTek its actual and direct costs incurred to provide the Material and Services ordered by Cingular but no more than a percentage of the Services performed, less reimbursements. If requested, StarTek agrees to substantiate such costs with proof satisfactory to Cingular. In no event shall Cingular's liability exceed the price of any Services Ordered hereunder. After the receipt of Cingular's payment for any Services, StarTek shall delivery the physical embodiments, if any, of such Services. The foregoing statement states the entire liability of Cingular and StarTek's sole remedy for Cingular's Termination, or StarTek's Cancellation for material default.

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### 9.3 Bankruptcy

a. In addition to all other rights or remedies provided for in this Agreement or by law, Cingular may immediately cancel this Agreement if: (1) StarTek becomes insolvent or makes a general assignment for the benefit of creditors; (2) StarTek admits in writing the inability to pay debts as they mature; (3) Any court appoints a trustee or receiver with respect to StarTek or any substantial part of StarTek's assets; or (4) An action is taken by or against StarTek under any bankruptcy or insolvency laws or laws relating to the relief of debtors, including the Federal Bankruptcy Act.

### 9.4 Partial Cancellation and Termination

a. Where a provision of this Agreement or the applicable Laws permit Cingular to Terminate or Cancel a SOW, such Termination or Cancellation may, at Cingular's option, be either complete or partial. In the case of a partial Termination or Cancellation Cingular may, at its option, accept a portion of the Materials or Services covered by a SOW and pay StarTek for such Materials or Services at the unit prices set forth in such SOW. The right to Cancel a SOW shall also include the right to Cancel any other related SOW.

9.5 Upon expiration, a Cingular Termination Without Cause or StarTek Cancellation For Cause (if requested by StarTek), of a SOW, Cingular and StarTek agree to honor the Full Call Volume Commitments during the notice period with a 3 month ramp down period to follow, where Cingular will provide to StarTek [\*] of the Call Volume Commitment, respectively during the 3 month ramp down. Call Volume Commitment is defined as the average monthly volume over the preceding [\*] prior to termination notification (but in no case less than any applicable minimum). Any difference between actual billings and the Call Volume Commitment shall be billed to and payable by Cingular.

## 10. Compliance with Laws

10.1 StarTek shall comply with all applicable federal, state, county, and local rules, including without limitation, all statutes, laws, ordinances, regulations and codes ("Laws"). StarTek's obligation to comply with all Laws, include the procurement of permits, certificates, approvals, inspections, and licenses, when needed, in the performance of this Agreement. StarTek further agrees to comply with all applicable Executive and Federal regulations as set forth in "Executive Orders and Associated Regulations", a copy of which is attached as the Executive Orders and Federal Regulations Exhibit and by this reference made a part of this Agreement. StarTek shall defend, indemnify, and hold Cingular harmless from and against any Liability that may be sustained by reason of StarTek's failure to comply with this section.

## 11. Cumulative Remedies

11.1 Except as specifically identified as a party's sole remedy, any rights of Cancellation, Termination, liquidated damages, or other remedies prescribed in this Agreement are cumulative and are not exclusive of any other remedies to which the injured party may be entitled. Neither party shall retain the benefit of inconsistent remedies.

## 12. Conflict of Interest

12.1 StarTek represents and warrants that no officer, director, affiliate, employee, or agent of Cingular has been or will be employed, retained or paid a fee, or otherwise has received or will receive any personal compensation or consideration, by or from StarTek or any of StarTek's officers, directors, employees, or

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agents in connection with the obtaining, arranging, or negotiation of this Agreement or other documents entered into or executed in connection with this Agreement.

### **13. Construction and Interpretation**

13.1 The language of this Agreement shall in all cases be construed simply, as a whole and in accordance with its fair meaning and not strictly for or against any party. The parties agree that this Agreement has been prepared jointly and has been the subject of arm's length and careful negotiation. Each party has been given the opportunity to independently review this Agreement with legal counsel and other consultants, and each party has the requisite experience and sophistication to understand, interpret, and agree to the particular language of the provisions. Accordingly, in the event of an ambiguity in or dispute regarding the interpretation of this Agreement, the drafting of the language of this Agreement shall not be attributed to either party.

13.2 Article, section, or paragraph headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement. The use of the word "include" shall mean "includes, but is not limited to." The singular use of words shall include the plural use and vice versa. Except as otherwise specified, StarTek's price for Materials and Services includes the price for all related Materials or Services necessary for Cingular to use the Materials and/or Services for its intended purpose, as well as all other StarTek obligations under this Agreement. All obligations and rights of the parties are subject to modification as the parties may specifically provide in a SOW. "Services" and "Software" shall be treated as "goods" for purposes of applying the applicable Uniform Commercial Code. If there is an inconsistency or conflict between the terms in this Agreement and in a SOW, the terms in the SOW shall take precedence.

13.3 Whenever any party is entitled to interest under this Agreement, the amount of interest shall be determined using [\*]% per annum, or the highest amount allowed by law, whichever is lower.

### **14. Delivery, Performance, and Acceptance**

14.1 StarTek acknowledges the competitive telecommunications marketplace in which CINGULAR operates and understands Cingular's business requires prompt provision of Services by the specified Delivery Dates. Therefore, the Parties agree that all dates for Services are firm, time is of the essence, and StarTek will complete such Delivery in strict conformance with the Specifications.

### **15. Disaster Recovery.**

15.1 StarTek maintains, and will continue to maintain throughout the Term of this Agreement, a disaster recovery plan, a business continuity plan and off-site disaster recovery capabilities that permit StarTek to recover from a disaster and continue providing services to customers, including Cingular, within Cingular's recovery time objective. StarTek shall provide Cingular with an executive summary or comprehensive description of the current disaster recovery program and which may be updated from time to time upon notice to Cingular. StarTek will test the operation and effectiveness of its disaster recovery plan at least annually. StarTek maintains, and will continue to maintain throughout the Term of this Agreement, a backup power supply system to guard against electrical outages. StarTek will provide Cingular an annual written report of all contingency tests, and, upon Cingular's request, StarTek will permit Cingular to observe the performance of such contingency tests. At Cingular's request StarTek will participate in Cingular contingency testing.

15.2 StarTek shall advise the Cingular Contact and/or Vendor Manager when any Cingular-provided system is down for more than [\*]. StarTek shall provide an escalation plan with mitigating action in the event of systems disruption to be approved by Cingular by Services launch.

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15.3 StarTek will continue to provide the Services under this Agreement if Cingular relocates its operations to an interim or substitute facility or otherwise implements any of its internal disaster recovery plans.

15.4 Failure to comply with this Section constitutes a material breach of this Agreement.

## **16. Emergency Support Service**

16.1 If any natural disaster or other emergency occurs whereby Service provided in connection with this Agreement is damaged and such condition materially affects Cingular's ability to provide services to its subscribers, StarTek agrees, at Cingular's request, to assist Cingular as follows:

- a. StarTek will locate backup or replacement Material and provide any necessary Service.
- b. If Material is available from StarTek's stock, StarTek will ship replacement Material in manner specified by Cingular within [\*] of receipt of Cingular's request therefore.
- c. When Material required by Cingular is not available from stock for immediate shipment, StarTek agrees to pursue the following alternative courses of action:
  1. Assist Cingular in locating functionally equivalent substitute Material.
  2. If requested by Cingular, schedule the repair or new manufacture of Material on a priority basis. Cingular will indemnify StarTek for any financial obligations incurred by StarTek as a result of such priority efforts due to contractual obligations with third parties.
  3. Assist Cingular by providing field technical personnel to make temporary modifications and arrangements to mitigate the effects of out-of-service conditions. If requested, by Cingular, StarTek will document such efforts and associated charges.

16.2 StarTek will make available the individual whose title, phone number and location are listed below to provide assistance and information on a [\*]

basis for all of its support service described above:

[Contact]  
44 Cook Street  
Denver, Colorado 80206  
[Contact] Wireless, [Contact] Office

This obligation will survive the expiration, cancellation, or termination of this Agreement for four (4) years.

## **17. Force Majeure**

17.1 Neither party shall be deemed in default of this Agreement or any SOW to the extent that any delay or failure in the performance of its obligations results from any cause beyond its reasonable control and without its fault or negligence, such as acts of God, acts of civil or military authority, embargoes, epidemics, war, riots, insurrections, fires, explosions, earthquakes, floods, or strikes ("Force Majeure").

17.2 If any Force Majeure condition affects StarTek's ability to perform, StarTek shall give immediate notice to Cingular and Cingular may elect to either: (1) Terminate the affected SOW(s) or any part thereof,

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(2) suspend the affected SOW(s) or any part for the duration of the Force Majeure condition, with the option to obtain elsewhere Materials and Services to be furnished under such SOW(s) and deduct from any commitment under such SOW(s) the quantity of the Materials and Services obtained or for which commitments have been made elsewhere or (3) resume performance under such SOW(s) once the Force Majeure condition ceases, with an option in Cingular to extend any affected Delivery Date or performance date up to the length of time the Force Majeure condition endured. Unless Cingular gives written notice within thirty (30) days after being notified of the Force Majeure condition, option (2) shall be deemed selected.

## **18. Governing Law**

18.1 THIS AGREEMENT AND PERFORMANCE HEREUNDER SHALL BE GOVERNED BY THE LAWS OF THE STATE OF GEORGIA EXCLUSIVE OF ITS CHOICE OF LAWS PROVISIONS.

## **19. Indemnity**

19.1 StarTek agrees to indemnify and hold Cingular harmless from any and all liabilities, causes of action, lawsuits, penalties, claims or demands (including the costs, expenses and reasonable attorneys' fees on account thereof) that may be made by:

a. Anyone for injuries of any kind, including but not limited to personal injury, death, property damage and theft, resulting from StarTek's negligent or willful acts or omissions or those of persons furnished by StarTek, its agents or subcontractors, or resulting from the use of StarTek's Goods furnished hereunder or resulting from StarTek's failure to perform its obligations hereunder. The indemnity covers, but is not limited to, claims of any alleged defect or shortcoming in the design, testing, manufacture, functioning, or use of the Goods, and claims based or including alleged failure to adequately or accurately describe or warn about risks of potential injury due to product design, testing, manufacture, functioning, or use of Goods. This indemnity covers all claims brought under common law or statute, including but not limited to strict tort liability, strict products liability, negligence, misrepresentation, or breach of warranty.

b. Any of either StarTek's, its agent's or subcontractor's employees or former employees for which StarTek's, its agents' or subcontractors' liability to such employee or former employee would otherwise be subject to payments under the Workers' Compensation laws or an Employer's Liability policy, premises liability principles or any other law or form of legal duty or obligation; and

c. Either StarTek's, its agent's or subcontractor's employees or former employees for Applicants at StarTek's job site, for any and all claims arising out of the employment relationship with respect to performing under this Agreement. This includes, but is not limited to employment discrimination charges and actions arising under Title VII of The Civil rights Act of 1964, as amended; The Equal pay Act; The Age Discrimination in Employment Act; as amended; The Rehabilitation Act; The Americans with Disabilities Act; The Fair Labor Standards Act; The National Labor Relations Act; and any other applicable law.

19.2 StarTek, at its own expense, shall defend Cingular, at Cingular's request, against any such liability, cause of action, penalty, claim, demand, administrative proceeding or lawsuit, including any in which Cingular is named as an 'employer' or 'joint Employer' with StarTek. Cingular shall have the right to control and direct the defense of any such action. Cingular shall notify StarTek promptly of any written claims or demands against Cingular for which StarTek is responsible hereunder.

