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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, 1998.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
AND EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____.

Commission File Number 1-12793

STARTEK, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

84-1370538

(State or other jurisdiction of incorporation or organization)

(I.R.S. employer identification no.)

111 HAVANA STREET
DENVER, COLORADO

80010

(Address of principal executive offices)

(Zip code)

(303) 361-6000

(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 checkmark 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 checkmark 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.

As of March 24, 1999, 13,828,571 shares of common stock were outstanding and held by approximately 1,394 holders. The aggregate market value of common stock held by non-affiliates of the registrant on such date was approximately \$21.7 million, based upon the closing price of the Company'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 1999 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.

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FORWARD-LOOKING STATEMENTS

All statements contained in this Form 10-K that are not statements of historical facts are forward-looking statements (as defined in the Private Securities Litigation Reform Act of 1995) 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", 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 include, but are not limited to, general economic conditions in the Company's markets, the loss of the Company's principal client(s), the loss or delayed implementation of a large project which could cause quarterly variation in the Company's revenues and earnings, difficulties of managing rapid growth, dependence on key personnel, dependence on key industries and the trend toward outsourcing, risks associated with the Company's contracts, risks associated with rapidly changing technology, risks of business interruption, risks associated with international operations and expansion, dependence on labor force, the year 2000 issue, and highly competitive markets. These factors include risks and uncertainties beyond the Company's ability to control; and, in many cases, the Company and its management cannot predict the risks and uncertainties that could cause actual results to differ materially from those indicated by use of forward-looking statements. All forward-looking statements herein are qualified in their entirety by the information set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations"--"Factors That May Affect Future Results" appearing elsewhere in this Form 10-K.

PART I

ITEM 1. BUSINESS

GENERAL

StarTek, Inc. (the "Company" or "StarTek") is a leading international provider of integrated, value-added, outsourced process management services primarily for Fortune 500 companies. The Company's process management services encompass a wide spectrum of service platforms, including logistics management (selection and management of suppliers), management of product assembly and packaging, E-commerce order processing and fulfillment, Internet support, product distribution, direct store distribution, warehouse services and inventory management, inbound technical support and customer care teleservices, telecommunications process management, and product order processing. By focusing on these services as its core business, StarTek allows its clients to focus on their primary business, reduce overhead, replace fixed costs with variable costs and reduce working capital needs. The Company has continuously expanded its business and facilities to offer additional services on an outsourced basis in response to the growing needs of its clients and to capitalize on market opportunities, both domestically and internationally.

StarTek's goal is to continue to grow profitably by focusing on providing high-quality, integrated, value-added, outsourced process management services. StarTek has a strategic partnership philosophy, through which it assesses each of its client's needs and, together with its clients, develops and implements customized outsourcing solutions. Management believes that its entrepreneurial culture, long-term relationships with clients and suppliers, efficient operations, dedication to quality, and use of advanced technology and management techniques provide StarTek a competitive advantage in attracting

clients that outsource non-core operations. StarTek's largest two clients, based on 1998 revenues, have utilized StarTek's outsourced services since 1996 and 1987.

StarTek's existing clients are primarily in the computer software, Internet, E-commerce, computer hardware, technology, and telecommunications industries which are characterized by rapid growth, complex and evolving product offerings, and large customer bases, which require frequent, often sophisticated, customer interaction. Currently, the Company is also targeting financial services, transportation, consumer products, and health care companies. Management believes there are substantial opportunities to cross-sell StarTek's wide spectrum of outsourced process management services to its existing and future client base. The Company intends to capitalize on the increasing trend toward outsourcing by focusing on potential clients in additional industries which could benefit from the Company's expertise in developing and delivering integrated, cost-effective outsourced services.

StarTek currently has five facilities in Colorado, four of which are operational and one of which is currently anticipated to be operational during the second quarter of 1999. StarTek also has one facility each in Wyoming and Tennessee. The Company's Europe operations are performed from its facility in Hartlepool, England. The Company also operates through a subcontract relationship in Singapore. The Company has announced plans to search for an additional facility, which is currently expected to be operational during the second half of 1999.

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The Company's business was founded in 1987 and through its wholly-owned subsidiaries, has been providing outsourced process management services since inception. On December 30, 1996, StarTek, Inc. was incorporated in Delaware and in June 1997, StarTek completed an initial public offering of its common stock. Prior to December 30, 1996, StarTek USA, Inc. and StarTek Europe, Ltd. (previously named StarPak, Inc. and StarPak International, Ltd., respectively, both of which became wholly-owned subsidiaries of the Company in January 1997 and are Colorado corporations) conducted business as affiliates under common control. In 1998, the Company formed StarTek Pacific, Ltd., a Colorado corporation and Domain.com, Inc., a Delaware corporation, both of which are also wholly-owned subsidiaries of the Company. StarTek, Inc. is a holding company for the businesses conducted by its four wholly-owned subsidiaries. StarTek's principal executive offices are located at 111 Havana Street, Denver, Colorado 80010 and its telephone number is (303) 361-6000. StarTek's home page on the Internet can be located at www.startek.com.

STARTEK'S INTEGRATED SERVICE PLATFORMS

The Company's interaction with a client's customers may begin with an inbound call or message via the Internet requesting information or placing an order for the client's product. A StarTek service representative takes the order, and if the Company manages the client's inventory, the Company packs and ships the order. If the Company does not manage the client's inventory, the Company transmits the customer's request directly to the client. In the event the Company manages the client's inventory, the Company may receive finished goods directly from the client or the Company may manage the production process on an outsourced basis, following product specifications provided by the client. In the latter case, the Company selects and contracts with the necessary suppliers and performs all tasks necessary to assemble and package the finished product, which may be held by the Company pending receipt of customer orders or shipped in bulk to distributors or retail outlets.

The Company's clients typically provide their customers with telephone numbers for a variety of product, technical support, and service questions. Calls are routed to StarTek technical support or customer care service representatives who have been trained to support specific products and services. A call may also lead to an order for another product or service offered by the client, in which case the Company takes the order and the cycle begins again. StarTek's clients may utilize one or more of the Company's service platforms.

BUSINESS STRATEGY

StarTek's strategic objective is to increase revenues and earnings by maintaining and enhancing its position as a leading international provider of integrated, value-added, outsourced process management services. To reach this objective, the Company intends to:

Provide Integrated, Outsourced Process Management Services. StarTek seeks to provide integrated, outsourced process management services which enable its clients to provide their customers with high-quality services at lower cost than through a client's own in-house operations. The Company believes that its ability to tailor operations, materials, and employee resources objectively and to provide process management services on a cost-effective basis will allow the Company to become an integral part of its clients' businesses.

Develop Strategic Partnerships and Long-Term Relationships. StarTek seeks to develop long-term client relationships, primarily with Fortune 500 companies. The Company invests significant resources to establish strategic partnership relationships and to understand each client's processes, culture, decision, parameters and goals, so as to develop and implement customized solutions. The Company believes this solution-oriented, value-added integrated approach to addressing its clients' needs distinguishes StarTek from its competitors and plays a key role in the Company's ability to attract and retain clients on a long-term basis.

Maintain Low-Cost Position through the StarTek Process Management System. StarTek strives to establish a competitive advantage by frequently redefining its operational process to reduce cost and improve quality. The Company believes its continuous improvement philosophy and modern process management techniques enable the Company to reduce waste and increase efficiency in the following areas: (i) controlling overproduction; (ii) minimizing waiting time due to inefficient work sequences; (iii) reducing inessential handling of materials; (iv) eliminating nonessential movement and processing; (v) implementing fail-safe processes; (vi) improving inventory management; and (vii) preventing defects.

Emphasize Quality. StarTek strives to achieve the highest quality standards in the industry. To this end, the Company, through certain of its wholly-owned subsidiaries, has received ISO 9002 certifications, an international standard for quality assurance and consistency in operating procedures, for substantially all of its facilities and services. Certain of the Company's existing clients require evidence of ISO 9002 certification prior to selecting an outsourcing provider.

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Capitalize on Sophisticated Technology. The Company believes it has established a competitive advantage by capitalizing on sophisticated technology and proprietary software, including automatic call distributors, inventory management software, transportation management software, call tracking systems, and telephone-computer integration software. The Company further believes these capabilities enable StarTek to improve efficiency, serve as a transparent extension of its clients, receive telephone calls and data directly from its clients' systems, and report detailed information concerning the status and results of the Company's services and interaction with clients on a daily basis.

SERVICE PLATFORMS

The Company offers a wide spectrum of service platforms, which are designed to provide cost-effective and efficient management of portions of its clients' operations. The Company works closely with its clients to develop, refine, and implement efficient and productive integrated outsourced solutions that link StarTek with its clients and their customers. The processes that create such solutions generally include the development of product manufacturing specifications, packaging, and distribution requirements, as well as product-related software programs for telephone, facsimile, E-mail, and Internet interactions involving product order processing and fulfillment, and technical support and customer care. Substantially all of the Company's process-related teleservices activities are inbound telephone calls, rather than outbound calls. Specific services StarTek provides to its clients include, but are not necessarily limited to:

Product Order Processing. Product order processing is generally the process by which a call or an Internet message from a client's customer is received, identified and routed to a StarTek service representative. Typically, a customer calls or E-mails to request product service information, to place an order for an advertised product, or to obtain assistance regarding a previous order or purchase. The information and results of the message are then communicated either to StarTek's employees for order processing and fulfillment or, if StarTek does not manage the client's inventory, the Company transmits the customer's request directly to the client. For telephone calls, StarTek utilizes automated call distributors to identify each inbound call by the number dialed by the customer and immediately route the call to a StarTek service representative trained for that product. Product orders also occur as a result of a customer visiting the web site of a client and placing orders which are received by StarTek or a StarTek service representative offering products in connection with a technical support or customer care call. To facilitate product orders, the Company can process credit card charges and other payment methods in connection with its product order processing.

Supplier Management. Company personnel are responsible for maintaining and managing multiple supplier relationships. When the Company is selected by a client to provide product assembly and packaging services, the Company qualifies, selects, certifies, and manages the sourcing and manufacturing of the various products and related components including, among other things, the printing of boxes, labels, manuals and other printed materials to be included with the client's product, and the mass duplication of software onto various media. Such products and related components are then assembled and packaged at certain of the Company's facilities. The Company monitors the quality of its suppliers through visits to manufacturing facilities and utilizes just-in-time production to minimize inventory in the Company's warehouses. Management believes that the Company's strong, long-term relationships with multiple suppliers allows the Company to be flexible and responsive to its clients, while minimizing costs and the Company's dependency on any single supplier.

Product Assembly and Packaging. The Company assembles and packages products in various containers, including folding cartons, set-up boxes, compact disc jewel cases, digi-packs, binders, and slip cases. The Company assembles and packages products in the United States, the United Kingdom, and Singapore. The Company's assembly lines have been designed with significant flexibility, enabling the Company to assemble and package various types of products and rapidly change the type of product produced. During peak periods of operations, the Company's capacity is dependent upon (i) the complexity of the product to be assembled; (ii) the availability of materials from suppliers; (iii) the availability of temporary personnel to increase capacity; (iv) the number of shifts operated by the Company; and (v) the ability to activate additional production lines.

Product Distribution. The Company's inventory management systems enable the Company to ship and track products to distribution centers, individual stores, and its clients' customers directly. Product orders are received by the Company via file transfer protocol (FTP), the Internet, electronic data interchange (EDI), and facsimile, as well as through the Company's product order teleservices and E-commerce support services described elsewhere.

E-commerce and Product Order Fulfillment. StarTek personnel process, pack, and ship product orders and requests for promotional and educational literature, and direct customers of the Company's clients to product or service sources ("fulfillment") by telephone, E-mail, facsimile, and the Internet, 24 hours per day, seven days per week. The Company provides same-day shipping of customer orders if the product is available.

Technical Support Teleservices. StarTek service representatives provide 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 by a customer's need for ongoing technical assistance. Customers of StarTek's clients dial a technical support number listed in their product manuals and, based on touch-tone responses, are automatically connected to an appropriate StarTek service representative who is specially trained in use of computerized knowledge databases for the applicable product. Each StarTek service representative acts as a transparent extension of

the client when resolving complaints, diagnosing and resolving product or service problems, or answering technical questions.

Customer Care Teleservices. Customer care programs are customized by the Company to meet its clients' needs. The Company customizes responses to various customer product inquiries by designing special greetings, marketing messages, and specific queue-time controls. A StarTek service representative receiving a call or an E-mail message can enter customer information into the Company's call-tracking system, answer questions, and quickly access a proprietary networked knowledge database via personal computer to locate an answer to a customer's question. A senior quality control team member is available to provide additional assistance for complex or unique customer questions. As additional product information becomes available, the Company promptly integrates such information into its knowledge database, thereby ensuring that answers are based upon the latest product information.

Each customer interaction presents the Company and its clients with an opportunity to gather valuable customer information, including the customer's demographic profile and preferences. This information can prompt the StarTek service representative to make logical, progressive inquiries about the customer's interest in additional products and services, identify additional revenue generating and cross-selling opportunities, or resolve other issues relating to a client's products or services.

Telecommunication Process Management. StarTek personnel are responsible for managing installation and providing on-going support services for large scale telecommunications networks for its client's customers, most of whom are Fortune 1000 companies. Service representatives manage the relationships between StarTek's client and its customers on a transparent basis. StarTek's installation management and on-going network support services, on an outsourced basis, enable its client to provide telecommunications services to customers more efficiently and cost effectively.

INTERNATIONAL OPERATIONS

StarTek provides process management services on an international basis from the United Kingdom and Singapore. The Company's facility in the United Kingdom provides most of the Company's outsourced service platforms for clients throughout Europe, including supplier management, product assembly and packaging, product distribution, product order fulfillment, product order processing, inbound technical support and customer care services in several languages. The Company currently provides supplier management, product assembly, and packaging and product distribution for one of its principal clients through a subcontract relationship with a company in Singapore. The subcontract relationship generally operates on a purchase order basis. International operations generated approximately 13.9% of the Company's total revenues during 1998, which, in large part, was a result of the revenues derived from the Company's relationship with one of its principal clients in Singapore. See Note 14 to the consolidated financial statements set forth herein for a further description of revenues, operating profit and identifiable assets classified by the major geographic areas in which the Company operates. See "Management's Discussion and Analysis of Financial Condition and Results of Operations"-- "Factors That May Affect Future Results" set forth herein for a discussion of "Risks Associated with International Operations and Expansion".

CLIENTS

StarTek provided services to approximately 75 clients during 1998. StarTek's current client base consists of companies engaged primarily in the computer software, Internet, E-commerce, computer hardware, technology, and telecommunications industries. However, the Company is currently also targeting companies in the financial services, transportation, consumer products, and health care industries. Microsoft Corporation ("Microsoft") accounted for approximately 56.3% and 72.5% of the Company's revenues during the years ended December 31, 1997 and 1998, respectively. Hewlett-Packard Company ("Hewlett-Packard") accounted for approximately 25.4% of the Company's revenues during the year ended December 31, 1997. See "Management's Discussion and Analysis of Financial Condition and Results of Operations"-- "Factors That May Affect Future Results" set forth herein for a further discussion of the Company's "Reliance on Principal Client Relationships" and "Risks Associated with the Company's Contracts".

SALES AND MARKETING

The Company's marketing objective is to develop long-term relationships with existing and potential clients to become the preferred worldwide provider of outsourced services. StarTek invests significant resources to create a strategic partnership with its clients to understand their existing operations, customer service processes, culture, decision parameters, and goals. A StarTek team assesses the client's outsourcing service needs, and, together with the client, develops and implements customized solutions. Management believes that, as a result of StarTek's strategic relationship with its clients and comprehensive understanding of their businesses, the Company can identify new revenue generating opportunities, customer interaction possibilities, and product service improvements not adequately addressed by the client. The Company's sales strategy emphasizes multiple contacts with a client to strengthen its relationship and facilitate the cross-selling of services.

StarTek markets its outsourced services through a variety of methods, including personal sales calls, client referrals, attendance at trade shows, advertisements in industry publications, and cross-selling of services to existing clients. As part of its marketing efforts, the Company encourages visits to its facilities, where the Company demonstrates its services, quality procedures, and ability to accommodate additional business.

Management believes a key element to sales growth is the ability to flexibly, effectively, and efficiently expand service capacity to meet client needs as its clients grow or outsource more of their non-core operations to the Company. In addition, to attract new clients to StarTek's services, the Company must have the resources to develop a strategy to meet new clients' outsourcing goals promptly, as well as the ability to implement operations for such clients quickly and accurately.

TECHNOLOGY

The Company employs technology and proprietary software that incorporates digital switching, relational knowledge database management systems, call tracking systems, workforce management systems, object-oriented software modules, and computer telephony integration. The Company's digital switching technology is designed to enable calls to be routed to the next available teleservice representative with the appropriate product knowledge, skill, and language abilities. Call tracking and workforce management systems generate and track historical call volumes by client, enabling the Company to schedule personnel efficiently, anticipate fluctuations in call volume and provide clients with detailed information concerning the status and results of the Company's services on a daily basis. Management believes that the Company's proprietary technology platform provides the Company with a competitive advantage in maintaining existing clients and attracting new clients. See "Management's Discussion and Analysis of Financial Condition and Results of Operations"-- "Factors That May Affect Future Results" set forth herein for a discussion of "Risks Associated with Rapidly Changing Technology".

EMPLOYEES AND TRAINING

StarTek's success in recruiting, hiring, and training large numbers of full-time skilled employees and obtaining large numbers of hourly and temporary employees during peak periods is critical to the Company's ability to provide high quality outsourced services. To maintain good employee relations and to minimize turnover, the Company offers competitive pay, hires employees who are eligible to receive the full range of employee benefits, and provides employees with clear, visible career paths. To meet its service objectives, the Company also utilizes temporary services. As of December 31, 1998, the Company had approximately 2,155 full-time equivalent employees. The number of temporary employees varies substantially due to the seasonal variations of the Company's business. Management believes that the demographics surrounding its facilities, its reputation, stability, and compensation plans should allow the Company to continue to attract and retain qualified employees. However, the Company operates in some locations where unemployment levels are currently at low levels compared to historic norms. If low unemployment levels continue to persist in these areas, the Company's ability to attract qualified employees could be adversely affected. The Company believes its current operations in six separate locations, with a seventh location being added in Grand Junction, Colorado, should reduce this exposure. The Company considers its employee relations to be

good. See "Management's Discussion and Analysis of Financial Condition and Results of Operations"-- "Factors That May Affect Future Results" set forth herein for a discussion of factors relating to the Company's "Dependence on Labor Force" and "Dependence on Key Personnel".

In keeping with StarTek's continuous improvement philosophy, the Company is committed to training all of its employees. StarTek provides formal training for senior management, supervisors, process managers, quality coordinators, and service representatives. StarTek also maintains an employee quality program to backup every employee, including specialized quality coordinators who teach problem solving, assist with service calls, and offer immediate performance feedback. On a more informal basis, the Company provides on-the-job process training and tutoring for all product assembly and packaging personnel. Employee teams gather daily to receive information about products to be produced and techniques to be utilized, and have an opportunity to ask questions and receive one-on-one training, as necessary.

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The Company's in-house training programs for technical support, customer care, and telecommunications process management employees involve an in-depth, structured learning environment that builds technical competence and teaches critical software skills necessary to provide effective services to its clients. Each service representative is specially designated and trained to support a particular product or group of products for a particular client. These client service representatives receive training in product knowledge, call listening, and computer skills prior to answering any customer calls independently. This training time depends on the complexity of the product for which such representative will provide services. Further, the Company uses live and taped call reviews and customer feedback surveys to continue to monitor and enhance its level of customer support services.

INDUSTRY AND COMPETITION

StarTek continues to believe that businesses throughout the world are increasingly focusing on their core businesses and are increasingly engaging outsourcing service companies to perform specialized, non-core functions and services. Outsourcing of non-core activities offers a strategic advantage to companies in a wide range of industries by offering them an opportunity to reduce operating costs and working capital needs, improve their reaction to business cycles, manage capacity and improve customer and technical information gathering and utilization. To realize these advantages, companies are outsourcing the process of planning, implementing, and controlling the efficient flow of goods, services, teleservices and related information from the point of origin to the point of consumption. Additionally, rapid technological changes and rising customer expectations for high-quality goods and services make it increasingly difficult and expensive for companies to maintain the necessary personnel and product capabilities in-house to support a product's life-cycle on a cost-effective basis. Companies which focus on providing these services as their core business, including StarTek, are expected to continue to benefit from these outsourcing trends. See "Management's Discussion and Analysis of Financial Condition and Results of Operations"-- "Factors That May Affect Future Results" set forth herein for a discussion of the Company's "Highly Competitive Market".

StarTek competes on the basis of quality, reliability of service, price, efficiency, speed and flexibility in tailoring services to client needs. Management believes its comprehensive and integrated services differentiate it from its non-client competitors who may only be able to provide one or a few of the outsourced services that StarTek provides. The Company continuously explores new outsourcing service opportunities, typically in circumstances where clients are experiencing inefficiencies in non-core areas of their businesses and management believes it can develop a superior outsourced solution to such inefficiency on a cost-effective basis. Management believes that it competes primarily with the in-house process management operations of its current and potential clients. Such in-house operations include Internet operations, teleservices, customer support services, logistics management, packaging and assembling, distribution, and warehousing. StarTek also competes with certain companies that provide similar services on an outsourced basis. There are numerous competitors of all sizes that provide product order teleservices and product fulfillment distribution services.

ITEM 2. PROPERTIES

FACILITIES

StarTek's principal executive offices are located in Denver, Colorado. Currently, StarTek owns and operates (unless otherwise noted) the following facilities, containing an aggregate of approximately 735,000 square feet:

PROPERTIES	YEAR OPENED OR ACQUIRED	SQUARE FEET	LEASED, COMPANY OWNED, OR OTHERWISE
U.S. Facilities			
Greeley, Colorado	1987	100,000	Company Owned
Greeley, Colorado	1993	10,500	Company Owned
Denver, Colorado	1995	138,000	Company Owned
Greeley, Colorado	1998	35,000	Company Owned
Laramie, Wyoming	1998	22,000	Company Owned
Clarksville, Tennessee	1998	305,000	Company Owned(a)
Grand Junction, Colorado	1999	46,350	Leased
International Facilities			
Hartlepool, England	1993	53,000	Leased
Singapore	1995	25,000	Subcontractor Relationship

(a) See Note 8 to the consolidated financial statements set forth herein for a description of the Tennessee financing arrangement.

Substantially all of the Company's facility space can be used to support a number of the Company's process management service platforms. The Company has announced plans to search for an additional facility, which is currently expected to be operational during the second half of 1999. Management believes StarTek's existing facilities are adequate for the Company's current operations, but continued capacity expansion will be required to support continued growth. Management intends to maintain a certain amount of excess capacity to enable it to readily provide for the needs of new clients and the increased needs of existing clients. See "Management's Discussion and Analysis of Financial Condition and Results of Operations"-- "Factors That May Affect Future Results" set forth herein for a discussion of "Risks of Business Interruptions".

ITEM 3. LEGAL PROCEEDINGS

The Company has been involved from time to time in litigation arising in the normal course of business, none of which is currently expected by management to have a material adverse effect on the Company's business, financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted for a vote of security holders during the fourth quarter of 1998.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

MARKET PRICE OF COMMON STOCK

StarTek's common stock has been traded under the symbol "SRT" on the New York Stock Exchange since June 19, 1997, the effective date of the Company's initial public offering. The high and low closing sale prices of the Company's

common stock for 1997 and 1998 were:

	1997	HIGH	LOW
	----	----	---
Second Quarter (beginning June 19, 1997)		16 3/8	14
Third Quarter		16 1/8	11 1/4
Fourth Quarter		14 3/8	10 5/8
	1998	High	Low
	----	----	---
First Quarter		12 1/8	9 1/8
Second Quarter		13	11 9/16
Third Quarter		12 11/16	8 5/8
Fourth Quarter		12 3/8	8 1/16

The closing sale price for StarTek's common stock on March 24, 1999 was \$10.50. See "Management's Discussion and Analysis of Financial Condition and Results of Operations"-- "Factors That May Affect Future Results" set forth herein for a discussion of "Volatility of Stock Price".

HOLDERS OF COMMON STOCK

As of March 24, 1999, there were approximately 1,394 stockholders of record of the Company's common stock and 13,828,571 shares of common stock outstanding. See "Management's Discussion and Analysis of Financial Condition and Results of Operations"-- "Factors That May Affect Future Results" set forth herein for a discussion of "Control by Principal Stockholders".

DIVIDEND POLICY

The Company currently intends to retain all future earnings in order to finance continued growth and development of its business and does not expect to pay any cash dividends with respect to its common stock in the foreseeable future. The payment of any dividends will be at the discretion of the Company's Board of Directors and will depend upon, among other things, the availability of funds, future earnings, capital requirements, contractual restrictions, the general financial condition of the Company and general business conditions. Under its \$5 million line of credit, the Company may not pay dividends in an amount, which would cause a failure to meet its financial covenants. See Note 6 to the consolidated financial statements set forth herein and "Management's Discussion and Analysis of Financial Condition and Results of Operations"--"Liquidity and Capital Resources" set forth herein for a description of these financial covenants.

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SALES OF UNREGISTERED SECURITIES

The Company did not issue or sell any unregistered securities during the quarter ended December 31, 1998, except for the following:

In November 1998, the Company granted options to purchase 12,200 shares of common stock, in the aggregate, to three employees pursuant to the Company's 1997 Stock Option Plan. These options vest at a rate of 20% per year beginning November 1999, expire in November 2008 and are exercisable at \$10.375 per share, which was the market value of the Company's common stock on the date the options were granted. These stock option grants were made in reliance upon the exemptions from registration provided by Sections 4(2) and 3(b) of the Securities Act of 1933, as amended, and the regulations promulgated thereunder.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with the

consolidated financial statements and notes thereto included elsewhere in 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" appearing elsewhere in this Form 10-K.

