STARTEK INC
Form 10-Q
August 11, 2008

Table of Contents

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

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2008

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 1-12793

StarTek, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**84-1370538**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. employer Identification No.)*
44 Cook Street, 4th Floor Denver, Colorado	**80206**
(Address of principal executive offices)	*(Zip code)*

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

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $.01 par value	New York Stock Exchange, Inc.

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

Indicate by check mark 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 þ No o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock, $0.01 Par Value 14,778,591 shares as of July 15, 2008.

STARTEK, INC. AND SUBSIDIARIES
FORM 10-Q
INDEX

PART I. FINANCIAL INFORMATION	**Page**
Item 1. Financial Statements (unaudited):	
Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2008 and 2007	4
Condensed Consolidated Balance Sheets as of June 30, 2008 and December 31, 2007	5
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2008 and 2007	6
Notes to Condensed Consolidated Financial Statements	7
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3. Quantitative and Qualitative Disclosures About Market Risk	22
Item 4. Controls and Procedures	23
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	23
Item 1a. Risk Factors	23
Item 4. Submission of Matters to a Vote of Security Holders	24
Item 6. Exhibits	24
SIGNATURES	25

Exhibit 10.9
Exhibit 10.12
Exhibit 10.13
Exhibit 10.14
Exhibit 10.15
Exhibit 10.16
Exhibit 10.17
Exhibit 10.18
Exhibit 10.19
Exhibit 10.20
Exhibit 10.21
Exhibit 10.22
Exhibit 10.23
Exhibit 10.24
Exhibit 10.25
Exhibit 10.26
Exhibit 31.1
Exhibit 31.2

Exhibit 32.1

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

Our business and results of operations are subject to risks and uncertainties, many of which are beyond our ability to control or predict. Because of these risks and uncertainties, actual results may differ materially from those expressed or implied by forward-looking statements, and investors are cautioned not to place undue reliance on such statements, which speak only as of the date thereof. Important factors that could cause actual results to differ materially from our expectations and may adversely affect our business and results of operations, include, but are not limited to those items set forth in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Factors appearing in our Annual Report on Form 10-K for the year ended December 31, 2007.

Table of Contents

Part I. Financial Information
ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

STARTEK, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(Dollars in thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenue	$ 65,619	$ 58,832	$ 130,364	$ 116,479
Cost of services	57,205	50,295	112,367	99,032
Gross profit	8,414	8,537	17,997	17,447
Selling, general and administrative expenses	10,227	9,040	20,317	18,432
Impairment losses and restructuring charges	5,500	3,018	5,608	3,018
Operating loss	(7,313)	(3,521)	(7,928)	(4,003)
Net interest and other income	90	143	400	331
Loss before income taxes	(7,223)	(3,378)	(7,528)	(3,672)
Income tax (benefit) expense	(2,704)	65	(2,678)	(40)
Net loss	$ (4,519)	$ (3,443)	$ (4,850)	$ (3,632)
Net loss per share:				
Basic	$ (0.31)	$ (0.23)	$ (0.33)	$ (0.25)
Diluted	$ (0.31)	$ (0.23)	$ (0.33)	$ (0.25)

See notes to condensed consolidated financial statements.

Table of Contents

STARTEK, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Dollars in thousands, except share and per share data)

	As of	
	June 30, 2008 (Unaudited)	**December 31, 2007**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,682	$ 23,026
Investments	17,672	16,349
Trade accounts receivable, less allowance for doubtful accounts of $0 and $0, respectively	49,828	48,887
Income tax receivable	4,039	2,502
Prepaid expenses and other current assets	2,659	2,408
Total current assets	89,880	93,172
Property, plant and equipment, net	57,102	57,532
Long-term deferred income tax assets	4,396	3,686
Other assets	1,058	1,068
Total assets	$ 152,436	$ 155,458
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 6,706	$ 5,908
Accrued liabilities:		
Accrued payroll	8,093	7,902
Accrued compensated absences	5,511	5,072
Other accrued liabilities	2,912	1,494
Current portion of long-term debt	3,649	3,975
Other current liabilities	1,338	2,632
Total current liabilities	28,209	26,983
Long-term debt, less current portion	5,744	7,380
Long-term deferred rent liability	4,924	2,731
Other liabilities	140	150
Total liabilities	39,017	37,244
Commitments and contingencies		
Stockholders equity:		
	148	147

Common stock, 32,000,000 non-convertible shares, $0.01 par value, authorized; 14,778,591 and 14,735,791 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively				
Additional paid-in capital		63,389		62,776
Cumulative translation adjustment		2,102		2,553
Unrealized loss on investments available for sale		(96)		(29)
Unrealized (loss) gain on derivative instruments		(21)		20
Retained earnings		47,897		52,747
Total stockholders equity		113,419		118,214
Total liabilities and stockholders equity	$	152,436	$	155,458

See notes to condensed consolidated financial statements.

Table of Contents

STARTEK, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Dollars in thousands)
(Unaudited)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Operating Activities		
Net loss	$ (4,850)	$ (3,632)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation	9,085	8,429
Non-cash compensation cost	614	533
Impairment losses	4,070	3,018
Deferred income taxes	(1,612)	1,272
Loss on sale of assets	16	3
Changes in operating assets and liabilities:		
Trade accounts receivable, net	(863)	5,771
Prepaid expenses and other assets	12	(41)
Accounts payable	758	(1,723)
Income taxes receivable, net	(1,532)	(2,408)
Accrued and other liabilities	3,895	1,635
Net cash provided by operating activities	9,593	12,857
Investing Activities		
Purchases of investments available for sale	(10,899)	(17,497)
Proceeds from disposition of investments available for sale	9,469	6,869
Purchases of property, plant and equipment	(12,733)	(6,141)
Net cash used in investing activities	(14,163)	(16,769)
Financing Activities		
Principal payments on borrowings	(2,179)	(2,716)
Principal payments on line of credit	(43,093)	(1,877)
Proceeds from line of credit	43,093	1,877
Principal payments on capital lease obligations	(25)	
Net cash used in financing activities	(2,204)	(2,716)
Effect of exchange rate changes on cash	(570)	324
Net decrease in cash and cash equivalents	(7,344)	(6,304)
Cash and cash equivalents at beginning of period	23,026	33,437
Cash and cash equivalents at end of period	$ 15,682	$ 27,133

Supplemental Disclosure of Cash Flow Information				
Cash paid for interest	$	348	$	411
Income taxes paid	$	1,384	$	1,143
Unrealized (loss) gain on investments available for sale, net of tax	$	(67)	$	9
Property, plant and equipment acquired or refinanced under long-term debt	$	385	$	

See notes to condensed consolidated financial statements.

6

Table of Contents

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

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These financial statements reflect all adjustments (consisting only of normal recurring entries, except as noted) which, in the opinion of management, are necessary for fair presentation. Operating results during the three and six months ended June 30, 2008, are not necessarily indicative of operating results that may be expected during any other interim period of 2008 or the year ending December 31, 2008.

The consolidated balance sheet as of December 31, 2007, was derived from audited financial statements at that date, but does not include all information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the StarTek, Inc. Annual Report on Form 10-K for the year ended December 31, 2007.

Certain reclassifications have been made to 2007 information to conform to 2008 presentation.

Unless otherwise noted in this report, any description of us refers to StarTek, Inc. and our subsidiaries. The assets and liabilities of our foreign operations that are recorded in foreign currencies are translated into U.S. dollars at exchange rates prevailing at the balance sheet date. Revenues and expenses are translated at the weighted-average exchange rate during the reporting period.

Fair Value of Financial Instruments

We measure or monitor many assets and liabilities on a fair value basis. Fair value is used on a recurring basis for assets and liabilities in which fair value is the primary basis of accounting. Examples of these include derivative instruments, cash and cash equivalents, and available for sale securities. Additionally, fair value is used on a non-recurring basis to evaluate assets or liabilities for impairment or for disclosure purposes. Examples of these non-recurring uses of fair value include long-lived assets. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

We adopted the provisions of Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157) related to financial assets and liabilities as well as other assets and liabilities carried at fair value on a recurring basis as of January 1, 2008 and the effect of such adoption was not material to our results of operations or financial position. FASB Staff Position No. 157-2 Effective Date of FASB Statement No. 157 (FSP No. 157-2), deferred the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. We will adopt the provisions of SFAS No. 157 related to other nonfinancial assets and liabilities prospectively for our fiscal year beginning January 1, 2009.

Effective January 1, 2008, we adopted Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Liabilities (SFAS No. 159). SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value, and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The adoption of SFAS No. 159 had no impact on our Condensed Consolidated Financial Statements as of June 30, 2008.

SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The levels of the fair value hierarchy under SFAS No. 157 are described below:

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2	Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
Level 3	Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Table of Contents

When determining the fair value measurements for assets and liabilities required or permitted to be recorded at and/or marked to fair value, we consider the principal or most advantageous market in which it would transact and consider assumptions that market participants would use when pricing the asset or liability. When possible, we look to active and observable markets to price identical assets or liabilities. When identical assets and liabilities are not traded in active markets, we look to market observable data for similar assets and liabilities. Nevertheless, if certain assets and liabilities are not actively traded in observable markets, we must use alternative valuation techniques to derive a fair value measurement.

Recently Issued Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations (SFAS No. 141R). SFAS No. 141R establishes principles and requirements for how an acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, (ii) recognizes and measures the goodwill acquired in a business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R will be applied prospectively to business combinations that have an acquisition date on or after January 1, 2009. The provisions of SFAS No. 141R will not impact our Condensed Consolidated Financial Statements for prior periods.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133 (SFAS No. 161). This statement will require additional disclosures about how and why we use derivative financial instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities , as amended and interpreted (SFAS No. 133), and how derivative instruments and related hedged items affect our financial position, results of operations, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008; however early adoption is encouraged, as are comparative disclosures for earlier periods. We are currently evaluating the impact of adopting SFAS No. 161.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. This statement shall be effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board s amendments to AU section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. We are currently evaluating the impact of adopting SFAS No. 162.

2. IMPAIRMENT LOSSES AND RESTRUCTURING CHARGES

Impairment Losses

In accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144), we evaluate long-lived assets, including property, plant and equipment, for impairment on at least an annual basis and whenever events or changes in circumstances indicate that the carrying amounts of specific assets or a group of assets may not be recoverable. In accordance with SFAS No. 144, we analyze the projected undiscounted cash flows related to the assets and if they are less than the carrying value of the assets, we measure the impairment based on the excess of the carrying value of the long-lived asset over the long-lived asset s fair value. Fair value is determined based upon the present value of the future cash flows. Our projections contain assumptions pertaining to anticipated levels of utilization and revenue that may or may not be under contract but are based on our experience and/or projections received from our customers.

During the second quarter of 2008, we recognized impairment losses of approximately $4.1 million. Approximately $1.5 million related to long-lived assets at certain Canadian locations in which the future cash flows were less than the carrying value of the assets. During the second quarter of 2008, we also recognized approximately $1.2 million in impairment losses related to the write-off of capitalized software costs for information technology infrastructure initiatives which management has decided to discontinue.

8

Table of Contents

In June 2008, we announced plans to close our Big Spring, Texas facility effective August 18, 2008. In connection with this planned closure, we impaired approximately $1.1 million of leasehold improvements, furniture and fixtures and equipment related to this facility.

Hawkesbury Closure

In August 2007, we closed our facility in Hawkesbury, Ontario, Canada. We have recorded restructuring charges related to lease costs, telephony disconnects and other expenses related to the facility closure. In accordance with Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS No. 146), we recognized the liability when it was incurred, instead of upon commitment to a plan. During the second quarter of 2008, we revised our estimates regarding the ability to sublease the facility and as a result incurred $1.4 million in additional restructuring charges. In addition, we incurred approximately $0.3 million in impairment losses related to telephony equipment at the facility during the three months ended June 30, 2008.

The following table summarizes our restructuring accrual and related activity during the six months ended June 30, 2008:

	Facility-Related Costs	
Balance as of January 1, 2008	$	502
Expense		1,538
Payments		(494)
Balance as of June 30, 2008	$	1,546

We expect to incur total restructuring charges related to the Hawkesbury closure of approximately $2.3 million, of which approximately $494 was paid during the six months ended June 30, 2008 and $782 has been paid since commencement of the plan. This restructuring accrual is included in Other Accrued Liabilities in the accompanying Condensed Consolidated Balance Sheets. A significant assumption used in determining the amount of estimated liability for closing sites is the estimated liability for future lease payments on vacant facilities. If the assumptions regarding early termination and the timing and amounts of sublease payments prove to be inaccurate, we may be required to record additional losses, or conversely, a future gain, in our Condensed Consolidated Statements of Operations.

3. NET LOSS PER SHARE

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2008		2007		2008		2007	
Net loss	$	(4,519)	$	(3,443)	$	(4,850)	$	(3,632)
Weighted average shares of common stock		14,706		14,696		14,706		14,696
Dilutive effect of stock options								
Common stock and common stock equivalents		14,706		14,696		14,706		14,696
Net loss per basic share	$	(0.31)	$	(0.23)	$	(0.33)	$	(0.25)

Net loss per diluted share	$	(0.31)	$	(0.23)	$	(0.33)	$	(0.25)

Table of Contents

Diluted earnings per share is computed on the basis of our weighted average number of common shares outstanding plus the effect of dilutive outstanding stock options and non-vested restricted stock using the treasury stock method. Anti-dilutive securities totaling 1,867 shares in the three and six months ended June 30, 2008, and 1,624 shares in the three and six months ended June 30, 2007, were not included in our calculation because of our net loss during the three and six months ended June 30, 2008 and 2007.

4. PRINCIPAL CLIENTS

The following table represents revenue concentration of our principal clients.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
AT&T, Inc.	51.7%	52.5%	50.6%	52.7%
T-Mobile, a subsidiary of Deutsche Telekom	28.6%	20.5%	28.2%	20.0%

On May 7, 2008, we entered into a work order pursuant to the Master Services Agreement (the Work Order) with AT&T Mobility LLC, a wholly-owned subsidiary of AT&T, Inc. (AT&T). The Work Order commenced May 1, 2008, continues through April 28, 2010, and covers the customer care and accounts receivable management services that we provide to AT&T. The Work Order is included as Exhibit 10.14 to this Form 10-Q. The contract covering business care services that we provide to AT&T was replaced in December 2006 with a contract that expires in November 2008. We entered into a services agreement and statement of work with T-Mobile for the provision of certain call center services, each being effective October 1, 2007 and continuing for two years.

The loss of a principal client and/or changes in timing or termination of a principal client s product launch, volume delivery or service offering would have a material adverse effect on our business, revenue, operating results, and financial condition. To limit our credit risk, management from time to time will perform credit evaluations of our clients. Although we are directly impacted by the economic conditions in which our clients operate, management does not believe substantial credit risk existed as of June 30, 2008.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

Our financial instruments consist of cash and cash equivalents, investments, trade accounts receivable, accounts payable, derivative instruments, a line of credit and long-term debt. Carrying values of cash and cash equivalents, trade accounts receivable, and accounts payable approximate fair value due to the short term nature of these accounts. Investments and derivative instruments are reported at fair value. Management believes differences between the fair value and the carrying value of lines of credit and long-term debt are not material because interest rates approximate market rates for material items. As discussed in Note 1, Basis of Presentation , effective January 1, 2008, we adopted SFAS No. 157 and SFAS No. 159. In our adoption of SFAS No. 159, we did not identify any assets or liabilities, previously recorded at other than fair value, which we determined to begin measuring at fair value.

The following table summarizes our financial instruments measured at fair value as of June 30, 2008 and December 31, 2007.

	As of			
	June 30, 2008		December 31, 2007	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Cash and cash equivalents	$ 15,682	$	$ 23,026	$
Investments	17,672		16,349	
Derivative instruments		37	27	
Total	$ 33,354	$ 37	$ 39,402	$

Cash and Cash Equivalents

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

Included in cash and cash equivalents was commercial paper with a fair value of $12,351 and $13,079 as of June 30, 2008 and December 31, 2007, respectively. Commercial paper included in cash and cash equivalents as of June 30, 2008 and December 31, 2007 is highly liquid and has maturities of less than three months.

Table of Contents

Investments

As of June 30, 2008, investments available for sale consisted of:

		Basis		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
Corporate debt securities	$	16,798	$	3	$	(132)	$	16,669
Government agency bonds		1,003						1,003
	$	17,801	$	3	$	(132)	$	17,672

As of December 31, 2007, investments available for sale consisted of corporate debt securities with a basis of $16,412, gross unrealized gains of $59, gross unrealized losses of $122, and a fair value of $16,349. As of June 30, 2008, the basis of the investments in our portfolio have remaining contractual maturities as follows: $14,254 within one year and $3,547 in one to two years. We had no investments at June 30, 2008 or December 31, 2007, that had carried unrealized losses for longer than twelve months. Because we have the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

Our corporate debt securities, government agency bonds and commercial paper are valued using third party broker statements. The value of the majority of our corporate debt securities and government agency bonds is derived from quoted market information. The inputs to the valuation are generally classified as Level 1 given the active market for these securities, however, if an active market does not exist, the inputs are recorded at a lower level in the fair value hierarchy. The value of commercial paper is derived from pricing models using inputs based upon market information, including face value, contractual terms and interest rates.