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19.3 StarTek agrees to defend Cingular, at no cost or expense to Cingular, against any such Liability, claim, demand, suit or legal proceeding including those instigated by a third party to StarTek. Cingular agrees to notify StarTek within a reasonable time of any written claims or demands against Cingular for which StarTek is responsible. StarTek shall also (1) keep Cingular fully informed as to the progress of such defense, and (2) afford Cingular, at its own expense, an opportunity to participate with StarTek in the defense or settlement of any such claim.

19.4 The foregoing indemnity shall be in addition to any other indemnity obligations of StarTek set forth in this Agreement.

## **20. Independent Contractor**

20.1 StarTek hereby represents and warrants to Cingular that:

- a. StarTek is engaged in an independent business and will perform all obligations under this Agreement as an independent contractor and not as the agent or employee of Cingular;
- b. StarTek's personnel performing Services shall be considered solely the employees of StarTek and not employees or agents of Cingular;
- c. StarTek has and retains the right to exercise full control of and supervision over the performance of the Services and full control over the employment, direction, assignment, compensation, and discharge of all personnel performing the Services;
- d. StarTek is solely responsible for all matters relating to compensation and benefits of all StarTeks' personnel who perform Services. This responsibility includes, but is not limited to, (1) timely payment of compensation and benefits, including, but not limited to, overtime, medical, dental, and any other benefit, and (2) all matters relating to compliance with all employer obligations to withhold employee taxes, pay employee and employer taxes, and file payroll tax returns and information returns under local, state, and federal income tax laws, unemployment compensation insurance and state disability insurance tax laws, and social security and Medicare tax laws, and all other payroll tax laws or similar laws (all collectively hereinafter referred to as "payroll tax obligations") with respect to all StarTek personnel providing Services.
- e. StarTek will indemnify, defend, and hold Cingular harmless from all Liabilities, costs, expenses, and claims related to StarTek's failure to comply with the immediately preceding paragraph.

## **21. Information**

### **Information - Cingular**

21.1 Any Information furnished to StarTek in connection with this Agreement, including Information provided under a separate Non Disclosure Agreement in connection with discussion prior to executing this Agreement, shall remain Cingular's property. Unless such Information was previously known to StarTek free of any obligation to keep it confidential, or has been or is subsequently made public by Cingular or a third party, without violating a confidentiality obligation, it shall be kept confidential by StarTek, shall be used only in performing under this Agreement, and may not be used for other purposes except as may be agreed

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upon between StarTek and Cingular in writing. StarTek is granted no rights or license to such Information. All copies of such Information, in written, graphic or other tangible form, shall be returned to Cingular upon the earlier of (i) Cingular's request or (ii) upon Termination, Cancellation, or expiration of this Agreement.

### **Information – StarTek**

21.2 Any Information furnished to Cingular under this Agreement shall remain StarTek's property. No Information furnished by StarTek to Cingular in connection with this Agreement shall be considered to be confidential or proprietary unless it is conspicuously marked as such. If StarTek provides Cingular with any proprietary or confidential Information which is conspicuously marked, Cingular shall use the same degree of care to prevent its disclosure to others as Cingular uses with respect to its own proprietary or confidential Information. Notwithstanding the preceding sentences, no installation, operations, repair, or maintenance Information of StarTek which pertains to the Services which are the subject of this Agreement shall be considered to be proprietary or confidential, and Cingular may disclose such Information to others for the purpose of installing, operating, repairing, replacing, removing, and maintaining the Material for which it was initially furnished.

## **22. Infringement**

22.1 StarTek agrees to indemnify and hold Cingular harmless from and against any Liability, (including increased damages for willful infringement) that may result by reason of any infringement, or claim of infringement, of any trade secret, patent, trademark, copyright, or other proprietary interest of any third party based on the normal use or installation of any Services furnished to Cingular, except to the extent that such claim arises from StarTek's compliance with Cingular's detailed instructions. Such exception will not, however, include any infringement or claim of infringement based upon:

- a. products, software, or documentation which are available on the open market; or
- b. products, software, or documentation of StarTek's origin, design or selection.

22.2 StarTek represents and warrants that it has made reasonable independent investigation to determine the legality of its right provide Services as specified in this Agreement.

22.3 If an injunction or order is obtained against Cingular's use of any Service, or, if, in StarTek's opinion, any Service is likely to become the subject of a claim of infringement, StarTek will, at its expense:

- a. Procure for Cingular the right to continue using the Service; or
- b. After consultation with Cingular, replace or modify the Service to make it a substantially similar, functionally equivalent, non-infringing Service.

22.4 If the Service is purchased or licensed and neither (a) or (b) above is possible, in addition to Cingular's other rights, Cingular may cancel the applicable SOW and require StarTek to remove, or cause the removal and/or return of, such Material or Service from Cingular's location and refund any charges paid by Cingular.

22.5 In no event will Cingular be liable to StarTek for any charges after the date that Cingular no longer uses any Service because of actual or claimed infringement.

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22.6 StarTek agrees to defend or settle, at its own expense, any action or suit for which it is responsible under this section. Cingular agrees to notify StarTek promptly of any claim of infringement and cooperate in every reasonable way to facilitate the defense. StarTek shall afford Cingular, at its own expense, an opportunity to participate on an equal basis with StarTek in the defense or settlement of any such claim.

### **23. Insurance**

23.1 Without limiting any other obligation or liability of StarTek under this Agreement, StarTek agrees that upon execution of this Agreement and through its entire effective period, StarTek shall procure and maintain insurance coverage, at its sole cost and expense, with limits and conditions not less than those specified below. If excess/umbrella liability policies are in place, they must follow the form of the underlying liability policy(s).

23.2 Comprehensive or Commercial General Liability Insurance, written on an occurrence form, including but not limited to premises-operations, broad form property damage, products/completed operations, contractual liability, independent contractors, personal injury and advertising injury and liability assumed under an insured contract, with limits of at least \$1,000,000 per occurrence and \$2,000,000 general aggregate (combined single limit).

23.3 Worker's Compensation Insurance with benefits afforded under the laws of the state in which the services are to be performed and Employers Liability insurance with minimum limits of \$1,000,000 for Bodily Injury – each accident, \$1,000,000 for Bodily Injury by disease – policy limit and \$1,000,000 for Bodily Injury by disease – each employee.

23.4 Business Automobile Liability including coverage for owned, hired, leased, rented and non-owned vehicles of \$2,000,000 combined single limit bodily injury and property damage per occurrence.

23.5 Excess Liability (Umbrella) Insurance with a minimum limit of \$5,000,000 per occurrence.

23.6 Professional Liability Insurance covering the effects of errors and omissions in the performance of professional duties with a minimum limit of \$5,000,000, each occurrence and aggregate (if applicable) associated with work performed under this Agreement.

23.7 Prior to performing any work, StarTek must obtain the required minimum insurance and provide Certificate(s) of Insurance to Cingular showing coverage and limits not less than the minimum amounts shown herein. All policies of insurance shall contain a waiver of subrogation in favor of Cingular. Cingular must be listed as an additional insured under the primary and excess insurance policy(s), with the exception of Workers Compensation and Professional Liability. The minimum required insurance shall be written by a company licensed to do business in the state(s) where the work is to be performed at the time the policies are issued. Cingular requires that companies affording insurance coverage have an A-VII or better rating, as rated in the A.M. Best Key Ratings Guide for Property and Casualty Insurance Companies.

23.8 All certificates and policies shall include a provision whereby Cingular must be given thirty (30) days advance written notice of the insurer's intention not to renew such policy(ies) or to cancel, replace or alter the same by reducing required coverage. Such policy shall be primary to any coverage Cingular may have, independent of this Agreement.

23.9 The StarTek shall also require all subcontractors performing work on the project or who may enter upon the work site to maintain the same insurance requirements listed above. Should the insurance policy

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limits be exhausted or should the StarTek fail to maintain the required insurance coverage's, StarTek is still liable should a loss occur.

## **24. Invoices and Payment**

24.1 Except as otherwise specified in an Order, StarTek shall render an invoice in duplicate, in arrears on a monthly basis or as otherwise agreed by the Parties. The invoice shall specify in detail (i) Services provided, (ii) associated fees, (iii) whether any item is taxable and the amount of tax per item, (iv) total amount due. The invoice shall also reference the SOW number. Cingular shall pay StarTek within forty-five (45) days of the date of receipt of the invoice in accordance with the prices set forth in this Agreement or in the applicable SOW. Payment for portions of any invoice disputed in good faith by Cingular may be withheld by Cingular until such nonconformance or dispute has been resolved. If Cingular disputes any invoice rendered or amount paid, Cingular shall so notify StarTek within twenty (20) days of date of invoice. The Parties shall use their best efforts to resolve invoicing and payment disputes expeditiously. Invoices received by Cingular more than one (1) year after the performance of Services are untimely and Cingular shall have no obligation to pay such invoices.

24.2 All claims for money due or to become due from Cingular will be subject to deduction by Cingular for any setoff counterclaim for money due or to become due from StarTek, whether under this Agreement or otherwise. StarTek shall pay any amount due to Cingular that is not so applied against StarTek's invoices for any reason to Cingular within thirty (30) days after written demand by Cingular.

24.3 StarTek agrees to accept standard, commercial methods of payment and evidence of payment obligation including, but not limited to, credit card payments, purchasing card payments, Cingular's purchase orders and electronic fund transfers in connection with the purchase of the Material and Services.

24.4 Invoices detailing production hours and training hours, which will include a reference to the Agreement and the number of this Order, shall be submitted to the Cingular Contact listed in each Order and are payable in accordance with the payment terms set forth in this Agreement.

24.5 Invoices will include detailed documentation including but not limited to aggregate hours logged via the ACD, hours logged, and indicator for training or production status. Upon request, StarTek shall provide the information listed herein with respect to a particular CSR.

24.6 Invoices must be detailed by Program/Region/Line of Business, accompanied by detailed backup in electronic format. Copies must be provided to respective Cingular Contacts listed in each SOW.

## **25. Licenses and Patents**

25.1 No licenses express or implied, under any patents, copyrights, trademarks, or other intellectual property rights are granted by Cingular to StarTek under this Agreement.

## **26. Limitation of Liability**

26.1 No Consequential Damages: Except as provided in Section 40.4, neither party will be liable to the other party or any third party for any indirect, consequential, incidental, special losses, or punitive damages, or for loss of revenue or profit in connection with the performance or failure to perform this Agreement regardless of whether such liability arises from breach of contract, tort, or any other theory of liability.

26.2 Limited to Direct Damages: Notwithstanding anything in this Agreement or otherwise to the contrary (except only as set forth herein in this Section 40), the sole and exclusive monetary recovery of StarTek and

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of Cingular against the other party hereto for any claim, loss or damages in any way related to, or arising out of, this Agreement or any Services provided or anticipated to be provided will be limited to such party's actual, direct damages; provided further that Section 40.1 does not exclude such direct damages.

**26.3 Liability Cap:** The aggregate amount of all such damages that arise out of, or relate to, any and all events and occurrences during the Term will not under any circumstance exceed the following amount ("Cap Amount"): an amount equal to the product of [\*] the average amount of the monthly fees actually paid by Cingular to StarTek under the affected SOW (excluding any charges and costs passed through by StarTek).