	YEAR ENDED DECEMBER 31 (A)				
	1994	1995	1996	1997	1998
STATEMENT OF OPERATIONS DATA:	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)				
Revenues	\$ 26,341	\$ 41,509	\$ 71,584	\$ 89,150	\$ 140,984
Cost of services	21,355	33,230	57,238	71,986	115,079
Gross profit	4,986	8,279	14,346	17,164	25,905
Selling, general and administrative expenses	4,489	5,341	7,764	8,703	14,714
Management fee expense	612	2,600	6,172	3,126	--
Operating profit (loss)	(115)	338	410	5,335	11,191
Net interest income (expense) and other	(216)	(396)	(372)	933	2,254
Income (loss) before income taxes	(331)	(58)	38	6,268	13,445
Income tax expense	--	--	112	2,110	4,901
Net income (loss)	\$ (331)	\$ (58)	\$ (74)	\$ 4,158	\$ 8,544
Basic and diluted net income per share					\$ 0.62
Weighted average shares outstanding					13,828,571
Selected Operating Data:					
Capital expenditures, net of proceeds	\$ 670	\$ 2,104	\$ 1,333	\$ 3,191	13,927
Depreciation and amortization	588	873	1,438	1,829	2,852
Balance Sheet Data (December 31):					
Working capital	\$ 434	\$ 798	\$ 2,895	\$ 38,704	\$ 38,336
Total assets	12,352	21,580	22,979	58,172	80,201
Total debt	3,288	7,294	6,475	664	4,225
Total stockholders' equity	3,006	3,798	7,103	46,006	54,133

(A) SELECTED UNAUDITED PRO FORMA OPERATING DATA:

	YEAR ENDED DECEMBER 31			
	1994	1995	1996	1997
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)			
Historical net income (loss)	\$ (331)	\$ (58)	\$ (74)	\$ 4,158
Add back management fee expense	612	2,600	6,172	3,126
Less applicable income tax expense	(105)	(948)	(2,204)	(1,394)
Net income	\$ 176	\$ 1,594	\$ 3,894	\$ 5,890
Basic and diluted net income per share				\$ 0.47
Weighted average shares outstanding				12,652,680

See Note 2 to the consolidated financial statements set forth herein for a further description of pro forma adjustments. Pro forma presentation was not applicable for the year ended December 31, 1998.

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

All statements contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" or elsewhere in this Form 10-K that are not statements of historical facts are forward-looking statements (as defined in the Private Securities Litigation Reform Act of 1995) 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", 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 include, but are not limited to, general economic conditions in the Company's markets, the loss of the Company's principal client(s), the loss or delayed implementation of a large project which could cause quarterly variation in the Company's revenues and earnings, difficulties of managing rapid growth, dependence on key personnel, dependence on key industries and the trend toward outsourcing, risks associated with the Company's contracts, risks associated with rapidly changing technology, risks of business interruption, risks associated with international operations and expansion, dependence on labor force, the year 2000 issue, and highly competitive markets. These factors include risks and uncertainties beyond the Company's ability to control; and, in many cases, the Company and its management cannot predict the risks and uncertainties that could cause actual results to differ materially from those indicated by use of forward-looking statements. All forward-looking statements herein are qualified in their entirety by the information set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations"--"Factors That May Affect Future Results" appearing elsewhere in this Form 10-K.

OVERVIEW

StarTek generates its revenues by providing process management services, which encompass a wide spectrum of service platforms, including logistics management (selection and management of suppliers), management of product assembly and packaging, E-commerce order processing and fulfillment, Internet support, product distribution, direct store distribution, warehouse services and inventory management, inbound technical support and customer care teleservices, telecommunications process management, and product order processing. The Company recognizes revenues as process management services are completed. Substantially all of the Company's significant arrangements with its clients for its services generate revenues based, in large part, on the number and duration of customer inquiries, and the volume, complexity and type of components involved in the handling of clients' products. Changes in the complexity or type of components in the product units assembled by the Company may have an effect on the Company's revenues, independent of the number of product units assembled.

A key element of the Company's ability to grow is the availability of capacity to readily provide for the needs of new clients and the increased needs of existing clients. StarTek's capacity substantially expanded during 1998 through the opening of a 305,000 square-foot building in Clarksville, Tennessee, a 35,000 square-foot building in Greeley, Colorado and a 22,000 square-foot building in Laramie, Wyoming. These three facilities, all of which became operational during 1998, together with the Company's previously existing capacity, provided adequate capacity to accommodate the revenue and earnings growth experienced by the Company during 1998. StarTek leases 46,350 square-feet of building space in Grand Junction, Colorado, which is currently expected to become operational during the second quarter of 1999. The Company also operates from facilities in the United Kingdom and Singapore. Additionally, the Company has announced plans to search for an additional facility, which is currently expected to be operational during the second half of 1999. Management believes StarTek's existing facilities are adequate for the Company's current operations, but continued capacity expansion will be required to support continued growth. Management intends to maintain a certain amount of excess capacity to enable it to readily provide for the needs of new clients and the increased needs of existing clients.

The Company's cost of services primarily includes labor, telecommunications, materials, and freight charges that are variable in nature and certain facility expenses. All other operating expenses, including expenses attributed to technology support, sales and marketing, human resource management and other administrative functions that are not allocable to specific client services, are included in selling, general and administrative expenses, which generally tend to be either semi-variable or fixed in nature.

From July 1992, through June 17, 1997, the Company operated as an S corporation and, accordingly, was not subject to federal or state income taxes. As an S corporation, in addition to general compensation for services rendered, the Company historically paid certain management fees, bonuses and other fees to the principal stockholders and/or their affiliates in amounts on an annual basis which were approximately equal to the annual earnings of the Company, and all such amounts were reflected as management fee expense in the consolidated statement of operations. Upon receipt of such management fees and bonuses, the principal stockholders historically contributed approximately 53% of such amounts to the Company to provide the Company with necessary working capital, with substantially all of the balance used to pay applicable federal and state income taxes. The amounts so contributed are reflected in additional paid-in-capital on the Company's consolidated balance sheets. Effective with the closing of the Company's initial public offering, these management fees and bonus arrangements were discontinued. See Note 1 to the consolidated financial statements set forth herein.

Compensation has continued to be payable to certain principal stockholders as general compensation for services rendered in the form of salaries, bonuses, or advisory fees and all such payments are included in selling, general and administrative expenses in the consolidated statement of operations. At current rates, such payments aggregate approximately \$516,000 annually. See Note 1 to the consolidated financial statements set forth herein.

The Company frequently purchases components of its clients' products as an integral part of its supplier management services and in advance of providing its product assembly and packaging services. These components are packaged, assembled and held by StarTek pending shipment. The Company generally has the right to be reimbursed from clients for unused inventories. Client-owned inventories are not reflected in the Company's consolidated balance sheets. See Note 1 and Note 4 to the consolidated financial statements set forth herein for a further description of the Company's inventories.

RESULTS OF OPERATIONS

The following tables should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Form 10-K.

The following table sets forth, for the periods indicated, certain consolidated statement of operations data expressed as a percentage of revenues:

	YEAR ENDED DECEMBER 31		
	1996	1997	1998
Revenues	100.0%	100.0%	100.0%
Cost of services	80.0	80.7	81.6
Gross profit	20.0	19.3	18.4
Selling, general and administrative expenses	10.8	9.8	10.4
Management fee expense	8.6	3.5	--
Operating profit	0.6	6.0	8.0
Net interest income (expense) and other	(0.5)	1.0	1.6
Income before income taxes	0.1	7.0	9.6
Income tax expense	0.2	2.3	3.5
Net income (loss)	(0.1)%	4.7%	6.1%

The following table sets forth certain unaudited pro forma consolidated statement of operations data expressed in dollars and as a percentage of

revenues (dollars in thousands, except per share data) (b):

	YEAR ENDED DECEMBER 31			
	1996		1997	
Revenues	\$ 71,584	100.0%	\$ 89,150	100.0%
Cost of services	57,238	80.0	71,986	80.7
Gross profit	14,346	20.0	17,164	19.3
Selling, general and administrative expenses	7,764	10.8	8,703	9.8
Operating profit	6,582	9.2	8,461	9.5
Net interest income (expense) and other	(372)	(0.5)	933	1.0
Income before income taxes	6,210	8.7	9,394	10.5
Income tax expense	2,316	3.3	3,504	3.9
Net income	\$3,894	5.4%	\$5,890	6.6%
Basic and diluted net income per share	\$ 0.34		\$ 0.47	
Weighted average shares outstanding	11,361,904		12,652,680	

(b) See Note 2 to the consolidated financial statements set forth herein for a further description of pro forma adjustments. Pro forma presentation was not applicable for the year ended December 31, 1998.

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1998 Compared to 1997

Revenues. Revenues increased \$51.8 million, or 58.1%, from \$89.2 million for 1997 to \$141.0 million for 1998. This increase was primarily due to an increase in the volume of services provided to one of the Company's principal clients, together with certain existing and new clients, partially offset by decreases in the volume of services provided to other existing clients.

Cost of Services. Cost of services increased \$43.2 million, or 59.9%, from \$71.9 million for 1997 to \$115.1 million for 1998. As a percentage of revenues, costs of services increased from 80.7% for 1997 to 81.6% for 1998. This percentage increase was primarily due to higher overall costs of certain business for a principal client at lower relative margins, mix of services performed and training and start-up expenses related to the new Greeley, Colorado, Laramie, Wyoming and Clarksville, Tennessee facilities, all of which became operational during 1998.

Gross Profit. Due to the foregoing factors, gross profit increased \$8.7 million, or 50.9%, from \$17.2 million for 1997 to \$25.9 million for 1998. As a percentage of revenues, gross profit decreased from 19.3% for 1997 to 18.4% for 1998.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$6.0 million, or 69.1%, from \$8.7 million for 1997 to \$14.7 million for 1998, primarily as a result of increased personnel costs incurred to service increasing business and costs associated with capacity expansion. As a percentage of revenues, selling, general and administrative expenses increased from 9.8% for 1997 to 10.4% for 1998.

Management Fee Expense. Management fee expense was \$3.1 million for 1997 and zero for 1998. Effective with the closing of the Company's initial public offering in June 1997, management fees were discontinued.

Operating Profit. As a result of the foregoing factors, operating profit increased from \$5.3 million for 1997 to \$11.2 million for 1998. As a percentage of revenues, operating profit increased from 6.0% for 1997 to 8.0% for 1998.

Net Interest Income and Other. Net interest income and other was \$0.9 million for 1997 and \$2.3 million for 1998. This increase was primarily a result of an increase in interest income derived from cash equivalents and investments available for sale balances during 1998, whereas there were line of credit and substantially more capital lease borrowings outstanding during the first half of 1997, substantially all of which were repaid from the net proceeds received by the Company from its June 1997 initial public offering.

Income Before Income Taxes. As a result of the foregoing factors, income before income taxes increased \$7.1 million, or 114.5%, from \$6.3 million for 1997 to \$13.4 million for 1998. As a percentage of revenues, income before income taxes increased from 7.0% for 1997 to 9.6% for 1998.

Income Tax Expense. The Company was taxed as an S corporation for federal and state income tax purposes from July 1, 1992 through June 17, 1997, when S corporation status was terminated in contemplation of the Company's initial public offering. Accordingly, the Company was not subject to federal or state income taxes prior to June 17, 1997. During 1997, a provision for income taxes as a C corporation was made for the period June 18, 1997 through December 31, 1997 as adjusted for a foreign tax benefit item, less a one-time credit to record a net deferred tax asset of \$0.3 million upon termination of S corporation status. Income tax expense for 1998 reflects a provision for federal, state and foreign income taxes at an effective rate of 36.5%.

Net Income. Based on the factors discussed above, net income increased \$4.3 million, or 105.5%, from \$4.2 million for 1997 to \$8.5 million for 1998. As a percentage of revenues, net income increased from 4.7% for 1997 to 6.1% for 1998.

Pro Forma Management Fee Expense; Pro Forma Operating Profit; Pro Forma Income Before Income Taxes; Pro Forma Income Tax Expense and Pro Forma Net Income for 1997 compared to actual results for 1998. Pro forma amounts for 1997 reflect the elimination of management fees and bonuses to stockholders and their affiliates as these fees and bonuses were discontinued upon the closing of the Company's June 1997 initial public offering, and provide for related income taxes at 37.3% of pre-tax income as if the Company were taxed as a C corporation for the entire year of 1997. Pro forma presentation was not applicable to 1998. As a result of the foregoing factors: (i) pro forma management fee expense is zero for 1997 and actual management fee expense is zero for 1998; (ii) pro forma operating profit was \$8.5 million for 1997 compared to actual operating profit of \$11.2 million for 1998, while such operating profit represented 9.5% and 8.0% of revenues, respectively; (iii) income before income taxes increased \$4.0 million, or 43.1%, from a pro forma amount of \$9.4 million for 1997 to an actual amount of \$13.4 million for 1998; (iv) income tax expense increased \$1.4 million, or 39.9%, from a pro forma amount of \$3.5 million for 1997 to an actual amount of \$4.9 million for 1998; and (v) net income increased \$2.6 million, or 45.1%, from a pro forma amount of \$5.9 million for 1997 to an actual amount of \$8.5 million for 1998.

1997 Compared to 1996

Revenues. Revenues increased \$17.6 million, or 24.5%, from \$71.6 million for 1996 to \$89.2 million for 1997. This increase was primarily from existing clients. A portion of the revenues for 1996 were attributable to two large projects, which generated unusually high revenues.

Cost of Services. Cost of services increased \$14.7 million, or 25.8%, from \$57.2 million for 1996 to \$71.9 million for 1997. As a percent of revenues, cost of services increased 0.7%. Factors pertaining to this increase were decreased labor utilization, primarily from Greeley capacity restraints in latter 1997, increased training costs and a greater penetration of business with a large client at lower relative margins. These increased cost factors were partially offset by the absence of start-up costs in Denver and product rework cost as compared to 1996.

Gross Profit. As a result of the foregoing factors, gross profit increased \$2.8 million, or 19.6%, from \$14.3 million for 1996 to \$17.2 million

for 1997. As a percentage of revenues, gross profit decreased from 20.0% for 1996 to 19.3% for 1997.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$0.9 million, or 12.0%, from \$7.8 million for 1996 to \$8.7 million for 1997, primarily as a result of increased personnel costs incurred to service increasing business. As a percentage of revenues, selling, general and administrative expenses decreased from 10.8% for 1996 to 9.8% for 1997, reflecting the spreading of fixed and semi-variable costs over a larger revenue base.

Management Fee Expense. Management fee expense decreased \$3.1 million, or 49.3%, from \$6.2 million for 1996 to \$3.1 million for 1997. As a percentage of revenues, management fee expense decreased from 8.6% for 1996 to 3.5% for 1997. Management fee expense was determined by the Board of Directors and related primarily to changes in operating profit of the Company for 1996. The Company paid management fees and bonuses of \$3.1 million in the period from January 1, 1997 through the closing of the Company's initial public offering in June 1997, at which time these management fees and bonus arrangements were discontinued. These management fee and bonus payments gave consideration to operating profits and the effects of certain expense timing differences for book and tax purposes.

Operating Profit. As a result of the foregoing factors, operating profit increased \$4.9 million, or 1200%, from \$0.4 million for 1996 to \$5.3 million for 1997. As a percentage of revenues, operating profit increased from 0.6% for 1996 to 6.0% for 1997.

Net Interest Income (Expense) and Other. Net interest income (expense) and other was \$0.4 million expense in 1996, while it was \$0.9 million income for 1997. This increase in net interest earnings was primarily due to interest earnings from the net proceeds of the Company's initial public offering in June 1997 and the substantial absence of line-of-credit borrowing during the third and fourth quarters of 1997.

Income Before Income Taxes. As a result of the foregoing factors, income before income taxes increased \$6.3 million from zero for 1996 to \$6.3 million for 1997. As a percentage of revenues, income before income taxes increased from 0.1% for 1996 to 7.0% for 1997.

Income Tax Expense. The Company operated as an S corporation for federal and state income tax purposes until termination of S corporation status in connection with the Company's initial public offering. Accordingly, the Company was not subject to federal or state income taxes through June 17, 1997. A provision for foreign income taxes of \$0.1 million was made in 1996. During 1997, a provision for income taxes as a C corporation was made for the period June 18, 1997 through December 31, 1997, as adjusted for a foreign tax benefit item, less a one-time credit to record a net deferred tax asset of \$0.3 million upon termination of S corporation status.

Net Income (Loss). Based on the factors discussed above, net income increased \$4.3 million, from \$(0.1) million for 1996 to \$4.2 million for 1997. As a percentage of revenues, net income increased from (0.1)% for 1996 to 4.7% for the year ended December 31, 1997.

Pro Forma Management Fee Expense; Pro Forma Operating Profit; Pro Forma Income Before Income Taxes; Pro Forma Income Taxes and Pro Forma Net Income. Pro forma amounts reflect the elimination of management fees and bonuses paid to stockholders and their affiliates as these fees and bonuses were discontinued upon closing of the Company's initial public offering, and provide for related income taxes at 37.3% of pre-tax income as if the Company were taxed as a C corporation. As a result of the foregoing factors: (1) pro forma management fee expense is zero for 1996 and 1997; (2) pro forma operating profit increased \$1.9 million, or 28.5% from \$6.6 million for 1996 to \$8.5 million for 1997; (3) pro forma income before income taxes increased \$3.2 million, or 51.3%, from \$6.2 million in 1996 to \$9.4 million for 1997; (4) pro forma income taxes increased \$1.2 million, or 51.4%, from \$2.3 million 1996 to \$3.5 million for 1997; and (5) pro forma net income increased \$2.0 million, or 51.3% from \$3.9 million for 1996 to \$5.9 million for 1997.

LIQUIDITY AND CAPITAL RESOURCES

Prior to its initial public offering in June 1997, the Company funded its operations and capital expenditures primarily through cash flow from operations, borrowings under various lines of credit, capital lease arrangements, short-term borrowings from its stockholders and their affiliates and additional capital contributions by its stockholders. In November 1997, the Company replaced its previous \$3.5 million line of credit with Norwest Business Credit, Inc. with a \$5.0 million revolving line of credit with Norwest Bank Colorado, N.A. (the "Bank"), which matures on April 30, 1999. Borrowings under the line of credit bear interest at the Bank's prime rate (7.75% as of December 31, 1998). Under this line of credit, the Company is required to maintain working capital of \$17.5 million and tangible net worth of \$25.0 million. The Company may not pay dividends in an amount which would cause a failure to meet these financial covenants. As of December 31, 1998, and the date of this Form 10-K, the Company was in compliance with these financial covenants. Collateral for the line of credit is the accounts receivable of certain of the Company's wholly-owned subsidiaries. As of December 31, 1998, no amount was outstanding under the \$5.0 million line of credit. The Company is currently expects to renew this line of credit with the Bank under the same general terms and conditions provided for in the arrangement described above.

The Company closed an initial public offering of common stock on June 24, 1997. The net proceeds, after deducting underwriting discounts and commissions and offering expenses, were approximately \$41.0 million. From the net proceeds, the Company repaid substantially all of its outstanding indebtedness, which included approximately \$4.9 million of bank and mortgage indebtedness, \$1.8 million of capital lease obligations and \$8.0 million of notes payable to principal stockholders arising from an S corporation dividend in an amount approximating the additional paid-in capital and retained earnings of the Company as of the closing date. The balance of the net proceeds (approximately \$26.3 million) was primarily used for working capital and other general corporate purposes, including approximately \$8.0 million for capital expenditures to expand into new facilities and build-out of the Company's existing facilities.

During the first half of 1998, the Company completed construction of and began operating from a new 35,000 square-foot call center facility in Greeley, Colorado (the "Greeley Facility"). The Company purchased the Greeley Facility in order to expand its call center capacity. The total construction cost of the Greeley Facility and related equipment was approximately \$3.5 million (excluding the cost of the land). The Company financed the land for the Greeley Facility through a \$0.3 million non-interest bearing ten year promissory note. The principal balance of the ten year promissory note declines on an equal basis, without payment, over ten years so long as the Company does not sell or transfer the land or fail to continuously operate a customer service center thereon.

During 1998, the Company purchased a total of approximately \$1.8 million in equipment, leasehold improvements and other fixed assets in order to operate a 22,000 square-foot call center facility in Laramie, Wyoming in a leased building. The Laramie call center became operational during the three months ended June 30, 1998. An option to purchase the Laramie land and building for \$365,000 was exercised on October 30, 1998.

On July 8, 1998, the Company entered into certain financing agreements with the Industrial Development Board of the County of Montgomery, Tennessee, (the "Board") in connection with the Board's issuance to StarTek USA, Inc. of an Industrial Development Revenue Note, Series A not to exceed \$4.5 million (the "Facility Note") and an Industrial Development Revenue Note, Series B not to exceed \$3.5 million (the "Equipment Loan"). The Facility Note bears interest at 9% per annum commencing on October 1, 1998, payable quarterly, and maturing on July 8, 2008. Concurrently, the Company advanced \$3.6 million in exchange for the Facility Note and entered into a lease agreement, maturing July 8, 2008, with the Board for the use and acquisition of a 305,000 square-foot process management and distribution facility in Clarksville, Tennessee (the "Facility Lease"). The Facility Lease provides for the Company to pay to the Board lease payments sufficient to pay, when and as due, the principal of and interest on the Facility Note due to the Company from the Board. Pursuant to the provisions of the Facility Lease and upon the Company's payment of the Facility Lease in full, the Company shall have the option to purchase the 305,000 square-foot, Clarksville, Tennessee facility for a lump sum payment of one hundred dollars. The Equipment Loan generally contains the same provisions as the Facility Note and provides for an equipment lease, except the Equipment Loan and equipment

lease mature on January 1, 2004. As of December 31, 1998, the Company had used approximately \$3.9 million and \$1.2 million of the Facility Note and Equipment Loan, respectively, and correspondingly entered into further lease arrangements with the Board.

All transactions related to the purchase of the notes by the Company from the Board and the lease arrangements from the Board to the Company have been offset against each other in the consolidated financial statements set forth herein, and accordingly have no impact on the consolidated balance sheets. The assets acquired are included in property, plant and equipment. Similarly, the interest income and interest expense related to the notes and lease arrangements, respectively, have also been offset. The lease payments are equal to the amount of principal and interest payments on the notes, and accordingly have no impact on the consolidated statements of operations.

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On October 26, 1998, the Company entered into an equipment loan agreement with a finance company, which matures on November 2, 2002. In connection with the equipment loan, the Company received cash of \$3.6 million in exchange for providing, among other things, certain collateral which generally consisted of equipment, furniture and fixtures used in the Company's business. The equipment loan provides for interest at a fixed annual interest rate of 7.0% and for the Company to pay forty-eight equal monthly installments, which in aggregate total approximately \$4.2 million. In addition to the collateral described above, the Company granted to the finance company a secondary security interest in certain of its wholly-owned subsidiaries' accounts receivable.

On February 16, 1999, the Company entered into an operating lease agreement whereby the Company acquired use of 46,350 square-feet of building space in Grand Junction, Colorado to be used by the Company for call center, general office use and other services as appropriate for the general purposes of the Company (the "Grand Junction Facility"). The term of the lease agreement commences on April 1, 1999 and unless earlier terminated or extended, continues until March 31, 2009. Pursuant to the terms of the lease agreement, the Company was granted, among other things, (i) a right of first refusal to purchase the property, of which the leased space is a part, during the lease term and (ii) a right to terminate the lease agreement anytime after the end of the fifth year by giving the landlord 180 day prior written notice to terminate. Assuming the operating lease agreement is not terminated, future minimum rental commitments in aggregate, excluding certain taxes and utilities as defined, total approximately \$1.1 million and are payable on a monthly basis from April 1999 through March 2009.

On February 18, 1999 and in connection with the Grand Junction Facility, the Company ordered certain call center computer hardware and software with an aggregate purchase price of approximately \$0.8 million. Completion of installation of this call center equipment is currently scheduled to occur during the second quarter of 1999, when, it is currently expected, the Grand Junction Facility will also become operational.

As of December 31, 1998, the Company had cash, cash equivalents, and investments available for sale of \$36.4 million, working capital of \$38.3 million and net worth of \$54.1 million. The Company's investments available for sale generally consisted of corporate bonds, foreign government bonds denominated in U.S. dollars, bond related mutual funds, other debt securities, and various real estate investment trusts and equity related mutual funds. Such investments held by the Company could be materially and adversely affected by (i) various domestic and foreign economic conditions, such as recessions, increasing interest rates, adverse foreign currency exchange fluctuations, foreign and domestic inflation, and other factors and (ii) the inability of certain corporations to repay their debts, including interest amounts, to the Company. See "Quantitative and Qualitative Disclosures About Market Risk", and Note 1 and Note 3 to the consolidated financial statements set forth herein for further discussions regarding the Company's cash and cash equivalents, and investments available for sale.

Net cash provided by operating activities increased from \$6.1 million for 1997 to \$13.1 million for 1998. This increase was primarily a result of increases in net income, depreciation and amortization expense, various tax

related items, accounts payable, and accrued and other liabilities, partially offset by increases in accounts receivable, inventories, and gain on sale of assets.

Net cash used in investing activities was \$10.5 million for 1997 and \$24.2 million for 1998. This increase was primarily due to increased purchases of (i) property, plant and equipment, and (ii) investments available for sale, partially offset by proceeds received from dispositions of certain fixed assets and investments.

Net cash provided by financing activities during 1997 of approximately \$28.6 million was primarily the result of \$41.0 million of net proceeds received from the June 1997 initial public offering, \$1.6 million in contributed capital from certain S corporation stockholders prior to the June 1997 initial public offering, and \$1.5 million proceeds received from borrowings and capital lease arrangements, partially offset by approximately \$7.5 million of net repayments of various debt obligations, and \$8.0 million of cash dividends paid to certain S corporation principal stockholders. Net cash provided by financing activities during 1998 of \$3.6 million primarily consisted of \$3.7 million of net proceeds received from an October 1998 equipment loan and other borrowings, partially offset by approximately \$0.1 million of principal payments for the October 1998 equipment loan and various capital lease obligations.

The effect of currency exchange rate changes on the translation of the Company's United Kingdom operations was not substantial during 1997 and 1998. The terms of the Company's agreements with its clients and its foreign subcontracts are typically in U.S. dollars except for certain of its agreements related to its United Kingdom operations. In the past, the Company's exposure to foreign currency exchange risks has been minimal in connection with its day to day operations in the United Kingdom. However, as the international portion of the Company's business grows, more revenues and expenses may be denominated in foreign currency, and this will increase the Company's exposure to fluctuations in currency exchange rates. See "Quantitative and Qualitative Disclosures About Market Risk" set forth herein for a further discussion of the Company's exposure to foreign currency exchange risks in connection with certain of its investments available for sale.