Derivative Instruments and Hedging Activities

We enter into foreign exchange contracts to hedge our anticipated operating commitments that are denominated in foreign currencies. The contracts cover periods commensurate with expected exposure, generally within six months, and are principally unsecured foreign exchange contracts. The market risk exposure is essentially limited to risk related to currency rate movements. During the three and six months ended June 30, 2008, these hedging commitments resulted in an unrealized gain, net of tax, of $71 and an unrealized loss, net of tax, of $41, respectively. During the three and six months ended June 30, 2007, these hedging commitments resulted in unrealized gains, net of tax, of $206 and $443, respectively, which have been recorded in other comprehensive income. We realized a gain of $26 and a loss of $182 during the three and six months ended June 30, 2008, and a gain of $324 during the three and six months ended June 30, 2007. The realized gains and losses were recognized in cost of services in our Condensed Consolidated Statements of Operations.

Our derivative instruments are valued using third party broker or counterparty statements. The value is derived from pricing models using inputs based upon market information, including contractual terms, market prices and yield curves.

Table of Contents

Fair Value Hierarchy

The following table sets forth our financial instruments by level within the fair value hierarchy. As required by SFAS No. 157, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Assets and Liabilities at Fair Value as of June 30, 2008			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Commercial paper	$	$ 12,351	$	$ 12,351
Corporate debt securities	16,669			16,669
Mortgage backed securities	1,003			1,003
Total financial assets	$ 17,672	$ 12,351	$	$ 30,023
Financial liabilities:				
Derivative instruments	$	$ 37	$	$ 37
Total financial liabilities	$	$ 37	$	$ 37

6. COMPREHENSIVE LOSS

Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income, establishes standards for reporting and display of comprehensive income. Comprehensive income is defined essentially as all changes in stockholders equity, exclusive of transactions with owners. The following represents the components of other comprehensive income (loss):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Net loss	$ (4,519)	$ (3,443)	$ (4,850)	$ (3,632)
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax	(78)	783	(451)	907
Change in fair value of derivative instruments, net of tax	71	206	(41)	443
Unrealized gain (loss) on available for sale securities, net of tax	153	23	(67)	9
Comprehensive loss	$ (4,373)	$ (2,431)	$ (5,409)	$ (2,273)

7. SHARE-BASED COMPENSATION

On May 5, 2008, our stockholders approved the StarTek, Inc. 2008 Equity Incentive Plan (the Plan). The Plan replaced the StarTek, Inc. Stock Option Plan and StarTek, Inc. Directors Stock Option Plan (together, the Prior Plans). A total of 900,000 shares were authorized for grant under the Plan. In addition, a total of 274,298 shares remaining available for future grants under the Prior Plans are available for grant under the Plan. The types of awards that may be granted under the Plan include restricted stock awards, restricted stock unit awards, stock option awards, stock appreciation rights and performance units. The Compensation Committee (the Committee) also has the discretion to grant other types of awards, as long as they are consistent with the terms and purposes of the Plan. The awards granted under this Plan shall not expire more than ten years from the grant date. The Committee may determine the vesting conditions of awards; however, subject to certain exceptions, an award that is not subject to the satisfaction of

performance measures may not fully vest or become fully exercisable earlier than three years from the grant date, and the performance period for an award subject to performance measures may not be shorter than one year.

Stock options granted to employees under the Plan vest as to 25% of the shares on the first anniversary of the date of grant and 2.0833% of the shares each month thereafter for 36 months. Restricted stock awards granted under the Plan vest as to one third of the shares on the first anniversary of the date of grant and one third of the shares each anniversary thereafter for three years. Stock options or restricted stock awards granted to our board of directors under the Plan vest as to 25% of the shares after three months from the date of grant, 25% of the shares after six months from the date of grant, 25% of the shares after nine months from the date of grant, and 25% of the shares after twelve months from the date of grant.

On May 5, 2008, our stockholders approved the StarTek, Inc. Employee Stock Purchase Plan (the ESPP). Under the ESPP, participants may purchase our common stock as of the last day of a purchase period at a price, which shall be no less than the lesser of (a) 85% of the closing price of a share of common stock on the first day of the purchase period; or (b) 85% of the closing price of a share of common stock on the last day of the purchase period. The purchase period is defined as each quarterly period commencing January 1 and ending March 31, or commencing April 1 and ending June 30, or commencing July 1 and ending September 30, or commencing October 1 and ending December 31, unless otherwise determined by the Committee. Our first purchase period commenced July 1, 2008.

Table of Contents

The compensation cost that has been charged against income for the Plan, the Prior Plans, and for restricted stock awards granted outside of those plans (together, the Plans), for the three months ended June 30, 2008 and 2007, was $241 and $344, respectively, and is included in selling, general and administrative expense. The compensation cost that has been charged for the six months ended June 30, 2008 and 2007, was $614 and $533, respectively. The total income tax benefit recognized in our Condensed Consolidated Statements of Operations related to share-based compensation arrangements was $91 and $135 for the three months ended June 30, 2008 and 2007, and $230 and $202 for the six months ended June 30, 2008 and 2007, respectively. As of June 30, 2008, there was $4,766 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plans. That cost is expected to be recognized over a weighted-average period of 3.17 years.

Stock Options

A summary of option activity under the Plans as of June 30, 2008, and changes during the six months then ended is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (yrs)	Aggregate Intrinsic Value (000s)
Outstanding as of January 1, 2008	1,620,342	$ 12.50		
Granted	399,000	9.01		
Exercised				
Forfeited	(224,972)	11.00		
Outstanding as of June 30, 2008	1,794,370	$ 11.91	8.47	$ 159
Exercisable as of June 30, 2008	533,383	$ 16.81	6.97	$

The weighted average grant date fair value of options granted during the three and six months ended June 30, 2008 was $3.47 for both periods. The weighted average grant date fair value of options granted during the three and six months ended June 30, 2007 was $3.96 and $4.19, respectively. No options were exercised during the six months ended June 30, 2008 or 2007.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Risk-free interest rate	2.85%-3.60%	4.56% - 4.58%	2.76%-3.60%	4.56% - 4.74%
Dividend yield	0%	0%	0%	0%
Expected volatility	44.38%-45.13%	43.97% - 50.47%	43.81%-45.13%	43.97% - 50.47%
Expected life in years	4.1	4.1	4.1	4.4

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

The total fair value of shares vested during the three and six months ended June 30, 2008 was $465 and $1,092, respectively. The total fair value of shares vested during the three and six months ended June 30, 2007 was $176 and $285, respectively.

Table of Contents

Restricted Shares

Restricted share activity during the six months ended June 30, 2008 was as follows:

	Restricted Shares		Grant Date Fair Value
Nonvested balance as of January 1, 2008	40,000	$	12.37
Granted	47,800		9.01
Vested	(10,000)		13.14
Forfeited	(5,000)		9.01
Nonvested balance as of June 30, 2008	72,800	$	10.29

8. INCOME TAXES

The year-to-date effective tax rate increased from 1.1% during the six months ended June 30, 2007 to 35.6% during the six months ended June 30, 2008. The primary difference between the periods was the valuation allowance recorded in 2007 on capital loss carryforwards which management did not believe would be recognized before their expiration. No such allowance was recorded during 2008. In addition, during 2008 there was a change in the Canadian statutory tax rate. Effective January 1, 2008, the general corporate income tax rate was reduced from 22.1% to 19.5% due in part to the elimination of the corporate surtax on large corporations of 1.12%. The impact was a reduction in our overall effective tax rate and a reduction of the value of certain deferred tax assets. The net impact of this change was $403 of additional income tax expense for the six months ended June 30, 2008.