**26.4 Exceptions to No Consequential Damages and Cap Amount:** Neither the exclusion of consequential damages under Section 40.1 nor the Cap Amount under Section 40.3 will apply to or limit (a) the Indemnification obligations set forth in this Agreement, to the extent awarded to the third party claimant or agreed to in settlement by the Indemnitor and (b) either party's liability for any claims of a breach of its Information obligations set forth in Section 24 of this Agreement (c) failure of either party to comply with Laws pursuant to Section 30 of this Agreement; or (d) damages directly resulting from either party's gross negligence or willful misconduct. Nothing in this Agreement will preclude either party from seeking injunctive or other equitable relief in any court of competent jurisdiction, despite the parties' agreement to arbitrate disputes. Instead, an annual enhanced liability cap ("Annual Enhanced Cap Amount") in an amount equal to the lesser of (i) [\*] paid [\*] during the applicable year (excluding any charges and costs passed through by StarTek) or (ii) [\*] will apply to such claims. Notwithstanding the foregoing, the Indemnification obligations for infringement claims shall not be subject to the Cap Amount, the Annual Enhanced Cap Amount, or the exclusion for consequential damages.

**26.5** The limitations expressed in the immediately preceding paragraphs shall not apply to or limit Cingular's liability for any claims for payment of the full invoiced amounts that might be due to StarTek or of any applicable minimum charges; and the limitations expressed in the immediately preceding sentence shall not preclude either party from seeking injunctive relief. Any cause of action or claim brought by either party against the other party for breach of this Agreement, for tortious conduct or for any other cause or claim, must be commenced within two (2) years after such cause or claim has accrued or shall thereafter be completely and forever barred.

## **27. M/WBE (and Appendices)**

**27.1** StarTek commits to goals for the participation of M/WBE and DVBE firms (as defined in the Section entitled "MBE/WBE/DVBE Cancellation Clause") as follows: [\*] annual MBE participation; [\*] annual WBE participation; and [\*] annual DVBE participation. These goals apply to all annual expenditures by any entity pursuant to this Agreement with StarTek.

**27.2** StarTek MBE/WBE/DVBE participation may be achieved through cost of goods content, contract specific subcontracting or the use of value-added resellers. The participation levels identified above will be renegotiated to comply with any regulatory requirements imposed on CINGULAR.

**27.3** Attached hereto and incorporated herein as Appendix 3.22(a) is StarTek's completed Participation Plan outlining its M/WBE-DVBE goals and specific and detailed plans to achieve those goals. StarTek will submit an updated Participation Plan annually by the first week in January. StarTek will submit M/WBE-DVBE Results Reports quarterly by the end of the first week following the close of each quarter, using the form attached hereto and incorporated herein as Appendix 3.22(b). Participation Plans and Results Reports will be submitted to the Prime StarTek Results Manager.

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## 28. Non-Intervention

28.1 In connection with the provision of Services by StarTek to Cingular, StarTek agrees not to influence, directly or indirectly, any regulatory, legislative, or judicial body so as to prevent, or delay the offering of Services by Cingular which utilize the Services supplied by StarTek.

## 29. Non-Solicitation

29.1 For the term of this Agreement and for twelve (12) months following the expiration, cancellation or termination of this Agreement or of any SOW, whichever is longer, neither party shall recruit or solicit for employment, without the prior written consent of the other party, any employee of the other party; provided, however, that either party may at any time, directly or indirectly, solicit and hire any employee of the other party after such employee is released or no longer employed by either party or terminates his employment with either party without the intention of accepting employment from the other party, and (2) hire any employee of the other party that responds to an indirect solicitation (e.g., through a newspaper or trade journal advertisement).

## 30. Notices

30.1 Except as otherwise provided in this Agreement, or an applicable SOW, all notices or other communications hereunder shall be deemed to have been duly given when made in writing and either 1) delivered in person, or 2) when received, if provided by facsimile transmission or by a recognized overnight courier or similar delivery service, or 3) when received, if deposited in the United States Mail, postage prepaid, return receipt requested, and addressed as follows:

To:	StarTek USA, Inc. 44 Cook Street Denver, Colorado 80206 Attn.: Regional VP FAX NO.: _____
To:	Cingular WIRELESS LLC 5565 Glenridge Connector Atlanta, Georgia 30342 Attn.: Senior Contract Manager for StarTek's Account FAX NO.: 404-236-6233
cc:	Cingular WIRELESS LLC 5565 Glenridge Connector Atlanta, Georgia 30342 Attn.: Chief Counsel, Supply Chain FAX NO.: 404-236-5575

The address to which notices or communications may be given by either party may be changed by written notice given by such party to the other pursuant to this paragraph entitled "Notices".

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### **31. Overdependence of StarTek**

31.1 StarTek warrants to Cingular that as of the effective date of this Agreement StarTek has:

(1) no contractual obligations which would adversely affect StarTek's capabilities to perform under this Agreement,

(2) is not involved in any litigation which would adversely affect StarTek's ability to perform under this Agreement, and

(3) has all professional licenses which are required to perform under this Agreement.

31.2 Accordingly, and because Cingular has no way of ascertaining StarTek's dependency on Cingular for revenues from sales in proportion to revenues from StarTek's other customers, and in order to protect Cingular from a situation in which StarTek is overly dependent upon Cingular for said sales, StarTek agrees to release and hold harmless Cingular from any and all claims and liabilities relating to StarTek's financial stability, which may result from Cingular's termination of any SOW placed under this Agreement, and/or Cingular's reduced purchases hereunder, for any reason whatsoever.

### **32 Ownership of Work Product**

32.1 StarTek hereby agrees that Cingular shall own all rights, title and interest, including but not limited to copyright, patent, trademarks, trade secrets, and all other intellectual property rights in any and all software, technical information, specifications, drawings, records, documentation, creative works, concepts, residual knowledge or data, written, oral or otherwise arising out of, related to or resulting from this Agreement ("Work Product").

32.2 StarTek hereby agrees that the Work Product is being developed as a "work made for hire", provided the Work Product qualifies as such in accordance with the United States copyright laws. If, for any reason, StarTek is ever held or deemed to be the owner of any intellectual property rights set forth herein in the Work Product, then StarTek hereby irrevocably assigns to Cingular all such rights, title and interest and agrees to execute all documents necessary to implement and confirm the letter and intent of this section.

32.3 If StarTek or one or more of its employees, consultants, representatives, subcontractors or agents (collectively called "Associates") first conceives, reduces to practice, makes or develops in the course of work performed under this Agreement, any inventions, discoveries or improvements (collectively called "Inventions"), StarTek hereby agrees to assign to Cingular all of StarTek's and its Associates' entire right, title and interest in and to such Inventions and any patents any country may grant thereon.

32.4 The Work Product and Inventions are deemed to be Cingular's Information hereunder and, except as permitted herein, shall not be used or disclosed by StarTek without Cingular's prior written approval. If the Work Product or Inventions contains materials StarTek or others previously developed, patented or copyrighted and not developed hereunder, StarTek hereby grants Cingular an irrevocable, perpetual, worldwide, royalty-free license to use, copy, modify, distribute, display, perform, import, manufacture, have made, sell, offer to sell, exploit and sublicense such materials for the purpose of exercising Buyer's rights, title and interest in the Work Product and Inventions set forth herein.

32.5 StarTek hereby agrees to acquire from every individual person, including but not limited to, employees, subcontractors, agents, Associates, representatives and other third parties who perform under this

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Agreement such assignments, rights and covenants as to assure that Cingular shall receive and have the ability to maintain all rights, title and interest in the Work Product and Inventions. StarTek hereby agrees to provide evidence of such duly executed documents to Cingular upon request.

### **33. Premises Visits**

33.1. StarTek shall allow Cingular representatives, at no charge, to inspect the locations where Services are performed following at least twenty-four (24) hours prior notice to StarTek. Such inspection shall include, but is not limited to the opportunity to observe the performance of the Services and interview StarTek CSR's who perform Services for Cingular as well as to answer and/or monitor live calls provided this activity does not significantly interfere with the primary Service activity.

### **34. Program Management**

34.1. StarTek shall ensure that Cingular's Projects have an Assigned team of StarTek supervisors and operations representatives. "Assigned" personnel shall mean individuals who will serve as Cingular's primary points of contact in connection with the Services to be performed under an SOW.

34.2. At each location StarTek agrees to staff [\*] of Cingular's Project with [\*] recruits [\*] to enable best business practices are developed and Performance Standards are met. The [\*] recruits requirement shall be evenly distributed between the CSR's, floor supervisors, and the dedicated account management team at each site. StarTek agrees that all CSR's assigned to Cingular Program shall be compensated [\*].

34.4. [\*]. The Director shall act as the day-to-day liaison with Cingular and shall be [\*] to Cingular's account. The Director shall be responsible for ensuring that StarTek is achieving the Performance Standards and will serve as Cingular's primary point of contact. Staffing for this dedicated Director will be reevaluated at [\*] from the first day of Production in order to assess whether or not an additional Director is warranted.

34.5. StarTek's program manager shall monitor daily activity to ensure that Program goals are met. The program manager shall audit the daily reports before sending said reports to Cingular daily to assure that accurate reports are received as noted in Exhibit 6. The program manager shall monitor the CSR's on their program, assuring the Quality Assessment standards detailed in Section 57 are met.

34.6. StarTek will provide monthly scorecards to the Operations Team and senior leadership, as outlined in Exhibit 4.

34.7. Program reviews will be conducted [\*]. Dates, times and locations will be set in advance and agreed to by both parties. As a standard practice, StarTek will engage in continuous process improvement initiatives on behalf of the Cingular. These initiatives may provide various results, such as strengthening and improving the delivery of service and/or reducing talk times. The progress of any and all such initiatives will be a standard part of the quarterly review process.

34.8. Cingular Vendor Operations will define required daily operational reports for their respective location. Should Cingular Vendor Operations have a need for a custom report any cost associated with the creation of such report shall be borne by Cingular and charged at the Programming rate set forth in the applicable SOW. StarTek will provide a time and cost estimate and gain approval from the Cingular Vendor Operations prior to development.

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### **35. Publicity**

35.1 StarTek shall not use Cingular's name or any language, pictures, or symbols which could, in Cingular's judgment, imply Cingular's identity or endorsement by Cingular or any of its employees in any (a) written, electronic, or oral advertising or presentation or (b) brochure, newsletter, book, electronic database, or other written material of whatever nature, without Cingular's prior written consent (hereafter "Publicity Matters"). StarTek will submit to Cingular for written approval, prior to publication, all Publicity Matters that mention or display Cingular's name and/or marks or contain language from which a connection to said name and/or marks may be inferred or implied.

35.2 Furthermore, no license, express or implied, is granted to StarTek for any trademark, patent, copyright, trade secret or any other intellectual property or applications therefore which is now or may hereafter be owned by Cingular or any Cingular Supplier.

### **36. Purchases by Affiliates**

36.1 StarTek agrees that an Affiliate may place a SOW with StarTek which incorporate the terms and conditions of this Agreement, and that the term "Cingular" shall be deemed to refer to an Affiliate when an Affiliate places a SOW with StarTek under this Agreement. If any Affiliate places a SOW under this Agreement, StarTek and such Affiliate shall separately negotiate the scope of work, the compensation, and other specifics, as appropriate. An Affiliate will be responsible for its own obligations, including but not limited to, all charges incurred in connection with such SOW. The parties agree that nothing in this Agreement will be construed as requiring Cingular to indemnify StarTek, or to otherwise be responsible, for any acts or omissions of an Affiliate, nor shall anything in this Agreement be construed as requiring an Affiliate to indemnify StarTek, or to otherwise be responsible, for the acts or omissions of Cingular. For the purposes of determining any applicable volume discounts of Cingular hereunder and pricing applicable to Cingular and its Affiliates, the volumes of Cingular and each Affiliate will be aggregated.

