STARTEK INC
Form DEF 14A
April 09, 2004

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

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant [X]

Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[ ] Preliminary Proxy Statement

[ ] **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

[X] Definitive Proxy Statement

[ ] Definitive Additional Materials

[ ] Soliciting Material Pursuant to §240.14a-1(c) or §240.14a-12

StarTek, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

[ ] Fee computed on the table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

____

(2) Aggregate number of securities to which transaction applies:

____

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the

amount on which the filing fee is calculated and state how it was determined);

____

(4) Proposed maximum aggregate value of transaction:

____

(5) Total fee paid:

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[ ] Fee paid previously with preliminary materials.

[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount previously paid:

____

(2) Form, Schedule, or Registration Statement No.:

____

(3) Filing Party:

____

(4) Date filed:

____

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STARTEK, INC.

NOTICE OF ANNUAL MEETING OF

STOCKHOLDERS May 7, 2004

PROXY STATEMENT

SUPPLEMENT TO 2003 ANNUAL REPORT TO STOCKHOLDERS

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STARTEK, INC.

100 Garfield Street
Denver, Colorado 80206

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held May 7, 2004

To the Stockholders:

Notice is hereby given that the 2004 Annual Meeting of Stockholders of StarTek, Inc., a Delaware corporation, will be held at our headquarters, 100 Garfield Street, Denver, Colorado 80206, on May 7, 2004, at 8:00 a.m. local time, for the following purposes:

1. To elect five directors to hold office for a term of one year and until their successors are elected and qualified.

2. To amend our Stock Option Plan to increase the maximum number of shares available for award under the plan from 1,585,000 to 1,835,000.

3. To amend our Directors Stock Option Plan to increase the maximum number of shares available for award under the plan from 90,000 to 140,000.

4. To ratify the appointment of Ernst & Young LLP as our independent auditors for the year ending December 31, 2004.

5. To consider and act upon such other business as may properly come before the meeting.

The Board of Directors has fixed the close of business on April 2, 2004 as the record date for determination of stockholders entitled to notice of and to vote at the meeting and any adjournment thereof.

Whether or not you expect to be present, please sign, date, and return the enclosed proxy card as promptly as possible in the enclosed stamped envelope, the postage on which will be valid if mailed in the United States.

By Order of the Board of Directors

EUGENE L. MCKENZIE, JR.
Secretary

April 16, 2004

EVERY STOCKHOLDER S VOTE IS IMPORTANT. PLEASE MARK, SIGN, DATE, AND MAIL THE ENCLOSED PROXY CARD AT YOUR EARLIEST CONVENIENCE, WHETHER OR NOT YOU PLAN TO ATTEND THE 2004 ANNUAL MEETING OF STOCKHOLDERS OF STARTEK, INC.

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STARTEK, INC.

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Appendices A through E are excerpts from StarTek, Inc. s Form 10-K as filed with the Securities and Exchange Commission on March 9, 2004.
Exhibit A StarTek, Inc. Stock Option Plan (as proposed to be amended in Proposal 2)
Exhibit B StarTek, Inc. Directors Stock Option Plan (as proposed to be amended in Proposal 3)

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PROXY STATEMENT

STARTEK, INC.

100 Garfield Street
Denver, Colorado 80206
(303) 399-2400

2004 ANNUAL MEETING OF STOCKHOLDERS
MAY 7, 2004

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of StarTek, Inc., a Delaware corporation, of proxies for use at our 2004 Annual Meeting of Stockholders, to be held at our headquarters at 100 Garfield Street, Denver, Colorado 80206, on May 7, 2004 at 8 a.m. local time, and at any and all adjournments thereof. Our principal address is 100 Garfield Street, Denver, Colorado 80206. The date of mailing of this Proxy Statement is on or about April 16, 2004. The purpose of the meeting is to: (i) elect five directors to our Board; (ii) approve an amendment to our Stock Option Plan to increase the maximum number of shares available for award under the plan from 1,585,000 to 1,835,000; (iii) approve an amendment to our Directors Stock Option Plan to increase the maximum number of shares available for award under the plan from 90,000 to 140,000; (iv) ratify the appointment of Ernst & Young, LLP as our independent auditors for the year ending December 31, 2004; and (v) consider and act upon such other business as may properly come before the Annual Meeting.

OUTSTANDING STOCK AND VOTING RIGHTS

In accordance with our By-laws, the Board of Directors has fixed the close of business on April 2, 2004 as the record date for determining the stockholders entitled to notice of, and to vote at, the Annual Meeting. Only stockholders of record as of the record date will be entitled to vote. A stockholder who submits a proxy on the accompanying form has the power to revoke it by notice of revocation to our headquarters address at any time before it is voted. A subsequently dated proxy received by us will constitute revocation of any prior proxies from the same stockholder. Proxies will be voted as specified on the proxy card. **In the absence of specific instructions, proxies will be voted (i) FOR the proposals described in this Proxy Statement, and (ii) in the discretion of the proxy holders on any other matter which properly comes before the meeting.** A stockholder who has given a proxy may nevertheless attend the meeting, revoke the proxy, and vote in person. The Board of Directors has selected A. Emmet Stephenson, Jr. and William E. Meade, Jr., and each of them, to act as proxies with full power of substitution.

Solicitation of proxies may be made by mail, personal interview, telephone and facsimile transmission by our officers and other management employees, none of whom will receive any additional compensation for their soliciting activities. The total expense of any solicitation will be borne by us and may include reimbursement paid to brokerage firms and others for their expenses in forwarding material regarding the Annual Meeting to beneficial owners.