Differences between U.S. statutory income tax rates and our effective tax rates for the six months ended June 30, 2008 and 2007 were:

	Six Months Ended June 30,	
	2008	2007
U.S. statutory tax rate	35.0%	35.0%
Effect of state taxes (net of Federal benefit)	1.6%	5.2%
Work opportunity credits	7.4%	9.9%
Effect of change in Canadian tax rate	(5.4%)	0.0%
Capital loss valuation allowance	0.0%	(48.8%)
Other, net	(3.0%)	(0.2%)
Total	35.6%	1.1%

9. LITIGATION

StarTek and six of its former directors and officers have been named as defendants in West Palm Beach Firefighters Pension Fund v. StarTek, Inc., et al. (U.S. District Court, District of Colorado) filed on July 8, 2005, and John Alden v. StarTek, Inc., et al. (U.S. District Court, District of Colorado) filed on July 20, 2005. Those actions have been consolidated by the federal court. The consolidated action is a purported class action brought on behalf of all persons (except defendants) who purchased shares of our common stock in a secondary offering by certain of our stockholders in June 2004, and in the open market between February 26, 2003 and May 5, 2005 (the Class Period). The consolidated complaint alleges that the defendants made false and misleading public statements about us and our business and prospects in the prospectus for the secondary offering, as well as in filings with the SEC and in press releases issued during the Class Period, and that as a result, the market price of our common stock was artificially inflated. The complaints allege claims under Sections 11 and 15 of the Securities Act of 1933 and under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. The plaintiffs in both cases seek compensatory damages on behalf of the alleged class and award of attorneys fees and costs of litigation. On May 23, 2006, we and the individual defendants moved the court to dismiss the action in its entirety. On March 28, 2008, the motion was denied with

respect to the claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, except the claim under Section 20(a) of the Securities Exchange Act of 1934 was dismissed against two of the individual defendants. On the same date, the motion was granted with respect to the claims under Sections 11 and 15 of the Securities Act of 1933 without prejudice to plaintiffs filing an amended complaint with respect to such claims. On May 19, 2008, the plaintiffs filed an amended complaint. On June 5, 2008, we and the individual defendants moved the court to dismiss the amended complaint in its entirety. We believe we have valid defenses to the claims and intend to defend the litigation vigorously.

It is not possible at this time to estimate the possibility of a loss or the range of potential losses arising from these claims. We may, however, incur material legal fees with respect to our defense of these claims. The claims have been submitted to the carriers of our executive and organization liability insurance policies. We expect the carriers to provide for certain defense costs and, if needed, indemnification with a reservation of rights. The policies have primary and excess coverage that we believe will be adequate to defend this case and are subject to a retention for securities claims. These policies provide that we are responsible for the first $1.025 million in defense costs. We have incurred defense costs related to these lawsuits in excess of our $1.025 million deductible.

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

10. SUBSEQUENT EVENTS

On July 3, 2008, we entered into a lease agreement for the rental of a facility in Makati City, Philippines. The lease has a term of ten years. The facility is approximately 78,000 square feet and we expect to open the facility for operations during the fourth quarter of 2008. Total lease commitments for rental of this facility are approximately $9.7 million over the term of the lease.

On August 4, 2008, we opened a facility in Jonesboro, Arkansas. The facility is approximately 55,000 square feet and is leased through July 1, 2015.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our Unaudited Consolidated Financial Statements and related Notes included elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2007, and with the information under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2007.

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

BUSINESS DESCRIPTION AND OVERVIEW

StarTek is a provider of business process outsourcing services to the communications industry. We partner with our clients to meet their business objectives and improve customer retention, increase revenues and reduce costs through an improved customer experience. Our solutions leverage industry knowledge, best business practices, skilled agents, proven operational excellence and flexible technology. The StarTek comprehensive service suite includes customer care, sales support, complex order processing, accounts receivable management, technical support and other industry-specific processes. We provide these services from 21 operational facilities in the U.S. and Canada.

Our business is providing high-end customer service offerings through the effective deployment of people and technology such that our clients can focus on their core business and preserve capital. Our service offering includes customer care, sales support, complex order processing, accounts receivable management and other industry-specific processes. We are well positioned to help our clients implement the convergence of product lines, including wire-line, wireless, cable and broadband. Under each service offering, we deliver a transparent extension of our clients brands. Our success is driven by our people, who we believe are industry trained experts in providing the communications industry with proven business practices and solutions to help our clients achieve their business goals. Our ability to deliver exceptional service to our clients is enhanced by our technology infrastructure. Through our technology, we are able to rapidly respond to ever-changing client demands in a tailored, yet cost-effective and efficient manner. We are capable of handling large call volumes at each of our contact centers through our reliable and scalable contact center solutions. We staff our IT personnel such that we can support our infrastructure and still have the capability to design programs to meet the specific needs of our clients.

We endeavor to achieve site optimization at all of our locations by routinely evaluating site performance. If local economic conditions, prevailing wage rates, or other factors, negatively impact the long-term financial viability of a location, management will from time to time make the decision to close a facility. As a result, we may incur impairment losses or restructuring charges in connection with the closure. Likewise, management is continually in pursuit of opportunities to open new locations in economically viable geographic markets in order to improve profitability and grow the business.

SIGNIFICANT DEVELOPMENTS DURING THE THREE MONTHS ENDED JUNE 30, 2008

In June 2008, we announced plans to close our Big Spring, Texas facility effective August 18, 2008.

SUBSEQUENT EVENTS

On July 3, 2008, we entered into a lease agreement for the rental of a facility in Makati City, Philippines. The lease has a term of ten years. The facility is approximately 78,000 square feet and we expect to open the facility for operations during the fourth quarter of 2008. Total lease commitments for rental of this facility are approximately $9.7 million over the term of the lease.

On August 4, 2008, we opened a facility in Jonesboro, Arkansas. The facility is approximately 55,000 square feet and is leased through July 1, 2015.

Table of Contents

RESULTS OF OPERATIONS THREE MONTHS ENDED JUNE 30, 2008 AND JUNE 30, 2007

		Three Months Ended June 30, 2008	% of Revenue		Three Months Ended June 30, 2007	% of Revenue	% change Q2 2007 to Q2 2008
Revenue	$	65,619	100.0%	$	58,832	100.0%	11.5%
Cost of services		57,205	87.2%		50,295	85.5%	13.7%
Gross profit		8,414	12.8%		8,537	14.5%	-1.4%
Selling, general and administrative expenses		10,227	15.6%		9,040	15.4%	13.1%
Impairment losses and restructuring charges		5,500	8.3%		3,018	5.1%	82.2%
Operating loss		(7,313)	-11.1%		(3,521)	-6.0%	107.7%
Net interest and other income		90	0.1%		143	0.2%	-37.1%
Loss before income taxes		(7,223)	-11.0%		(3,378)	-5.8%	113.8%
Income tax (benefit) expense		(2,704)	-4.1%		65	-0.1%	-4260.0%
Net loss	$	(4,519)	-6.9%	$	(3,443)	-5.9%	31.3%

Revenue

Revenue increased 11.5% from $58.8 million in the second quarter of 2007 to $65.6 million in the second quarter of 2008. The increase was due primarily to revenue generated at our new sites in Victoria, Texas and Mansfield, Ohio which opened during 2008. Revenue generated by these two sites totaled approximately $5.9 million during the second quarter of 2008, partially offset by a $2.6 million revenue decrease related to the loss of a client in early 2008. The remaining revenue increase, approximately $3.5 million, was due to improved pricing and an increase in volume on other contracts.

Cost of Services and Gross Profit

Cost of services increased 13.7% from $50.3 million in the second quarter of 2007 to $57.2 million in the second quarter of 2008. The increase in cost of services was due in part to $5.7 million in cost of services related to the opening of our new facilities in Victoria, Texas and Mansfield, Ohio. We incurred additional fixed and variable costs related to the build-out of these facilities including hiring costs, rental costs and other expenses related to the opening of these sites. Our gross profit margin decreased in the second quarter of 2008 to 12.8%, compared to 14.5% in the second quarter of 2007. Gross profit margin decreased due to certain operational issues at existing U.S. site locations, the loss of a profitable client and the weakening of the U.S. dollar compared to the Canadian dollar. These declines to gross profit margin were partially offset by increases related to better pricing on certain contracts and the closure of our Hawkesbury, Ontario, Canada site in August 2007, which was a drain on margins during the second quarter of 2007.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 13.1% from $9.0 million in the second quarter of 2007 to $10.2 million during the second quarter of 2008, and as a percentage of revenue increased from 15.4% in 2007 to 15.6% in 2008. Investments in human resources, technology and process improvements, in support of our long-term growth objectives established during 2007 accounted for the increase. We also incurred incremental costs associated with our new site expansion in Victoria, Mansfield and the Philippines and incurred approximately $0.5 million in severance expense related to the departure of our Chief Operating Officer.