### **37. Quality Assessment**

37.1 StarTek will provide enough Quality Assessment ("QA") agents to CSR's to meet the minimum number of observations monthly. Each CSR is monitored a [\*] evaluations per [\*] by both QA and Production staff/personnel and other informal evaluations as agreed upon by the parties based upon individual CSR performance. Supervisors are required to provide feedback within [\*] of the actual call for review with the CSR's. Agents needing improvement will receive additional evaluations via various methods (side by side, additional monitoring, remote monitoring, double jacking, etc). QA agents will shadow CSR's while on the call without the CSR being aware they are being monitored. Calibration sessions between StarTek QA agents, StarTek supervisors and Cingular representatives will be held [\*] to ensure scoring and feedback to CSR's is consistent. If StarTek fails to meet performance criteria described in this Section, StarTek will be advised of such deficiencies and StarTek will have [\*] to bring performance back to objective's standards. Cingular and StarTek may mutually agree to modify the standards upon written agreement signed by both parties.

37.2 Calibrating the scoring for the Quality Assessment Tool will be agreed upon in writing by Cingular and StarTek within [\*] of the mutual execution of the Agreement.

37.3 Cingular will have the right to request removal of any CSR from performing the Services. Cingular may exercise this right by notifying StarTek in writing of Cingular's desire to remove a particular CSR from its program. Thereafter, StarTek shall immediately take corrective action. Notwithstanding the foregoing, if

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mutually agreed between the parties, StarTek may take corrective action to remedy the defects in the performance of any CSR(s).

37.4 If, during a CSR observation, StarTek identifies conduct that is not in conformance with standards (i.e., providing incorrect information to a Cingular's customer); StarTek shall immediately intervene with such CSR. As technology may become available at StarTek's centers, StarTek shall provide system capability for Supervisors to instant message CSR's while conducting quality observation.

### **38. Records and Audits**

38.1 StarTek agrees that it will:

- a. Maintain complete and accurate records related to the Services provided by StarTek to Cingular, including records of all amounts billable to and payments made by Cingular in accordance with generally accepted accounting principles and practices, uniformly and consistently applied in a format that will permit audit;
- b. Retain such records and reasonable billing detail for a period of at least three (3) years from the date of final payment for Services;
- c. Provide reasonable supporting documentation to Cingular concerning any disputed invoice amount within thirty (30) calendar days after receipt of written notification of such dispute; and
- d. Permit Cingular and its authorized representatives to inspect and audit during normal business hours the charges invoiced to Cingular. Should Cingular request an audit, StarTek will make available any pertinent records and files to Cingular during normal business hours at no additional charge.

### **39. Releases Void**

39.1 Neither party shall require waivers or releases of any personnel or other representatives of the other in connection with visits to its premises, and no such releases or waivers shall be pleaded by either party in any action or proceeding.

### **40. Remote Silent Monitoring**

40.1. StarTek will provide unlimited unassisted monitoring to Cingular via StarTek's quality monitoring system during hours in which Service is provided. StarTek shall further use a highly accessible toll-free remote monitoring function (or option to dial out) by providing remote monitoring for the performed hours of Services. Cingular and StarTek agree to develop a schedule for the hosted monitoring sessions. If technically available, StarTek shall make said function available to Cingular via a computer and modem to allow Cingular to watch the CSR or operator interact with StarTek's computer screens. Cingular's representatives will be permitted to monitor the performance of the StarTek's CSR by auditory technology or through retrieving all non-archived call recordings and/or data from the switch without notice. Recordings of calls that have been archived will be accessible through StarTek's Project Manager within 48 hours of Cingular's request.

40.2 Quality reports and report summaries as agreed upon by the parties will be available at Cingular's request for each CSR.

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#### **41. Representatives**

41.1 Services performed under this Agreement are subject to contract administration activities by Cingular's Representatives. Such activities include, but are not limited to, monitoring StarTek's performance, Agreement interpretation, and amendment, maintenance of Agreement information in Cingular's database, inspecting work performed, verifying work completion, and validating charges rendered on StarTeks invoices. All Services provided by StarTek under this Agreement are subject to such activities. In addition to or in lieu of Cingular's Representative, contract administration activities may be performed by the individuals designated by Cingular's Delegate, or as may be designated by Cingular in writing; provided that any such Cingular's Delegate shall be subject to the confidentiality obligations contained herein and provided such Cingular's Delegate is not a competitor or Seller.

41.2 Cingular's Representative shall be the Contract Manager and the Cingular Contact listed in each SOW.

#### **42. Reports**

42.1 StarTek shall render [\*] on or before the [\*] containing the information detailed below. Completed reports shall be sent to the Cingular address specified in the Section entitled "Notices" with a copy to the Cingular Contact(s) listed in individual SOW(s). The following information shall be provided for each preceding quarter:

- a. Calendar Year-To-Date total dollars invoiced.

#### **43. Responsibilities - Cingular**

43.1 Cingular will develop, maintain and update training materials for the applicable SOW and provide to StarTek. Cingular may request that StarTek provide updates to the training materials at the training curriculum development rate set forth in the appropriate SOW and subject to Exhibit 5 of the Agreement. Cingular is also responsible for the specifications. One complete set of all required software, technical notes, technical documentation and all additional training materials for all Products, and all updates, upgrades and revisions (collectively the "Training Materials") thereto will be provided by Cingular to StarTek. All such materials shall remain the property of Cingular. Any StarTek modification to the Training Materials must be approved by Cingular and shall become property of Cingular.

43.2 Cingular shall be responsible for providing access to StarTek. StarTek agrees that it shall request from Cingular confidential individual codes allowing access to Cingular systems (hereinafter, "User IDs") for personnel requiring such access. These User IDs must be accurately requested through Cingular's process by the second day of training.

43.3 Cingular will provide universal training IDs for each training workstation. These universal training IDs will provide CSRs in the training environment with access to all necessary systems for training. StarTek's trainers will reset the passwords for the universal training IDs no later than the completion of training, prior to the StarTek CSRs being placed into the Production environment

43.4 Cingular will provide StarTek with the necessary User IDs [\*] following notification of ID request. Cingular will internally escalate the ID request if the User IDs are not available within [\*] prior to the start of Nesting.

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43.5 In the event Cingular does not provide User IDs for StarTek CSRs as set forth herein or as otherwise mutually agreed upon in writing, CSRs ready for Nesting shall sign-in under AUX state and Cingular shall be billed at the applicable tenure Production Rate identified in the appropriate SOW. StarTek shall be excused from Performance Standards beginning the twenty-first (21<sup>st</sup>) day of training through the extended Nesting period as a result of the delayed receipt of User IDs.

43.6 All names and User IDs of CSRs that have left the Program will be provided by StarTek to the appropriate personnel within Cingular within two (2) business days of payroll separation or movement from the Cingular Program supported by StarTek. Cingular will provide StarTek with ID password re-set capabilities. Cingular will be responsible for the deactivation of the User IDs and as such, any unauthorized use of User IDs and passwords are the responsibility of Cingular after (2) business days from the receipt of deletions requests to appropriate Cingular personnel from StarTek. Individual User IDs will not be reused, shared, or transferred to other CSRs within StarTek for any reason, unless authorized by Cingular in writing. Cingular will provide User IDs with the appropriate level of authorization to enable the CSRs to fully perform their job responsibilities. Further, Cingular is responsible for all maintenance costs associated with User IDs to provide that system changes and maintenance do not adversely impact CSRs ability to perform as defined within a SOW.

#### **44. Responsibilities - StarTek**

44.1 StarTek will provide resources to answer all Customer Inquiries in accordance with the Performance Standards Outlined in this Agreement and in the applicable SOW. Customer Inquiries shall occur when a live CSR answers the call, and not upon the Customer reaching a voice response system.

44.2 StarTek shall take and handle inbound customer inquiries including, but not limited to, billing statements, adjustments, changes to features/services (e.g. up-selling services), changes of billing information, save desk (i.e., attempt to keep customer with the service and any other account maintenance functions) and other business customer care activities as may be directed by Cingular in the Specification in support of Cingular's Program(s) (the "Services").

44.3 Except as otherwise set forth under "Special Considerations" in a SOW, StarTek will be responsible for supplying all personnel, facilities, tools, equipment, services and materials necessary to perform the Services in accordance with the terms and conditions set forth in this Agreement and in any SOW(s).

44.4 StarTek shall be responsible for the recruiting, hiring, and attrition training of required personnel to perform the Services described herein at no additional charge to Cingular. StarTek shall acquire resources that possess the appropriate skill sets for the work being performed. Except as set forth herein, or in "Special Considerations" in a SOW, StarTek shall be responsible for all costs associated with recruiting and hiring personnel required to perform the Services.

44.5 If requested by Cingular, StarTek agrees to provide adequate space, including but not limited to; security access including after hours access, telephone service, network connectivity to access Cingular applications, at any facility where the Services are to be performed to accommodate one full-time Cingular staff member ("Vendor Managers").

44.6 StarTek will provide necessary hardware and software at StarTek's site from the point of demarcation to switch for voice path communications.

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44.7 StarTek shall require that personnel with access to Cingular's network, systems, property, including information or assets sign an acknowledgement form documenting that personnel understand and agrees to safeguard against loss, damage, misuse, or theft of Cingular's assets or property. StarTek shall maintain a complete file of all signed acknowledgement forms in accordance with the "Security Requirements for System or Network Access by Contractors" section of the Agreement. StarTek's access to Cingular's networks, systems, property and assets shall at all times be subject to the terms and conditions of the Agreement and any SOW.

44.8. It is StarTek's responsibility to manage Customer escalations through StarTek's management chain. Technical problems shall be forwarded to Cingular through the normal ticketing process.

44.9. StarTek shall pay [\*] to deliver calls to StarTek's location related to an SOW. Cingular shall be responsible for other voice and data charges. StarTek agrees to relinquish ownership at no cost to Cingular of any and all toll-free numbers associated with the Program to Cingular or another party specified by Cingular within [\*] of Cingular's request; provided that Cingular is current on all invoices.

44.10. StarTek agrees to relay to Cingular Contact / Vendor Manager Information relating to recurring problems, errors or other issues, and the recommended resolution of said problems, if applicable, discovered or developed in conjunction with any SOW so that such information may be added to Cingular's CIQ customer care application.

44.11 StarTek CSR's shall add call disposition and record notes to Cingular billing system, exclusive of wrong numbers, misrouted calls, and disconnected calls, or unless agreed to in writing by both parties prior to implementing a program that does not require call tracking.

44.12. StarTek will begin with a [\*] and will migrate to a ratio of not more than [\*] as StarTek gains performance and experience with the program.

44.13 StarTek will obtain Cingular's written permission, which shall not be unreasonably withheld or delayed, prior to moving or expanding Services location to another site. The parties acknowledge and agree that any growth under a particular SOW may need to occur at facilities other than those designated. Each of StarTek's locations utilized for delivery of the Services shall be equipped with telephone systems, computer systems, and various support tools, such as quality assurance tools, documentation and knowledge bases, to be used in the delivery of Services subject to this Section.

44.14 The foregoing does not apply to changes from one (1) StarTek location to another in situations involving force majeure or disaster recovery, or where calls are handled at an additional or another StarTek location because of call volume, growth of the Program or other Program requirements (e.g. additional language requirements). In such cases, StarTek shall provide Cingular with two (2) weeks prior written notice, or notice as soon as reasonably possible. The parties will work together in good faith to resolve the situation.