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The Company believes its current cash, cash equivalents and investments available for sale balances, anticipated cash flows from future operations and the \$5.0 million of currently available financing under its \$5.0 million line of credit, will be sufficient to support its operations, capital expenditures and various repayment obligations under its debt and lease agreements for the foreseeable future. However, liquidity and capital requirements depend on many factors including, but not limited to, the Company's ability to retain or successfully and timely replace its principal clients and the rate at which the Company expands its business, whether internally or through acquisitions and strategic alliances. To the extent the funds generated from the sources described above are insufficient to fund the Company's activities in the short or long-term, the Company will be required to raise additional funds through public or private financing. No assurance can be given that additional financing will be available or that, if available, it will be available on terms favorable to the Company.

QUARTERLY RESULTS

Note 16 to the consolidated financial statements set forth herein reflects certain unaudited statement of operations data for the quarters in 1997 and 1998 on a historical and pro forma basis. The unaudited historical quarterly information has been prepared on the same basis as the annual information and, in management's opinion, includes all adjustments necessary to present fairly the information for the quarters presented. See "Management's Discussion and Analysis of Financial Condition and Results of Operations"-- "Factors That May Affect Future Results"--"Variability of Quarterly Operating Results" set forth herein for a further discussion of the Company's quarterly results.

For the quarterly periods in 1997 and 1998, revenues, cost of services and gross profits fluctuated principally due to the seasonal pattern of certain of the businesses served by the Company and an increase in the volume of

services provided to one of the Company's principal clients, together with certain existing and new clients, partially offset by decreases in the volume of services provided to other existing clients. Revenues, cost of services and gross profit from the fourth quarter of 1997 to the first quarter of 1998 declined principally due to the seasonal pattern of certain businesses served by the Company.

The following table sets forth certain unaudited historical and pro forma statement of operations data, expressed as a percentage of revenues:

	1997 QUARTERS ENDED				1998 QUARTERS ENDED			
	MAR 31	JUN 30	SEPT 30	DEC 31	MAR 31	JUN 30	SEPT 30	DEC 31
Historical:								
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit	23.6	21.9	19.4	16.0	18.8	19.0	18.4	18.0
Selling, general and administrative expenses	13.0	12.1	10.6	6.8	11.2	13.3	11.0	8.6
Management fee expense	4.7	14.5	--	--	--	--	--	--
Operating profit (loss)	5.9	(4.7)	8.8	9.2	7.6	5.7	7.4	9.4
Net income (loss)	5.4	(4.0)	7.2	6.8	6.2	5.4	5.7	6.5
Pro forma:								
Revenues	100.0%	100.0%	--	--	--	--	--	--
Gross profit	23.6	21.9	--	--	--	--	--	--
Selling, general and administrative expenses	13.0	12.1	--	--	--	--	--	--
Management fee expense	--	--	--	--	--	--	--	--
Operating profit (loss)	10.6	9.8	--	--	--	--	--	--
Net income (loss)	6.3	5.8	--	--	--	--	--	--

Gross profit, as a percentage of revenues, increased 2.8% from the fourth quarter of 1997 to the first quarter of 1998 as a result of the mix of services performed and the absence of lower labor utilization and capacity constraints related to the 100,000 square-foot Greeley facility, partially offset by training and start-up expenses related to the 35,000 square-foot Greeley facility.

Gross profit, as a percentage of revenues, decreased 4.8% from the first quarter of 1997 to the first quarter of 1998 primarily as a result of higher overall cost of services from greater penetration of business with certain principal clients at lower relative margins, training and start-up expenses related to the 35,000 square-foot Greeley facility and the mix of services performed.

Gross profit, as a percentage of revenues, decreased 2.9% from the second quarter of 1997 to the second quarter of 1998 primarily as a result of higher overall cost of services of certain business at lower relative margins, mix of services performed, and training and start-up expenses related to the 35,000 square-foot Greeley facility and the 22,000 square-foot Laramie facility, both of which became operational in the second quarter of 1998.

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Gross profit, as a percentage of revenues, decreased 1.0% from the third quarter of 1997 to the third quarter of 1998 primarily as a result of higher overall costs of certain business at lower relative margins, mix of services performed and training and start-up expenses related to the 305,000 square-foot Clarksville, Tennessee facility, which became operational during the third quarter of 1998.

Gross profit, as a percentage of revenues, increased 2.0% from the fourth quarter of 1997 to the fourth quarter of 1998 primarily as a result of the absence of lower labor utilization and capacity constraints related to the 100,000 square-foot Greeley facility. Operating from the 305,000 square-foot facility in Clarksville, Tennessee substantially contributed to the relief of the capacity constraints experienced by the Company during the fourth quarter of 1997. Gross profit, as a percentage of revenues, remained relatively consistent for the quarterly periods in 1998.

For the quarterly periods in 1997, selling, general and administrative

expenses as a percentage of revenues, fluctuated principally due to the spreading of fixed and semi-variable costs over a revenue base that fluctuates from quarter to quarter. For the quarterly periods in 1998, selling, general and administrative expenses as a percentage of revenues, fluctuated principally due to increased personnel costs incurred to service increasing business and costs associated with capacity expansion.

The Company paid management fees and bonuses of \$3.1 million in the period January 1, 1997 through the closing of the Company's initial public offering in June 1997, at which time these management fees and bonus arrangements were discontinued. These 1997 management fees and bonus arrangements gave consideration to operating profits and the effects of certain expense timing differences for book and tax purposes.

Operating profit fluctuated within the quarterly periods of 1997 and 1998 based primarily on the factors noted above. Net income fluctuated within the quarterly periods of 1997 (pro forma quarterly results for the first two quarters of 1997 and actual quarterly results for the last two quarters of 1997) and 1998 (actual quarterly results for all quarters in 1998) based primarily on the factors noted above, and based on an increase in interest earnings in 1998 derived from the Company's cash equivalents and investments available for sale, partially offset by a provision for income tax expense in 1998 of 36.5%.

The unaudited pro forma quarterly information for the first two quarters of 1997 presents the effects on operating profit of the elimination of management fee expense paid to stockholders and their affiliates as these fees were discontinued effective with closing of the Company's initial public offering. See Note 2 to the consolidated financial statements set forth herein for a further description of the 1997 pro forma information and related pro forma adjustments. Pro forma presentation was not applicable for the quarterly periods beginning after June 30, 1997.

YEAR 2000 COMPLIANCE

The year 2000 issue is the result of computer programs being written using two digits rather than four digits to define the applicable year. Some of the Company's older computer programs and technologies fall into this category. As a result, those programs have time-sensitive applications that recognize a date using "00" as the year 1900 rather than the year 2000. This could cause system failures or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in other normal business activities.

The Company formally created a year 2000 project team (the "Y2K Team") during the first quarter of 1998. The Y2K Team reports directly to the Company's executive committee and periodically provides the executive committee status updates of its year 2000 compliance efforts. To date, the Y2K Team has, among other things, completed its initial assessment of the Company's year 2000 compliance issues, identified non year 2000 compliant computer equipment and software, communicated with applicable third party vendors of the Company in order to gather information on year 2000 matters beyond the Company's internal information technologies, scheduled and partially completed year 2000 testing of the Company's applicable information systems, and planned to develop and test a year 2000 contingency plan. The total cost of the Company's year 2000 compliance efforts is currently estimated to be approximately \$100,000.

The Company currently anticipates that the Y2K Team will complete its year 2000 compliance efforts during the third quarter of 1999, which is prior to any currently anticipated material adverse effect the year 2000 issue may have on the Company's business, financial condition and results of operations. Additionally, StarTek uses certain of its clients' software applications in performing its outsourced services. Such client-owned software used by StarTek, if not year 2000 compliant, could cause significant interruptions and delays in the Company's services, revenues and cash receipts. Currently, management is unaware of any specific year 2000 issues related to client-owned software used in StarTek's day to day operations. The Company currently believes, based on its current year 2000 compliance planning, the year 2000 issue will not pose material adverse problems to its business. However, if the Company's, its third party vendors', subcontractors' and clients' year 2000 compliance efforts are not successful, or not completed in a timely manner, the year 2000 issue could have a material adverse effect on the operations of the Company.

The anticipated cost and timing to complete the year 2000 compliance efforts mentioned above are based on estimates which have been derived using numerous assumptions of future events, including the continued availability of certain resources and other factors. However, there can be no assurance that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to completely identify and correct all relevant information systems, the ability to coordinate successfully with its third party vendors, subcontractors and clients in order to attempt to insure year 2000 issues beyond the Company's internal information systems are also successfully and timely addressed, and other uncertainties. See "Management's Discussion and Analysis of Financial Condition and Results of Operations"-- "Factors That May Affect Future Results" set forth herein for a further discussion of factors relating to the Company's "Year 2000 Compliance".

INFLATION AND GENERAL ECONOMIC CONDITIONS

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

FACTORS THAT MAY AFFECT FUTURE RESULTS

Reliance on Principal Client Relationships

A substantial portion of the Company's revenue is generated from its principal client(s) and the loss of its principal client(s) could have a material adverse effect on the Company's business, results of operations and financial condition. The Company's two largest clients during the twelve and three months ended December 31, 1997 were Microsoft Corporation ("Microsoft") and Hewlett-Packard Company ("Hewlett-Packard"). Microsoft, which began its outsourcing relationship with StarTek in April 1996, accounted for approximately 56.3% of the Company's revenues during the year ended December 31, 1997. The Company provides various outsourced services to various divisions of Hewlett-Packard, each of which the Company considers separate clients since each division acts through a relatively autonomous decision maker. Hewlett-Packard's various divisions accounted for approximately 25.4% of the Company's revenues during the year ended December 31, 1997. The Company began its outsourcing relationship with Hewlett-Packard in 1987. The Company's largest client during the year ended December 31, 1998 was Microsoft. Microsoft accounted for approximately 72.5% of the Company's revenues during the year ended December 31, 1998. There can be no assurance the Company will be able to retain its principal client(s) or, if it were to lose its principal client(s), it would be able to timely replace its principal client(s) with clients which generate a comparable amount of revenues.

Variability of Quarterly Operating Results

The Company's business is highly seasonal and is, at times, conducted in support of product launches for new and existing clients. Historically, the Company's revenues have been substantially lower in the first and second quarters due to the timing of its clients' marketing programs and product launches, which are typically geared toward the holiday buying season. Additionally, the Company has experienced, and expects to continue to experience, quarterly variations in operating results as a result of a variety of factors, many of which are outside the Company's control, including: (i) the timing of existing and future client product launches; (ii) the expiration or termination of existing client projects; (iii) the timing and amount of costs incurred to expand capacity in order to provide for further revenue growth from current and future clients; (iv) the seasonal nature of certain clients' businesses; (v) the cyclical nature of certain high technology clients' businesses; and (vi) changes in the Company's principal client base.

Year 2000 Compliance

As the year 2000 approaches, an issue impacting all companies, including StarTek, has emerged regarding how existing application software programs, computer operating systems and other operating equipment which use

embedded computer chips can accommodate this date value. Software programs, computer operating systems and other operating equipment that have date-sensitive programming or embedded chips may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in system failures or miscalculations causing disruptions of StarTek's operations, including, among other things, a temporary inability to process transactions, send invoices or engage in similar normal business activities. Similarly, disruptions in the operations of StarTek's clients, third party vendors and/or subcontractors due to the year 2000 issue could materially and adversely affect StarTek's operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations"---"Year 2000 Compliance" set forth herein for a further discussion of the Company's year 2000 compliance efforts.

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Difficulties in Managing Business Undergoing Rapid Growth

StarTek has experienced rapid growth over the past several years and anticipates continued future growth. Continued growth depends on a number of factors, including the Company's ability to (i) initiate, develop and maintain new and existing client relationships, particularly relationships with its principal client(s); (ii) expand its sales and marketing organization; (iii) recruit, motivate and retain qualified management, customer support and other personnel; (iv) rapidly expand the capacity of its existing facilities or identify, acquire or lease suitable additional facilities on acceptable terms and complete build-outs of such facilities in a timely and economic fashion; (v) provide high quality services to its clients; and (vi) maintain relationships with high-quality and reliable suppliers. Continued rapid growth can be expected to place significant strain upon the Company's management, employees, operations, operating and financial systems, and other resources. To accommodate such growth and to compete effectively, the Company must continue to implement and improve its information systems, procedures, and controls and expand, train, motivate, and manage its workforce. There can be no assurance that the Company's personnel, systems, procedures, and controls will be adequate to support the Company's future operations. Further, there can be no assurance the Company will be able to maintain or accelerate its current growth, effectively manage its expanding operations or achieve planned growth on a timely and profitable basis. If the Company is unable to manage growth effectively or if growth does not occur, its business, results of operations and financial condition could be materially and adversely affected.

Risks Associated with Rapidly Changing Technology

Continued and substantial world-wide use and development of the Internet as a delivery system for computer software, hardware, computer games, other computer related products, and products in general could significantly and adversely affect demand for the Company's services. Additionally, the Company's success is significantly dependent on its computer equipment, telecommunications equipment, software systems, operating systems, and financial systems. There can be no assurance that the Company will be able to timely and successfully develop and market any new services, that such services will be commercially successful or that clients' and competitors' technologies or services will not render the Company's services obsolete. Furthermore, the Company's failure to successfully and timely implement sophisticated technology or to respond effectively to technological changes in general, could have a material adverse effect on the Company's success, growth prospects, results of operations and financial condition.

Dependence on Labor Force

StarTek's success is largely dependent on its ability to recruit, hire, train, and retain qualified employees. The Company's business is labor intensive and continues to experience relatively high personnel turnover. The Company's operations, especially its technical support teleservices, generally require specially trained employees. Increases in the Company's employee turnover rate could increase the Company's recruiting and training costs and decrease its operating efficiency and productivity. Also, the addition of new clients or the implementation of new projects for existing clients may require the Company to recruit, hire, and train personnel at accelerated rates. There can be no assurance that the Company will be able to successfully recruit, hire, train,

and retain sufficient qualified personnel to adequately staff for existing business or future growth. In addition, because a substantial portion of the Company's operating expenses consist of labor related costs, continued labor shortages together with 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 have a material adverse effect on StarTek's business, operating profit and financial condition. Furthermore, certain of StarTek's facilities are located in areas with relatively low unemployment rates and/or relatively high labor costs, thus potentially making it more difficult and costly to hire qualified personnel.

Risks Associated with International Operations and Expansion

StarTek currently conducts business in Europe and Asia, in addition to its North American operations. Such international operations accounted for approximately 13.9% of the Company's total revenues for the year ended December 31, 1998. A component of the Company's growth strategy continues to be expansion of its international operations. There can be no assurance that the Company will be able to continue or expand its capacity to market, sell, and deliver its services in international markets or that it will be able to develop relationships with other businesses to expand its international operations. Additionally, there are certain risks inherent in conducting international business, including: (i) exposure to foreign currency fluctuations against the U.S. dollar; (ii) potentially longer working capital cycles; (iii) greater difficulties in collecting accounts receivable; (iv) difficulties in complying with a variety of foreign laws and foreign tax regulations; (v) unexpected changes in foreign government programs, policies, regulatory requirements and labor laws; (vi) difficulties in staffing and effectively managing foreign operations; and (vii) political instability and adverse tax consequences. There can be no assurance that one or more of such factors will not have a material adverse effect on the Company's international operations and, consequently, on the Company's business, results of operations, growth prospects and financial condition.

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Control by Principal Stockholders

As of March 24, 1999, A. Emmet Stephenson, Jr., Chairman of the Board and co-founder of the Company, and his family, beneficially own approximately 66.2% of the Company's outstanding common stock. As a result, Mr. Stephenson and his family will be able to elect the entire Board of Directors of the Company and to control substantially all other matters requiring action by the Company's stockholders. Additionally, substantially all of the Company's revenues, operating expenses and operating results in general are derived from the Company's wholly-owned subsidiaries. Mr. Stephenson is also the sole Director for each of the Company's wholly-owned subsidiaries. Such voting concentration may discourage, delay or prevent a change in control of the Company and its wholly-owned subsidiaries.

Dependence on Key Personnel

The Company's success to date has depended in large part on the skills and efforts of Mr. Stephenson and of Michael W. Morgan, President, Chief Executive Officer, Director and co-founder of the Company. As of March 24, 1999, Mr. Stephenson and his family and Mr. Morgan beneficially own approximately 66.2% and 7.0% of the Company's outstanding common stock, respectively. Mr. Stephenson and Mr. Morgan have not entered into employment agreements with the Company and there can be no assurance that the Company can retain the services of these individuals. The loss of either Mr. Stephenson or Mr. Morgan, or the Company's inability to hire or retain other qualified officers, directors and key employees, could have a material adverse effect on the Company's success, growth prospects, results of operations and financial condition.

Dependence on Key Industries and Trends Toward Outsourcing

StarTek's current client base primarily consists of companies engaged primarily in the computer software, computer hardware, Internet, E-commerce, technology and telecommunications industries. The Company's business and growth is largely dependent on the continued demand for its services from clients in

these industries and industries targeted by the Company, and current trends in such industries to outsource various non-core functions which are offered on an outsourced basis by the Company. A general economic downturn in the computer industry or in other industries targeted by the Company or a slowdown or reversal of the trend in these industries to outsource services provided by the Company could materially and adversely affect the Company's business, results of operations, growth prospects and financial condition.

Risks Associated with the Company's Contracts

The Company typically enters into written agreements with each client for outsourced services or performs services on a purchase order basis. Under substantially all of the Company's significant arrangements with its clients, including its principal clients, the Company typically generates revenues based in large part, on the number and duration of customer inquiries, and the volume, complexity, and type of components involved in its clients' products. Consequently, the amount of StarTek's revenues generated from any particular client is generally dependent upon customers' purchase and use of its clients' products. There can be no assurance as to the number of customers who will be attracted to the products of the Company's clients or that the Company's clients will continue to develop new products that will require the Company's services. Although the Company currently seeks to sign multi-year contracts with its clients, the Company's contracts generally (i) permit termination upon relatively short notice by its clients, (ii) do not designate the Company as its clients' exclusive outsourcing service provider, (iii) do not penalize its clients for early termination, and (iv) generally hold the Company responsible for work performed which does not meet certain pre-defined specifications. To the extent the Company works on a purchase order basis, agreements with its clients frequently do not provide for minimum purchase requirements, except in connection with certain of its technical support and customer care services. Several of the Company's contracts require the Company, through its wholly-owned subsidiaries and for certain of its facilities and services, to maintain ISO 9002 certification.

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Highly Competitive Market

The markets in which the Company operates are highly competitive. The Company expects competition to persist and intensify in the future. The Company's competitors include small firms offering specific applications, divisions of large companies, large independent firms and, most significantly, the in-house operations of the Company's existing and potential clients. A number of competitors have or may develop financial and other resources greater than those of the Company. Similarly, there can be no assurance that additional competitors with greater name recognition and resources than the Company will not enter the markets in which the Company operates. Because the in-house operations of the Company's existing and potential clients are significant competitors of the Company, the Company's performance and growth could be materially and adversely affected if its clients decide to provide in-house services that currently are outsourced or if potential clients retain or increase their in-house capabilities. Further, a decision by its principal client(s) to consolidate its outsourced services with a company other than StarTek could materially and adversely affect the Company's business, particularly due to the fact that the Company is not the largest supplier of any of the services it currently provides to its principal client(s). Additionally, competitive pressures from current or future competitors could result in substantial price erosion, which could materially and adversely affect the Company's business, results of operations and financial condition.

Risks of Business Interruptions

StarTek's operations are dependent upon its ability to protect its facilities, clients' products, confidential client information, computer equipment, telecommunications equipment, and software systems against damage from Internet interruption, fire, power loss, telecommunications interruption, E-commerce interruption, natural disaster, theft, unauthorized intrusion, computer viruses, and other emergencies and the ability of its suppliers, to deliver component parts on an expedited basis. While the Company maintains certain procedures and contingency plans to minimize the detrimental impact of

such events, there can be no assurance that such procedures and plans will be successful. In the event the Company experiences temporary or permanent interruptions or other emergencies at one or more of its facilities, the Company's business could be materially and adversely affected and the Company may be required to pay contractual damages to its clients or allow its clients to terminate or renegotiate their arrangements with the Company. While the Company maintains property and business interruption insurance, such insurance may not adequately and/or timely compensate the Company for all losses that it may incur. Further, some of the Company's operations, including telecommunication systems and telecommunication networks, and the Company's ability to timely and consistently access and use 24 hours per day, seven days per week, telephone, Internet, E-commerce, E-mail, facsimile connections, and other forms of communication, are substantially dependent upon telephone companies, Internet service providers, T1 lines, etc. If such communications are interrupted on a short or long-term basis, the Company's services would be similarly interrupted and delayed.

Volatility of Stock Price

The market price of StarTek's common stock may be highly volatile and could be subject to wide fluctuations in response to quarterly variations in operating results, the success of the Company in implementing its business and growth strategies, announcements of new contracts or contract cancellations, announcements of technological innovations or new products and services by the Company or its competitors, changes in financial estimates by securities analysts, or other events or factors. Additionally, the stock market has experienced substantial price and volume fluctuations that have particularly affected the market prices of equity securities of many companies, and that have often been unrelated to the operating performance of such companies. These broad market fluctuations may adversely affect the market price of StarTek's common stock. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against such a company. Any such litigation initiated against the Company could result in substantial costs and diversion of management's attention and resources, which could materially and adversely affect the Company's business, results of operations and financial condition.

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ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The following discusses the Company's exposure to market risk related to changes in interest rates and other general market risks, equity market prices, and foreign currency exchange rates. Primarily all of the Company's investment decisions are directed by its Chairman of the Board. This discussion contains forward-looking statements that are 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 rates and other general market risks, equity market prices, foreign currency exchange rates, and those set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations"---"Factors That May Affect Future Results". See also Note 1 and Note 3 to the consolidated financial statements set forth herein for a further discussion of the Company's cash and cash equivalents and investments available for sale.

Interest Rate Sensitivity and Other General Market Risks

Cash and cash equivalents. As of December 31, 1998, the Company had cash and cash equivalents of approximately \$19.6 million, which consisted of (i) approximately \$1.4 million invested in various money market funds and overnight investments at a weighted average interest rate of approximately 5.5%, (ii) approximately \$17.9 million invested in various commercial paper securities at a weighted average interest rate of approximately 6.1%, and (iii) approximately \$0.3 million in various non-interest bearing operating accounts. StarTek considers cash equivalents to be short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The Company does not expect any material loss with respect to its cash and cash equivalents as a result of interest rate changes, and the estimated fair value of its cash and cash equivalents approximates original

cost.

Investments Available for Sale. As of December 31, 1998, the Company had investments available for sale of \$16.8 million. These investments available for sale generally consisted of corporate bonds, foreign government bonds denominated in U.S. dollars, bond related mutual funds, other debt securities, and various equity related mutual funds. Corporate bonds, foreign government bonds denominated in U.S. dollars, bond related mutual funds, and other debt securities held in the Company's investment portfolio are subject to interest rate risk and will fall in value if market interest rates increase.

The fair market value of, and the estimated cash flows from, the Company's investments in corporate bonds are substantially dependent upon the creditworthiness of certain corporations that are expected to repay their debts, including interest, as they become due, to the Company. If such corporations' financial condition and liquidity adversely changes, the Company's investments in their debts can be expected to be materially and adversely affected.

The Company's investments in foreign government bonds denominated in U.S. dollars entail special risks of global investing; these include, but are not limited to, (i) currency exchange fluctuations which could adversely affect the ability of foreign governments to repay their debts in U.S. dollars, (ii) foreign government regulations, and (iii) the potential for political and economic instability. The fair market value of such investments in foreign government bonds (denominated in U.S. dollars) can be expected to be more volatile than that of U.S. government bonds. These risks are intensified for the Company's investments in debt of foreign governments located in countries generally considered to be emerging markets.

The table below provides information about maturity dates and corresponding weighted average interest rates with regard to certain of StarTek's investments available for sale as of December 31, 1998.

	WEIGHTED AVERAGE INTEREST RATES	EXPECTED MATURITY DATE --COST-- (DOLLARS IN THOUSANDS)						TOTAL	FAIR VALUE
		1999	2000	2001	2002	2003	THEREAFTER		
Corporate bonds	8.3%	\$ 1,063	--	--	--	--	\$ 1,063	\$ 1,079	
Corporate bonds	7.4%	--	\$ 3,590	--	--	--	\$ 3,590	\$ 3,602	
Corporate bonds	7.3%	--	--	\$ 1,888	--	--	\$ 1,888	\$ 1,791	
Corporate bonds	6.3%	--	--	--	--	\$ 2,445	\$ 2,445	\$ 2,354	
Foreign government bonds and other	8.9%	--	--	--	--	\$ 3,202	\$ 3,202	\$ 2,907	
Total	7.6%	\$ 1,063	\$ 3,590	\$ 1,888	--	--	\$ 5,647	\$ 12,188	

Management believes the Company currently has the ability to hold these investments until maturity, and therefore, if held to maturity, the Company 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 the Company's interest income derived from future investments.

As of December 31, 1998 and as part of its investments available for sale portfolio, the Company also was invested in (i) various bond related mutual funds which, in the aggregate, had an original cost and fair market value of approximately \$4.0 million and \$3.9 million, respectively and (ii) various real estate investment trusts and equity related mutual funds which, in the aggregate, had an original cost and fair market value of approximately \$1.6 million and \$1.2 million, respectively.

Such bond related mutual funds, as of December 31, 1998 (i) had a weighted average interest rate of approximately 6.0%, and a weighted average maturity of approximately three years; (ii) are primarily invested in investment grade bonds of U.S. and foreign issuers denominated in U.S. and foreign currencies, and interests in floating or variable rate senior collateralized loans to

corporations, partnerships, and other entities in a variety of industries and geographic regions; (iii) include certain foreign currency risk hedging instruments which are intended to reduce fair market value fluctuations; (iv) are subject to interest rate risk and will fall in value if market interest rates increase; and (v) are subject to the quality of the underlying securities within the mutual funds. The Company's investments in such bond related mutual funds entail special risks of global investing, including, but not limited to, (i) currency exchange fluctuations, (ii) government regulations, and (iii) the potential for political and economic instability. The fair market value of the Company's investments in such bond related mutual funds can be expected to be more volatile than that of a U.S.-only fund. These risks are intensified for certain investments in debt of foreign governments (included in bond related mutual funds) which are located in countries generally considered to be emerging markets. Additionally, certain of the bond related mutual fund investments are also subject to the effect of leverage, which in a declining market, can be expected to result in a greater decrease in fair market value than if such investments were not leveraged.