Impairment Losses and Restructuring Charges

Impairment losses and restructuring charges increased from $3.0 million in the second quarter of 2007 to $5.5 million in the second quarter of 2008. During the second quarter of 2007, we incurred impairment charges of $1.3 million related to impairment of property, plant and equipment at our Hawkesbury, Ontario, Canada site which closed in August 2007 and $1.7 million related to the write-off of certain capitalized software costs. During the second quarter of 2008, we incurred approximately $4.1 million in impairment losses. A portion of these losses, $1.5 million, was due to the impairment of long-lived assets at certain Canadian locations for which expected future cash flows do not support the current carrying value. In addition, we recorded $1.2 million in impairment losses related to the write-off of the remainder of certain capitalized software costs for an enterprise resource planning system, which we intend to replace with a new system to support future growth. Finally, we recorded $1.1 million related to the impairment of property, plant and equipment at our Big Spring, Texas location which is expected to close in August 2008. The expected closure of our Big Spring, Texas facility was driven by market conditions, namely recruiting challenges in this location, which impacted the profitability of the site and management determined it was in our long-term interest to close the location. In addition, we incurred approximately $1.4 million in restructuring charges and $0.3 million in asset impairment losses related to the August 2007 Hawkesbury, Ontario, Canada site closure, due to a change in the expectation of our ability to sublease that facility.

Table of Contents

Operating Loss

We incurred operating losses of approximately $7.3 million and $3.5 million for the three months ended June 30, 2008 and 2007, respectively. The increase in the loss was driven by the decrease in gross margin, the increase in selling, general and administrative expenses, and the increase in impairment losses and restructuring charges, as discussed previously.

Income Tax

The quarterly effective tax rate increased from 1.9% in the second quarter of 2007 to 37.4% in the second quarter of 2008. The primary difference between the periods was the valuation allowance recorded in 2007 on capital loss carryforwards which management did not believe would be recognized before their expiration. No such allowance was recorded during 2008. In addition, during 2008 there was a change in the Canadian statutory tax rate. Effective January 1, 2008, the general corporate income tax rate was reduced from 22.1% to 19.5% due in part to the elimination of the corporate surtax on large corporations of 1.12%.

Net Loss

We incurred net losses of approximately $4.5 million and $3.4 million for the three months ended June 30, 2008 and 2007, respectively. The increase in the net loss was driven primarily by decreased gross margin, the increase in selling, general and administrative expenses, and increased impairment losses and restructuring charges, partially offset by an income tax benefit, as discussed previously.

RESULTS OF OPERATIONS SIX MONTHS ENDED JUNE 30, 2008 AND JUNE 30, 2007

		Six MonthsEnded June 30, 2008	% of Revenue		Six Months Ended June 30, 2007	% of Revenue	% change YTD June 30, 2007 to 2008
Revenue	$	130,364	100.0%	$	116,479	100.0%	11.9%
Cost of services		112,367	86.2%		99,032	85.0%	13.5%
Gross profit		17,997	13.8%		17,447	15.0%	3.2%
Selling, general and administrative expenses		20,317	15.6%		18,432	15.8%	10.2%
Impairment losses and restructuring charges		5,608	4.3%		3,018	2.6%	85.8%
Operating loss		(7,928)	-6.1%		(4,003)	-3.4%	98.1%
Net interest and other income		400	0.3%		331	0.3%	20.8%
Loss before income taxes		(7,528)	-5.8%		(3,672)	-3.1%	105.0%
Income tax benefit		(2,678)	-2.1%		(40)	0.0%	6595.0%
Net loss	$	(4,850)	-3.7%	$	(3,632)	-3.1%	33.5%

Revenue

Revenue increased 11.9% from $116.5 million during the six months ended June 30, 2007 to $130.4 million during the six months ended June 30, 2008. Revenue increased related to the opening of our Victoria, Texas and Mansfield, Ohio sites which contributed approximately $8.9 million in additional revenue during the six months ended June 30, 2008, as well as the re-opening of our Petersburg, Virginia facility which was closed for a portion of 2007 and contributed approximately $3.8 million in additional revenue. In addition, revenue increased year-over-year due to improved pricing on several contracts. These increases were offset by decreased revenue due to a lost client and the

closure of our Hawkesbury, Ontario, Canada site in August 2007.

Cost of Services and Gross Profit

Cost of services increased 13.5% from $99.0 million during the six months ended June 30, 2007 to $112.4 million during the six months ended June 30, 2008. The increase in cost of services was due in part to $8.9 million in cost of services related to the opening of our new facilities in Victoria, Texas and Mansfield, Ohio. We incurred additional fixed and variable costs related to the build-out of these facilities including hiring costs, rental costs and other expenses related to the opening of the sites. These factors also resulted in a reduction of our gross profit margin which declined from 15.0% for the six months ended June 30, 2007 to 13.8% for the six months ended June 30, 2008. The weakening of the U.S. dollar compared to the Canadian dollar during 2008 and the loss of a profitable client also negatively impacted our gross profit margin. These decreases to gross profit were partially offset by the improved pricing on several contracts.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 10.2% from $18.4 million during the six months ended June 30, 2007 to $20.3 million during the six months ended June 30, 2008, but as a percentage of revenue decreased slightly from 15.8% in 2007 to 15.6% in 2008. The dollar increase was due to our investments in human resources, technology and process improvements, in support of our long-term growth objectives established during 2007.

Impairment Losses and Restructuring Charges

Impairment losses and restructuring charges increased from $3.0 million during the six months ended June 30, 2007 to $5.6 million during the six months ended June 30, 2008. During the six months ended June 30, 2007, we incurred impairment charges of $1.3 million related to impairment of property, plant and equipment at our Hawkesbury, Ontario, Canada site which closed in August 2007 and $1.7 million related to the write-off of certain capitalized software costs. During the six months ended June 30, 2008, we incurred approximately $4.1 million in impairment losses. A portion of these losses, $1.5 million, related to the impairment of long-lived assets at certain Canadian locations for which the expected future cash flows do not support the current carrying value. In addition, we recorded $1.2 million in impairment losses related to the write-off of the remainder of certain capitalized software costs for an enterprise resource planning system, which we intend to replace with a new system to support future growth. Finally, we recorded $1.1 million related to the impairment of property, plant and equipment at our Big Spring, Texas location which is expected to close in August 2008. The expected closure of our Big Spring, Texas facility was driven by market conditions, namely recruiting challenges at this location, which impacted the profitability of the site and management determined it was in our long-term interest to close the location. In addition, during the six months ended June 30, 2008 we incurred approximately $1.5 million in restructuring charges and $0.3 million in asset impairment losses related to the August 2007 Hawkesbury, Ontario, Canada site closure due to a change in the expectation of our ability to sublease that facility.

Operating Loss

We incurred operating losses of approximately $7.9 million and $4.0 million for the six months ended June 30, 2008 and 2007, respectively. The increase in the loss was driven by the decrease in gross margin, the increase in selling, general and administrative expenses, and the impairment losses and restructuring charges, discussed previously.

Income Tax

The year-to-date effective tax rate increased from 1.1% during the six months ended June 30, 2007 to 35.6% during the six months ended June 30, 2008. The primary difference between the periods was the valuation allowance recorded in 2007 on capital loss carryforwards which management did not believe would be recognized before their expiration. No such allowance was recorded during 2008. In addition, during 2008 there was a change in the Canadian statutory tax rate. Effective January 1, 2008, the general corporate income tax rate was reduced from 22.1% to 19.5% due in part to the elimination of the corporate surtax on large corporations of 1.12%. The impact was a reduction in our overall effective tax rate and a reduction of the value of certain deferred tax assets. The net impact of this change was $403 of additional income tax expense for the six months ended June 30, 2008.

Net Loss

We incurred net losses of approximately $4.9 million and $3.6 million for the six months ended June 30, 2008 and 2007, respectively. The increase in the net loss was driven primarily by decreased gross margin, the increase in selling, general and administrative expenses, and increased impairment losses and restructuring charges, partially offset by an income tax benefit, as discussed previously.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2008, working capital totaled $61.7 million and our current ratio was 3.19:1, compared to working capital of $66.2 million and a current ratio of 3.45:1 at December 31, 2007. We have historically financed our operations, liquidity requirements, capital expenditures, and capacity expansion primarily through cash flows from operations, and to a lesser degree, through various forms of debt and leasing arrangements. In addition to funding basic operations, our primary uses of cash typically relate to capital expenditures to upgrade our existing information technologies and service offerings, investments in our facilities and, historically, the payment of dividends. We believe that cash flows from operations and cash provided by short-term borrowings, when necessary, will adequately meet our ongoing operating requirements and scheduled principal and interest payments on existing debt. Any significant future expansion of our business may require us to secure additional cash resources. Our liquidity could be significantly impacted by large cash requirements to expand our business or a decrease in demand for our services, particularly from any of our principal clients, which could arise from a number of factors, including, but not limited to, competitive pressures, adverse trends in the business process outsourcing market, industry consolidation, adverse circumstances with respect to the industries we service, and any of the other factors we describe more fully in the Risk Factors section in our Annual Report on Form 10-K for the year ended December 31, 2007.