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#### **45. Security**

45.1 StarTek shall conduct a background check for each individual providing Services to Cingular to identify whether the individual has been convicted of a felony. StarTek shall not assign to Cingular's project(s) anyone convicted of a felony of any kind, or any misdemeanor relating to computer security, theft, violence, or fraud.

45.2 StarTek shall conduct a drug screen, at Cingular's expense, on all individuals providing Services to Cingular. StarTek shall not assign to Cingular any personnel who fail the drug screen.

#### **46. Severability**

46.1 If any provision or any part of provision of this Agreement shall be invalid or unenforceable, such invalidity or non-enforceability shall not invalidate or render unenforceable any other portion of this Agreement. The entire Agreement will be construed as if it did not contain the particular invalid or unenforceable provision(s) and the rights and obligations of the StarTek and Cingular will be construed and enforced accordingly.

#### **47. Survival of Obligations**

47.1 Obligations and rights in connection with this Agreement which by their nature would continue beyond the Termination, Cancellation or expiration of this Agreement, including those in the sections entitled "Compliance With Laws," "Infringement," "Indemnity," "Publicity," "Severability," "Information," "Independent Contractor," and "Warranty and Rebates," will survive the Termination, Cancellation, or expiration of this Agreement.

#### **48. Statement of Work (SOW)**

48.1 This Agreement contemplates the future execution by Cingular and StarTek of one or more written SOW(s). Both parties shall execute each SOW. This Agreement and any applicable SOW(s) shall cover all transactions between Cingular and StarTek during the term of this Agreement unless the parties agree otherwise in writing.

Each request for Services shall be issued through a SOW which, at a minimum, shall specify the information outlined below:

- (i) A reference to this Agreement and a unique identifying number assigned by Cingular's Representative;
- (ii) A detailed description of the Services StarTek shall perform;
- (iii) A statement defining all deliverables and their associated due dates; if applicable
- (iv) Procedures for acceptance testing, if applicable;
- (v) Cingular and StarTek's contact names, addresses and telephone numbers;
- (vi) A list of expenses authorized for reimbursement by Cingular, and an explanation for each item;
- (vii) The maximum total expenditure authorized, meaning either (a) the total dollar amount authorized under the SOW, or (b) the total time limit for completing the project under the SOW;
- (viii) A statement defining the beginning and ending dates for the work to be performed;
- (ix) Acceptance procedures; and

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- (x) Signatures of representatives authorized by Cingular and StarTek to execute the SOW.

#### 49. Taxes

49.1 StarTek may invoice Cingular the amount of any federal excise taxes or state or local sales taxes imposed upon the sale of Material or provision of Services as separate items, if applicable, listing the taxing jurisdiction imposing the tax. Installation, labor and other non-taxable charges must be separately stated. Cingular agrees to pay all applicable taxes to StarTek which are stated on and at the time the Material or Service invoice is submitted by StarTek. StarTek agrees to remit taxes to the appropriate taxing authorities.

49.2. StarTek agrees to pay, and to hold Cingular harmless from and against, any penalty, interest, additional tax, or other charge that may be levied or assessed as a result of the delay or failure of StarTek, for any reason, to pay any tax or file any return or information required by law, rule or regulation or by this Agreement to be paid or filed by StarTek. StarTek agrees to pay and to hold Cingular harmless from and against any penalty or sanction assessed as a result of StarTek doing business with any country subject to U.S. trade restrictions.

49.3 Following the issuance of a SOW, StarTek shall within twenty (20) days (but in no event later than two (2) weeks before commencement of work under the applicable SOW) present Cingular a schedule of taxes and fees that StarTek proposes to collect from Cingular. Upon Cingular's request, the parties shall consult with respect to the basis and rates upon which StarTek shall pay any taxes or fees for which Cingular is obligated to reimburse StarTek under this Agreement. If Cingular determines that in its opinion any such taxes or fees are not payable or should be paid on a basis less than the full price or at rates less than the full tax rate, StarTek shall make payment in accordance with such determinations and Cingular shall be responsible for such determinations. If collection is sought by the taxing authority for a greater amount of taxes than that so determined by Cingular, StarTek shall promptly notify Cingular. StarTek shall cooperate with Cingular in contesting such determination, but Cingular shall be responsible and shall reimburse StarTek for any tax, interest, or penalty in excess of its determination. If Cingular desires to contest such collection, Cingular shall promptly notify StarTek. If Cingular determines that in its opinion it has reimbursed StarTek for sales or use taxes in excess of the amount which Cingular is obligated to reimburse StarTek, Cingular and StarTek shall consult to determine the appropriate method of recovery of such excess reimbursements. StarTek shall credit any excess reimbursements against tax reimbursements or other payments due from Cingular if and to the extent StarTek can make corresponding adjustments to its payments to the relevant tax authority. At Cingular's request, StarTek shall timely file any claims for refund and any other documents required to recover any other excess reimbursements, and shall promptly remit to Cingular all such refunds (and interest) received.

49.4. If any taxing authority advises StarTek that it intends to audit StarTek with respect to any taxes for which Cingular is obligated to reimburse StarTek under this agreement, StarTek shall (1) promptly so notify Cingular, (2) afford Cingular an opportunity to participate on an equal basis with StarTek in such audit with respect to such taxes and (3) keep Cingular fully informed as to the progress of such audit. Each party shall bear its own expenses with respect to any such audit, and the responsibility for any additional tax, penalty or interest resulting from such audit shall be determined in accordance with the applicable provisions of this Section. StarTek's failure to comply with the notification requirements of this section shall relieve Cingular of its responsibility to reimburse StarTek for taxes only if StarTek's failure materially prejudiced Cingular's ability to contest imposition or assessment of those taxes.

49.5 In addition to its rights under subparagraph (d) above with respect to any tax or tax controversy covered by this Tax Section, Cingular will be entitled to contest, pursuant to applicable law and tariffs, and at its own expense, any tax previously billed that it is ultimately obligated to pay. Cingular will be entitled to the

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benefit of any refund or recovery of amounts that it had previously paid resulting from such a contest. StarTek will cooperate in any such contest, provided that all costs and expenses incurred in obtaining a refund or credit for Cingular shall be paid by Cingular.

49.6 If either Party is audited by a taxing authority or other governmental entity, the other Party agrees to reasonably cooperate with the Party being audited in order to respond to any audit inquiries in an appropriate and timely manner, so that the audit and any resulting controversy may be resolved expeditiously.

## **50. Technical Support**

50.1 StarTek will provide, [\*], full and complete technical assistance to Cingular for the Services covered by this Agreement, including ongoing technical support and field service and assistance, provision of technical bulletins and updated user manuals, and telephone assistance to assist with installation, operation, maintenance, and problem resolution. The availability or performance of this technical support will not be construed as altering or affecting StarTek's obligations as set forth in the Section entitled "Warranty" or provided elsewhere in this Agreement. Field service and technical support, including emergency support (service affecting) will be provided [\*]. StarTek will provide to Cingular and keep current an escalation document that includes names, titles and telephone numbers, including after-hours telephone numbers, of StarTek personnel responsible for providing technical support to Cingular. StarTek will maintain a streamlined escalation process to speed resolution of reported problems.

## **51. Term of Agreement**

51.1 This Agreement shall commence on the Effective Date and, unless terminated or canceled as provided in this Agreement, shall remain in effect for three (3) years (the "Initial Term").

51.2 After the Initial Term, this Agreement shall continue on a month to month basis until terminated by either party upon thirty (30) days prior written notice to the other setting forth the effective date of such termination. The termination, cancellation or expiration of this Agreement shall not affect the obligations of either party to the other party pursuant to any Order previously executed hereunder, and the terms and conditions of this Agreement shall continue to apply to such Order as if this Agreement had not been terminated or canceled.

## **52. Training**

52.1 StarTek agrees that the successful performance of the Services as specified in this Agreement and any applicable SOW's may require training that is specific to knowledge transfer to Cingular and Cingular's personnel who are engaged hereunder. Such training shall be managed in accordance with the Agreement and shall be completed at no additional charge to Cingular other than as set forth in each SOW.

52.2 Any training of StarTek's personnel for non-Cingular related activities or purposes will be at no charge to Cingular, including, but not limited to: trainer's training time, trainees' training time, professional fees, general expenses, materials or other direct or indirect training costs.

52.3 StarTek shall make sufficient copies of the Training Materials provided by Cingular to train StarTek's representatives performing Services under this SOW. All Training Materials shall remain the sole property of Cingular, and shall not be used for any purpose other than the performance of the Services under this SOW. StarTek shall not make any changes to the training materials without the written consent of Cingular.

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52.4 StarTek agrees to provide initial training of StarTek's new personnel and all retraining, ongoing soft-skills training, and customer service training at the rates set forth in each applicable SOW. If mutually agreed between the parties, Cingular may provide Cingular trainers for initial train-the-trainer training programs.

52.5 StarTek must obtain approval in writing from Cingular prior to commencing training initiatives where the training rate would be applied and prior to commencing activities that may negatively impact CSR productivity.

52.6 StarTek agrees to provide all attrition training at no additional.

52.7 Cingular will make best effort to provide updates to the Training Materials and any supplemental/modification training required at least thirty (30) days before the training is to be delivered within the center to review Training Materials, train trainers, and schedule training classes.

52.8 Cingular will revise the training agenda to include Training Material updates as well as on-line updates. Revised agendas shall be provided to StarTek monthly and will include all supplemental training

52.9 Cingular will provide on-line training via Cingular provided on-line tools. StarTek shall make sufficient copies of the Training Materials provided by Cingular to train StarTek's representatives performing Services under a SOW at the rate set forth in Exhibit B. All Training Materials shall remain the sole property of Cingular, and shall not be used for any purpose other than the performance of the Services under a SOW. StarTek shall not make any changes to the Training Materials without the written consent of Cingular

52.10 Any additional language requirements will be handled through Exhibit 5 of the Agreement

52.11 Cingular may provide StarTek with complete functionality access to Cingular's University Learning Management System. In the event Cingular does not provide StarTek with complete functionality access to Cingular University Learning Management System, StarTek's training administrator will register CSRs into the Cingular University Learning Management System, billing tracker, and administer sign in sheets monthly at the clerical support rate set forth in the appropriate SOW.

52.12 Cingular may request that StarTek develop Training Materials for Cingular's new Products subject to Exhibit 5 of the Agreement at the training curriculum development rate set forth in the appropriate SOW. All Training Materials developed by StarTek must be reviewed and approved in writing by Cingular prior to being used in training StarTek's representatives performing the Services. All Training Materials developed by StarTek for Cingular and paid for by Cingular shall be considered "Work Product" as described in the Agreement, and shall be the sole property of Cingular.

### **53. Warranty**

53.1 StarTek warrants to Cingular that any Services provided hereunder will be performed in a first-class, professional manner, in strict compliance with the Specifications, and with the care, skill and diligence, and in accordance with the applicable standards, currently recognized in StarTek's profession or industry. If StarTek fails to meet applicable professional standards, StarTek will, without additional compensation, promptly correct or revise any errors or deficiencies in the Services furnished hereunder.