Outstanding Debt of the Company. As of December 31, 1998, the Company had outstanding debt of approximately \$4.2 million, approximately \$3.6 million of which bears interest at an annual fixed rate of 7.0%. Since substantially all of the interest on the Company's debt is fixed, a hypothetical 10.0% decrease in interest rates would not have a material impact on the Company. Increases in interest rates could, however, increase interest expense associated with future borrowings by the Company, if any. For example, the Company may from time to time effect borrowings under its \$5.0 million line of credit for general corporate purposes, including working capital requirements, capital expenditures and other purposes related to expansion of the Company's capacity. Borrowings under the \$5.0 million line of credit bear interest at the lender's prime rate, which was 7.75% as of December 31, 1998. As of December 31, 1998, the Company had no outstanding line of credit obligations.

The Company has not hedged against interest rate changes.

Equity Price Risk

As of December 31, 1998, the Company held in its investments available for sale portfolio, certain equity securities with original costs and fair market values, in aggregate, of \$1.6 million and \$1.2 million, respectively. The Company's investments in equity securities generally consist of various real investment trusts and equity related mutual funds. A substantial decline in the values of real estate investment trusts and equity related mutual funds, and equity prices in general could have a material adverse effect on the Company's equity investments.

The Company has not hedged against equity price changes.

Foreign Currency Exchange Risk

Approximately 5.9% of the Company's total revenues for 1998 were derived from arrangements whereby the Company received payments from its clients in currencies other than U.S. dollars. The terms of the Company's agreements with its clients and its foreign subcontracts are typically in U.S. dollars except for certain of its agreements related to its United Kingdom operations. If an arrangement provides for the Company to receive payments in a foreign currency, the ultimate revenues realized from such an arrangement may be less if the value of such foreign currency declines. Similarly, if an arrangement provides for the Company to make payments in a foreign currency, the ultimate cost of services and operating expenses for such an arrangement may be more 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 the Company's previously expected revenues, cost of services and operating expenses. In the past, the Company's exposure to currency exchange risks has been minimal in connection with its day to day operations in the United Kingdom. However, as the international portion of the Company's business grows, more revenues and expenses may be denominated in foreign currency, and this will increase the Company's exposure to fluctuations in currency exchange rates.

The Company has not hedged against foreign currency exchange rate changes related to its day to day operations in the United Kingdom. However, certain of its investments classified as bond related mutual funds (discussed in further detail above as part of "Interest Rate Sensitivity and Other General Market Risks") include investments in various forms of currency risk hedging instruments which are intended to reduce fair market value fluctuations of such mutual funds.

ITEM 8. FINANCIAL STATEMENT AND SUPPLEMENTARY FINANCIAL DATA

The consolidated financial statements and supplementary data of the Company required by this Item are set forth herein at the pages indicated at Item 14(a).

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not Applicable.

PART III

ITEMS 10 THROUGH 13

The information required under Item 10. (Directors and Executive Officers of the Registrant), Item 11. (Executive Compensation), Item 12. (Security Ownership of Certain Beneficial Owners and Management) and Item 13. (Certain Relationships and Related Transactions) will be included in StarTek's Proxy Statement to be delivered in connection with its 1999 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Document List

1. Financial Statements
Response to this portion of Item 14. is submitted per the Index to Financial Statements, Supplementary Data and Financial Statement Schedules on page 24 of this Form 10-K.
2. Supplementary Data and Financial Statement Schedules
Response to this portion of Item 14. is submitted per the Index to Financial Statements, Supplementary Data and Financial Statement Schedules on page 24 of this Form 10-K.
3. An Index of Exhibits is on page 43 of this Form 10-K.

(b) Reports on Form 8-K.

No reports on Form 8-K were filed by the Company during the three months ended December 31, 1998.

STARTEK, INC. AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS, SUPPLEMENTARY DATA AND
FINANCIAL STATEMENT SCHEDULES

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FINANCIAL STATEMENT SCHEDULES

None. All schedules have been included in the Consolidated Financial Statements or notes thereto.

REPORT OF INDEPENDENT AUDITORS

Board of Directors
StarTek, Inc.

We have audited the accompanying consolidated balance sheets of StarTek, Inc. and subsidiaries (the "Company") as of December 31, 1998 and 1997, and the related consolidated statements of operations, cash flows and stockholders' equity for each of the three years in the period ended December 31, 1998. 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 generally accepted auditing standards. 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 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. and subsidiaries at December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

STARTEK, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS)

	DECEMBER 31	
	1997	1998
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 26,960	\$ 19,593
Investments available for sale	7,356	16,829
Trade accounts receivable, less allowance for doubtful accounts of \$383 and \$441 as of December 31, 1997 and 1998, respectively	12,518	20,476
Inventories	2,539	2,772
Deferred tax assets	440	1,135
Prepaid expenses and other	205	165
	-----	-----
Total current assets	50,018	60,970
Property, plant and equipment, net	8,151	19,171
Other assets	3	60
	-----	-----
Total assets	\$ 58,172	\$ 80,201
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 9,387	\$ 17,433
Accrued liabilities	1,292	2,092
Income taxes payable	106	1,944
Current portion of capital lease obligations	82	46
Current portion of long-term debt	26	906
Other	421	213
	-----	-----
Total current liabilities	11,314	22,634
Capital lease obligations, less current portion	121	77
Long-term debt, less current portion	435	3,196
Deferred income taxes	231	144
Other	65	17
	-----	-----
Commitments	--	--
Stockholders' equity:		
Common stock	138	138
Additional paid-in capital	41,661	41,661
Cumulative currency translation adjustment	70	167
Unrealized loss on investments available for sale	(92)	(606)
Retained earnings	4,229	12,773
	-----	-----
Total stockholders' equity	46,006	54,133
	-----	-----
Total liabilities and stockholders' equity	\$ 58,172	\$ 80,201
	=====	=====

See notes to consolidated financial statements.

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STARTEK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED DECEMBER 31		
	1996	1997	1998
Revenues	\$ 71,584	\$ 89,150	\$ 140,984
Cost of services	57,238	71,986	115,079
Gross profit	14,346	17,164	25,905
Selling, general and administrative expenses	7,764	8,703	14,714
Management fee expense	6,172	3,126	--
Operating profit	410	5,335	11,191
Net interest income (expense) and other	(372)	933	2,254
Income before income taxes	38	6,268	13,445
Income tax expense	112	2,110	4,901
Net income (loss)	\$ (74)	\$ 4,158	\$ 8,544
Basic and diluted net income per share			\$ 0.62
Weighted average shares outstanding			13,828,571

See notes to consolidated financial statements.

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STARTEK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

	YEAR ENDED DECEMBER 31		
	1996	1997	1998
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	\$ (74)	\$ 4,158	\$ 8,544
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,438	1,829	2,852
Deferred income taxes	--	(153)	(577)
Gain on sale of assets	--	--	(106)
Changes in operating assets and liabilities:			
Accounts receivable	2,231	(1,487)	(7,958)
Inventories	(1,177)	(4)	(233)
Prepaid expenses and other assets	87	(65)	(17)

Accounts payable	(2,744)	2,425	8,046
Income taxes payable	--	106	1,838
Accrued and other liabilities	1,657	(661)	679
	-----	-----	-----
Net cash provided by operating activities	1,418	6,148	13,068
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(1,333)	(3,191)	(14,108)
Proceeds from disposition of property, plant and equipment	--	--	181
Purchases of investments available for sale	--	(7,504)	(18,684)
Proceeds from disposition of investments available for sale	--	--	8,397
Collections on notes receivable-stockholders	663	213	--
	-----	-----	-----
Net cash used in investing activities	(670)	(10,482)	(24,214)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from (principal payments on) line of credit borrowings	49	(3,500)	--
Principal payments on borrowings	(7)	(1,854)	(62)
Proceeds from borrowings and capital lease obligations	819	1,500	3,729
Principal payments on capital lease obligations	(847)	(2,218)	(80)
Principal payments on notes payable-stockholders	(738)	--	--
Dividend to S corporation principal stockholders	--	(8,000)	--
Principal payments on note payable-affiliate	(1,112)	--	--
Net proceeds from initial public offering of common stock	--	41,042	--
Contributed capital	3,240	1,641	--
	-----	-----	-----
Net cash provided by financing activities	1,404	28,611	3,587
Effect of exchange rate changes on cash	139	(59)	192
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	2,291	24,218	(7,367)
Cash and cash equivalents at beginning of year	451	2,742	26,960
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 2,742	\$ 26,960	\$ 19,593
	=====	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid for interest	\$ 535	\$ 368	\$ 58
Income taxes paid	\$ 112	\$ 2,263	\$ 3,640
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY			
Equipment acquired or refinanced under capital leases	\$ 1,017	\$ --	\$ --
Property, plant and equipment acquired or refinanced under long-term debt	\$ --	\$ 261	\$ 3,629
Net unrealized loss on investments available for sale	\$ --	\$ 92	\$ 514

See notes to consolidated financial statements.

STARTEK, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(DOLLARS IN THOUSANDS)

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	NOTE RECEIVABLE STOCKHOLDER	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT					
Balance, December 31, 1995	43,200	\$ 1	\$ 2,908	\$ (213)	\$ 1,112	\$ (10)	\$ 3,798
Contributed capital	--	--	3,240	--	--	--	3,240
Net loss	--	--	--	--	(74)	--	(74)
Currency translation adjustment	--	--	--	--	--	139	139
Comprehensive income	--	--	--	--	--	--	65
	-----	-----	-----	-----	-----	-----	-----
Balance, December 31, 1996	43,200	1	6,148	(213)	1,038	129	7,103
Payment of note receivable-stockholder	--	--	--	213	--	--	213
Contribution of StarTek Europe, Ltd.	(9,582)	--	--	--	--	--	--
Contributed capital	--	--	1,641	--	--	--	1,641

322.1064-for-one common stock split effected by stock dividend, immediately prior to closing of initial public offering	10,794,953	107	(107)	--	--	--	--
Dividend to principal stockholders	--	--	(7,033)	--	(967)	--	(8,000)
Issuance of common stock pursuant to initial public offering, net of stock issuance costs of \$3,958	3,000,000	30	41,012	--	--	--	41,042
Net income	--	--	--	--	4,158	--	4,158
Currency translation adjustment	--	--	--	--	--	(59)	(59)
Unrealized loss on investments available for sale	--	--	--	--	--	(92)	(92)
Comprehensive income	--	--	--	--	--	--	4,007

Balance, December 31, 1997	13,828,571	138	41,661	--	4,229	(22)	46,006
Net income	--	--	--	--	8,544	--	8,544
Currency translation adjustment	--	--	--	--	--	97	97
Unrealized loss on investments available for sale	--	--	--	--	--	(514)	(514)
Comprehensive income	--	--	--	--	--	--	8,127
=====							
Balance, December 31, 1998	13,828,571	\$ 138	\$ 41,661	\$ --	\$ 12,773	\$ (439)	\$ 54,133
=====							

See notes to consolidated financial statements.

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STARTEK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

StarTek, Inc. (the "Company" or "StarTek") was incorporated in Delaware on December 30, 1996. Prior to the formation of the Company, StarTek USA, Inc. and StarTek Europe, Ltd. (previously named StarPak, Inc. and StarPak International, Ltd., respectively, and whose stockholder groups were substantially identical) conducted business as affiliates under common control. Effective January 1, 1997, the stockholders of StarTek USA, Inc. exchanged all of the outstanding shares of capital stock of StarTek USA, Inc. for shares of common stock of the Company, and StarTek USA, Inc. became a wholly-owned subsidiary of the Company. Effective January 24, 1997, the stockholders of StarTek Europe, Ltd. contributed all of its outstanding shares of capital stock to the Company and StarTek Europe, Ltd. became a wholly-owned subsidiary of the Company. Because the shareholder groups of StarTek USA, Inc. and StarTek Europe Ltd. were substantially identical and the relative holdings of the individual stockholders in StarTek were not altered as a result of the contributions, the formation of StarTek has been treated as a combination of entities under common control and accounted for as if it were a pooling of interests. References to the Company and StarTek include these combined entities. Financial statements for periods prior to January 1, 1997 reflect the combined accounts of StarTek USA, Inc. and StarTek Europe, Ltd. After January 1, 1997, the accompanying consolidated financial statements include the accounts of StarTek Inc. and its wholly-owned subsidiaries, StarTek USA, Inc., StarTek Europe, Ltd.. During 1998, the Company formed two other wholly-owned subsidiaries, StarTek Pacific, Ltd. and Domain.com, Inc. and the accompanying 1998 consolidated financial statements also include the accounts of these two subsidiaries. All significant intercompany transactions have been eliminated.

Business Operations

StarTek is a leading international provider of integrated, value-added,

outsourced process management services primarily for Fortune 500 companies. The Company's process management services encompass a wide spectrum of service platforms, including logistics management (selection and management of suppliers), management of product assembly and packaging, E-commerce order processing and fulfillment, Internet support, product distribution, direct store distribution, warehouse services and inventory management, inbound technical support and customer care teleservices, telecommunications process management, and product order processing. The Company has operations in North America, Europe and Asia.

Capital Stock

Immediately prior to the closing of the Company's initial public offering in June 1997, the Company declared a 322.1064-for-one stock split of the Company's common stock. All references in the notes to the consolidated financial statements to shares, related prices in per share calculations, per share amounts and stock option plan data have been restated to reflect the split.

Foreign Currency Translation

The assets and liabilities of the Company's European operations are translated into U.S. dollars at current exchange rates and revenues and expenses are translated at average monthly exchange rates. The resulting translation adjustments, net of applicable deferred income taxes (1997 tax benefit of \$42 and 1998 tax of \$53), are recorded in a separate component of stockholders' equity:

The Company's Singapore operations, and related assets and liabilities are primarily denominated in U.S. dollars. Foreign currency transaction gains and losses related are included in determining net income (loss). Such gains and losses were not material for any period presented.

Comprehensive Income

In June 1997, the Financial Accounting Standards Board issued Statement No. 130, Reporting Comprehensive Income, which was effective in 1998 for the Company. The statement establishes new rules for the reporting and display of comprehensive income. Comprehensive income is defined essentially as all changes in stockholders' equity, exclusive of transactions with owners. Comprehensive income was \$65, \$4,007 and \$8,127 for the years ended December 31, 1996, 1997 and 1998, respectively.

Segment Information

In June 1997, the Financial Accounting Standards Board issued Statement No. 131, Disclosures About Segments of an Enterprise and Related Information, which was effective for 1998 for the Company. The statement changes the way companies report segment information in annual financial statements by requiring the "management approach" for reporting financial and descriptive information about operating segments. The adoption of Statement No. 131 did not change the Company's segment information disclosure and, as such, no restatement of prior years' segment information was necessary.

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STARTEK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Earnings Per Share

In the fourth quarter of 1997, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share" (FAS 128), which supersedes Accounting Principles Board Opinion No. 15. Under FAS 128, basic earnings per common share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per

share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock. For the periods presented, the additional shares assuming dilution has no impact on earnings per share because the average price per share of common stock during the period was less than the exercise price of the options.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect amounts reported in the Company's consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications of the 1996 and 1997 consolidated financial statements and related notes have been made to conform with the 1998 presentation.

Revenue Recognition

Revenues are recognized as services are completed.

Training

Training costs pertaining to start-up and ongoing projects are expensed during the year incurred.

Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, investments available for sale, accounts receivable and payable, notes receivable, debt and capital lease obligations. The carrying values of cash and cash equivalents, and accounts receivable and payable approximate fair value. Investments available for sale are reported at fair value. Management believes the difference between the fair values and carrying values of debt and capital lease obligations would not be materially different because interest rates approximate market rates for material items.

Cash and Cash Equivalents

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

Investments Available for Sale

Investments available for sale consist of debt and equity securities which are reported at fair value, with the unrealized gains and losses, net of tax (1997 tax benefit of \$56 and 1998 tax benefit of \$295) reported in a separate component of stockholders' equity. There have been no unrealized gains and losses or declines in value judged to be other than temporary on investments available for sale. The original cost of investments available for sale which are sold is based on the specific identification method. Interest on investments available for sale is included in interest income.

STARTEK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are valued at average costs that approximate actual costs

computed on a first-in, first-out basis, not in excess of market value.

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 of equipment is computed using the straight-line method based on the following estimated useful lives:

	Estimated Useful Lives -----
Buildings and improvements	7 to 30.5 years
Equipment, and equipment acquired under capital leases	3 to 5 years
Furniture and fixtures	7 years

Income Taxes

Effective July 1, 1992, StarTek USA, Inc. elected Subchapter S status for income tax purposes, and StarTek Europe, Ltd. elected Subchapter S status at inception. On June 17, 1997, Subchapter S status was terminated and the Company has thereafter been taxable as a C corporation. During the Subchapter S status period, income and expenses of the Company were reportable on the tax returns of the stockholders and no provision was made for federal and state income taxes.

Subsequent to the termination of the Company's Subchapter S status, the Company began accounting for income taxes using the liability method of accounting for income taxes as prescribed by FASB Statement No. 109, "Accounting for Income Taxes". Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company is subject to foreign income taxes on certain of its operations.

Management Fee Expense

Prior to the Company's June 24, 1997 initial public offering and in addition to general compensation for services rendered, certain S corporation stockholders and an affiliate were paid certain management fees, bonuses and other fees in connection with services rendered to the Company, which were not included in selling, general and administrative expenses. Such management fees have been reflected as management fee expense as set forth below. Effective with the closing of the Company's June 24, 1997 initial public offering, these management fees, bonuses and other fees were discontinued.

After the closing of the June 24, 1997 initial public offering, all compensation payable to persons who are now stockholders of the Company (or an affiliate of such stockholder) are in the form of advisory fees, salaries and bonuses (which at current rates aggregate approximately \$516 annually) and are included in selling, general and administrative expenses. Prior to 1997, the Company also had an operating lease for office space with a partnership in which major stockholders of the Company were the general partner and limited partner. Payments under the lease for the year ended December 31, 1996 were \$70. Such advisory fees and salaries and operating lease payments are also set forth below:

	YEAR ENDED DECEMBER 31		
	1996	1997	1998
	-----	-----	-----
Selling, general and administrative expenses	\$ 564	\$ 512	\$ 516
Management fee expense	\$ 6,172	\$ 3,126	--

STARTEK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

2. UNAUDITED PRO FORMA INFORMATION

Unaudited Pro Forma Consolidated Statement of Operations

The following unaudited pro forma consolidated statement of operations present the effect on the historical 1997 consolidated statement of operations of the elimination of management fee expense paid to stockholders and their affiliates as these fees were discontinued upon the completion of the initial public offering in June 1997 and a provision for income taxes of 37.3% as if the Company were taxed as a C corporation for the entire year of 1997. In connection with the closing of the initial public offering in June 1997, the Company's S corporation status terminated.

	YEAR ENDED DECEMBER 31, 1997 (UNAUDITED) -----
Revenues	\$ 89,150
Cost of services	71,986 -----
Gross profit	17,164
Selling, general and administrative expenses	8,703 -----
Operating profit	8,461
Net interest income (expense) and other	933 -----
Income before income taxes	9,394
Income tax expense	3,504 -----
Net income	\$ 5,890 =====
Basic and diluted net income per share	\$ 0.47
Weighted average shares outstanding	12,652,680

Pro Forma Basic and Diluted Net Income Per Common Share

Pro forma basic and diluted net income per share for the year ended December 31, 1997 is based on the following number of shares of common stock:

Shares outstanding after giving effect to 322.1064-for-one stock split effected by a stock dividend	10,828,571
Shares deemed outstanding prior to closing of initial public offering, representing the number of shares (at an initial public offering price of \$15.00 per share) sufficient to fund payment of \$8,000 note payable to principal stockholders	254,246
3,000,000 shares issued in connection with initial public offering completed June 24, 1997, for days outstanding in 1997	1,569,863 -----
Weighted average shares outstanding	12,652,680 =====

STARTEK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

3. INVESTMENTS AVAILABLE FOR SALE

The following is a summary of investments available for sale as of December 31, 1997:

	COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
Corporate bonds	\$ 2,205	\$ 5	\$ (45)	\$ 2,165
Bond mutual funds	5,196	--	(108)	5,088
Other debt securities	103	--	--	103
		--		
Total	\$ 7,504	\$ 5	\$ (153)	\$ 7,356

The following is a summary of investments available for sale as of December 31, 1998:

	COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
Corporate bonds	\$ 8,987	\$ 80	\$ (239)	\$ 8,828
Foreign government bonds	2,915	150	(308)	2,757
Bond mutual funds	4,005	1	(132)	3,874
Other debt securities	286	--	(138)	148
Equity securities	1,598	--	(376)	1,222
Total	\$ 17,791	\$ 231	\$ (1,193)	\$ 16,829

The amortized cost and estimated fair value of investments available for sale as of December 31, 1998, by contractual maturity, are:

	COST	ESTIMATED FAIR VALUE
Corporate bonds, foreign government bonds and certain other debt securities maturing within:		
One year	\$1,063	\$ 1,079
Two to five years	5,478	5,393
Due after five years	5,647	5,261
	12,188	11,733
Bond mutual funds	4,005	3,874
Equity securities	1,598	1,222
Total	\$ 17,791	\$ 16,829

Bond mutual funds are primarily invested in investment grade bonds of U.S. and foreign issuers denominated in U.S. and foreign currencies, and

interests in floating or variable rate senior collateralized loans to corporations, partnerships, and other entities in a variety of industries and geographic regions.

4. Inventories

The Company frequently purchases components of its clients' products as an integral part of its supplier management services and in advance of providing its product assembly and packaging services. At the close of an accounting period, packaged and assembled products (together with other associated costs) are reflected as finished goods inventories pending shipment. The Company generally has the right to be reimbursed from its clients for unused inventories. Client-owned inventories are not reflected in the Company's balance sheet. Inventories consist of:

	DECEMBER 31	
	1997	1998
Purchased components and fabricated assemblies	\$ 2,171	\$ 2,313
Finished goods	368	459
	\$ 2,539	\$ 2,772

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STARTEK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

5. PROPERTY, PLANT AND EQUIPMENT

	DECEMBER 31	
	1997	1998
Land	\$ 636	\$ 1,129
Buildings and improvements	3,392	9,656
Equipment	8,641	14,785
Furniture and fixtures	978	1,445
	13,647	27,015
Less accumulated depreciation and amortization	(5,496)	(7,844)
Property, plant and equipment, net	\$ 8,151	\$ 19,171

On February 18, 1999, the Company ordered certain call center computer hardware and software with an aggregate purchase price of approximately \$800. Completion of installation of this call center equipment is currently scheduled to occur during the second quarter of 1999.

6. LINE OF CREDIT

As of December 31, 1997 and 1998, the Company had a revolving line of credit agreement with a bank whereby the bank agreed to loan the Company up to \$5,000. No amount was outstanding under the line of credit as of December 31, 1997 and 1998. Interest is payable monthly and accrues at the bank's prime rate

(8.5% as of December 31, 1997 and 7.75% as of December 31, 1998). This revolving line of credit matures on April 30, 1999.

The Company has pledged as security certain of its wholly-owned subsidiaries' accounts receivable under the revolving line of credit agreement. The Company must maintain working capital of \$17,500 and tangible net worth of \$25,000 and maintain not less than \$250 in non-interest bearing accounts with the bank. The Company may not pay dividends in an amount which would cause a failure to meet these financial covenants. As of and for the years ended December 31, 1997 and 1998, the Company was in compliance with all of the various financial and other covenants provided for under the line of credit.

7. LEASES

During 1997, the Company paid the majority of its capital lease obligations from the proceeds of its initial public offering.

Amortization of equipment held under capital lease obligations is included in depreciation and amortization expense. Included in property, plant and equipment in the accompanying consolidated balance sheets is the following equipment held under capital leases:

	DECEMBER 31	
	1997	1998
Equipment	\$ 261	\$ 261
Less accumulated amortization	(165)	(233)
	\$ 96	\$ 28

The Company also leases equipment under various non-cancelable operating leases. As of December 31, 1998, future minimum rental commitments for capital and operating leases are:

	CAPITAL LEASES	OPERATING LEASES
1999	\$ 57	\$ 406
2000	44	171
2001	40	50
2002	--	47
2003	--	27
Thereafter	--	--
Total minimum lease payments	141	\$ 701
Less amount representing interest	(18)	
Present value of minimum lease payments	123	
Less current portion of obligations under capital leases	(46)	
Obligations under capital leases, less current portion	\$ 77	

Rent expense, including equipment rentals, for 1996, 1997 and 1998 was \$382, \$271 and \$410, respectively.

STARTEK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

7. LEASES (CONTINUED)

On February 16, 1999, the Company entered into an operating lease agreement whereby the Company acquired use of 46,350 square-feet of building space in Grand Junction, Colorado to be used by the Company for call center, general office use and other services as appropriate for the general purposes of the Company. The term of the lease agreement commences on April 1, 1999 and unless earlier terminated or extended, continues until March 31, 2009. Pursuant to the terms of the lease agreement, the Company was granted, among other things, (i) a right of first refusal to purchase the property, of which the leased space is a part, during the lease term and (ii) a right to terminate the lease agreement anytime after the end of the fifth year by giving the landlord 180 day prior written notice to terminate. Assuming the operating lease agreement is not terminated, future minimum rental commitments, excluding certain taxes and utilities as defined, are:

1999	\$ 73
2000	97
2001	97
2002	101
2003	105
Thereafter	607

	\$ 1,080
	=====

8. TENNESSEE FINANCING AGREEMENT

On July 8, 1998, the Company entered into certain financing agreements with the Industrial Development Board of the County of Montgomery, Tennessee, (the "Board") in connection with the Board's issuance to StarTek USA, Inc. of an Industrial Development Revenue Note, Series A not to exceed \$4,500 (the "Facility Note") and an Industrial Development Revenue Note, Series B not to exceed \$3,500 (the "Equipment Loan"). The Facility Note bears interest at 9% per annum commencing on October 1, 1998, payable quarterly and maturing on July 8, 2008. Concurrently, the Company advanced \$3,575 in exchange for the Facility Note and entered into a lease agreement, maturing July 8, 2008, with the Board for the use and acquisition of a 305,000 square-foot process management and distribution facility in Clarksville, Tennessee (the "Facility Lease"). The Facility Lease provides for the Company to pay to the Board lease payments sufficient to pay, when and as due, the principal of and interest on the Facility Note due to the Company from the Board. Pursuant to the provisions of the Facility Lease and upon the Company's payment of the Facility Lease in full, the Company shall have the option to purchase the 305,000 square-foot, Clarksville, Tennessee facility for a lump sum payment of one hundred dollars. The Equipment Loan generally contains the same provisions as the Facility Note and provides for an equipment lease, except the Equipment Loan and equipment lease mature on January 1, 2004. As of December 31, 1998, the Company had used approximately \$3,900 and \$1,174 of the Facility Note and Equipment Loan, respectively, and correspondingly entered into further lease arrangements with the Board.