	Six Months Ended June 30,	
	2008	2007
Net cash provided by (used in):		
Operating activities	$ 9,593	$ 12,857
Investing activities	(14,163)	(16,769)
Financing activities	(2,204)	(2,716)
Effect of foreign exchange rates on cash	(570)	324
Net decrease in cash and cash equivalents	$ (7,344)	$ (6,304)

Our balance of cash and cash equivalents was $15.7 million at June 30, 2008, compared to a balance of $23.0 million at December 31, 2007.

Operating Activities. Net cash provided by operating activities was $9.6 million for the six months ended June 30, 2008, a decrease of approximately $3.3 million from $12.9 million for the six months ended June 30, 2007. The decrease was due primarily to $1.2 million in additional net losses, $6.6 million related to lower collections of accounts receivable due to the timing of payments, and a $2.9 million increase in deferred tax assets primarily due to larger impairment and restructuring charges, stock compensation expense and depreciation expense. Our accounts receivable balance can fluctuate significantly period to period because the majority of our billings occur monthly with large customers whereby, the timing of collection on those receivables can result in significant fluctuations in our accounts receivable balance. These decreases to cash provided by operating activities were offset by an increase in non-cash charges including greater depreciation expense of $0.7 million due to new site openings and greater impairment losses of approximately $1.1 million. The decrease in cash provided by operating activities was also offset by increased cash resulting from larger accounts payable and accrued liabilities balances, totaling $4.7 million, which was driven by payables and payroll accruals for the new sites, and accrued severance related to the departure of our Chief Operating Officer.

Investing Activities. Net cash used in investing activities decreased by approximately $2.6 million from $16.8 million during the six months ended June 30, 2007 to $14.2 million during the six months ended June 30, 2007. The decline in cash used in investing activities was due to a decrease in purchases of investments available for sale. Purchases of investments available for sale, net of proceeds, decreased from $10.6 million during the six months ended June 30, 2007 to $1.4 million during the six months ended June 30, 2008. This was offset by higher purchases of property, plant and equipment, which increased by approximately $6.6 million during the six months ended June 30, 2008, compared to the same period in 2007. The increase in purchases of property, plant and equipment is the result of investments made in new sites.

Financing Activities. Net cash used in financing activities decreased by approximately $0.5 million from $2.7 million during the six months ended June 30, 2007 to $2.2 million during the six months ended June 30, 2008. The decrease was due entirely to lower principal payments on our borrowings.

Table of Contents

Contractual Obligations. Other than operating leases for certain equipment and real estate, and commitments to purchase goods and services in the future, in each case as reflected in the table below, we have no off-balance sheet transactions, unconditional purchase obligations or similar instruments and we are not a guarantor of any other entities debt or other financial obligations, other than the Canadian Dollar Secured Equipment Loan and the Secured Promissory Note, as described below. The following table presents a summary (in thousands), by period, of the future contractual obligations and payments we have entered into as of June 30, 2008:

	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years	Total
Operating leases (1)	$ 5,629	$ 10,636	$ 6,263	$ 1,873	$ 24,401
Capital leases (2)	68	152	140		360
Purchase obligations (3)	731	31			762
Long-term debt (4)	3,581	5,452			9,033
Total contractual obligations	$ 10,009	$ 16,271	$ 6,403	$ 1,873	$ 34,556

(1) We lease facilities and equipment under various non-cancelable operating leases.

(2) We lease equipment under certain capital lease agreements.

(3) Purchase obligations include commitments to purchase goods and services that in some cases may include provisions for cancellation.

(4) Our outstanding debt obligations as of June 30, 2008 are described below.

Line of Credit

We maintain a $10.0 million secured line of credit with Wells Fargo Bank, N.A. (the Bank) which we use to finance regular, short-term operating expenses. The line of credit expires June 30, 2009. Effective June 30, 2008, we entered

into the Fifth Amendment to the Credit Agreement (the amendment). Under the amendment, borrowings under this line of credit bear interest at either a fluctuating rate per annum that is 1% below the Prime Rate or at a fixed rate per annum determined by the Bank to be 1.5% above LIBOR, when our total tangible net worth is $110 million or greater. If our total tangible net worth is less than $110 million, borrowings under this line of credit bear interest at either a fluctuating rate per annum that is 0.75% below the Prime Rate or at a fixed rate per annum determined by the Bank to be 1.75% above LIBOR. The interest rate on this facility was 4.0% as of June 30, 2008. Under the amendment, at the end of each fiscal quarter, we must maintain a tangible net worth of $105 million plus 25% of net income (only if positive) for each fiscal quarter, beginning with the first quarter of 2008. Our previous covenant regarding minimum profit after taxes was deleted. We also must maintain unencumbered liquid assets having an aggregate fair market value of not less than $10 million measured at the end of each fiscal quarter. Due to our net loss during the second quarter of 2008, we were out of compliance with our prior covenant restricting a net loss in the period. We obtained a waiver of this covenant from the Bank and the covenants were amended as described above. In connection with the amendment, we also granted the Bank a security interest in all of our accounts receivable, other rights to payment and general intangibles, including those of our subsidiary, StarTek USA, Inc. There was no balance outstanding on this line of credit as of June 30, 2008.

Canadian Dollar Secured Equipment Loan

On November 17, 2006, StarTek Canada Services, Ltd., one of our subsidiaries, borrowed approximately $9.6 million Canadian dollars from Wells Fargo Equipment Finance Company, Inc. These borrowings are guaranteed by StarTek, Inc. and our subsidiary, StarTek USA, Inc., and are secured by fixed assets and tenant improvements at certain of our Canadian facilities. Under the guarantee agreement, if StarTek Canada Services, Ltd. fails to pay its obligations under the loan agreement when due, the loan guarantors agree to punctually pay any indebtedness, along with interest and certain expenses incurred on behalf of Wells Fargo Equipment Finance Company, Inc. to enforce the guarantee, to Wells Fargo Equipment Finance Company, Inc. The loan will be repaid in 48 monthly installments of $0.225 million until maturity on November 20, 2010, which reflects an implicit annual interest rate of 5.77%. We may elect to prepay amounts due under this loan, provided that we give Wells Fargo Equipment Finance Company, Inc. at least 30 days written notice and that we pay a prepayment premium, as stipulated in the loan agreement. As of June 30, 2008, approximately $5.9 million U.S. dollars were outstanding under this loan.

Secured Promissory Note

On November 17, 2006, our subsidiary, StarTek USA, Inc., borrowed approximately $4.9 million from Wells Fargo Equipment Finance, Inc. The loan will be repaid with interest in 48 monthly installments of $0.115 million until maturity on November 30, 2010. The borrowings bear interest at an annual rate of 6.38% and are secured by fixed assets and tenant improvements at certain of our U.S. facilities. The borrowings may be repaid early without penalty. The promissory note is guaranteed by StarTek, Inc. and our subsidiary, StarTek Canada Services, Ltd. Under the guarantee agreement, if StarTek USA, Inc. fails to pay its obligations under the loan agreement when due, the guarantors agree to full and prompt payment of each and every debt, liability and obligation of every type and description that StarTek USA, Inc. may now or in the future owe. As of June 30, 2008, approximately $3.1 million was outstanding under this note.

Table of Contents

Other Factors Impacting Liquidity. Effective November 4, 2004, our board of directors authorized purchases of up to $25.0 million of our common stock. The repurchase program will remain in effect until terminated by the board of directors and will allow us to repurchase shares of our common stock from time to time on the open market, in block trades and in privately-negotiated transactions. Repurchases will be implemented by the Chief Financial Officer consistent with the guidelines adopted by the board of directors and will depend on market conditions and other factors. Any repurchased shares will be made in accordance with SEC rules. We have not yet repurchased any shares pursuant to this board authorization.

Our business currently has a high concentration of a few principal clients. The loss of a principal client and/or changes in timing or termination of a principal client s product launch or service offering would have a material adverse effect on our business, liquidity, operating results, and financial condition. These client relationships are further discussed in Note 4 Principal Clients, to our Condensed Consolidated Financial Statements, which are included at Item 1, Financial Statements , of this Form 10-Q. To limit our credit risk, management from time to time will perform credit evaluations of our clients. Although we are directly impacted by the economic conditions in which our clients operate, management does not believe substantial credit risk existed as of June 30, 2008.