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53.2 StarTek represents and warrants that:

- a. (i) comply with all federal, state, and local laws, ordinances, regulations and orders, including, but not limited to, all laws prohibiting harassment or discrimination of any kind in the workplace and laws relating to health, safety and the environment and, as applicable, laws applicable to Federal Contractors with respect to its performance under this Agreement; (ii) file all required reports relating to such performance (including, without limitation, tax returns); (iii) pay all filing fees and federal, state and local taxes and government assessments applicable to StarTek's business as the same become due; (iv) pay all amounts required under local, state and federal workers' compensation acts, disability benefit acts, unemployment insurance acts and other employee benefit acts when due; (v) maintain in effect during the Term of this Agreement any and all federal, state and local licenses and permits which may be required of StarTek to conduct its business, and obtain all permits, including, but not limited to, fire and environmental necessary under this Agreement. StarTek shall provide Cingular with such documents and other supporting materials as Cingular may reasonably request to evidence StarTek's continuing compliance with this Section. Cingular will not be responsible for any of the payments, obligations, taxes or benefits set forth in this Section.
- b. There are no actions, suits, or proceedings, pending or threatened, which will have a material adverse effect on StarTek's ability to fulfill its obligations under this Agreement;
- c. StarTek will immediately notify Cingular if, during the term of this Agreement, StarTek becomes aware of any action, suit, or proceeding, pending or threatened, which may have a material adverse effect on StarTek's ability to fulfill the obligations under this Agreement or any SOW;
- d. StarTek has all necessary skills, rights, financial resources, and authority to enter into this Agreement and related SOW(s), including the authority to provide or license the Services;
- e. The Services will not infringe any patent, copyright, or other intellectual property;
- f. No consent, approval, or withholding of objection is required from any entity, including any governmental authority with respect to the entering into or the performance of this Agreement or any SOW;
- g. The Services will be provided free of any lien or encumbrance of any kind;
- h. StarTek will be fully responsible and liable for all acts, omissions, and Work performed by any of its representatives, including any subcontractor;
- i. All representatives, including subcontractors, will strictly comply with the provisions specified in this Agreement and any SOW; and,
- j. StarTek will strictly comply with the terms of this Agreement or SOW, including those specified in any Exhibits or Appendices thereto.

53.3 warranties will survive inspection, Acceptance, payment and use. These warranties will be in addition to all other warranties, express, implied or statutory. StarTek will defend, indemnify and hold Cingular harmless from and against all Liabilities for a breach of these warranties.

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53.4 If at any time during the warranty period for Services, Cingular believes there is a breach of any warranty Cingular will notify StarTek setting forth the nature of such claimed breach. StarTek shall promptly investigate such claimed breach and shall either (i) provide Information satisfactory to Cingular that no breach of warranty in fact occurred, or (ii) at no additional charge to Cingular, promptly use its best efforts to take such action as may be required to correct such breach.

53.5 If a breach of warranty has not been corrected within a commercially reasonable time, or if two (2) or more breaches of warranty occur in any sixty (60) day period, Cingular may Cancel the applicable SOW.

#### **54. Workmanship**

54.1 The services to be provided by StarTek under this Agreement shall proceed with promptness and shall be executed to Cingular's satisfaction in accordance with the highest professional standards in the field. StarTek shall remove from the work, at Cingular's request, any employee furnished by StarTek who is deemed, in Cingular's opinion, to be incompetent, incapable, uncooperative, or otherwise unacceptable in the execution of the work to be performed under this Agreement. Such a request shall not be deemed a request that such employee be disciplined or discharged, nor shall it be deemed to be an adverse reflection on the character or abilities of such employee.

#### **55. Work Done By Others**

55.1 If any part of StarTek's work is dependent upon services performed by others, StarTek shall inspect and promptly report to Cingular any defect that renders such other services unsuitable for StarTek's proper performance. StarTek's silence shall constitute approval of such other services as fit, proper and suitable for StarTek's performance of its work. All obligations hereunder and to any SOW(s) shall remain in full force and effect with respect to any subcontracted parties.

#### **56. Entire Agreement**

56.1 The terms contained in this Agreement, and any SOW's, including all appendices and subordinate documents attached to or referenced in the Agreement or any SOW's, will constitute the entire integrated Agreement between StarTek and Cingular with regard to the subject matter herein. This Agreement will supersede all prior oral and written communications, agreements, and understandings of the parties, if any, with respect hereto. Acceptance of Material or Services, payment or any inaction by Cingular shall not constitute Cingular's consent to or acceptance of any additional or different terms from that stated in this Agreement, except for terms in a SOW placed by Cingular and signed by both Parties. Estimates furnished by Cingular shall not constitute commitments.

**IN WITNESS WHEREOF**, the parties have caused this Agreement to be executed as of the Effective Date by their duly authorized representatives:

**[Supplier]**

**CINGULAR WIRELESS LLC**  
**On behalf of itself and its Affiliates**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

#### **PRIVATE/PROPRIETARY/LOCK**

Contains private and/or proprietary information. May not be used or disclosed outside Cingular or Supplier except pursuant to a written Agreement.

## ***Exhibit 1***

### ***Executive Orders and Federal Regulations***

Work under this Agreement may be subject to the provisions of certain Executive Orders, federal laws, state laws, and associated regulations governing performance of this contract including, but not limited to: Executive Order 11246, Executive Order 11625, Executive Order 11701, and Executive Order 12138, Section 503 of the Rehabilitation Act of 1973 as amended and the Vietnam Era Veteran's Readjustment Assistance Act of 1974. To the extent that such Executive Orders, federal laws, state laws, and associated regulations apply to the work under this Agreement, and only to that extent, Supplier (also referred to as "Supplier") agrees to comply with the provisions of all such Executive Orders, federal laws, state laws, and associated regulations, as now in force or as may be amended in the future, including, but not limited to the following:

#### ***1. EQUAL EMPLOYMENT OPPORTUNITY DUTIES AND PROVISIONS OF GOVERNMENT SUPPLIERS***

In accordance with 41 C.F.R. §60-1.4(a), the parties incorporate herein by this reference the regulations and contract clauses required by that section, including but not limited to, Supplier's agreement that it will not discriminate against any employee or applicant for employment because of race, color, religion, sex, or national origin. The Supplier will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex, or national origin.

#### ***2. AGREEMENT OF NON SEGREGATED FACILITIES***

In accordance with 41 C.F.R. §60-1.8, Supplier agrees that it does not and will not maintain or provide for its employees any facilities segregated on the basis of race, color, religion, sex, or national origin at any of its establishments, and that it does not and will not permit its employees to perform their services at any location, under its control, where such segregated facilities are maintained. The term "facilities" as used herein means waiting rooms, work areas, restaurants and other eating areas, time clocks, rest rooms, wash rooms, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees; provided, that separate or single-user restroom and necessary dressing or sleeping areas shall be provided to assure privacy between the sexes.

#### ***3. AGREEMENT OF AFFIRMATIVE ACTION PROGRAM***

Supplier agrees that it has developed and is maintaining an Affirmative Action Plan as required by 41 C.F.R. §60-1.4(b).

\*Note- This note will serve for highlighted area 3&5. StarTek is not required by law to meet any of these outlined expectations. We will require that the needed verbiage be added by Cingular that deflects these requirements before signing this document.

#### ***4. AGREEMENT OF FILING***

Supplier agrees that it will file, per current instructions, complete and accurate reports on Standard Form 100 (EE0-1), or such other forms as may be required under 41 C.F.R. §60-1.7(a).

#### ***5. AFFIRMATIVE ACTION FOR HANDICAPPED PERSONS AND DISABLED VETERANS, VETERANS OF THE VIETNAM ERA.***

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In accordance with 41 C.F.R. §60-250.20, and 41 C.F.R. §60-741.20, the parties incorporate herein by this reference the regulations and contract clauses required by those provisions to be made a part of government contracts and subcontracts.

## **6. Executive Order 13201 Compliance**

In accordance with 29 C.F.R. Part 470.2(b) the parties incorporate by reference the regulations and contract clauses required by those provisions to be made a part of covered subcontracts and purchase orders and Supplier agrees to comply with the provisions of 29 CFR Part 470.

## **7. UTILIZATION OF SMALL, SMALL DISADVANTAGED AND WOMEN-OWNED SMALL BUSINESS CONCERNS**

As prescribed in 48 C.F.R., Ch. 1, 19.708(a):

- (a) It is the policy of the United States that small business concerns, small business concerns owned and controlled by socially and economically disadvantaged individuals and small business concerns owned and controlled by women shall have the maximum practicable opportunity to participate in performing contracts let by any Federal agency, including contracts and sub-contracts for systems, assemblies, components, and related services for major systems. It is further the policy of the United States that its prime Suppliers establish procedures to ensure the timely payment amounts due pursuant to the terms of the subcontracts with small business concerns, small business concerns owned and controlled by socially and economically disadvantaged individuals and small business concerns owned and controlled by women.
- (b) The Supplier hereby agrees to carry out this policy in the awarding of subcontracts to the fullest extent consistent with efficient contract performance. The Supplier further agrees to cooperate in any studies or surveys as may be conducted by the United States Small Business Administration or the awarding agency of the United States as may be necessary to determine the extent of the Supplier's compliance with this clause.
- (c) As used in this contract, the term *small business concern* shall mean a small business as defined pursuant to section 3 of the Small Business Act and relevant regulations promulgated pursuant thereto. The term *small business concern owned and controlled by socially and economically disadvantaged individuals* shall mean a small business concern which is at least 51 percent unconditionally owned by one or more socially and economically disadvantaged individuals; or, in the case of any publicly owned business, at least 51 percent of the stock of which is unconditionally owned by one or more socially and economically disadvantaged individuals; and (2) whose management and daily business operations are controlled by one or more such individuals. This term also means small business concern that is at least 51 percent unconditionally owned by an economically disadvantaged Indian tribe or Native Hawaiian Organization, or a publicly owned business having at least 51 percent of its stock unconditionally owned by one of these entities which has its management and daily business controlled by members of an economically disadvantaged Indian tribe or Native Hawaiian Organization, and which meets the requirements of 13 CRF part 124. The Supplier shall presume that socially and economically disadvantaged individual include Black Americans, Hispanic Americans, Native Americans, Asian-Pacific Americans, Subcontinent Asian Americans, and other minorities, or any other individual found to be disadvantaged by the Administration pursuant to section 8(a) of the Small business Act. The Supplier shall presume that socially and economically disadvantaged entities also include Indian Tribes and Native Hawaiian Organizations.
- (d) The term "small business concern owned and controlled by women" shall mean a small business concern (i) which is at least 51 percent owned by one or more women, or, in the case of any publicly owned business, at least 51 percent of the stock of which is owned by one or more women, and (ii) whose management and daily business operations are controlled by one or more women; and

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- (e) Suppliers acting in good faith may rely on written representations by their sub-Suppliers regarding their status as a small business concern, a small business concern owned and controlled by socially and economically disadvantaged individuals or a small business concern owned and controlled by women.

8. *SMALL, SMALL DISADVANTAGED AND WOMEN-OWNED SMALL BUSINESS SUB-CONTRACTING PLAN. The sub-Supplier will adopt a plan similar to the plan required by 48 CFR Ch. 1 at 52.219-9.*

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## **Exhibit 2**

### **Security Requirements**

Contractors must comply with these security requirements (“Requirements”) to have access to Cingular’s computers, computer peripherals, computer communications networks, computer systems/applications/software, network elements and their support systems, and the information stored, transmitted, or processed using these resources (“Information Resources.”) “Contractor” means a person or business entity with a written agreement (“Agreement”) to perform services for Cingular. “User” means any individual performing services under the Agreement, whether as an employee, approved subcontractor, or agent of Contractor. “Cingular Sponsor” means the Cingular management employee responsible for the oversight of the services provided by Contractor.