All transactions related to the purchase of the notes by the Company from the Board and the lease arrangements from the Board to the Company have been offset against each other, and accordingly have no impact on the consolidated balance sheets. The assets acquired are included in property, plant and equipment. Similarly, the interest income and interest expense related to the notes and lease arrangements, respectively, have also been offset. The lease payments are equal to the amount of principal and interest payments on the notes, and accordingly have no impact on the consolidated statements of operations.

STARTEK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

9. LONG-TERM DEBT

	DECEMBER 31	
	1997	1998
Economic development loan	\$ 200	\$ 200
Promissory note with waiver provisions	261	238
Unsecured loan	--	100
Equipment loan	--	3,564
	461	4,102
Less current portion of long-term debt	(26)	(906)
Long-term debt, less current portion	\$ 435	\$ 3,196

In December 1996, the Company received a \$200 economic development loan which bears interest at 6% per annum and is collateralized by certain equipment. Interest payments are due quarterly on the remaining unpaid principal balance and, beginning January 1, 1999 continuing through January 1, 2001, principal payments of \$30 are due semi-annually. A final principal payment of \$50 is due on July 1, 2001.

In December 1997, the Company acquired land for \$261 and financed the purchase through a non-interest bearing ten-year promissory note. The principal balance of the note declines on an equal basis, without payment, over ten years so long as the Company does not sell or transfer the parcel or fail to continuously operate a customer support service center thereon.

On August 15, 1998, the Company received a \$100 unsecured loan maturing on January 2, 2000, which provides for interest at a fixed annual rate of 6.5%. The \$100 loan balance, including all accrued interest, is due and payable on January 2, 2000.

On October 26, 1998, the Company entered into an equipment loan agreement with a finance company, which matures on November 2, 2002. In connection with the equipment loan, the Company received cash of \$3,629 in exchange for providing, among other things, certain collateral which generally consisted of equipment, furniture and fixtures used in the Company's business. The equipment loan provides for interest at a fixed annual interest rate of 7.00% and for the Company to pay forty-eight equal monthly installments of \$87, the first of which was due and paid in December 1998. In addition to the collateral described above, the Company granted to the finance company a secondary security interest in certain of its wholly-owned subsidiaries' accounts receivable. During the year ended December 31, 1998, interest expense incurred on the equipment loan was \$21.

Future scheduled annual principal payments of long-term debt, including amounts related to the \$261 promissory note with waiver provisions, as of December 31, 1998 are:

1999	\$ 906
2000	1,068
2001	1,048

2002	950
2003	26
Thereafter	104

	\$ 4,102
	=====

STARTEK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

10. INCOME TAXES

The Company was taxed as an S corporation for federal and state income tax purposes from July 1, 1992 through June 17, 1997, when S corporation status was terminated in contemplation of the Company's initial public offering. Since June 18, 1997, the Company has been taxable as a C corporation and income taxes have been accrued since that date. The Company is subject to foreign income taxes on certain of its operations. Pretax income from the taxable period June 18, 1997, through December 31, 1997 was \$6,818, of which \$6,143 and \$675 were attributable to domestic and foreign operations, respectively.

The significant components of the provision for income taxes for the period June 18, 1997 through December 31, 1997 and for the year ended December 31, 1998 are:

	1997	1998
	-----	-----
Current:		
Federal	\$ 2,211	\$ 5,311
Foreign	9	123
State	99	249
	-----	-----
Total current	2,319	5,683
Deferred:		
Federal	(181)	(678)
State	(28)	(104)
	-----	-----
Total deferred	(209)	(782)
	-----	-----
Total income tax expense	\$ 2,110	\$ 4,901
	=====	=====

The significant components of deferred tax assets, which required no valuation allowance, and deferred tax liabilities included in the accompanying balance sheets as of December 31 are:

	1997	1998
	-----	-----
Deferred tax assets:		
Bad debt allowance	\$ 143	\$ 161
Vacation accrual	92	233
Accrued expenses	108	280
Other	97	461
	-----	-----

Total deferred tax assets		
	440	1,135
Long-term deferred tax liabilities:		
Tax depreciation in excess of book	(231)	(49)
Other	--	(95)
	-----	-----
Total long-term deferred tax liabilities	(231)	(144)
	-----	-----
Net deferred tax assets	\$ 209	\$ 991
	=====	=====

The differences between the U.S. federal statutory income tax rate and the Company's effective tax rate for the period June 18, 1997 through December 31, 1997 and for the year ended December 31, 1998 are:

	1997	1998
	-----	-----
Tax at U.S. statutory rates	34.0%	35.0%
State income taxes, net of federal tax benefit	3.3	3.2
One-time credit to record deferred tax asset upon termination of S corporation status	(4.4)	--
Other, net	(2.0)	(1.7)
	-----	-----
	30.9%	36.5%
	=====	=====

11. NET INTEREST INCOME (EXPENSE) AND OTHER

	YEAR ENDED DECEMBER 31		
	1996	1997	1998
	-----	-----	-----
Interest income	\$ 18	\$ 1,229	\$ 2,122
Interest expense	\$ (443)	\$ (373)	\$ (58)
Other income and expense	53	77	190
	=====	=====	=====
Net interest income (expense) and other	\$ (372)	\$ 933	\$ 2,254
	=====	=====	=====

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STARTEK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

12. STOCKHOLDERS' EQUITY

Immediately prior to the closing of the Company's initial public offering in June 1997, the Company declared a 322.1064-for-one stock split of the Company's common stock. All references in the notes to the consolidated financial statements to shares and related prices in per share calculations, per share amounts and stock option plan data have been restated to reflect the split.

Immediately prior to closing the offering, the Company also declared an \$8,000 dividend approximating the additional paid-in capital and retained

earning of the Company as of the closing date, payable to the principal stockholders (the "Principal Stockholders") pursuant to certain promissory notes. The promissory notes payable to the Principal Stockholders were paid from net proceeds of the Company's initial public offering.

The common stock and additional paid-in capital as of December 31, 1997 and 1998 are:

Preferred stock-undesignated; 15,000,000 shares, \$.01 par value, authorized; no shares outstanding	\$ --
Common stock; 95,000,000 shares, \$.01 par value, authorized; 13,828,571 shares outstanding	138
Additional paid-in capital	41,661

	\$ 41,799
	=====

13. STOCK OPTIONS

1987 Stock Option Plan

Effective July 24, 1987, the stockholders of StarTek USA, Inc. approved a Stock Option Plan ("Plan"), which provided for the grant of stock options, stock appreciation rights ("SARs") and supplemental bonuses to key employees. The stock options were intended to qualify as "incentive stock options" as defined in Section 422A of the Internal Revenue Code unless specifically designated as "nonstatutory stock options."

The options granted under the Plan could be exercised for a period of not more than 10 years and one month from the date of grant, or any shorter period as determined by StarTek USA, Inc.'s Board of Directors. The option price of any incentive stock option would be equal to or exceed the fair market value per share on the date of grant, or 110% of the fair market value per share in case of a 10% or greater stockholder. Options generally vested ratably over a five-year period from the date of grant. Unexercised vested options remained exercisable for three calendar months from the date of termination of employment.

During 1995, StarTek USA, Inc.'s Board of Directors accelerated the vesting on all outstanding options under the Plan to allow the holders to exercise any granted options. Subsequently, all outstanding options were exercised. In aggregate, the option holders paid \$18 in cash and delivered a note of \$213 bearing interest at 4.63% to StarTek USA, Inc. in exchange for shares of common stock. This note was secured by 288,607 shares of StarTek USA, Inc. common stock. On January 22, 1997, the note and all accrued interest thereon was repaid in full. Options for 2,124,936 shares of common stock were available for grant at the end of 1996.

The Plan was terminated effective January 24, 1997.

STARTEK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

13. STOCK OPTIONS (CONTINUED)

1997 Stock Option Plan

On February 13, 1997, the Company's Board of Directors approved the StarTek, Inc. Stock Option Plan (the "Option Plan") and, on January 27, 1997, the Director Stock Option Plan (the "Director Option Plan").

The Option Plan was established to provide stock options, SARs and incentive stock options (cumulatively referred to as the "Options") to key

employees, directors (other than non-employee directors), consultants, and other independent contractors. The Option Plan provides for the Options to be granted for a maximum of 985,000 shares of common stock, which are to be awarded by determination of committee of non-employee directors. Unless otherwise determined by the committee, all of the 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 the termination of employment of the participant as outlined by the Option Plan, (iii) six months after the participant's death, or (iv) immediately upon termination for "cause".

The Director Option Plan was established to provide stock options to non-employee directors who are elected to serve on the Company's board of directors and serve continuously from the commencement of their term (the "Participants"). The Director Option Plan provides for stock options to be granted for a maximum of 90,000 shares of common stock. Participants were automatically granted options to acquire 10,000 shares of common stock upon the closing of the Company's June 1997 initial public offering. Additionally, each Participant will be automatically granted options to acquire 3,000 shares of common stock on the date of each annual meeting of stockholders thereafter at which such Participant is reelected to serve on the Company's board of directors. All options granted under the Director Option Plan fully vest upon grant and expire at the earlier of (i) the date of the Participant's membership on the Company's board of directors is terminated for cause, (ii) ten years from the option grant date, or (iii) one year after the Participant's death.

The following is a summary of stock option activity during 1997 and 1998:

	1997	1998
Outstanding as of beginning of year	--	611,500
Granted	618,500	36,200
Exercised	--	--
Canceled	(7,000)	(33,900)
	-----	-----
Outstanding as of end of year	611,500	613,800
	=====	=====
Exercisable as of end of year	20,000	140,200

There was no stock option activity during 1996. As of December 31, 1997, exercise prices for options issued and outstanding were \$15.00, except for 8,000 options, which were priced at \$13.06.

As of December 31, 1998, the exercise price for options outstanding, each of which is exercisable on a basis of one option for one share of the Company's common stock, was \$15.00 for 583,000 options, \$13.06 for 8,000 options, \$12.69 for 6,000 options, \$12.25 for 7,600 options and \$10.38 for 9,200 options. As of December 31, 1998, there were 132,600 fully vested options exercisable at \$15.00 per share, 1,600 fully vested options exercisable at \$13.06 per share and 6,000 fully vested options exercisable at \$12.69 per share. Options for 397,200 and 64,000 shares of the Company's common stock were available for future grant as of December 31, 1998 under the Option Plan and Director Option Plan, respectively.

STARTEK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

13. STOCK OPTIONS (CONTINUED)

The Company elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25") and related interpretations

in accounting for its stock options. Under APB 25, because the exercise price of the Company's stock options equals the market price of the underlying stock on the date of grant, no compensation expense has been recognized. Pro forma information regarding net income and net income per share is required by Statement 123, Accounting For Stock Based Compensation, and has been determined as if the Company had accounted for its stock options under the fair value method as provided for by Statement 123. The fair value for options granted during 1997 was estimated as of the date of grant using a Black-Scholes option pricing model assuming a 6% risk-free interest rate, a seven year life for the options, a 30% expected volatility and no dividends. The fair value for options granted during 1998 was also estimated as of the date of grant using a Black-Scholes option pricing model assuming a 5.5% risk-free interest rate, a seven year life for the options, a 55.1% expected volatility and no dividends. The weighted average grant date fair market value of options granted during 1997 and 1998 was approximately \$7 per share. Had this method been used in the determination of pro forma net income for 1997, pro forma net income would have decreased by \$367 and pro forma basic and diluted net income per share would have decreased by \$0.03. Similarly, had this method been used in the determination of net income for 1998, net income would have decreased by \$559 and basic and diluted net income per share would have decreased by \$0.04.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

14. GEOGRAPHIC AREA INFORMATION

The Company, operating in a single industry segment, provides a variety of integrated outsourcing services to other businesses throughout the world. As of and for the years ended December 31, 1996 and 1997, the Company's operations in Asia, and the Company's long-lived assets located in Europe and Asia as of December 31, 1996, 1997, and 1998, were not material and have been combined with North America in the following table. The Company's North America operations are located in the United States of America. The Company's Europe operations are located in the United Kingdom. The Company's Asia operations are located in Singapore. Revenues, operating profit and identifiable assets, classified by the major geographic areas in which the Company operates, are:

	NORTH AMERICA	EUROPE	ASIA	ELIMINATIONS	TOTAL

YEAR ENDED DECEMBER 31, 1996					
Revenues	\$ 59,563	\$ 12,021	\$ --	\$ --	\$ 71,584
Operating profit	377	33	--	--	410
Identifiable assets	\$ 21,236	\$ 3,459	\$ --	\$ (1,716)	\$ 22,979
YEAR ENDED DECEMBER 31, 1997					
Revenues	\$ 79,011	\$ 10,139	\$ --	\$ --	\$ 89,150
Operating profit	4,587	748	--	--	5,335
Identifiable assets	\$ 55,072	\$ 4,123	\$ --	\$ (1,023)	\$ 58,172
YEAR ENDED DECEMBER 31, 1998					
Revenues	\$ 121,374	\$ 8,317	\$ 11,293	\$ --	\$ 140,984
Operating profit	10,279	330	582	--	11,191
Identifiable assets	\$ 76,385	\$ 2,861	\$ 1,075	\$ (120)	\$ 80,201

15. PRINCIPAL CLIENTS

Two clients accounted for 38.4% and 33.4% of revenues for the year ended December 31, 1996. Two clients accounted for 56.3% and 25.4% of revenues for the year ended December 31, 1997. One client accounted for 72.5% of revenues for the year ended December 31, 1998.

The loss of its principal client(s) could have a material adverse effect on the Company's business, operating results or financial condition. To limit the Company's credit risk, management performs ongoing credit evaluations of its clients and maintains allowances for potentially uncollectible accounts. Although the Company is directly impacted by economic conditions in which its clients operate, management does not believe substantial credit risk exists as of December 31, 1998.

STARTEK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

16. QUARTERLY DATA (UNAUDITED)

	1997 QUARTERS ENDED			
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
Historical:				
Revenues	\$ 16,667	\$ 16,067	\$ 20,226	\$ 36,190
Gross profit	3,935	3,526	3,920	5,783
Selling, general and administrative expenses	2,164	1,952	2,135	2,452
Management fee expense	793	2,333		
Operating profit (loss)	978	(760)	1,785	3,332
Net income (loss)	894	(642)	1,454	2,452
Net income per share			0.11	0.18
Weighted average shares outstanding			13,828,571	13,828,571
Pro Forma (a):				
Revenues	\$ 16,667	\$ 16,067		
Gross profit	3,935	3,526		
Selling, general and administrative expenses	2,164	1,952		
Management fee expense	--	--		
Operating profit	1,771	1,574		
Net income	1,058	925		
Basic and diluted net income per share	0.09	0.08		
Weighted average shares outstanding	11,361,904	11,551,647		
Weighted Average Shares Outstanding :				
Shares outstanding after giving effect to 322.1064-for-one stock split effected by a stock dividend	10,828,571	10,828,571	10,828,571	10,828,571
Shares deemed outstanding prior to closing of initial public offering, representing the number of shares (at an initial public offering price of \$15.00 per share) sufficient to fund payment of \$8,000 note payable to principal stockholders	533,333	492,307	--	--
3,000,000 shares issued in connection with initial public offering in June 1997, for days outstanding in the respective periods	--	230,769	3,000,000	3,000,000
Weighted average shares outstanding	11,361,904	11,551,647	13,828,571	13,828,571

	1998 QUARTERS ENDED			
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
Revenues	\$ 24,321	\$ 24,692	\$ 31,617	\$ 60,354
Gross profit	4,564	4,684	5,821	10,836
Selling, general and administrative expenses	2,732	3,285	3,483	5,214
Operating profit	1,832	1,399	2,338	5,622
Net income	1,512	1,338	1,787	3,907
Basic and diluted net income per share	0.11	0.10	0.13	0.28
Weighted average shares outstanding	13,828,571	13,828,571	13,828,571	13,828,571

(a) From July 1, 1992 and until the June 1997 initial public offering, the Company was an S corporation and, accordingly, was not subject to federal or state income taxes. Subsequent to the initial public offering, the Company has been subject to income taxation as a C corporation. Pro forma net income for quarters through June 30, 1997 (i) reflects the elimination of management fee expense and (ii) includes a provision for federal, state and foreign income taxes at an effective rate of 37.3%. Management fee expense was discontinued with the initial public offering in June 1997.

STARTEK, INC.
INDEX OF EXHIBITS

Exhibits

-
- 3.1 Restated Certificate of Incorporation of the Company (incorporated by reference from Form S-1 Registration Statement filed with the Securities and Exchange Commission on January 29, 1997).
- 3.2 Restated Bylaws of the Company (incorporated by reference from Form S-1 Registration Statement filed with the Securities and Exchange Commission on January 29, 1997).
- 4.1 Specimen Common Stock certificate (incorporated by reference from 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 by reference from 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 by reference from 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 by reference from Form S-1 Registration Statement filed with the Securities and Exchange Commission on January 29, 1997).
- 10.4 Lease by and between East Mercia Developments Limited and StarTek Europe, Ltd. and StarTek USA Inc. (formerly named StarPak International, Ltd. and StarPak, Inc., respectively) (incorporated by reference from Form S-1 Registration Statement filed with the Securities and Exchange Commission on January 29, 1997).
- 10.5 Promissory Note of StarTek USA, Inc. (formerly named StarPak, Inc.) dated December 29, 1995 in the principal amount of \$1,111,844.17 payable to the order of General Communications, Inc. (incorporated by reference from Form S-1 Registration Statement filed with the Securities and Exchange Commission on January 29, 1997).
- 10.6 HP Purchase Agreement dated September 1, 1995 by and between Hewlett-Packard Company, StarTek USA, Inc. and StarTek Europe, Ltd. (formerly named StarPak, Inc. and StarPak International, Ltd., respectively) (incorporated by reference from Amendment No. 3 to Form S-1 Registration Statement filed with the Securities and Exchange Commission on March 26, 1997).
- 10.7 Microsoft Supply, Manufacturing and Services Agreement dated March 28, 1996 by and between Microsoft Corporation and StarTek USA, Inc. (formerly named StarPak, Inc.). (incorporated by reference from Amendment No. 3 to Form S-1 Registration Statement filed with the Securities and Exchange Commission on March 26, 1997).
- 10.8 Equipment Lease (Schedule No. 01) between Varilease Corporation, as Lessor, and StarTek USA, Inc. (formerly StarPak, Inc.), as Lessee, dated March 7, 1997 (incorporated by reference from Amendment No. 4 to Form S-1 Registration Statement filed with the Securities and Exchange Commission on May 23, 1997).
- 10.9 Equipment Lease (Schedule No. 2) between Varilease Corporation, as Lessor, and StarTek USA, Inc. (formerly StarPak, Inc.), as Lessee, dated April 15th, 1997 (incorporated by reference from Amendment

No. 4 to Form S-1 Registration Statement filed with the Securities and Exchange Commission on May 23, 1997).

- 10.10 Loan Agreement, dated November 6, 1997, between StarTek, Inc. (the "Borrower") and Norwest Bank Colorado, National Association (the "Bank") and 360 Day Promissory Note dated November 6, 1997, payable by the Borrower to the Bank (incorporated by reference from Form 10-Q Quarterly Report filed with the Securities and Exchange Commission on November 13, 1997).
- 10.11 Amendment dated September 30, 1997 to HP Purchase Agreement dated September 1, 1995 by and between Hewlett-Packard Company, StarTek USA, Inc. and StarTek Europe, Ltd. (formerly named StarPak, Inc. and StarPak International, Ltd., respectively) (incorporated by reference from Form 10-Q Quarterly Report filed with the Securities and Exchange Commission on November 13, 1997).
- 10.12 Standard Form of Agreement Between Owner (StarTek USA, Inc.) and Contractor (Landmark Builders of Greeley, Inc.) dated December 1, 1997 (incorporated by reference from Form 10-K Annual Report filed with the Securities and Exchange Commission on March 31, 1998).
- 10.13 HP Master Agreement Technical Support Services dated January 7, 1998 by and between Hewlett Packard Company and StarTek USA, Inc. (incorporated by reference from Form 10-K Annual Report filed with the Securities and Exchange Commission on March 31, 1998).
- 10.14 Facility lease agreement dated as of July 8, 1998 between StarTek USA, Inc. (a wholly-owned subsidiary of the Company) and the Industrial Development Board of the County of Montgomery, Tennessee and Industrial Development Revenue Note, Series A dated as of July 8, 1998 and issued by the Industrial Development Board of the County of Montgomery, Tennessee (incorporated by reference from Form 10-Q Quarterly Report filed with the Securities and Exchange Commission on August 14, 1998).

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- 10.15 Microsoft Corporation Manufacturing Agreement between StarTek, Inc. and Microsoft Corporation dated as of January 1, 1998 (incorporated by reference from Form 10-Q Quarterly Report filed with the Securities and Exchange Commission on November 13, 1998).
- *10.16 Equipment lease agreement dated as of July 8, 1998 between StarTek USA, Inc. (a wholly-owned subsidiary of the Company) and the Industrial Development Board of the County of Montgomery, Tennessee and Industrial Development Revenue Note, Series B dated as of July 8, 1998 and issued by the Industrial Development Board of the County of Montgomery, Tennessee.
- *21.2 Subsidiaries of the Registrant.
- *27.1 Financial Data Schedule.

* Filed with this Form 10-K.

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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/ Dennis M. Swenson

Dennis M. Swenson
Executive Vice President, Chief
Financial Officer, Secretary and Treasurer
Date: 3-31-99

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.

/s/ Michael W. Morgan

Michael W. Morgan
President, Chief Executive Officer and Director
(Principal Executive Officer)
Date: 3-31-99

/s/ Dennis M. Swenson

Dennis M. Swenson
Executive Vice President and Chief
Financial Officer (Principal Financial and Accounting Officer)
Date: 3-31-99

/s/ E. Preston Sumner, Jr.

E. Preston Sumner, Jr.
Executive Vice President and Chief Operating Officer
Date: 3-31-99

/s/ A. Emmet Stephenson, Jr.

A. Emmet Stephenson, Jr.
Chairman of the Board
Date: 3-31-99

/s/ Thomas O. Ryder

Thomas O. Ryder
Director
Date: 3-31-99

/s/ Ed Zschau

Ed Zschau
Director
Date: 3-31-99

THE INDUSTRIAL DEVELOPMENT BOARD OF
THE COUNTY OF MONTGOMERY, TENNESSEE

and

STARTEK USA, INC.

EQUIPMENT LEASE AGREEMENT

DATED AS OF JULY 8, 1998

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EQUIPMENT LEASE AGREEMENT

THIS EQUIPMENT LEASE AGREEMENT, dated as of July 8, 1998, by and between THE INDUSTRIAL DEVELOPMENT BOARD OF THE COUNTY OF MONTGOMERY, TENNESSEE (the "Issuer"), a public, nonprofit corporation organized and existing under the laws of the State of Tennessee, and STARTEK USA, INC., a Colorado corporation (the "Company") (the Issuer and the Company being herein called, collectively, the "Parties").

WITNESSETH:

WHEREAS, the Issuer is a public, nonprofit corporation and a public instrumentality of the County of Montgomery, Tennessee and is authorized under Chapter 53, Title 7, Tennessee Code Annotated, as amended (the "Act"), to enter into lease agreements with manufacturing, industrial, commercial, and financial enterprises with respect to one or more projects for such payments and upon such terms and conditions as the Board of Directors of the Issuer may deem advisable in accordance with the provisions of the Act in order to maintain and increase employment opportunities by inducing such enterprises to locate in or to remain in the State of Tennessee (the "State");

WHEREAS, to induce the Company to locate a manufacturing facility in the County of Montgomery, Tennessee, the Company was informed that the Issuer would undertake to cause the Company to acquire additional land for and renovate a certain manufacturing facility on certain land owned by the Issuer (the land and building being referred to as the "Facility"), and to cause the Company to

equip said Facility with such furniture, fixtures and equipment as it needed or desired for its operations (the "Equipment"), in Montgomery County, Tennessee, which Facility is to be owned by the Issuer and leased by the Issuer to the Company, and which Equipment is to be owned by the Issuer and leased by the Issuer to the Company, and the Issuer now proposes to acquire the Equipment and to lease the same to the Company, pursuant hereto, and to cause the Facility to be renovated and to lease the same to the Company, pursuant to a certain Facility Lease Agreement (the "Facility Lease"); and

WHEREAS, the Board of Directors of the Issuer, pursuant to Section 7-53-102 of the Act, has found and determined that the agreement by the Issuer to acquire, equip and lease such manufacturing facility will develop trade and commerce in and adjacent to the County of Montgomery, Tennessee, will contribute to the general welfare, will alleviate conditions of unemployment and, has induced the Developer to locate in and will induce the Company to locate in Montgomery County, Tennessee;

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WHEREAS, the Issuer has not made and does not intend to make any profit by reason of its business or venture in which it may engage or by reason of its entering into this Lease, and no part of the Issuer's net earnings, if any, will ever inure to the benefit of any person, firm or corporation except the County of Montgomery, Tennessee; and,

WHEREAS, the Issuer is authorized by law and has deemed it necessary to borrow money for the purpose of acquiring the Facility and to that end has duly authorized and directed the issuance of its not exceeding Four Million Five Hundred Thousand and No/100 Dollars (\$4,500,000.00) Industrial Development Revenue Note, Series A (StarTek USA Project) (the "Series A Note"); and

WHEREAS, the Issuer has executed a certain Collateral Assignment of Facility Lease (the "Assignment of Facility Lease") and a certain Deed of Trust, Assignment of Leases and Security Agreement (Facility) (the "Facility Deed of Trust") to secure, inter alia, the loan of the indebtedness (the "Facility Loan") evidenced by the Series A Note; and

WHEREAS, the Issuer is authorized by law and has deemed it necessary to borrow money for the purpose of acquiring the Equipment and to that end has duly authorized and directed the issuance of its not exceeding Three Million Five Hundred Thousand and No/100 Dollars (\$3,500,000.00) Industrial Development Revenue Note, Series B (StarTek USA Project) (the "Series B Note"); and

WHEREAS, the Issuer has executed a certain Collateral Assignment of Equipment Lease (the "Assignment of Equipment Lease") and a certain Security Agreement (the "Security Agreement") to secure, inter alia, the loan of the indebtedness (the "Equipment Loan") evidenced by the Series B Note; and

WHEREAS, the Issuer is authorized by law and has deemed it necessary to acquire and renovate the Facility and acquire the Equipment (the Facility and the Equipment being sometimes referred to as the "Project") as aforesaid, which acquisition of the Facility has occurred of even date herewith; and

WHEREAS, the Issuer proposes to lease the Equipment to the Company and the Company desires to lease the Equipment from the Issuer upon the terms and conditions set forth herein.