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

Variability of Operating Results. Our business has been seasonal only to the extent that our clients marketing programs and product launches are geared toward the holiday buying season. We have experienced and expect to continue to experience some quarterly variations in revenue and operating results due to a variety of factors, many of which are outside our control, including: (i) timing and amount of costs incurred to expand capacity in order to provide for volume growth from existing and future clients; (ii) changes in the volume of services provided to principal clients; (iii) expiration or termination of client projects or contracts; (iv) timing of existing and future client product launches or service offerings; (v) seasonal nature of certain clients businesses; and (vi) cyclical nature of certain clients businesses.

Because we service relatively few, large clients, the availability of cash is highly dependent on the timing of cash receipts from accounts receivable. As a result, from time to time, we borrow cash from our line of credit to cover short-term cash needs. These borrowings are typically outstanding for a short period of time before they are repaid. However, our debt balance can fluctuate significantly during any given quarter as part of our ordinary course of business. Accordingly, our debt balance at the end of any given quarter is not necessarily indicative of the debt balance at any other time during that period.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing our condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management must undertake decisions that impact the reported amounts and related disclosures. Such decisions include the selection of the appropriate accounting principles to be applied and assumptions upon which accounting estimates are based. Management applies its best judgment based on its understanding and analysis of the relevant circumstances to reach these decisions. By their nature, these judgments are subject to an inherent degree of uncertainty. Accordingly, actual results may vary significantly from the estimates we have applied.

Our critical accounting policies and estimates are consistent with those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2007. Please refer to Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations*, in our Annual Report on Form 10-K for the year ended December 31, 2007, for a complete description of our Critical Accounting Policies and Estimates.

Recently Adopted Accounting Pronouncements

Effective January 1, 2008, we adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. We adopted those provisions related to financial assets and liabilities as well as other assets and liabilities carried at fair value on a recurring basis. FASB Staff Position No. 157-2 Effective Date of FASB Statement No. 157 (FSP No. 157-2), deferred

the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. We will adopt the provisions of SFAS No. 157 related to other nonfinancial assets and liabilities prospectively for our fiscal year beginning January 1, 2009. The adoption of SFAS No. 157 had no impact on our Condensed Consolidated Financial Statements as of June 30, 2008, however, we have provided additional disclosures in accordance with this statement included in Note 5, Fair Value of Financial Instruments to our Condensed Consolidated Financial Statements.

Table of Contents

SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). When determining the fair value measurements for assets and liabilities required or permitted to be recorded at and/or marked to fair value, we consider the principal or most advantageous market in which it would transact and consider assumptions that market participants would use when pricing the asset or liability. When possible, we look to active and observable markets to price identical assets or liabilities. When identical assets and liabilities are not traded in active markets, we look to market observable data for similar assets and liabilities. Nevertheless, if certain assets and liabilities are not actively traded in observable markets, we must use alternative valuation techniques to derive a fair value measurement.

Effective January 1, 2008, we adopted Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Liabilities (SFAS No. 159). SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value, and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The adoption of SFAS No. 159 had no impact on our Condensed Consolidated Financial Statements as of June 30, 2008.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business, we are exposed to certain market risks related to changes in interest rates and other general market risks, and foreign currency exchange rates. This information should be read in conjunction with information set forth in Part II, Item 7A in our Annual Report on Form 10-K for the year ended December 31, 2007, in addition to the interim unaudited consolidated financial statements, accompanying notes and management s discussion and analysis of financial condition and results of operations presented in Items 1 and 2 of this Quarterly Report on Form 10-Q.

Interest Rate Risk

We are exposed to interest rate risk with respect to our cash and cash equivalents, investments and debt obligations. Cash and cash equivalents are not restricted. We consider cash equivalents to be short-term, highly liquid investments readily convertible to known amounts of cash, and so near their maturity they present insignificant risk of changes in value because of changes in interest rates. At June 30, 2008, investments available for sale consisted of corporate debt securities and government agency bonds. Our investment portfolio is subject to interest and inflation rate risks and will fall in value if market interest and/or inflation rates or market expectations relating to these rates increase. Management believes we have the ability to hold the foregoing investments until maturity, and therefore, if held to maturity, we would not expect the future proceeds from these investments to be affected, to any significant degree, by the effect of a sudden change in market interest rates. Declines in interest rates over time will, however, reduce our interest income derived from future investments.

Foreign Currency Exchange Risks

Our Canadian subsidiary s functional currency is the Canadian dollar, which is used to pay labor and other operating costs in Canada. If an arrangement provides for us to receive payments in a foreign currency, revenue realized from such an arrangement may be lower if the value of such foreign currency declines. Similarly, if an arrangement provides for us to make payments in a foreign currency, cost of services and operating expenses for such an arrangement may be higher if the value of such foreign currency increases. Approximately 34.5% of our operating expenses, excluding impairment losses and restructuring charges, in the second quarter of 2008 were incurred by our Canadian operations. A portion of our Canadian operations generate revenues denominated in U.S. dollars. To hedge our exposure to fluctuations in the Canadian dollar relative to the U.S. dollar we enter into forward purchase contracts. During the second quarter of 2008, we entered into forward contracts for $15.3 million Canadian dollars to hedge our foreign currency risk with respect to these labor costs. As of June 30, 2008, we had $.04 million in derivative liabilities and related tax benefit of $0.01 million which is expected to settle within the next twelve months. As of June 30, 2008, we had contracted to purchase $20.3 million Canadian dollars to be delivered periodically through December 2008 at a purchase price which is no more than $20.3 million and no less than $18.8 million.

During the three and six months ended June 30, 2008, there were no other material changes in our market risk exposure. For a complete discussion of our market risk associated with foreign currency and interest rate risk as of December 31, 2007, see Item 7A. Quantitative and Qualitative Disclosures about Market Risk in our Annual Report on Form 10-K for the year ended December 31, 2007.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. As of June 30, 2008, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2008, our disclosure controls and procedures were effective and were designed to ensure that all information required to be disclosed by us in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

Changes in internal controls over financial reporting. There was no change in our internal control over financial reporting that occurred during the quarter ended June 30, 2008, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

ITEM 1. LEGAL PROCEEDINGS

StarTek and six of its former directors and officers have been named as defendants in West Palm Beach Firefighters Pension Fund v. StarTek, Inc., et al. (U.S. District Court, District of Colorado) filed on July 8, 2005, and John Alden v. StarTek, Inc., et al. (U.S. District Court, District of Colorado) filed on July 20, 2005. Those actions have been consolidated by the federal court. The consolidated action is a purported class action brought on behalf of all persons (except defendants) who purchased shares of our common stock in a secondary offering by certain of our stockholders in June 2004, and in the open market between February 26, 2003 and May 5, 2005 (the Class Period). The consolidated complaint alleges that the defendants made false and misleading public statements about us and our business and prospects in the prospectus for the secondary offering, as well as in filings with the SEC and in press releases issued during the Class Period, and that as a result, the market price of our common stock was artificially inflated. The complaints allege claims under Sections 11 and 15 of the Securities Act of 1933 and under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. The plaintiffs in both cases seek compensatory damages on behalf of the alleged class and award of attorneys fees and costs of litigation. On May 23, 2006, we and the individual defendants moved the court to dismiss the action in its entirety. On March 28, 2008, the motion was denied with respect to the claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, except the claim under Section 20(a) of the Securities Exchange Act of 1934 was dismissed against two of the individual defendants. On the same date, the motion was granted with respect to the claims under Sections 11 and 15 of the Securities Act of 1933 without prejudice to plaintiffs filing an amended complaint with respect to such claims. On May 19, 2008, the plaintiffs filed an amended complaint. On June 5, 2008, we and the individual defendants moved the court to dismiss the amended complaint in its entirety. We believe we have valid defenses to the claims and intend to defend the litigation vigorously.

It is not possible at this time to estimate the possibility of a loss or the range of potential losses arising from these claims. We may, however, incur material legal fees with respect to our defense of these claims. The claims have been submitted to the carriers of our executive and organization liability insurance policies. We expect the carriers to provide for certain defense costs and, if needed, indemnification with a reservation of rights. The policies have primary and excess coverage that we believe will be adequate to defend this case and are subject to a retention for securities claims. These policies provide that we are responsible for the first $1.025 million in defense costs. We have incurred defense costs related to these lawsuits in excess of our $1.025 million deductible.

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

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in our 2007 Annual Report on Form 10-K, except for the modifications reflected in the risk factors listed below.

Our operations outside of the USA subject us to the risk of currency exchange fluctuations.