These Requirements apply to Contractors and Users performing services on Cingular premises or remotely accessing Cingular infrastructure, systems or applications using Cingular-provisioned client-VPN and to those providing services to Cingular that are hosted external to Cingular premises.

**A. Compliance with Law and General Policy.** Contractors must comply with the “Cingular Corporate Information Security Policy” as set forth on Attachment 1. Contractors must protect Cingular Information Resources and Cingular proprietary or confidential data or information in accordance with the terms and conditions of the Agreement (including any separate confidentiality agreements), and must comply with all applicable international, federal, state, and local laws and regulations related to use of Information Resources and protection of Cingular’s data or information. Contractor is responsible for ensuring that all Users it employs or contracts with comply with these Requirements. Additionally, regarding its Users, Contractor shall:

1. Ensure that all Users are covered by a legally binding obligation that protects Cingular’s proprietary and confidential information and are briefed on these Requirements.
2. Perform a criminal background check on each User prior to allowing the User to access an Information Resource, and not allow such access if the User has been convicted of or is currently awaiting trial for a felony offense or a misdemeanor related to computer security, theft, fraud or violence.
3. Not subcontract any part of the work under the Agreement whereby a subcontractor will have access to Cingular’s Information Resources without written approval of Cingular.

**B. Audits.** Upon at least one week’s notice from Cingular, and subject to reasonable security requirements of Contractor, Contractor shall provide Cingular’s designated representatives, if under a commercially reasonable nondisclosure agreement with both Cingular and Contractor, with access to and any assistance that it may require with respect to the Contractor’s facilities, systems and software for the purpose of performing commercially reasonable tests and audits to determine compliance with these Requirements, including intellectual property audits if applicable, data privacy and security audits, and audits or inspections of the services and related operational processes and procedures, and access to any SAS-70 audits performed during the term of the Agreement. If Contractor is advised that it is not in compliance with any aspect of these Requirements, Contractor shall promptly take actions to comply with the audit findings. If Contractor is substantially in nonconformance with the foregoing, in addition to any remedies that Cingular may have, Contractor shall bear the reasonable cost of a re-audit after Contractor indicates to Sponsor that the audit findings have been remedied. Cingular may audit or inspect any computer hardware or software used by Users in the performance of work for Cingular, and may periodically review or monitor any use of Information Resources by

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User. Any User using Cingular Information Resources in an inappropriate manner may be subject to removal from the Cingular account, and to any other legal remedies Cingular may have.

**C. Privacy of Customer Information.** Contractor acknowledges that information regarding Cingular's customers and personnel, such as their account information, (including by way of example, name, address, telephone number, credit card information or social security number) ("Customer Information") are subject to certain privacy laws and regulations, as well as the requirements of Cingular. Such Customer Information is to be considered private, sensitive and confidential. Accordingly, with respect to Customer Information, Contractor agrees it shall not:

1. Use Customer Information for any purpose except as expressly authorized by Cingular in writing;
2. Disclose Customer Information to any party except as expressly authorized by Cingular in writing;
3. Incorporate Customer Information into any database other than in a database maintained exclusively for the storage of Cingular's Customer Information;
4. Sale, license or lease Customer Information to any other party;
5. Allow access to Customer Information only to those employees of Contractor with a need to know and for use only for the purposes set forth in the Agreement.

**D. Notification of Security Breach.** Contractor will immediately notify Cingular Sponsor of any breach of these Requirements, including any breach that allows or could allow a third party to have access to any Customer Information, including but not limited to the following:

- Social Security Number
- Driver License Number
- Home Address
- Credit or debit card numbers
- Date of birth
- Visa / passport number
- Bank account numbers
- Mother's maiden name
- Application PIN or password
- Tax identification number
- Credit information
- Cingular Account Information

**E. VISA Cardholder Information Security Program (CISP)**

If applicable, Contractor shall adhere to all Payment Card Industry (PCI) Data Security Standard Requirements (VISA), as may be modified, for storing, processing, and transmitting credit card or debit cardholder information on behalf of Cingular Wireless. Security requirements apply to all "system components" which is defined as any network component or server, or application included or connected to the Cingular Customer Cardholder data environment. Network components include, but are not limited to firewalls, switches, routers, wireless access points, network appliances, or other appliances. Servers include, but not limited to, web database, authentication, and DNS mail proxy. Applications include all purchased and custom applications including internal and external web applications.

In the event that Contractor causes harm due to negligence or compromises a Cingular Wireless customer's cardholder information, it shall be liable for all penalties, or expenses incurred as a result of such a compromise.

For detailed information regarding the Visa Cardholder information Security Program, see the following web page:

[http://usa.visa.com/business/accepting\\_visa/ops\\_risk\\_management/cisp.html?ep=v\\_sym\\_cisp](http://usa.visa.com/business/accepting_visa/ops_risk_management/cisp.html?ep=v_sym_cisp)

To view the Payment Card Industry (PCI) Data Security Program requirements, navigate to "PCI Data Security Standard" and open the PDF.

**F. Return or Destruction of Data.** At the termination or expiration of the Agreement or when there is no longer a business need or data retention requirement, or at the request of Cingular, and in accordance with all laws, Contractor will either return, or purge and destroy at Cingular's direction, all Cingular data, including Customer Information from Contractor's and User's own information resources, according to Cingular standards, and will notify Cingular when this has been accomplished.

**G. Changes.** These Requirements are subject to change and revision by Cingular from time to time. Cingular is responsible for advising Contractor of any changes. Contractor is responsible for complying with the revised Requirements. If Contractor is unable to comply with the Requirements as revised, it may seek a waiver within a reasonable time following the notification of change.

**H. Waiver and Effect.** By accepting these Requirements, Contractor agrees to comply fully with all the Requirements. If Contractor wishes to provide Cingular with services that are not in full compliance with the Requirements, it shall request and negotiate with the Cingular Sponsor a written waiver.

**I. Remedies.** Failure of Contractor to comply with the Requirements may result in Cingular's terminating the Agreement and exercising any other legal rights it may have.

**J. Conflicts/Non-Integration.** These Requirements are intended to supplement and not replace any written agreements that the Contractor may enter into with Cingular. In the event of a conflict between these Requirements and a signed written agreement between the parties, the signed written agreement shall control. In the event there is a conflict between these Requirements and any oral agreement between the parties, these Requirements shall control.

### **Exhibit 3**

#### **Cingular Corporate Information Security Policy** **Compliance by Business Partners, Vendors, Contractors**

It is the policy of Cingular Wireless to take active steps to ascertain any identified or suspected risks to the electronic information and services of the company through the use of, providing external access to, outsourcing to or employment of Suppliers. Acceptance of this exhibit provided an explicit assertion of compliance with each of the individual provisions as enumerated within this exhibit.

#### ***Security Compliance Requirements***

##### **Wireless Network Access**

- WNA.1. [\*]
- WNA.2. [\*]
- WNA.3. [\*]
- WNA.4. [\*]
- WNA.5. [\*]
- WNA.6. [\*]
- WNA.7. [\*]

##### **Virus Detection and Management**

- VDM.1. [\*]
- VDM.2. [\*]
- VDM.3. [\*]

##### **User Identity (Requirements)**

- UIR.1. [\*]
- UIR.2. [\*]
- UIR.3. [\*]
- UIR.4. [\*]
- UIR.5. [\*]
- UIR.6. [\*]
- UIR.7. [\*]
- UIR.8. [\*]
- UIR.9. [\*]

##### **Strong Authentication (Requirements)**

- SAR.1. [\*]
- SAR.2. [\*]

##### **Remote Network Access**

- RNA.1 [\*]

##### **Passwords**

PWR.1 [\*]  
PWR.2 [\*]  
PWR.3 [\*]:  
• [\*]  
• [\*]  
• [\*]  
PWR.4 [\*]:  
• [\*,  
• [\*,  
• [\*,  
• [\*,  
• [\*,  
• [\*,  
• [\*].  
PWR.5 [\*]  
PWR.6 [\*]  
PWR.7 [\*]  
PWR.8 [\*]  
PWR.9 [\*]  
PWR.10 [\*]  
PWR.11 [\*]  
PWR.12 [\*]  
PWR.13 [\*]  
PWR.14 [\*]  
PWR.15 [\*]  
PWR.16 [\*]

#### **Encryption**

ENR.1 [\*]  
ENR.2 [\*]  
ENR.3 [\*]  
ENR.4 [\*]  
ENR.5 [\*]  
ENR.6 [\*]  
ENR.7 [\*]  
ENR.8 [\*]  
ENR.9 [\*]

#### **System Access Policy: Authentication, Authorization, Revocation**

SYR.1 [\*]  
SYR.2 [\*]  
SYR.3 [\*]  
SYR.4 [\*]  
SYR.5 [\*]  
SYR.6 [\*]  
SYR.7 [\*]  
SYR.8 [\*]  
SYR.9 [\*]  
SYR.10 [\*]  
SYR.11 [\*]

**Security Change Management**

- SYR.12 [\*]
- SYR.13 [\*]:
  - [\*]
  - [\*]
  - [\*]
  - [\*]
  - [\*]
  - [\*]
  - [\*]
  - [\*]
  - [\*]
  - [\*]



**Exhibit 4**  
**Monthly Scorecard Format**

**(Sample Data)**

[Table\*]

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**Exhibit 5**

**Management Procedures for Change in Scope**

- 10 Cingular shall have the right to make changes in the scope of the work and Specification to be performed under this Order as set forth in this Exhibit A. All changes shall be authorized in writing by Cingular Contact through a Project Change Notice.
- 11 Supplier shall not make any changes in the scope of the work or Specification to be performed under this Order which have not been authorized in writing by the Cingular Contact.
- 12 If Supplier receives instructions, directions or requests to make any change or changes that will result in a change in the scope of the work to be performed under this Order from anyone other than the Cingular Contact, Supplier shall promptly notify the Cingular Contact and provide a description of the proposed change, or changes, the length of the delay, if any, that will result from the change or changes and the increased cost, if any, that will result from such change or changes.
- 13 If Supplier receives instructions, directions, or requests from Cingular Contact to make any change or changes that will result in a change in the scope of the work to be performed under this Order, Supplier shall reasonably promptly provide Cingular Contact with the length of the delay, if any, that will result from the change or changes and the increased cost, if any, that will result from such change or changes. Supplier shall not proceed to implement any such change without the written agreement of Cingular Contact and Supplier. To the extent the development work is delayed as a result of Supplier having no written authority to proceed with a change or changes to the development project, Supplier shall not be responsible therefore. Any such changes that are made by Supplier without written approval of Cingular Contact, other than at the urging or other affirmative act by the Cingular Contact, shall not excuse any delay in a delivery date or form the basis for any claim or rationale to increase Supplier's pricing.
- 14 Any delays indirectly or directly affecting the dates in the Deliverables Matrix that are approved in writing by the Cingular Contact shall be excused, and any increase in the cost must be approved in writing by the Cingular Contact and shall be added to the Supplier's price.
- 15 Notwithstanding any other provision herein, Supplier shall not be obligated to make any change to this Order that would cause Supplier to violate any law, rule or regulation; would cause Supplier to violate any contractual obligation of Supplier; or for which the timing and price related to such change cannot be agreed upon by the parties.