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants hereinafter contained, the parties hereto agree as follows:

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ARTICLE I
DEFINITIONS

Section I.1. Definitions of Terms. In addition to the words and terms defined in the preamble hereto and elsewhere defined in this Lease, the following words and terms as used herein, whether or not the words have initial capitals, shall have the following meaning, unless the context or use indicates another or different meaning or intent, and such definitions shall be equally applicable to both the singular and plural forms of any of the words and terms herein defined:

"Act" means Chapter 53, Title 7, Tennessee Code Annotated, as amended and supplemented from time to time.

"Additional Rental Payments" means that portion of the Rental Payments described in Section 5.2(b) of this Lease.

"Authorized Representative" means, in the case of the Issuer, the Chairman, the Vice Chairman, the Secretary or any Assistant Secretary of the Issuer; in the case of the Company, the President, any Vice President, the Secretary or the Treasurer; and, in the case of any of them, such additional persons as, at the time, are designated to act on behalf of the Issuer, or the Company, as the case may be, by written certificate furnished to the Issuer or the Company as the case may be, containing the specimen signature of each such person and signed on its behalf by a previously Authorized Representative.

"Basic Rental Payments" means that portion of the Rental Payments described in Section 5.2(a) of this Lease.

"Building" means all buildings, structures, improvements, and fixtures located on the Land, the acquisition of which is financed with the proceeds of the Facility Loan, but not with the proceeds of the Equipment Loan.

"Company" means (a) StarTek USA, Inc., a Colorado corporation, (b) any successors and assigns of such corporation, and (c) any surviving, resulting or transferee as permitted herein.

"Condemnation" means the taking of title to, or the use of, the Facility or the Equipment under the exercise of the power of eminent domain by any governmental entity or any other person acting under governmental authority.

"Costs of the Project" means all of those costs and expenses enumerated in Section 4.3 hereof.

"Equipment" means those items of furniture, fixtures and equipment and related property acquired by the Issuer with the proceeds of the Series B Note, and any equipment acquired in substitution therefor and any renewals or replacements thereof pursuant hereto.

"Equipment Loan Documents" means, collectively, the Series B Note, the Assignment of Equipment Lease, and the Security Agreement.

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"Event of Default" or "Default" means any of those events defined as Events of Default by Section 10.1 of this Lease.

"Facility" means, collectively, the Land and Building.

"Facility Lender" means StarTek USA, Inc., or any subsequent owner of the Series A Note.

"Facility Loan Documents" means, collectively, the Series A Note, the Assignment of Facility Lease, and the Facility Deed of Trust.

"Fiscal Year" means the fiscal year, as such from time to time exists, of the Company.

"Independent Counsel" means an attorney or attorneys duly admitted to practice law before the highest court of any state of the United States of America or the District of Columbia, and shall include counsel for the Issuer and counsel for the Company.

"Issuer" means The Industrial Development Board of the County of

Montgomery, Tennessee, and its lawful successors and assigns.

"Land" means the real estate and interests in real estate described in Exhibit "A" hereto annexed and by this reference made a part hereof, less such real estate and interest in real estate as may be taken by the exercise of the power of eminent domain as provided in Article VII of the Facility Lease and less such real estate and interest in real estate as may be sold to the Company pursuant to Article XI of this Lease.

"Lease" means this Equipment Lease Agreement, as from time to time supplemented or amended.

"Lender" means StarTek USA, Inc., or any subsequent owner of the Series B Note.

"Lien" means any interest in Property securing an obligation owed to anyone, whether such interest is based on the common law, statute, or contract, and including, but not limited to, the security interest arising from a mortgage, encumbrance, pledge, conditional sale, trust receipt, lease, consignment, or bailment for security purposes. The term "Lien" also includes reservations, exceptions, encroachments, easements, rights of way, covenants, conditions, restrictions, leases, and other similar title exceptions and encumbrances, including, but not limited to, mechanics', materialmen's, warehousemen's, carriers', and other similar encumbrances affecting real property. For the purposes of this Lease, one shall be deemed to be the owner of any Property which he, she, or it has acquired or holds subject to a conditional sale agreement or other arrangement pursuant to which title to the Property has been retained by or vested in someone else for security purposes.

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"Loan" means, collectively, the Facility Loan and the Equipment Loan.

"Loan Documents" means, collectively, the Facility Loan Documents and the Equipment Loan Documents.

"Loan Payment Date" means each date on which interest, principal, if any, or any of the foregoing, shall be payable on the Equipment Loan.

"Net Proceeds" means so much of the gross proceeds with respect to which that term is used as remains after payment of all expenses, costs, and taxes, including reasonable attorney's fees and extraordinary expenses, incurred in obtaining such gross proceeds.

"Permitted Encumbrances" means: (a) any Liens of record; (b) mechanics', materialmen's, warehousemen's, carriers', and other similar Liens to the extent permitted by Section 8.7 of this Lease; and, (c) Liens for taxes at the time not delinquent.

"Project" means collectively: (a) the Facility and (b) the Equipment.

"Property" means any interest in any kind of property or assets, whether real, personal, or mixed, tangible or intangible.

"Rental Payments" means, collectively, the Basic Rental Payments and the Additional Rental Payments, as described in Section 5.2 of this Lease.

"State" means the State of Tennessee.

"Substitute Facilities" means such facilities as defined in Section 7.2(a) of this Lease.

"Term" means the term of this Lease as specified in Section 3.3 hereof.

Section I.2. References to Lease. The words "hereof," "herein," "hereunder," and other words of similar import refer to this Lease as a whole.

Section I.3. References to Articles, Sections, Etc. References to Articles, Sections, and other subdivisions of this Lease are to the designated Articles, Sections, and other subdivisions of this Lease as originally executed.

Section I.4. Headings. The headings of this Lease are for convenience only and shall not define or limit the provisions hereof.

(END OF ARTICLE I)

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ARTICLE II

REPRESENTATIONS, WARRANTIES, AND COVENANTS

Section II.1. Representations, Warranties, and Covenants of the Issuer. The Issuer hereby represents, warrants, and covenants as follows as the basis for the undertakings on its part herein contained:

(a) That the Issuer: (1) was legally created and exists under the provisions of the Act; (2) has the power under the provisions of the Act to enter into the transactions contemplated by this Lease and to carry out its obligations hereunder; and, (3) has been duly authorized, by proper action, to execute, deliver and perform this Lease and the Loan Documents;

(b) That the Project constitutes a "project" within the meaning of the Act, and that the Issuer is entering into the Loan Documents to aid in the financing of the Project to accomplish the public purposes of the Act;

(c) That the Issuer will finance the costs incurred in the acquisition of the Project in accordance with the terms and provisions hereof and of the Facility Lease, in order to induce and cause the Company to provide a manufacturing facility in Montgomery County, Tennessee, such facility upon its completion, to be leased to or occupied by (i) industrial, commercial, financial or service enterprises; (ii) nonprofit domestic corporations or enterprises whose purpose is the promotion, support and encouragement of either agriculture or commerce in the State or whose purpose is the promotion of the health, welfare and safety of the citizens of the State; or (iii) similar corporations or enterprises, thereby maintaining and increasing employment opportunities, and furthering the welfare of the residents of the County of Montgomery and of the State;

(d) That in order to finance the costs of the Project, the Issuer is entering into the Loan Documents;

(e) That to the Issuer's knowledge, the Project, as designed, complies with all presently applicable building and zoning ordinances;

(f) That the Issuer will not pledge the rentals and other amounts derived from the Project other than to secure the Loan and will not mortgage or encumber the Project;

(g) That nothing in this Lease shall be construed to require Issuer to operate the Project other than as lessor; and

(h) That all requirements of the Act have been complied with.

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Section II.2. Representations, Warranties, and Covenants of the Company. The Company hereby represents, warrants, and covenants as follows as the basis for the undertakings on its part herein contained:

(a) That the Company: (i) is a corporation duly organized and validly existing under the laws of the State of Colorado; (ii) has the power and authority to enter into this Lease; and (iii) has duly authorized the execution, delivery, and performance of this Lease; and

(b) That the execution and delivery of this Lease and the Equipment Loan Documents will be valid and binding on the Company and that neither the execution nor delivery of the foregoing documents, nor the consummation of the transactions contemplated thereby, nor the fulfillment of or compliance with the terms and conditions hereof or thereof, will conflict with or result in a breach of any of the terms, conditions, or provisions of any agreement or instrument to which the Company is now a party or by which it is bound, or constitute a default hereunder or under any of the foregoing, or result in the creation or imposition of any Lien upon any Property of the Company under the terms of any instrument or agreement, other than the respective Liens, if any, under the Loan Documents and under this Lease; and

(c) That throughout the Term, the Company will not take, permit to be taken, fail to take, or permit to fail to be taken, any action which would cause the Project not to constitute a "project" within the meaning of the Act; and

(d) That the financing by the Issuer of the costs of acquiring the Project will induce and cause the Company to provide said Project; and

(e) That all of the proceeds of the Equipment Loan will be used for the payment of the Costs of the Project; and

(f) That to the knowledge of the Company, the execution, delivery and performance in accordance with the respective terms of this Lease, the Loan Documents (as applicable) and any other documents executed and delivered in connection with this transaction do not and will not (i) violate any applicable law or (ii) conflict with, result in a breach of or constitute a default under any indenture, agreement or other instrument to which Company is a party or by which Company or any of the Company's properties may be bound; and

(g) That there is no action, suit, proceeding or, to the Company's knowledge, any inquiry or investigation at law or in equity or before or by any public board or body pending or, to the Company's knowledge, threatened against or affecting the Company or the Company's property, wherein an unfavorable decision, ruling or finding would have a material, adverse effect on the validity or enforceability of the Loan, this Lease, or the Loan Documents, which has not been previously disclosed.

(END OF ARTICLE II)

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ARTICLE III

DEMISING CLAUSE; TERM

Section III.1. Demise of Facility. The Issuer demises and leases to the Company, and the Company leases from the Issuer, the Equipment, subject only to Permitted Encumbrances, in accordance with the provisions of this Lease, to have and to hold for the Term.

Section III.2. Lease Term. The Term of this Lease shall commence as of the date hereof and shall terminate January 1, 2004, unless earlier terminated pursuant to the provisions of Article XI hereof; PROVIDED, HOWEVER, that in no event shall this Lease be terminated (except pursuant to Section 10.2(a)(4) hereof), but the Term hereof shall continue on a month-to-month basis, until: (a) the principal of the Loan and the interest thereon, shall have been paid in full or provisions made for such payment; (b) all liabilities, reasonable costs, and reasonable expenses of the Issuer, including those of its legal counsel, incurred pursuant to, or in connection with, this Lease shall have been fully

paid and discharged to the satisfaction of the Issuer; and, (c) all other reasonable liabilities, costs, and expenses which the Company herein assumes or agrees to pay shall have been fully paid or satisfactory provision made therefor.

(END OF ARTICLE III)

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ARTICLE IV

ACQUISITION OF THE EQUIPMENT

Section IV.1. Agreement to Equip the Project. The Issuer and the Company agree to take the following steps:

(a) The Company agrees that it shall commence or will continue if such work shall have theretofore commenced, the acquisition and installation, in or about the Building and wholly within the boundary lines of the Land, the Equipment on behalf of itself and the Issuer. Such installation shall be in a good and workmanlike manner. The Company shall have the sole responsibility for, and the Issuer hereby appoints the Company its agent with respect to, the acquisition and installation of the Equipment, and may perform the same itself or through agents, contractors and others selected by it, and may make or issue such contracts, orders, receipts and instructions, and in general do or cause to be done all such other things, as it may in its sole discretion consider requisite or advisable for the acquisition of the Equipment, installing the Equipment and fulfilling its obligations under this Section 4.1. The Company shall have full authority and the sole right under this Lease to supervise and control, directly or indirectly, all aspects of the acquisition and the installation of the Equipment.

(b) In order to effectuate the purposes of this Lease, as and when requested by the Company, the Issuer will make, execute, acknowledge and deliver any contracts, orders, receipts, writings and instructions with any other persons, firms or corporations and in general do all things which may be requisite or proper, all for equipping and completing the Project, and for evidencing the Issuer's ownership thereof.

(c) Disbursements of Loan proceeds shall be made to the Company by the Lender from time to time only upon receipt of a Requisition for Payment in the form attached hereto as Exhibit B.

Section IV.2. Issuance of Series B Note. In order to provide funds for the purpose of financing the cost of acquiring the Equipment, the Issuer has issued the Series B Note, and has entered into the other Equipment Loan Documents. The Issuer and the Company agree that the proceeds of the Equipment Loan shall be used to pay for Costs of the Project. It is agreed and understood that throughout the Term, the Equipment shall be owned by the Issuer, and leased to the Company pursuant to this Lease.

Section IV.3. Costs of the Project. The proceeds of the Equipment Loan shall be drawn by the Company on behalf of the Issuer to pay for Costs of the Project. For purposes of this Lease, "Costs of the Project" shall consist of all costs of acquiring, improving, and installing the Equipment as the same may be available therefor and financed pursuant to the Equipment Loan Documents, including, without limitation:

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(i) all costs of acquiring and installing the Equipment, including rigging, transportation, architectural, engineering, development, consulting, marketing and supervisory services with respect to acquisition and installation of the Equipment, and all other costs of providing the Equipment permissible under the Act, and capitalized interest heretofore accrued or paid in connection with the temporary financing of all or any part of the costs of any of the foregoing;

(ii) all fees, taxes, charges, and other expenses for recording or filing, as the case may be, the instrument or instruments conveying the Equipment to the Company, and reconveying the Equipment from the Company to the Issuer, this Lease, the Equipment Loan Documents or any additional documents, instruments or agreements relating thereto or to the Equipment Loan or this Lease;

(iii) all costs of entering into the Equipment Loan, including, but not limited to, all legal, accounting, feasibility study, financial advisory, legal investment, and any other fees, discounts, costs, and expenses incurred in connection with the preparation, reproduction, authorization, execution, and delivery of the Equipment Loan, Equipment Loan Documents, this Lease, and any and all additional documents, instruments or agreements related thereto;

(iv) reimbursement to the Company for any of the above enumerated items of cost or expense paid by it.

Nothing contained in this Lease, or in any related documents, shall impose upon the Issuer to see to the proper application of the proceeds of the Loan or any disbursement thereof.

Section IV.4. Company Required to Pay Project Costs in Event Loan Insufficient. If the moneys in the Equipment Loan available for payment of the Costs of the Project should not be sufficient to pay the costs thereof in full, the Company agrees to complete the equipping of the Project and to pay all that portion of the cost of the Project as may be in excess of the moneys available therefor in the Equipment Loan. The Issuer does not make any warranty, either express or implied, that the moneys under the Equipment Loan and which, under the provisions of this Lease, will be available for payment of the Costs of the Project, will be sufficient to pay all costs which will be incurred in that connection. The Company agrees that, if after exhaustion of the moneys in the Equipment Loan, the Company should pay any portion of the Costs of the Project pursuant to the provisions of this Section, it shall not be entitled to any reimbursement therefor from the Issuer, nor shall it be entitled to any diminution in or postponement of the payments required to be made hereunder.

Section IV.5. Payment of Expenses of Loan. The Company agrees to be liable and pay for recording expenses, reasonable legal fees, and other reasonable fees and expenses incurred or to be incurred by or on behalf of the Issuer in connection with or as an incident to the Equipment Loan or the Equipment Loan Documents.

Section IV.6. Other Amounts Payable by the Company. The Company agrees to pay all reasonable costs and expenses (including reasonable attorney's fees), not otherwise paid under the terms of this Lease reasonably incurred by the Issuer in connection with, or as a direct or indirect result of, or in connection with the administration or enforcement of, and compliance with, this Lease and the Equipment Loan, or otherwise in regard to the Equipment. The Company may, however, without creating a default hereunder, contest in good faith the necessity, and the reasonableness of, any costs, expenses, fees, amounts, liabilities and obligations referred to in this Section 4.6 and in Section 8.2 hereof.

ARTICLE V

RENTAL PROVISIONS; PREPAYMENT

Section V.1. Quiet Enjoyment. The Issuer hereby covenants and agrees that it will not take any action, other than pursuant to Section 8.4 or Article X of this Lease, to prevent the Company from having quiet and peaceable possession and enjoyment of the Project during the Term and will, at the request of the Company, and at the requesting person's cost, to the extent that it may lawfully do so, join in any legal action in which the Company asserts its right to such possession and enjoyment.

Section V.2. Rental Payments; Basic Rental Payments; and Additional Rental Payments. The Company covenants and agrees to pay, or cause to be paid, as and for rental and for use of the Project, throughout the Term, the Basic Rental Payments and the Additional Rental Payments as provided in this Section, in funds which constitute lawful monies of the United States of America for the payment of public and private debts, as at the time of payment.

(a) Basic Rental Payments. The Company shall, throughout the Term, pay, or cause to be paid, as Basic Rental Payments, the following amounts:

(1) On or prior to any installment payment date for the Equipment Loan under the Series B Note, until the principal of, and interest on the Equipment Loan shall have been fully paid, a sum which will enable the Issuer to pay the amount payable on such date as principal of (whether at maturity, or upon acceleration or otherwise), and interest upon the Series B Note as provided in the Equipment Loan Documents.

(b) Additional Rental Payments. The Company shall from time to time pay, as Additional Rental Payments, within thirty (30) days of receipt of written demand therefor from the person entitled to payment thereof, an amount sufficient to pay the following costs and expenses to the extent such costs and expenses are not paid from the proceeds of the Equipment Loan:

(1) The reasonable fees and other costs incurred for services of such engineers, architects, attorneys, and independent accountants as are employed to make examinations, opinions, and reports required under, or contemplated by, this Lease;

(2) The reasonable fees and other costs, not otherwise paid under this Lease, incurred by the Issuer by reason of its leasing of the Project or in connection with its administration and enforcement of, and compliance with, this Lease, or otherwise in connection with the Project; and,

(3) All amounts advanced by the Issuer under authority of this Lease or otherwise and which the Company is obligated to repay.

The Issuer hereby directs the Company to make the Basic Rental Payments

to the Lender for payment of the Equipment Loan, and such payments shall be made in a timely manner so that the Issuer can comply with the provisions of the Equipment Loan Documents.

Payments of Additional Rental Payments shall be made by the Company directly to the persons entitled to such payment.

In the event the Company shall fail to make any payment required by this Section, the payment so in default shall continue as an obligation hereunder of the Company until the amount in default shall have been fully paid, and the Company shall pay, or cause to be paid, the same with interest thereon from the date of default until so paid at a rate per annum equal to twelve percent (12%) or the maximum rate of interest allowable by applicable law, whichever is less.

The Company shall make the payments required by this Section without any further notice thereof except as may be specifically required by this Section.

Section V.3. Credits Toward Basic Rental Payments. The following amounts shall be credited (to the extent, if any, which such amounts shall not have previously been the basis for such a credit) in the manner specified, against the Basic Rental Payments, and such Basic Rental Payments shall accordingly be reduced to the extent of any such credits:

(a) Any amounts paid as a prepayment of Basic Rental Payments pursuant to Section 5.5 hereof;

(b) Any other amounts paid to the Lender as a prepayment of Basic Rental Payments or the Equipment Loan pursuant to any provisions hereof or the terms thereof, including, but not necessarily limited to, Section 9.4 hereof.

Section V.4. General Obligation; Obligations of Company Unconditional. The Company shall pay to or upon the order of the Issuer, at or before the time when payable by the Issuer, all reasonable costs and liabilities incurred by the Issuer in connection with its financing of the Equipment, under the Equipment Documents, or otherwise as a result of the transactions contemplated by this Lease.

The obligations of the Company to make the payments required in Section 5.2 hereof, and to perform and observe any and all of the other covenants and agreements on its part contained herein, shall be a general obligation of the Company and shall be absolute and unconditional irrespective of any defense or any rights of setoff, recoupment, or counterclaim which the Company otherwise may have against the Issuer. The Company shall not: (a) suspend, discontinue, or abate any payment required by Section 5.2 hereof (except as provided in Section 5.3); (b) fail to observe any of its other covenants or agreements in this Lease or under the Equipment Loan Documents; or, (c) except as provided in Article XI hereof, terminate this Lease for any cause whatsoever, including, without limiting the generality of the foregoing, failure to complete the Project; failure of the Company to occupy or to use the Project as contemplated

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in this Lease or otherwise; any change or delay in the time of availability of the Project; any defect in the title, design, operation, merchantability, fitness, or condition of the Project or in the suitability of the Project for the purposes or needs of the Company; failure of consideration; eviction or constructive eviction; destruction of or damage to the Project; commercial frustration of purpose; the taking by Condemnation of title to or the use of all or any part of the Project; any change in the taxation or other laws of the United States of America or of the State or any political subdivision of either; any declaration or finding that any portion of this Lease is invalid or unenforceable; and, any failure of the Issuer, or the Lender to perform and observe any agreement, whether express or implied, or any duty, liability, or obligation arising out of or in connection with this Lease or otherwise.

Nothing contained in this Section shall be construed to release the Issuer from the performance of any of the agreements on its part contained in

this Lease, and in the event the Issuer should fail to perform any such agreement on its part, the Company may institute such action against the Issuer, as the Company may deem necessary to compel performance; provided, however, that anything contained herein to the contrary notwithstanding, no such action shall: (a) violate the agreements on the part of the Company contained in the second paragraph of this Section; (b) diminish the amounts required to be paid by the Company pursuant to any provision of this Lease; or (c) seek to impose or impose any pecuniary liability on the Issuer payable from any source other than as provided in the Loan Documents, or any personal or pecuniary liability on any officer or director of the Issuer. The Company may, at its own cost and expense, and in its own name or in the name of the Issuer, prosecute or defend any action or proceeding or take any action involving third persons which the Company deems reasonably necessary in order to secure or protect its right to possession, occupancy, and use of the Project, and in such event the Issuer shall, provided the Company shall pay, or cause to be paid, all costs (including attorneys' fees) reasonably incurred by the Issuer in connection therewith as such costs accrue, cooperate fully with the Company.

Section V.5. Prepayment of Rental Payments. (a) Basic Rental payments under Section 5.4(a)(1) may be prepaid in full or in part at any time without premium or penalty.

(b) The amount necessary to prepay the Rental Payments in full, or to provide for such full prepayment, shall be determined in accordance with the provisions of Section 11.2 or 11.5 of this Lease, as applicable.

Section V.6. Rights and Obligations of Company upon Full Prepayment of Rental Payments. In the event the Rental Payments shall have been prepaid in full, the Company shall have the option to purchase the Project in accordance with the provisions of Article XI hereof. If such option is not exercised, then (i) this Lease shall continue in accordance with its terms, and (ii) the Company shall have no further obligation to pay Basic Rental Payments during such paid up period of the Term hereof.

(END OF ARTICLE V)

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ARTICLE VI

MAINTENANCE, MODIFICATIONS, TAXES, AND INSURANCE

Section VI.1. Maintenance of the Equipment. Throughout the Term, the Company shall, at its own expense, keep and maintain the Equipment, or cause the Equipment to be kept and maintained, in good condition, repair, and working order (ordinary wear and tear excepted), making, or causing to be made, all repairs and replacements thereto (whether ordinary or extraordinary, structural or nonstructural, or foreseen or unforeseen), and operate the Equipment, or cause the Equipment to be operated, as deemed necessary and proper by the Company.

Section VI.2. Modification of the Equipment. (a) The Company, at its own cost and expense, may make such additions, renewals, replacements, or improvements to or alterations of the Project, or may construct or place on the Facility, such additional or renewal or replacement facilities, furnishings, or equipment, as the Company may deem desirable to attain the purposes herein contemplated, provided that such additions, renewals, replacements, improvements, alterations, facilities, furnishings, or equipment shall not impair the fair market value, structural soundness, or usefulness of the Facility.

(b) At the request of the Company, the Issuer shall join in any application for such municipal and other governmental permits and authorizations as the Company may deem necessary or advisable in connection with any such construction, acquisition or installation, provided that the Company shall indemnify and hold the Issuer harmless, or cause the Issuer to be indemnified and held harmless, against and from all costs and expenses, including attorneys' fees, which may be incurred by the Issuer in connection

with any such joinder or application.

Section VI.3. Improvements as Part of the Equipment. All improvements, fixtures, accessions and other Property which shall be placed, or installed in or upon the Equipment as a substitute for, or in renewal or replacement of, any improvements, fixtures, accessions, or other Property constituting part of the Equipment, shall become a part of the Equipment.

Section VI.4. Taxes, Assessments, and Utility Charges. (a) The Company shall pay, or cause to be paid, as the same shall respectively become due: (i) all taxes, in lieu of tax payments, regulatory fees, and governmental charges of any kind whatsoever, including ad valorem taxes, that may at any time be lawfully assessed or levied against or with respect to the Equipment and/or any furnishings, equipment, or other Property installed or brought by the Company or any other person, therein or thereon, excluding, however, any taxes levied upon or with respect to the income or revenues of the Issuer from the Equipment; (ii) all utility or other charges, including "service charges," incurred or imposed for the operation, maintenance, use, occupancy, upkeep, and improvement of the Equipment; and, (iii) all assessments and charges of any kind whatsoever lawfully made by any governmental body for public improvements which are in respect of the Equipment or any part thereof. It is acknowledged and agreed, however, that the Issuer and the Company do not expect or intend that any ad valorem taxes will be assessed against the Equipment during the Term.