Because we conduct a material portion of our business in Canada and are expanding our operations to other locations outside of the USA, we are exposed to market risk from changes in the value of the Canadian dollar and the currencies of other foreign countries in which we operate. Material fluctuations in exchange rates impact our results through translation and consolidation of the financial results of our foreign operations, and therefore may negatively impact our results of operations and financial condition. Our results of operations have been negatively impacted by the increase in the value of the Canadian dollar in relation to the value of the U.S. dollar during 2007, 2006 and 2005, because we have contracts wherein the revenue we earn is denominated in U.S. dollars, yet the costs we incur to fulfill our obligations under those contracts are denominated in Canadian dollars. During 2007, 2006 and 2005, we engaged in limited hedging activities relating to our exposure to such fluctuations in the value of the Canadian dollar versus the U.S. dollar. We intend to continue hedging activities in 2008. However, currency hedges do not, and will not, eliminate our exposure to fluctuations in the Canadian dollar. Further increases in the value of the Canadian dollar, or currencies in other foreign countries in which we may operate, in relation to the value of the U.S. dollar, will further increase such costs and may adversely affect our results of operations.

Table of Contents

We face risks inherent in conducting business outside of North America.

Our operations in Canada accounted for 39.1%, 43.7% and 41.6% of our revenue in 2007, 2006 and 2005 respectively. We are opening a new facility in the Philippines. There are risks inherent in conducting business internationally, including competition from local businesses or established multinational companies, who may have firmly established operations in particular foreign markets. This may give these firms an advantage regarding labor and material costs. Other risks inherent in conducting business internationally include potentially longer working capital cycles, unexpected changes in foreign government programs, policies, regulatory requirements, and labor laws, and difficulties in staffing and effectively managing foreign operations. Our current or potential new clients may be reluctant to have us provide services to them from a location outside of North America. One or more of these factors may have an impact on our international operations. Our lack of significant international operating experience may result in any of these factors impacting us to a greater degree than they impact our competitors. To the extent one or more of these factors impact our international operations, it could adversely affect our business, results of operations, growth prospects, and financial condition as a whole.

Various risk factors described in our 2007 Annual Report on Form 10-K may be exacerbated with regard to international operations, especially in countries where we do not have well-established operations, such as risks related to the need to retain key management personnel, the inability to hire and retain qualified employees, increases in operating costs, facility capacity utilization, management of growth and costs related to growth, geopolitical military conditions, interruptions to our business, and the cost or significant interruptions in telephone and data services.

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

The annual meeting of stockholders of StarTek, Inc. was held on May 5, 2008. Stockholders were invited to vote, by proxy or in person, for or against four items. The results of the vote were as follows:

	For	Against	Abstain/ Withhold	Broker Non-Vote
Election of Directors				
Ed Zschau	13,461,136		716,129	
P. Kay Norton	13,466,190		711,075	
Albert C. Yates	13,452,040		725,225	
A. Laurence Jones	13,945,775		231,490	
Harvey A. Wagner	13,953,179		224,086	
Ratify Appointment of Ernst & Young LLP as independent registered public accounting firm of the company for the year ending December 31, 2008	14,149,617	22,938	4,710	
Approve the StarTek, Inc. Employee Stock Purchase Plan	12,122,593	72,847	53,400	1,928,425
Approve the StarTek, Inc. 2008 Equity Incentive Plan	11,341,927	851,617	55,296	1,928,425

ITEM 6. EXHIBITS

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

24

Table of Contents

SIGNATURES

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

STARTEK, INC.
(REGISTRANT)

By: /s/ A. LAURENCE JONES	Date: August 11, 2008
A. Laurence Jones President and Chief Executive Officer (Principal Executive Officer)	
By: /s/ DAVID G. DURHAM	Date: August 11, 2008
David G. Durham Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	

Table of Contents

EXHIBIT INDEX

		Incorporated Herein by Reference		
Exhibit	**Description**	**Form**	**Exhibit**	**Filing Date**
3.1	Restated Certificate of Incorporation of the Company.	S-1	3.1	1/29/1997
3.2	Restated Bylaws of the Company.	8-K	3.2	8/2/2007
3.3	Certificate of Amendment to the Certificate of Incorporation of StarTek, Inc. filed with the Delaware Secretary of State on May 21, 1999.	10-K	3.3	3/8/2000
3.4	Certificate of Amendment to the Certificate of Incorporation of StarTek, Inc. filed with the Delaware Secretary of State on May 23, 2000.	10-Q	3.4	8/14/2000
4.1	Specimen Common Stock certificate.	10-Q	4.2	11/6/2007
10.1	StarTek, Inc. Employee Stock Purchase Plan.	Def14a	A	3/20/2008
10.2	StarTek, Inc. 2008 Equity Incentive Plan.	Def14a	B	3/20/2008
10.3	Form of Non-Statutory Stock Option Agreement (Employee) pursuant to StarTek, Inc. 2008 Equity Incentive Plan.	8-K	10.2	5/5/2008
10.4	Form of Non-Statutory Stock Option Agreement (Director) pursuant to StarTek, Inc. 2008 Equity Incentive Plan.	8-K	10.3	5/5/2008
10.5	Form of Incentive Stock Option Agreement (Employee) pursuant to StarTek, Inc. 2008 Equity Incentive Plan.	8-K	10.4	5/5/2008
10.6	Form of Restricted Stock Award Agreement (Employee) pursuant to StarTek, Inc. 2008 Equity Incentive Plan.	8-K	10.5	5/5/2008
10.7	Form of Restricted Stock Award Agreement (Director) pursuant to StarTek, Inc. 2008 Equity Incentive Plan.	8-K	10.6	5/5/2008
10.8	Amendment No. 1 to Form of Executive Employment Contract.	10-K	10.11	2/29/2008
10.9*	Amendment to employment agreement of A. Laurence Jones signed May 23, 2008.			
10.10	Amendment effective April 1, 2008 to the Master Service Agreement effective March 21, 2002 between StarTek, Inc. and AT&T Mobility LLC for certain call center services.	10-Q	10.5	5/6/2008
10.11	Amendment effective April 1, 2008 to Amendment No. 001 dated April 1, 2004 to the Master Service Agreement incorporating a Statement of Work between StarTek, Inc. and AT&T Mobility, LLC for certain call center services.	10-Q	10.6	5/6/2008
10.12*	Amendment effective May 1, 2008 to the Master Service Agreement effective March 21, 2002 between StarTek, Inc. and AT&T Mobility LLC for certain call center services.			

10.13*	Amendment effective May 1, 2008 to Amendment No. 001 dated April 1, 2004 to the Master Service Agreement incorporating a Statement of Work between StarTek, Inc. and AT&T Mobility, LLC for certain call center services.
10.14*&	Work Order 20080122.003.C effective May 1, 2008 between StarTek USA, Inc. and AT&T Mobility LLC
10.15*&	Amendment Cing7866.A.001 effective April 16, 2008 between StarTek USA, Inc. and AT&T Mobility LLC

Table of Contents

Exhibit	Description	Incorporated Herein by Reference Form	Exhibit	Filing Date
10.16*&	Amendment 20070105.006.S.002.A.001 effective June 27, 2008 by and between StarTek, Inc. and AT&T Services, Inc.			
10.17*&	Amendment 20070105.006.S.007.A.001 effective July 14, 2008 between StarTek, Inc. and AT&T Crop.			
10.18*&	General Agreement Order 20070105.006.S.008 effective June 19, 2008 by and between StarTek, Inc. and AT&T Services, Inc.			
10.19*&	General Agreement Order 20070105.006.S.009 effective June 5, 2008 by and between StarTek, Inc. and AT&T Services, Inc.			
10.20*&	General Agreement Order 20070105.006.S.010 effective June 5, 2008 by and between StarTek, Inc. and AT&T Services, Inc.			
10.21*&	General Agreement Order 20070105.006.S.011 effective June 5, 2008 by and between StarTek, Inc. and AT&T Services, Inc.			
10.22*&	General Agreement Order 20070105.006.S.012 effective July 10, 2008 by and between StarTek, Inc. and AT&T Services, Inc.			
10.23*	Fourth Amendment to Credit Agreement entered into as of April 30, 2008.			
10.24*	Fifth Amendment to Credit Agreement, $10,000,000 Revolving Line of Credit Note, and Addendum to Promissory Note, each entered into as of June 30, 2008.			
10.25*	Continuing Security Agreement between StarTek USA, Inc. and Wells Fargo Bank, National Association, entered into as of June 30, 2008.			
10.26*	Continuing Security Agreement between StarTek, Inc. and Wells Fargo Bank, National Association, entered into as of June 30, 2008.			
31.1*	Certification of A. Laurence Jones pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.			
31.2*	Certification of David G. Durham pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.			
32.1*	Written Statement of the Chief Executive Officer and Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.			

* Filed with this Form 10-Q.

Management contract or

compensatory plan or arrangement.

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