**PROJECT CHANGE NOTICE NEXT PAGE**

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[Exhibit 5 continued]  
**PROJECT CHANGE NOTICE**

**DATE:**

**CLIENT:**

**PROJECT:**

---

**DESCRIPTION OF CHANGE:**

**ALL SUPPORTING MATERIALS ATTACHED? YES [ ] NO [ ]**

**DATE:**

---

**DATE:**

**IMPLEMENTATION PLAN? YES [ ] NO [ ]**

---

**COST OF CHANGE (if any):** \$

**DATE: APPROVALS**

---

**Supplier Telemarketing Corporation**

**Cingular Wireless, LLC**

By: \_\_\_\_\_

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

***Proprietary Information***

The information contained herein is not for use or disclosure outside CINGULAR, supplier, their affiliated and subsidiary companies, and their third party representatives, except under written agreement.

## Exhibit 6

### ACD Report Data From Vendor

<b>Column A</b>	<b>Column B</b>	<b>Column C</b>
<b>Switch/Site Level Data</b>	<b>Split Level Data</b>	<b>Agent Level Data</b>
Timestamp CDN Number CDN Name Call Answered Calls Abandoned Calls Ans Aft Thres Tot Answered Delay	Timestamp ACD Number ACD Name Calls Answered Calls Abandoned DN Calls In DN Calls Out Num Ans After Thres Total Answer Delay ACD Talk Time Not Ready Time Incoming DN Time Outgoing DN Time Wait Time Hold Time Busy Time DN Calls Transferred ACD Calls Xfered Total Login Time	Timestamp Agent ID Agent Name ACD-DN Number ACD-DN Name Calls Answered Acd Calls XFered In DN Calls Out DN Calls DN Calls XFered Short Calls Total ACD Talk Time Total Not Ready Time Total In DN Time Total Out DN Time Total Wait Time Total Hold Time Total Login Time

#### *Proprietary Information*

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Exhibit 7(a)

<b>PRIME SUPPLIER</b> <b>MBE/WBE/DVBE PARTICIPATION PLAN</b>
---

**PRIME SUPPLIER NAME** \_\_\_\_\_  
**ADDRESS:** \_\_\_\_\_  
**TELEPHONE NUMBER:** \_\_\_\_\_

**DESCRIBE GOODS OR SERVICES BEING PROVIDED UNDER THIS AGREEMENT:**

\_\_\_\_\_

**DESCRIBE YOUR M/WBE-DVBE OR SUPPLIER DIVERSITY PROGRAM AND THE PERSONNEL DEDICATED TO THAT PROGRAM:**

\_\_\_\_\_

*THE FOLLOWING, TOGETHER WITH ANY ATTACHMENTS IS SUBMITTED AS AN MBE/WBE/DVBE PARTICIPATION PLAN.*

**1. GOALS**

**A. WHAT ARE YOUR MBE/WBE/DVBE PARTICIPATION GOALS?**

- **MINORITY BUSINESS ENTERPRISES (MBEs)** \_\_\_\_\_%
- **WOMEN BUSINESS ENTERPRISES (WBEs)** \_\_\_\_\_%
- **DISABLED VETERANS BUSINESS ENTERPRISES (DVBEs)** \_\_\_\_\_%

**B. WHAT IS THE ESTIMATED ANNUAL VALUE OF THIS CONTRACT WITH CINGULAR WIRELESS? \_\_\_\_\_**

**C. WHAT ARE THE DOLLAR AMOUNTS OF YOUR PROJECTED MBE/WBE/DVBE PURCHASES?**

- **MINORITY BUSINESS ENTERPRISES (MBEs)** \_\_\_\_\_
- **WOMEN BUSINESS ENTERPRISES (WBEs)** \_\_\_\_\_
- **DISABLED VETERANS BUSINESS ENTERPRISES (DVBEs)** \_\_\_\_\_

**\*SEE MBE/WBE/DVBE CANCELLATION CLAUSE IN AGREEMENT FOR DEFINITIONS OF MBE, WBE, AND DVBE\***

*Proprietary Information*

The information contained herein is not for use or disclosure outside CINGULAR, supplier, their affiliated and subsidiary companies, and their third party representatives, except under written agreement.

**2. LIST THE PRINCIPAL GOODS AND/OR SERVICES TO BE SUBCONTRACTED TO MBE/WBE/DVBEs OR DELIVERED THROUGH MBE/WBE/DVBE VALUE ADDED RESELLERS.**

**DETAILED PLAN FOR USE OF M/WBEs-DVBEs AS SUBCONTRACTORS, DISTRIBUTORS, VALUE ADDED RESELLERS**

For every product and service you intend to use, provide the following information:  
(Attach additional sheets if necessary)

Company name	Classification (MBE/WBE/DVBE)	Products/Services to be provided	\$ Value	Date to Begin

**3. SELLER AGREES THAT IT WILL MAINTAIN ALL NECESSARY DOCUMENTS AND RECORDS TO SUPPORT ITS EFFORTS TO ACHIEVE ITS MBE/WBE/DVBE PARTICIPATION GOAL (S). SELLER ALSO ACKNOWLEDGES THE FACT THAT IT IS RESPONSIBLE FOR IDENTIFYING, SOLICITING AND QUALIFYING MBE/WBE/DVBE SUBCONTRACTORS, DISTRIBUTORS AND VALUE ADDED RESELLERS.**

**4. THE FOLLOWING INDIVIDUAL, ACTING IN THE CAPACITY OF MBE/WBE/DVBE COORDINATOR FOR SELLER, WILL:**

- ADMINISTER THE MBE/WBE/DVBE PARTICIPATION PLAN,
- SUBMIT SUMMARY REPORTS, AND
- COOPERATE IN ANY STUDIES OR SURVEYS AS MAY BE REQUIRED IN ORDER TO DETERMINE THE EXTENT OF COMPLIANCE BY THE SELLER WITH THE PARTICIPATION PLAN.

NAME: (PRINTED) \_\_\_\_\_  
 TITLE: \_\_\_\_\_  
 TELEPHONE NUMBER: \_\_\_\_\_  
 AUTHORIZED SIGNATURE: \_\_\_\_\_  
 DATE: \_\_\_\_\_

***Proprietary Information***

The information contained herein is not for use or disclosure outside CINGULAR, supplier, their affiliated and subsidiary companies, and their third party representatives, except under written agreement.

Exhibit 7(b)

[Report Form\*]

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Contains private and/or proprietary information. May not be used or disclosed outside Cingular or Supplier except pursuant to a written Agreement.

## VALUE ADDED RESELLER\* RESULTS

\*Supplier who purchases products/services from an original equipment manufacturer or other prime supplier for resale and provides enhancements or added value

To the basic product. (Attach additional sheets if necessary)

**6.**

[\*]:

[\*]:

Name:

Address:

City, State,  
Zip:

Telephone:

Goods or  
Services:

[\*]:

[\*]:

Name:

Address:

City, State  
Zip:

Telephone:

Goods or  
Services:

### Proprietary Information

The information contained herein is not for use or disclosure outside CINGULAR, supplier, their affiliated and subsidiary companies, and their third party representatives, except under written agreement.



**GAAMD-STAR1A-02**  
**To**  
**CALL CENTER SERVICES ORDER 1A**

This Amendment (GAAMD-STAR1A-02) is effective as of April 1, 2007, between **StarTek**, a Delaware corporation and **ATT Mobility, LLC** a Delaware limited liability company ("ATT Mobility ") on behalf of itself and its Affiliates, amends that certain Call Center Services Order,

**RECITALS**

WHEREAS ATT Mobility, FKA Cingular Wireless, LLC and StarTek have entered into that certain Call Center Services Order dated November 1, 2002 ("Order") to provide services to ATT Mobility;

WHEREAS ATT Mobility and Contractor desire to amend the Order to extend the term of the Order;

FOR AND IN CONSIDERATION of the mutual covenants contained herein, the parties agree to amend the Order as follows:

1. Section 4 "Term" of the Order is hereby deleted in its entirety and replaced with the following:

Section 4 "Term" This Order shall begin on November 1, 2002 and end on May 31, 2007.

2. The amendments made to the Order by this Amendment (GAAMD-STAR1A-02) shall be effective as of the date of this Amendment. Except as amended by GAAMD-STAR1A-02, and as specifically stated in this Amendment, the Order is not modified, revoked or superseded and remains in full force and effect.

IN WITNESS WHEREOF, the parties hereby execute this Amendment as of the date first written above.

**ATT Mobility LLC**

**StarTek USA, Inc.**

By: \_\_\_\_\_

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

**Proprietary Information**

The information contained in this Agreement is not for use or disclosure outside CINGULAR, Supplier, their affiliated companies and their third party representatives, except under written Agreement by the contracting Parties.

**Exhibit 21.1****SUBSIDIARIES OF THE REGISTRANT**

<b><u>NAME OF SUBSIDIARIES</u></b>	<b><u>STATE OF INCORPORATION</u></b>	<b><u>SUBSIDIARIES DOING BUSINESS AS</u></b>
StarTek USA, Inc.	Colorado	StarTek Teleservices, Inc. StarTech Technical Services, Inc. StarTek Internet, Inc. StarTek, Inc. StarPak, Inc. StarTek Services
Domain.com, Inc.	Delaware	Domain.com, Inc.
StarTek Canada Services, Ltd.	Nova Scotia, Canada	StarTek Canada Services

**Exhibit 23.1****Consent of Ernst & Young, LLP, Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos 333-134903, 333-126989, 333-117451, 333-63106 and 333- 77009) pertaining to the Stock Option Plan and Directors' Stock Option Plan of StarTek, Inc. of our reports dated March 14, 2007, with respect to the consolidated financial statements of StarTek, Inc., StarTek, Inc.'s management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of StarTek, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2006.

/s/ Ernst & Young LLP

Denver, Colorado  
March 14, 2007

**CERTIFICATIONS**

I, A. Laurence Jones, certify that:

1. I have reviewed this annual report on Form 10-K of StarTek, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2007

/s/ A. LAURENCE JONES

A. Laurence Jones  
President, Chief Executive Officer and  
Interim Chief Financial Officer  
(Principal Executive Officer and  
Principal Financial Officer)

**CERTIFICATIONS**

In connection with the Annual Report of StarTek, Inc. on Form 10-K for the year ended December 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned individual, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained the Report fairly presents, in all material respects, the financial condition and result of operations of the Registrant.

Date: March 15, 2007

/s/ A. LAURENCE JONES

A. Laurence Jones

President, Chief Executive Officer and Chief Financial Officer

*(Principal Executive Officer and Principal Financial Officer)*

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Corporation and will be retained by the Corporation and furnished to the Securities and Exchange Commission or its staff upon request.



**SRT**  
**LISTED**  
**NYSE**

#### **Market and Dividend Information:**

The common shares of StarTek, Inc. are traded on the New York Stock Exchange (NYSE) under the ticker symbol: SRT. Price and shares traded are listed in principal daily newspapers and are supplied by the NYSE. The number of stockholders of record as of March 1, 2007, was 57.

#### **Stockholders' Questions**

Questions about stock ownership and dividends should be directed to Investor Relations, (303) 399-2400. The StarTek, Inc. Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and other periodic reports filed with the Securities and Exchange Commission are available at our website, [www.startek.com](http://www.startek.com), as soon as practicable after the reports are filed with the Securities and Exchange Commission. These reports are also available free of charge by written request to:

Director of SEC Reporting and Compliance  
StarTek, Inc.  
44 Cook St. Suite 400  
Denver, Colorado 80206

#### **Officer Certifications**

We have filed the certifications required under Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibit 31 to our Annual Report on Form 10-K for the year ended December 31, 2006. In 2006, we also filed with the New York Stock Exchange our CEO's certification regarding our compliance with NYSE corporate governance listing standards within 30 days of our annual meeting of stockholders, as required by NYSE Rule 303A.12(a)