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(b) The Company or any other person may, in good faith and at its own expense, contest any such taxes, in lieu of tax payments, assessments, and other charges, after giving notice of its intention to do so to the Issuer. In the event of any such contest, the Company or such other person, as applicable, may permit the taxes, assessments, or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom, unless the Issuer shall notify the Company or such other person, as applicable, that by nonpayment of any such items the Equipment, or any part thereof, may be imminently subject to loss or forfeiture, in which event such taxes, assessments, or charges shall be paid promptly or secured by posting a bond in form and substance satisfactory to the Issuer. The Issuer shall, if requested by the Company or such other person, as applicable, and provided that the Issuer shall be indemnified and held harmless against and from all costs and expenses (including attorneys' fees) which may be reasonably incurred by the Issuer in connection therewith, cooperate fully with the Company or such other person, as applicable, in any such contest.

Section VI.5. Insurance Required. (a) At all times throughout the Term, the Company shall maintain insurance against such risks and for such amounts as are customarily insured against by businesses of like size and type, paying, as the same become due and payable, all premiums in respect thereto, including but not necessarily limited to:

(i) fire insurance with Uniform Standard Extended Coverage Endorsements or equivalent coverage obtainable through Federal or State programs, and vandalism and malicious mischief insurance, as may be approved for issuance in the State, at all times in an amount equal to not less than 80% of the replacement cost of the Equipment;

(ii) comprehensive general liability insurance with minimum limits of \$500,000 for bodily injury, including death, and property damage arising from any one occurrence, and products liability insurance with minimum limits of \$1,000,000 per person and \$1,000,000 per occurrence; and

(iii) workers' compensation coverage and any other type of insurance required by the laws of the State.

Any of the insurance required above may provide deductible provisions in amounts not exceeding that in similar policies carried by businesses of a size and character similar to the Company, and the Company shall be a self-insurer to the extent of the amount of the deductible obtained.

(b) The Net Proceeds of the insurance carried pursuant to the provisions of this Section shall be paid and applied as provided by Section 6.7 hereof.

Section VI.6. Insurers and Policies. Each insurance policy required by Section 6.5 hereof shall be issued by a financially responsible insurer of recognized standing, legally authorized to provide the respective insurance in the State. Before the expiration of any such policy, the Company shall furnish the Issuer and the Lender evidence satisfactory to the Issuer and the

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Lender, that such policy has been renewed or replaced, or is no longer required by this Lease. Without limiting the generality of the foregoing, all insurance policies carried pursuant to Section 6.5 hereof shall name the Company, the Lender and the Issuer as parties insured thereunder as the respective interest of each of such parties may appear, and each policy shall provide that losses thereunder shall be adjusted by the Company, with the insurer on behalf of the insured parties.

Section VI.7. Application of Net Proceeds of Insurance. The Net Proceeds of the insurance carried pursuant to the provisions of Section 6.5 hereof shall be applied as follows:

(a) The Net Proceeds of the insurance carried pursuant to Sections 6.5(a) (i) hereof shall be applied as provided in Section 7.1 hereof; and

(b) The Net Proceeds of the insurance carried pursuant to Sections 6.5(a) (ii) and 6.5(a) (iii) hereof shall be applied toward extinguishment or satisfaction of the liability with respect to which such insurance proceeds may be paid.

Section VI.8. Advances by Issuer. (a) In the event the Company shall fail to pay, or fail to cause to be paid, any tax, assessment, or governmental charge required to be paid by the provisions of Section 6.4 hereof, prior to the date upon which such tax, assessment or charge would become delinquent, or maintain, or cause to be maintained, the full insurance coverage required by the provisions of Section 6.5 hereof, the Issuer, with not less than ten (10) days' prior written notice to the Company and the Lender, may (but shall be under no obligation to) pay such tax, assessment, or governmental charge or obtain or maintain the required policy of insurance, and pay the premium or premiums on the same.

(b) All amounts so advanced by any person pursuant to subsections (a) or (b) of this Section shall be promptly reimbursed by the Company to the person making the advance, together with interest thereon from the date of such advance to the date of reimbursement at a rate per annum equal to twelve percent (12%) or the maximum rate of interest allowable by applicable law, whichever is less.

Section VI.9. Obligation of Company to Maintain Insurance Regardless of Approval. No acceptance or approval of any insurance policy by the Issuer shall relieve or release the Company from any liability, duty, or obligation under the provisions of this Lease.

(END OF ARTICLE VI)

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ARTICLE VII

DAMAGE, DESTRUCTION, CONDEMNATION, ETC.

Section VII.1. Damage or Destruction. (a) In the event the Equipment shall be damaged or destroyed (in whole or in part) at any time during the Term:

(i) the Company shall promptly give, or cause to be given, written notice of such damage or destruction to the Issuer and the Lender;

(ii) any Net Proceeds of insurance resulting from damage to or destruction of the Equipment shall be applied by the Company, at the option of the Lender, to the prepayment of all or any portion of Rental Payments and/or to the repair or replacement of the Equipment;

(iii) so long as there shall be outstanding any indebtedness evidenced by the Loan, the Company shall, if and to the extent required by the Lender, promptly replace, repair, or restore the Equipment to such condition, value, and utility to allow the Equipment to operate as it was designed to operate prior to such damage or destruction, with such changes, alterations, and modifications (including the substitution and addition of other Property), as may be then approved by the Lender.

In the event such Net Proceeds of insurance, or the portion thereof, if any, are insufficient to pay in full the costs of such replacement, repair, rebuilding or restoration, the Company shall be obligated to complete such replacement, repair, or restoration, paying from its own monies that portion of the costs thereof in excess of such Net Proceeds of insurance.

All such replacements, repairs, or restoration of the Facility made pursuant to this Section, whether or not requiring the expenditure of monies of the Company, shall automatically become a part of the Facility the same as if specifically described herein.

(b) If the Loan, including the interest payable thereon, and all sums payable pursuant to Section 5.2(b) hereof, have been fully paid, or provision therefor has been made, all such Net Proceeds of insurance shall be paid to the Company.

(c) The Company shall be entitled to any insurance proceeds or portion thereof made for damage to or destruction of any Property which, at the time of such damage or destruction, is not part of the Project.

Section VII.2. Condemnation. (a) In the event all or any part of the title to, or the use of, the Equipment shall be taken by Condemnation during the Term:

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(i) the Company shall promptly give, or cause to be given, written notice of any Condemnation proceedings of, or affecting, the Equipment, or any portion thereof, to the Lender;

(ii) any Net Proceeds of any Condemnation award shall be applied by the Company, at the option of the Lender, to the prepayment of any portion of Rental Payments, to the restoration of the Equipment, and/or to the acquisition of Substitute Facilities, as such term is hereinafter defined;

(iii) so long as there shall be outstanding any indebtedness evidenced by the Loan, the Company shall, to the extent required by the Lender, (i) promptly restore the Equipment to such condition, value, and utility to allow the Equipment to operate as it was designed to operate prior to such Condemnation, with such changes, alterations, and modifications (which do not increase expense, unless the Company pays such additional cost) as may be then required by the Lender, or (ii) acquire, by construction or otherwise, equipment (the "Substitute Facilities"), acceptable to the Lender, of such nature and

value to allow the Equipment to operate as it was designed to operate prior to such condemnation, with such changes, alterations, and modifications as may be then required by the Company.

In the event that such Net Proceeds are not sufficient to pay in full the costs of such restoration of the Equipment or such acquisition of Substitute Facilities, the Company shall be obligated to complete such restoration or acquisition, or to acquire such Substitute Facilities, as applicable, and shall pay from its own monies that portion of the costs thereof in excess of such Net Proceeds of any condemnation award.

The restored portions of the Equipment, or the Substitute Facilities, whether or not requiring the expenditure of the moneys of the Company shall automatically become part of the Equipment.

(b) If the Loan, including the interest payable thereon, and all sums payable pursuant to Section 5.2(b) hereof, have been fully paid, all such Net Proceeds of any Condemnation award shall be paid as provided in this Lease or if no provision with respect thereto is made, such Net Proceeds shall be paid to the Company.

(c) The Company shall be entitled to the proceeds of any Condemnation award or portion thereof made for damage to, or taking of, any Property which, at the time of such damage or taking, is not part of the Project.

(END OF ARTICLE VII)

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ARTICLE VIII

SPECIAL COVENANTS

Section VIII.1. No Warranty of Condition or Suitability; Use of Project. The Company acknowledges its full familiarity with the Equipment, and it represents that it is solely responsible for the plan under which the Equipment will be operated and maintained. The Issuer makes no representations or warranties, either express or implied, as to the condition, title, design, operation, merchantability, or fitness of the Project, or that it is, or will be, suitable for the purposes or needs of the Company.

Section VIII.2. Indemnity and Hold Harmless Provisions. The Company hereby releases the Issuer, its members, agents, employees, and consultants from; agrees that the Issuer, its members, agents, employees, and consultants shall not be liable for; and agrees to reimburse and indemnify and hold the Issuer, its members, agents, employees, and consultants harmless from and against, any and all: (a) liability for loss or damage to Property or any injury to or death of any and all persons that may be occasioned by any cause whatsoever pertaining to the Project or arising by reason of or in connection with the acquisition, occupation, or use of said Project; (b) liability arising from, or expense incurred by reason of, the Issuer's leasing of the Project, and all causes of action and attorneys fees and any other expense incurred in defending any suits or actions which may arise as a result of any of the foregoing excluding Issuer's obligations to the Company hereunder; and (c) all costs and expenses of the Issuer or the officers, directors, or employees thereof, incurred as a result of carrying out its obligations under this Lease, the Loan Documents, or any other document herein contemplated; provided, however, that the foregoing shall not apply to the gross negligence or wanton or willful misconduct of the Issuer, its members, agents, consultants and employees.

Section VIII.3. Reimbursement of Issuer. Notwithstanding that it is the intention of the parties that the Issuer shall not incur any pecuniary liability by reason of this Lease, or the Loan Documents, or by reason of any actions, documents, statutes, ordinances, or regulations pertaining to the foregoing, the Company shall promptly pay any and all reasonable costs and

expenses, as such costs and expenses accrue, which may be incurred by, or judgments which may be rendered against, the Issuer, or any of its officers, employees, or agents at any time or times during, or subsequent to the Term: (a) in enforcing any of the terms, covenants, conditions, or provisions of this Lease; (b) in defending any action, suit, or proceeding brought against the Issuer, or any of its respective officers, employees, or agents as a result of the violation of, or failure to comply with, any present or future Federal, State, or municipal law, ordinance, regulation, or order, or as a result of any alleged failure, neglect, misfeasance, or default on the part of the Company, or any of the employees, servants, agents, or independent contractors of any of the foregoing in connection with, arising from, or growing out of, this Lease or in connection with the Loan, the Loan Documents, or the Project, or any operations conducted in, or any use or occupancy of, said Project, or any action pertaining to, or connected with, any of the foregoing.

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Section VIII.4. Right of Access to the Project. The Issuer and its duly authorized agents shall have the right at all reasonable times to enter upon, and to examine and inspect, the Project. In addition, the Issuer and its duly authorized agents shall have such rights of access to the Project as may be reasonably necessary for the proper maintenance and repair of the Project in the event of any failure by the Company to perform its obligations hereunder.

Section VIII.5. Project as a Public Facility. The Company shall, during the Term, admit, or cause to be admitted, persons, employ, or cause to be employed, persons at, and render, or cause to be rendered, services at, the Project without discrimination as to race, religion, creed, color, sex, age, or national origin.

Section VIII.6. Compliance with Orders, Ordinances, Etc. (a) The Company shall throughout the Term, without expense to the Issuer, promptly comply, or promptly cause compliance, with all statutes, codes, laws, acts, ordinances, orders, judgments, decrees, injunctions, rules, regulations, permits, licenses, authorizations, directions, contract provisions, and requirements of all Federal, State, county, municipal, and other governments, departments, commissions, boards, companies or associations insuring the premises, courts, authorities, officials, and officers, foreseen or unforeseen, ordinary or extraordinary, which now or at any time hereafter may be applicable to the Project, or any part thereof, or to any of the streets, roads, passageways, sidewalks, curbs, gutters adjoining the Project, or any part thereof, or to any use, manner of use, or condition of the Project, or any part thereof.

(b) Notwithstanding the provisions of subsection (a) of this section, the Company or any other person may, in good faith and at his, her, or its own expense, upon prior written notice to the Issuer, contest the validity or the applicability of any requirement of the nature referred to in subsection (a) of this section. In such event, the Company, or any such person, as applicable, may fail to comply with the requirement or requirements so contested during the period of such contest, and any appeal therefrom, unless the Issuer or the Trustee shall notify the Company, or any such person, as applicable, that by failure to comply with such requirement or requirements, the Project, or any part thereof, may be imminently subject to loss or forfeiture, in which event the Company shall promptly take such action with respect thereto as shall be satisfactory to the Issuer. The Issuer shall, if requested by the Company, or such other person, as applicable, and provided that the Issuer shall be indemnified and held harmless against and from all costs and expenses (including attorneys' fees) which may be reasonably incurred by the Issuer in connection therewith, cooperate fully with the Company, or such other person, as applicable, in any such contest.

Section VIII.7. Discharge of Liens and Encumbrances. (a) The Company shall not permit or create, or suffer to be permitted or created, any Lien, except for Permitted Encumbrances, upon the Equipment or any part thereof, by reason of any labor, materials, or services rendered or supplied, or claimed to be rendered or supplied, with respect to the Equipment, or any part thereof. The

Company shall immediately give notice to the Issuer of the filing or assertion of any such Lien of which it has knowledge, and shall, within thirty (30) days after receipt of actual or constructive notice of the filing or assertion of any such Lien, satisfy the Lien or cause

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it to be discharged of record or otherwise prevent the enforcement thereby by payment, deposit, filing the requisite bond, or taking such other action as shall be reasonably satisfactory to the Issuer.

(b) Notwithstanding the provisions of subsection (a) of this section, the Company, or any other person, may, in good faith and at his, her, or its own expense, upon prior written notice to the Issuer, contest any such Lien. In such event, the Company, or any such person, as applicable, may permit the Lien or encumbrance so contested to remain undischarged and unsatisfied during the period of such contest, and any appeal therefrom, unless the Issuer shall notify the Company, or any such persons, as applicable, that by nonpayment of such Lien or encumbrance the Project, or any part thereof, may be imminently subject to loss or forfeiture, in which event, the Company shall promptly secure payment of such unpaid Lien or encumbrance by filing, or causing to be filed, the requisite bond, in form and substance satisfactory to the Issuer. The Issuer shall, if requested by the Company, or such other person, as applicable, and provided that the Issuer shall be indemnified and held harmless against and from all costs and expenses (including attorneys' fees) which may be reasonably incurred by the Issuer in connection therewith, cooperate fully with the Company, or such other persons, as applicable, in any such contest.

Section VIII.8. Restriction Against Certain Religious Activities. The Company hereby covenants that, for such period as may be required by law, no part of the Project shall be used for sectarian instruction, or as a place of religious worship, or in connection with any part of a program of a school or department of divinity of any religious denomination.

If at any time the applicable law would permit the Project to be used for a purpose prohibited by this Section, such prohibition shall, to that extent, be of no further force or effect. This covenant shall survive any termination of this Lease.

Section VIII.9. Further Assurances and Corrective Instruments. The Issuer and the Company agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Project hereby leased or intended so to be or for carrying out the expressed intention of this Lease.

(END OF ARTICLE VIII)

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ARTICLE IX

ASSIGNMENT; REMOVAL OF EQUIPMENT; ETC.

Section IX.1. Assignment and Subleasing. (a) This Lease may be assigned and the Project subleased, as a whole or in part, by the Company without the necessity of obtaining the consent of the Issuer, subject, however, to each of the following conditions: (i) no assignment shall relieve the Company from primary liability for any obligations under this Lease, and in the event of any such assignment, the Company shall continue to remain primarily liable for payment of the amounts specified in this Lease and for performance and

observance of the other agreements on its part provided to be performed and observed by the Company to the same extent as though no assignment had been made; (ii) the assignee or sublessee shall assume the obligations of the Company hereunder to the extent of the interest assigned or subleased; (iii) the Company shall, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Issuer a true and complete copy of each assignment, assumption of obligation or sublease, as the case may be; and (iv) Lender shall have consented to such assignment, assumption of obligation or sublease.

(b) The Company may contract for the performance by others of operations or services on, or in connection with, the Project, or any part thereof, for any lawful purpose; provided, however, that any such contract shall not be inconsistent with the provisions of this Lease or the Loan Documents and that the Company shall remain fully obligated and responsible under this Lease, to the same extent as if such contract had not been executed.

Section IX.2. Consent to Assignment. The Issuer shall assign its rights to receive certain monies under this Lease to the Lender as security for the payment of the Loan. Such assignment shall in no way diminish or impair the obligations, if any, of the Issuer under this Lease and shall be subject and subordinate to this Lease. The Company hereby agrees and consents to such assignment by the Issuer, and further agrees and consents to all terms, provisions, and conditions of the Assignment of Equipment Lease.

Section IX.3. Restrictions on Mortgage or Sale of Project by Issuer. The Issuer agrees that, except for any assignment, mortgage or pledge of its interest in the rentals hereunder to Lender pursuant to the Assignment of Equipment Lease, it will not mortgage, sell, assign, transfer or convey the Project or any portion thereof during the Term, except as otherwise permitted herein.

Section IX.4. Removal of Equipment. (a) In the event the Company determines from time to time that any item constituting a part of the Equipment has become inadequate, obsolete, worn out, unsuitable, undesirable, or unnecessary, the Company may remove such item constituting a part of the Equipment, and may sell, trade-in, exchange, or otherwise dispose of the same, as a whole or in part, provided that:

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(i) Such removal will not materially impair the overall efficiency of the operation of the Project, or adversely affect the structural integrity of the Project; and,

(ii) The Company shall either:

(A) substitute, or cause to be substituted, for such removed item (by direct payment of the costs thereof), and install, or cause to be installed, in the Project, other fixtures or related property having equal or greater value and utility in the operation of the Project (but not necessarily having the same function), all of which substituted property shall be free of all Liens, other than Permitted Encumbrances, and shall become a part of the Project; or,

(B) not make, or cause to be made, any such substitution and installation, provided that: (i) in the case of the sale of any such removed item (other than to itself), or in the case of the scrap thereof, the Company shall pay, or cause to be paid, to the Lender, unless the Loan is paid, the proceeds from such sale of the scrap thereof, as the case may be; or, (ii) in the case of the trade-in of such removed item for other property not to be installed in the Project, the Company shall pay, or cause to be paid,

to the Lender, unless the Equipment Loan is paid, an amount of money equal to the credit received by it in such trade-in; or, (iii) in the case of the sale of any such removed item of Equipment by the Company or in the case of any other disposition thereof, the Company shall pay to the Lender, unless the Equipment Loan is paid, an amount of money equal to the fair market value thereof at the time of sale or other disposition.

Any monies paid to the Lender pursuant to the provisions of this Section shall be as a prepayment of the Equipment Loan, as applicable, and the Company shall receive a credit therefor in accordance with the provisions of Section 5.3 hereof.

(b) Notwithstanding any provision of Section 9.4(a) hereof, unless the Loan Documents require otherwise, the Company without being required to make the substitution specified in Section 9.4(a)(ii)(A) hereof, or the payment specified in Section 9.4(a)(ii)(B) hereof, may remove and sell or otherwise dispose of any item or items of Equipment and without the necessity of notifying the Lender, provided that the aggregate value of such Equipment so removed does not exceed: (A) Five Hundred Thousand Dollars (\$500,000) in any Fiscal Year; and, (B) One Million Dollars (\$1,000,000) in all Fiscal Years during the Term. The value of any such Equipment so removed pursuant to this subsection (b) shall not be included in the computations required by Section 9.4(c) hereof.

(c) The Issuer shall promptly execute any and all instruments deemed necessary by the Company, in its sole discretion, to fully effectuate the provisions of this Section.

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Section IX.5. Installation of the Company's Own Machinery. The Company may, from time to time, in its sole discretion and at its own expense, install machinery, equipment and other tangible and movable property in the Building or on the Land. All such machinery, equipment and other tangible and movable property shall remain the sole property of the Company in which the Issuer shall have no interest.

Section IX.6. References to Loan Ineffective After Paid. Upon payment in full of the Facility Loan or the Equipment Loan, all references in this Lease to the Facility Loan or the Equipment Loan and to the Lender or Facility Lender, as applicable, shall be ineffective and the Lender or Facility Lender, as applicable, shall not thereafter have any rights hereunder.

(END OF ARTICLE IX)

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ARTICLE X

EVENTS OF DEFAULT AND REMEDIES

Section X.1. Events of Default Defined. Each of the following shall be an "Event of Default" under this Lease, and the terms "Event of

Default" or "Default" shall mean, whenever they are used in such Lease, any one or more of the following events:

(a) The failure by the Company to pay, or cause to be paid, within thirty (30) days of when due, the Basic Rental Payments, or any part thereof, specified to be paid under Section 5.2 hereof;

(b) The filing by the Company of a voluntary petition in bankruptcy or any petition or other pleading seeking any reorganization, composition, readjustment, liquidation, or similar relief under any present or future law or regulation, or the seeking of or consent to or acquiescence in the appointment of any trustee, receiver, or liquidator of all or any substantial part of its assets or of its interest in the Project, or the making of a general assignment for the benefit of creditors, or the admission in writing of the inability by the Company to pay its debts generally as the same shall become due;

(c) The adjudication of the Company to be bankrupt or insolvent, or the filing of a petition or other pleading against the Company seeking an adjudication of bankruptcy, reorganization, composition, readjustment, liquidation, or similar relief under any present or future law or regulation, which shall remain undismissed or unstayed for an aggregate of sixty (60) days (whether or not consecutive), or the entry of an order or decree by a court of competent jurisdiction, without the consent or acquiescence of the Company, appointing a trustee in bankruptcy or reorganization or a receiver or liquidator of the Company, of all or any substantial part of its Property, or of the Project, which order or decree shall continue unvacated or unstayed on appeal or otherwise and in effect for a period of ninety (90) days (whether consecutive or not);

(d) The occurrence of a "default" or an "event of default" under any of the Loan Documents;

(e) Subject to Section 10.7, the failure by the Company to observe and perform any covenant, condition, or agreement hereunder on its part to be observed or performed [except obligations referred to in paragraphs (a), (b) or (c) of this Section for which no such notice must be given] for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, is given to the Company by the Issuer, unless the Issuer shall agree in writing to an extension of such time prior to its expiration; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Issuer will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Company within the applicable period and diligently pursued until the default is corrected.

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Section X.2. Remedies on Default. (a) Whenever an Event of Default shall have occurred and be continuing, the Issuer or the Lender may take any one or more of the following remedial steps:

(1) Declare, by written notice to the Company, to be immediately due and payable, whereupon the same shall become due and payable: (i) all unpaid Rental Payments payable pursuant to Section 5.2 hereof in an amount equal to the amount required to pay, or cause to be paid, the Loan; and, (ii) all other payments due or to become due under this Lease;

(2) Withhold any or all further performance under this Lease (except that the Company may, never-the-less exercise any option granted pursuant to Article XI hereof, in which event, Issuer shall perform its obligations thereunder);

(3) Re-enter and take possession of the Project without terminating this Lease, and sublease the Project for the account of the Company, holding the Company liable for the

difference in the rent and other amounts payable by such sublessee in such subleasing and the Rental Payments and other amounts payable by the Company hereunder;

(4) Terminate the Term, exclude the Company from possession of the Project and use its best efforts to lease the Project to another for the account of the Company, holding the Company liable for all Rental Payments and other payments due up to the effective date of such leasing and for the difference in the amounts payable by such new lessee and the amounts payable by the Company under this Lease; and/or

(5) Take any other action or proceeding permitted by the terms of this Lease.

(a) Whenever any Event of Default shall have occurred and be continuing, the Issuer may take, in addition to the above and the following, whatever action at law or in equity may appear necessary or desirable to collect the Rental Payments then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement, warranty or covenant of the Company under this Lease.

(b) Any sums paid to the Issuer (other than for indemnity for costs or other expenses) by reason of any remedy specified in this Section, shall be used to pay all or a portion of the Loan.

(c) No action taken pursuant to this Section shall relieve the Company from its obligation to make all payments required under Section 5.2 hereof.

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(d) Notwithstanding the foregoing provisions of this Section, until final action pursuant to this Section shall have been taken which would preclude such action, the Company may (i) pay all accrued unpaid Rental Payments (exclusive of such Rental Payments accrued solely by virtue of acceleration thereof as provided in Section 10.2(a)(1) hereof), in which event, this Lease shall be fully reinstated as if an Event of Default had not occurred and otherwise fully cure all Events of Default, and/or (ii) exercise any option granted pursuant to Article XI hereof.

Section X.3. Remedies Cumulative. No remedy herein conferred upon or reserved to the Issuer is intended to be exclusive of any other available remedy, but each and every such remedy shall be cumulative and in addition to every other remedy given under this Lease, or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Issuer to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice, other than such notice as may be herein expressly required in this Lease.

Section X.4. Agreement to Pay Attorneys' Fees and Expenses. In the event the Company shall default under any of the provisions of this Lease, and the Issuer shall employ attorneys or incur other expenses for the collection of amounts payable hereunder, or the enforcement of performance or observance of any obligations or agreements on the part of the Company herein contained, the Company shall, on demand therefor, pay to the Issuer the reasonable fees of such attorneys and such other expenses so incurred.

Section X.5. Delay or Omission Not a Waiver. No delay or omission of the Issuer to exercise any right or power accruing upon any breach of any covenant or agreement contained herein, or upon the happening of any other Default hereunder, shall impair any such right or power, or shall be construed to be a waiver of any such right or power, or shall be construed to be

a waiver of any other Default hereunder, or any acquiescence therein; and every such power, right, or remedy contained herein of the Issuer may be exercised from time to time and as often as may be deemed expedient by the Issuer. Any waiver, permit, consent, or approval of any form or character on the part of the Issuer of any breach of, or default under, this Lease, or any waiver on the part of the Issuer or the Lender of any provision or condition herein, must be in writing and shall be effective only to the extent specifically set forth in such writing.

Section X.6. Interpretation of any Conflicting Provisions. In the event of any conflict between any of the provisions hereof, or between any such provisions and the provisions of the Loan Documents, except to the extent otherwise provided in such document, the provisions of the Loan Documents shall prevail.

Section X.7. Force Majeure Provision. The provisions of Section 10.1(d) are subject to the following limitations: if, by reason of force majeure, the Company is unable in whole or in part to carry out the agreements of the Company on its part herein contained, the

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Company shall not be deemed in default during the continuance of such inability. The term "force majeure" as used herein shall mean, without limitation, the following: acts of God; strikes; lockouts or other industrial disturbances; acts of public enemies; orders of any kind of any governmental body, including the government of the United States or of the State or any of their departments, agencies, or officials, or any civil or military authority; insurrections; riots; epidemics; landslides, lightning; earthquake; fire; hurricane; storms; floods; washouts; droughts; arrests; restraint of government and people, civil disturbances; explosions, breakage or accident to machinery, transmission pipes, or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the Company, in each case which has the effect of making it impossible (as distinguished from impracticable) for the Company to perform, it being agreed that the settlement of strikes, lockouts, and other industrial disturbances shall be entirely within the discretion of the Company, and the Company shall not be required to make settlement of strikes, lockouts, and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is, in the judgment of the Company, unfavorable to the Company.

(END OF ARTICLE X)

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ARTICLE XI

OPTIONS; PURCHASE OF EQUIPMENT; ETC.

Section XI.1. Options to Terminate. The Company shall have, and is hereby granted, the following options to terminate this Lease:

(a) At the time of any prepayment of the Rental Payments in whole pursuant to the provisions of Section 5.5 hereof, the Company may terminate this Lease (i) by paying to the appropriate person the amounts required by Section 11.5 hereof, and (ii) by Company giving the Issuer notice in writing of such termination.

(b) At any time after full payment of the Loan, the Company may terminate this Lease by giving the Issuer notice in writing of such termination.

Section XI.2. Option to Purchase Equipment Prior to Payment of the Loan. The Company shall have, and is hereby granted, the option to purchase the Equipment prior to the full payment of the Loan at the time of any prepayment of the Rental Payments in whole pursuant to the provisions of Section 5.5 hereof. The purchase price payable by the Company in the event of its purchase pursuant to this Section shall be a sum equal to One Hundred Dollars (\$100) plus the amount necessary to prepay the Rental Payments in whole.

Section XI.3. Option to Purchase Equipment After Payment of the Loan. The Company shall have, and is hereby granted, the further option to purchase the Equipment at any time following full payment of the Loan for a purchase price of One Hundred Dollars (\$100). To exercise the option granted in this Section, the Company shall notify the Issuer of its intention so to exercise such option not less than five (5) days nor more than ninety (90) days prior to the proposed date of purchase and shall on the date of purchase pay such purchase price to the Issuer.

Section XI.4. Conveyance on Exercise of Option to Purchase Equipment. At the closing of any purchase pursuant to this Lease, the Issuer shall upon receipt of the purchase price deliver to the Company the following: documents (including, without limitation, a special warranty deed and bill of sale) conveying to the Company good and marketable title to said Property as it then exists, subject to the following: (i) those Liens (if any) to which title to said Property was subject when conveyed to the Issuer; (ii) those Liens created by the Company or to the creation or suffering of which the Company consented; (iii) those Liens resulting from the failure of the Company to perform or observe any of the agreements on its part contained in this Lease; and (iv) Permitted Encumbrances other than the Loan Documents.

Section XI.5. Payments Upon, and Conditions For, Early Termination. Termination by the Company of this Lease pursuant to Section 11.1 hereof or the purchase of the Project pursuant to Section 11.2 hereof shall not be effective until the Company shall have made the following payments:

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(a) To the Lender an amount which will be sufficient to pay the Equipment Loan in full;

(b) To the Lender, an amount sufficient to pay all unpaid fees and expenses of the Lender under the Equipment Loan Documents or otherwise;

(c) To the Issuer, an amount certified by the Issuer sufficient to pay all unpaid fees and expenses (including attorneys' fees) of the Issuer incurred under this Lease; and

(d) To the appropriate person, an amount sufficient to pay all other fees, expenses, or charges, if any, due and payable or to become due and payable under this Lease or the Equipment Loan Documents and not otherwise paid or provided for.

Section XI.6. Continuation of Certain Provisions. Upon termination of this Lease, the liabilities of the Company under such Lease shall terminate, except that its liabilities and obligations under Sections 8.2 and 8.3 of this Lease, and as otherwise herein expressly provided, shall nevertheless survive.

(END OF ARTICLE XI)

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ARTICLE XII

MISCELLANEOUS

Section XII.1. Certificates and Opinions. Any certificate or opinion made or given by an officer or director of the Issuer may be based (whether or not expressly so stated), insofar as it relates to legal matters, upon a certificate or opinion of or representations by counsel, unless such officer or director knows that the certificate or representations with respect to the matter upon which his or her certificate or opinion may be based are erroneous; and, any certificate or opinion made or given by counsel may be based (insofar as it relates to factual matters, information with respect to which is in the possession of the Issuer) upon the certificate or opinion of, or representation by, an officer or director of the Issuer, unless such counsel knows that the certificate or representations with respect to the matters upon which his or her certificate or opinion may be based as aforesaid are erroneous.

Section XII.2. Limited Liability of the Issuer. No recourse under or upon any obligation, covenant, agreement or certification contained in the Loan Documents, in the Loan, or in this Lease, or in any other document whatsoever, or under any judgment obtained against the Issuer, or by the enforcement of any assessment or by any legal or equitable proceeding by virtue of any constitution or statute or otherwise or under any circumstances, under or independent of the Loan Documents, this Lease or any other document, shall be had against any incorporator, member, director or officer, as such, past, present or future, of the Issuer, either directly or through the Issuer or any receiver thereof, or for the payment of any other sum or for the performance of any obligation under the Loan Documents, this Lease, or any other document or certification; provided, however, that the foregoing shall not apply to the gross negligence or wanton or willful misconduct of the Issuer, its members, agents, consultants and employees. Any and all personal liability of every nature, whether at common law or in equity, or by statute or by constitution or otherwise, of any such incorporator, member, director or officer, as such, to respond by reason of any act or omission on his part or otherwise, for the payment for or to the Issuer or any receiver thereof, of any sum that may remain due and unpaid upon the Loan, is hereby expressly waived and released as a condition of and consideration for the execution of the Loan Documents and this Lease.

Section XII.3. Notices. All notices, certificates, and other communications hereunder shall be in writing, and shall be sufficiently given and shall be deemed given when delivered and, if delivered by mail, shall be sent by registered mail or certified mail, return receipt requested, postage prepaid, addressed as follows:

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To the Issuer:

The Industrial Development Board
of the County of Montgomery, Tennessee
c/o Batson, Nolan, Brice, Harvey & Williamson, PLLC
121 South Third Street
P.O. Drawer 0
Clarksville, Tennessee 37041

To the Company:

StarTek USA, Inc.
111 Havana Street
Denver, Colorado 80010
Attention: E. Preston Sumner, Jr.

With a copy to:

J. Thomas Trent, Jr.
Boult, Cummings, Conners & Berry
414 Union Street, Suite 1600
Nashville, Tennessee 37219

To the Lender:

StarTek USA, Inc.
111 Havana Street
Denver, Colorado 80010
Attention: E. Preston Sumner, Jr.

Section XII.4. Binding Effect. This Lease shall inure to the benefit of and shall be binding upon the Issuer, the Company, and the respective heirs, executors, successors, administrators, and assigns of the foregoing.

Section XII.5. Severability. In the event any provision of this Lease shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section XII.6. Limitation of Rights. Except as otherwise expressly provided herein, nothing in this Lease, express or implied, shall be construed to confer upon any person, other than the Issuer, the Company and the Lender, any right, remedy or claim, legal or equitable, under or by reason of this Lease or any provisions hereof.

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Section XII.7. Execution of Counterparts. This Lease may be executed in several counterparts, each of which shall be an original, and all of which shall constitute but one and the same instrument.

Section XII.8. Applicable Law. This Lease has been executed and delivered in the State of Tennessee. It is intended that such Lease shall be construed and governed exclusively by the applicable laws of the State of Tennessee and the United States of America.

Section XII.9. Table of Contents and Section Headings Not Controlling. The Table of Contents and the headings of the several Sections in this Lease have been prepared for convenience of reference only and shall not control, affect the meaning, or be taken as an interpretation of any provision of this Lease.

Section XII.10. No Liability of the County of Montgomery, Tennessee. The County of Montgomery, Tennessee, shall not in any event be liable for the payment of the principal of, or interest on, the Loan, or for the performance of any pledge, mortgage, obligation or agreement of any kind whatsoever herein contained by or of the Issuer and neither the Loan Documents nor any of the Issuer's agreements or obligations herein or otherwise shall be construed to constitute an indebtedness of the County of Montgomery, Tennessee within the meaning of any constitutional or statutory provision whatsoever.

Section XII.11. Net Lease. This Lease shall be deemed and construed to be a fully "net lease," and the Company shall pay absolutely net during the Term the rent and all other payments required hereunder, free of any deductions, and without abatement, deduction or setoff, other than those herein expressly provided.

Section XII.12. Not Partners. Nothing contained herein or in any other document shall be deemed to render Issuer, Lender, or the Company partners or venturers for any purpose.

IN WITNESS WHEREOF, the Issuer has caused this Lease to be executed in its corporate name, its official seal to be hereunto affixed and attested by its duly authorized officer, and the Company has caused this Lease to be executed in its name and behalf by its authorized officer, all as of the date first above written.

THE INDUSTRIAL DEVELOPMENT BOARD
OF THE COUNTY OF MONTGOMERY,
TENNESSEE

/s/ Rufus S. Johnson, III

Chairman

ATTEST:

/s/ F. Gene Washer

Secretary

(SEAL)

STARTEK USA, INC.

By: /s/ E. Preston Sumner, Jr.

Title: Executive Vice President and
Chief Operating Officer

STATE OF TENNESSEE

COUNTY OF MONTGOMERY

Personally appeared before me, J. Carolyn Loyd, Notary Public, Rufus S. Johnson, III and F. Gene Washer, with whom I am personally acquainted (or proved to me on the basis of satisfactory evidence), and who acknowledged that they executed the foregoing instrument for the purposes therein contained and who further acknowledged that they are Chairman and Secretary, respectively, of THE INDUSTRIAL DEVELOPMENT BOARD OF THE COUNTY OF MONTGOMERY, TENNESSEE, a public, nonprofit corporation organized and existing under the laws of the State of Tennessee, the within named bargainer and that they are authorized to execute this instrument on behalf of said corporation.

WITNESS my hand, at office, this 8th day of July, 1998.

/s/ J. Carolyn Loyd

Notary Public

My Commission Expires: June 15, 1999

STATE OF TENNESSEE

COUNTY OF MONTGOMERY

Personally appeared before me, J. Carolyn Loyd, Notary Public, E. Preston Sumner, Jr., with whom I am personally acquainted (or proved to me on the basis of satisfactory evidence), and who acknowledged that he executed the foregoing instrument for the purposes therein contained and who further acknowledged that he is Executive Vice President and Chief Operating Officer of STARTEK USA, INC., a Colorado corporation, and is authorized to execute this instrument on behalf of said corporation.

WITNESS my hand, at office, this 8th day of July, 1998.

/s/ J. Carolyn Loyd

Notary Public

My Commission Expires: June 15, 1999

EXHIBIT A

DESCRIPTION OF LAND

Being a tract of land located in the eleventh civil district of Montgomery County, Tennessee, said tract lying north of and adjacent to U.S. 41-A and west of and adjacent to State Route 76 (41-A to I-24 Connector Road) and being more fully described as follows:

Beginning at an iron pin found, said pin being located N 73 degrees 29_ 43" W 256.78 feet from a concrete monument found at the south end of the transition of the north right of way of U.S. 41-A and the west right of way of State Route 76; thence with the north right of way of U.S. 41-A N 73 degrees 29_ 43" W 109.88 feet to an iron pin set; thence leaving said right of way and on two new division lines, N 16 degrees 30_ 17" E 185.00 feet to an iron pin set thence N 73 degrees 29_ 43" W 341.39 feet to an iron pin set in the east line of the J.S. Management property as recorded in ORV. 600, Page 990; thence N 07 degrees 27_ 42" E 75.54 feet total, passing the northeast corner of the J.S. Management property at 5.06 feet, to an iron pin found in the east line of the Clarksville, Tennessee property; thence with said line N 07 degrees 27_ 42" E 305.05 feet to an iron pin found in said east line; thence continuing with said East N 08 degrees 37_ 51" E 376.59 feet to a concrete monument found, said monument being the southeast corner of the Clarksville-Montgomery County School System property as recorded in ORV. 174, Page 481; thence with the school systems east boundary the following three calls; N 05 degrees 58_ 56" E 124.65 feet to an iron pin set; thence N 05 degrees 55_ 39" E 393.27 feet to an iron pin set; thence N 07 degrees 57_ 32" E 141.74 feet to an iron pin found, said pin being the southwest corner of the Rufus S. Johnson III Trustee property as recorded in ORV. 341, Page 1972; thence with Johnson S 82 degrees 02_ 28" E 834.03 feet to an iron pin set; thence continuing with Johnson S 01 degrees 50_ 00" W 223.74 feet to an iron pin set, said pin being the northwest corner of the City of Clarksville property as recorded in ORV. 270, Page 813; thence with the City of Clarksville S 01 degrees S 50_ 00" W 435.00 feet to an iron pin set; thence continuing with the City of Clarksville S 45 degrees 23_ 55" E 75.25 feet to an iron pin set in the west right of way of State Route 76; thence with said

west right of way, S 19 degrees 56_46" W 302.43 feet to an iron pin set; thence continuing with said right of way, S 10 degrees 47_35" W 298.24 feet to an iron pin set, said pin being the northeast corner of the Aubrey Harvey, ET AL property as recorded in ORV. 626, Page 1103; thence leaving the west right of way of State Route 76 and with the Aubrey Harvey property the following four calls: S 83 degrees 32_25" W 115.31 feet to an iron pin set; thence S 83 degrees 52_07" W 186.10 feet to an iron pin found; thence S 84 degrees 37_51" W 161.90 feet to an iron pin set; thence S 08 degrees 13_14" W 261.54 feet to the point of beginning.

Said tract contains 23.638 acres more or less.

The foregoing is a portion of the same property conveyed to Acme Boot Company, Inc. by deed of record in Official Record Book Volume 139, page 294, in the Register's Office for Montgomery County, Tennessee.

The foregoing is a portion of the same property conveyed to The Industrial Development Board of the County of Montgomery by deed of record in Official Record Book Volume 144, page 683, in the Register's Office for Montgomery County, Tennessee.

The foregoing description was prepared by Billy Ray Sutor, RLS # 1837, King Engineers, LLC dated June 24, 1998.

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EXHIBIT B

REQUISITION FOR PAYMENT
THE INDUSTRIAL DEVELOPMENT BOARD
OF COUNTY OF MONTGOMERY, TENNESSEE
STARTEK USA PROJECT
SERIES B

Certificate No.: _____ Date: _____

Pay to: StarTek USA, Inc., Agent

Address: _____

Wire Transfer or Other Payment Instructions: _____

Amount: \$ _____

Purpose: Draw under Series B Note (the "Note")

The undersigned Lessee under that certain Equipment Lease Agreement dated as of July 8, 1998 (the "Lease Agreement") by and between the Industrial Development Board of the County of Montgomery, Tennessee (the "Issuer") and StarTek USA, Inc. (the "Lessee"), in its capacity as authorized agent for the Issuer pursuant to Section 4.1 of the Lease Agreement hereby authorizes and requests the above stated payment and disbursement as provided in the Lease Agreement.

The undersigned hereby certifies with respect to this requisition as follows:

- (1) That obligations in the amount stated above have been incurred by or on behalf of the Lessee for the account of the Issuer and are more fully described on Schedule 1 hereto, and that each item thereof constitutes a "Cost of the Project" as defined in the Lease and has not be previously paid or reimbursed with proceeds of the Note;
- (2) That there has not been filed with or served upon the

Issuer or the Lessee notice of any lien, right to lien or attachment upon, or claim affecting the right of any person to receive payment of the respective amounts stated in such requisition which has not been released or which will not be released simultaneously with the payment of such obligation; and

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- (3) That such requisition contains no item representing payment on account of any retained percentage that the Issuer or the Lessee is at the date of such requisition entitled to retain.

STARTEK USA, INC.,
Agent

By: _____

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THE INDUSTRIAL DEVELOPMENT BOARD
OF THE COUNTY OF MONTGOMERY, TENNESSEE

Industrial Development Revenue Note,
Series B

(StarTek USA Project)

\$3,500,000.00

July 8, 1998

THE INDUSTRIAL DEVELOPMENT BOARD OF THE COUNTY OF MONTGOMERY, TENNESSEE (the "Issuer"), a public, nonprofit corporation organized and existing under the laws of the State of Tennessee, for value received, acknowledges itself indebted and hereby promises to pay, but solely from the source and special fund provided therefor, as hereinafter set forth, in the manner hereinafter provided, to the order of STARTEK USA, INC. (the "Lender"), or its successors, the principal sum of Three Million Five Hundred Thousand and No/100 Dollars (\$3,500,000.00), or so much thereof as has been advanced here against, with interest thereon at a rate equal to the lesser of nine percent (9%) per annum, or the maximum rate of interest payable under applicable law, payable in quarterly installments of interest only, in arrears, on the first (1st) day of each calendar quarter, commencing with September 1, 1998, with the entire unpaid principal balance, and all accrued and unpaid interest thereon, being due and

payable on January 1, 2004, without further notice or demand.

The principal hereof and all installments of the interest hereon shall bear interest from and after their respective due dates (whether by acceleration or otherwise) at the lesser of twelve percent (12%) per annum or the maximum rate of interest allowable by applicable law.

The principal hereof and the interest hereon are payable in any coin or currency of the United States of America which on the date of payment thereof is legal tender for the payment of public and private debts, and the payment of such principal and interest shall be made by check, draft, or warrant, of, and mailed or delivered by, the Issuer to the holder hereof at its office in Denver, Colorado, or at such other place as may be noticed to the Issuer by such holder. Upon payment in full of all principal hereof and interest hereon, this Series B Note shall be surrendered to the Secretary of the Issuer for cancellation.

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This Series B Note is known as the "Industrial Development Revenue Note, Series B (StarTek USA Project)", which note has been issued by the Issuer in the principal amount of Three Million Five Hundred Thousand and No/100 Dollars (\$3,500,000.00), under a resolution (the "Resolution") of the Issuer dated July 8, 1998. The proceeds of the Series B Note will be used for the purpose of enabling the Issuer to pay the costs of equipping a certain manufacturing facility (the "Project"), located in the County of Montgomery, Tennessee, to be leased by the Issuer to StarTek U.S.A., Inc., a Colorado corporation (the "Company").

That certain Equipment Lease Agreement (the "Lease Agreement"), dated as of July 8, 1998, whereby the Issuer leases certain furniture, fixtures, and equipment (the "Equipment") in connection with the operation of the Project to the Company, requires, among other things, that the Company pay to the Issuer or its assigns lease payments sufficient to pay, when and as due, the principal of and interest on the Series B Note. As additional security for the observance and performance by the Issuer of its obligations under the Series B Note, the Issuer has also executed and delivered (a) a Security Agreement (the "Agreement"), dated as of the date of the Lease Agreement, under the provisions of which the Issuer has granted a security interest in the Equipment, subject only to Permitted Encumbrances (as defined in the Lease Agreement); and (b) a Collateral Assignment of Equipment Lease (the "Assignment of Equipment Lease"), dated as of the date of the Lease Agreement, assigning to the Lender all of the Issuer's right, title and interest in and to the Lease Agreement.

Reference is hereby made to the Equipment Lease Agreement, the Assignment of Equipment Lease, the Agreement, and the Resolution, and to all amendments thereof and supplements thereto, for the provisions specifying, among other things, the nature and extent of the security for the Series B Note, the rights, duties, and obligations of the Company, the Lender, the Issuer, and the holder of the Series B Note, and the terms upon which the Series B Note is issued and secured.

The principal of, interest on, and other sums due under the Series B Note are subject to acceleration at the option of the holder upon any Default or Event of Default under the Lease Agreement.

Issuer may prepay this Series B Note, in whole or in part, at any time without premium or penalty.

Subject to the provisions of the next to the last paragraph hereof, in the event that it is necessary to enforce the payment of the principal of or the interest on this Series B Note, or to enforce the provisions of the Lease Agreement, the Agreement or the Assignment of Equipment Lease, or to protect or to enforce the security for this Series B Note, through an attorney or by means of legal proceedings, the Issuer shall pay all costs reasonably incurred by the holder hereof in connection therewith, including attorneys' fees and court costs, and such expenses shall be added to, and become a part of, the indebtedness evidenced by this Series B Note.

Section 67-5-205(3), Tennessee Code Annotated, as amended, provides that neither the principal nor the interest of any bonds or notes issued by any incorporated town or city, or any agency thereof, shall be taxed by the State of Tennessee or by any county or municipality of said State, and that such shall be so stated on the face of said bonds or notes when issued.

This Series B Note has been negotiated, issued, sold and delivered in the State of Tennessee and it is intended that such Series B Note shall be governed by, and construed in accordance with, the laws of said State.

This Series B Note and any and all terms and provisions hereof, including, but not limited to, those pertaining to the amount, date, and manner of payment of the principal hereof and the interest hereon, may be modified and amended at any time by mutual written agreement of, but only by mutual written agreement of, the Issuer, the Company, and the holder hereof.

All acts, conditions, and things required to happen, exist, and be performed precedent to the issuance of this Series B Note, and to the execution of the Security Agreement, the Assignment of Equipment Lease and the Lease Agreement, have happened, exist, and been performed as so required.

No recourse under or upon any obligation, covenant, or agreement contained in the Agreement, the Assignment of Equipment Lease or the Lease Agreement, or in this Series B Note, or under any judgment obtained against the Issuer or by the enforcement of any assessment or by any legal or equitable proceeding by virtue of any constitution or statute or otherwise or under any circumstances, under or independent of the Agreement, the Assignment of Equipment Lease and the Lease Agreement, shall be had against any incorporator, member, director, or officer, as such, past, present, or future, of the Issuer, either directly or through the Issuer or otherwise, for the payment for or to the Issuer or any receiver thereof, or for or to the holder of this Series B Note or otherwise, of any sum that may be due and unpaid by the Issuer upon this Series B Note. Any and all personal liability of every nature, whether at common law or in equity, or by statute or by constitution or otherwise, of any such incorporator, member, director, or officer, as such, to respond by reason of any act or omission on his or her part or otherwise for, directly or indirectly, the payment for or to the Issuer or any receiver thereof, or for or to the holder of this Series B Note, or otherwise, of any sum that may remain due and unpaid upon this Series B Note, is hereby expressly waived and released as a condition of and consideration for the execution of the Lease Agreement, the Agreement, the Assignment of Equipment Lease and the issuance of this Series B Note.

The Issuer for itself, its legal representatives and assigns, hereby waives demand, presentment for payment, notice of dishonor, protest, notice of protest, and diligence in collection and all other notices or demands whatsoever with respect to this Series B Note or the enforcement hereof, and consents that the time of said payments or any part thereof may be extended by the holder hereof and assents to any substitution, exchange, or release of collateral permitted by the holder hereof, all without in any way modifying, altering, releasing, affecting or limiting its liability.

THIS SERIES B NOTE HAS NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED.

This Series B Note and the interest payable hereon are all

limited obligations of the Issuer, and shall not be deemed to constitute a debt or liability of the Issuer or any political subdivision, except to the extent that such are payable solely from such special source and funds provided therefor in accordance with the Lease Agreement, the Security Agreement and the Assignment of Equipment Lease. The principal of and interest on, this Series B Note are payable solely from the funds pledged for their payment in accordance with the Resolution, the Lease Agreement, the Agreement and the Assignment of Equipment Lease. Neither the State of Tennessee nor the County of Montgomery, Tennessee, shall in any event be liable for the payment of principal of or interest on this Series B Note or for the performance of any pledge, mortgage, obligation, stipulation, or agreement of any kind whatsoever undertaken by the Issuer, and neither this Series B Note nor any of the agreements or obligations of the Issuer shall be construed to constitute an indebtedness of the State of Tennessee, or the County of Montgomery, Tennessee, within the meaning of any constitutional or statutory provision whatsoever; nor shall any breach of any such pledge, mortgage, obligation, stipulation, or agreement impose any pecuniary liability upon the Issuer, or upon any officer or director thereof, or constitute any charge upon the general credit of the Issuer.

IN WITNESS WHEREOF, THE INDUSTRIAL DEVELOPMENT BOARD OF THE COUNTY OF MONTGOMERY, TENNESSEE has caused this Series B Note to be signed by the manual signature of the Chairman of the Issuer and the corporate seal of the Issuer to be affixed hereto, and attested by, the manual signature of the Secretary or Assistant Secretary of the Issuer, all as of the date above first written.

THE INDUSTRIAL DEVELOPMENT BOARD
OF THE COUNTY OF MONTGOMERY,
TENNESSEE

ATTEST:

/s/ F. Gene Washer

Secretary

(SEAL)

By: /s/ Rufus S. Johnson, III

Chairman

Exhibit 21.2

SUBSIDIARIES OF THE REGISTRANT

NAME OF SUBSIDIARIES -----	STATE OF INCORPORATION -----	SUBSIDIARIES ARE DOING BUSINESS AS -----
StarTek USA, Inc. (formerly named StarPak, Inc.)	Colorado	StarTek Teleservices, Inc. StarTek Technical Services, Inc. StarTek Internet, Inc. StarTek, Inc. StartPak, Inc.
StarTek Europe, Ltd. (formerly named StarPak International, Ltd.)	Colorado	StarPak, Inc. StarPak International, Ltd.
StarTek Pacific, Ltd.	Colorado	StarTek Pacific, Ltd.
Domain.com, Inc.	Delaware	Domain.com, Inc.

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1998 INCLUDED IN STARTEK, INC'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<MULTIPLIER> 1,000

<CURRENCY> US

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<BONDS>		3,273
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		138
<OTHER-SE>		53,995
<TOTAL-LIABILITY-AND-EQUITY>		80,201
<SALES>		0
<TOTAL-REVENUES>		140,984
<CGS>		0
<TOTAL-COSTS>		0
<OTHER-EXPENSES>		115,079
<LOSS-PROVISION>		58
<INTEREST-EXPENSE>		58
<INCOME-PRETAX>		13,445
<INCOME-TAX>		4,901
<INCOME-CONTINUING>		8,544
<DISCONTINUED>		0
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		8,544
<EPS-PRIMARY>		0.62
<EPS-DILUTED>		0.62