The only outstanding securities entitled to vote at the Annual Meeting are shares of our common stock, $.01 par value. As of the record date, 14,426,891 shares of common stock were issued and outstanding. Each outstanding share of common stock entitles the holder, as of the record date, to one vote on all matters brought before the Annual Meeting. The quorum necessary to conduct business at the Annual Meeting consists of a majority of the outstanding shares of common stock as of the record date.

The election of the directors nominated will require a plurality (*i.e.*, the highest number) of the votes cast in person or by proxy at the Annual Meeting by stockholders. In the election of directors, each stockholder is entitled to cast one vote per share for each director to be elected. Cumulative voting is not permitted. Approval of the amendments to our stock option plan and directors stock option plan and of the appointment of our auditors will require the affirmative vote of the holders of a majority of the shares of our common stock present, whether in person or by proxy, at the Annual Meeting.

Votes withheld from nominees for directors, abstentions, and broker non-votes (*i.e.*, when a broker does not have authority to vote on a specific issue) are counted as present in determining whether the quorum requirement is satisfied. For purposes of the election of directors, abstentions and broker non-votes are not considered to be votes cast and do not affect the plurality vote required for election of directors. For purposes of the amendments to our stock option plan and directors stock option plan and of the appointment of our auditors and any other matters properly brought before the Annual Meeting, broker non-votes will not be considered present and do not affect the vote taken; however, abstentions are considered as being present and have the effect of a no vote.

BENEFICIAL OWNERSHIP OF COMMON STOCK BY

DIRECTORS, EXECUTIVE OFFICERS, AND PRINCIPAL STOCKHOLDERS

The table below presents information as of April 2, 2004 regarding the beneficial ownership of shares of our common stock by:

Each of our directors and executive officers;

Each person we know to have beneficially owned more than five percent of our common stock as of that date; and

All of our present executive officers and directors as a group.

	Beneficial Ownership of Shares	
Name of Stockholder	**Number of Shares(1)**	**Percentage**
Toni E. Stephenson(2)(3)	3,313,882(4)	23.0%
FASSET Trust(2)(5)	993,462(4)	6.9%
MASSET Trust(2)(5)	993,462(4)	6.9%
A. Emmet Stephenson, Jr.(2)(6)	3,350,882	23.2%
William E. Meade, Jr.(2)(7)	105,000	*
Eugene L. McKenzie, Jr.(2)(8)	2,000	*
Lawrence Zingale(2)(9)	20,000	*
Pamela S. Oliver(2)(10)	1,986,924	13.8%
Michael W. Morgan(2)(11)	56,743	*
Ed Zschau(12)	38,000	*
Hank Brown(13)	7,500	*
Michael S. Shannon(14)	19,000	*
Awad Asset Management(15)	779,279	5.4%
All Directors and Executive Officers as a group (8 persons)(16)	3,599,125	24.7%

* Less than one percent.

(1) Calculated pursuant to Rule 13d-3(d) of the Exchange Act. Under Rule 13d-3(d), shares not outstanding that are subject to options, warrants, rights or conversion privileges exercisable within 60 days are deemed outstanding for the purpose of calculating the number and percentage owned by such person, but are not deemed outstanding for the purpose of calculating the percentage owned by each other person listed. Accordingly, share ownership in each case includes shares issuable upon exercise of outstanding options that are exercisable within 60 days after April 2, 2004. Unless otherwise indicated in the footnotes, and subject to community property laws where applicable, each of the named persons has sole voting and investment power with respect to the shares shown as beneficially owned.

(2) The address of such person, trust or trustee is c/o StarTek, Inc., 100 Garfield Street, Denver, Colorado 80206.

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(3) Mrs. Stephenson is the wife of A. Emmet Stephenson, Jr. Mr. Stephenson is our co-founder and Chairman of our Board of Directors. Mr. Stephenson disclaims beneficial ownership of shares owned by Mrs. Stephenson.

(4) We have filed a registration statement relating to the sale by Mrs. Stephenson and the MASSET and FASSET Trusts of shares of our common stock. If the selling stockholders sell all of the shares listed in the registration statement, MASSET Trust and FASSET Trust will own none of our common stock and Mrs. Stephenson will own 1,620,806 shares of our common stock.

(5) Pamela S. Oliver is the sole trustee of MASSET Trust and FASSET Trust and has sole voting power and investment power with respect to the common stock held by the trusts. Mrs. Oliver is Mr. Stephenson s sister.

(6) Mr. Stephenson is our co-founder and Chairman of our Board. Mr. Stephenson is the husband of Toni E. Stephenson and the brother of Pamela S. Oliver. Mrs. Stephenson disclaims beneficial ownership of shares owned by Mr. Stephenson.

(7) Mr. Meade is our President and Chief Executive Officer. Includes 105,000 shares of common stock underlying vested stock options, and excludes 80,000 shares of common stock underlying unvested options held by Mr. Meade. Mr. Meade has entered into a plan providing for his exercise of up to 50,000 options and sale of the underlying shares of common stock from time to time depending on the market price of our common stock, subject to specified limitations. The plan terminates on September 30, 2004, unless terminated sooner in accordance with the terms of the plan.

(8) Mr. McKenzie is our Executive Vice President, Chief Financial Officer, Treasurer and Secretary. Includes 2,000 shares of common stock underlying vested stock options, and excludes 43,000 shares of common stock underlying unvested options held by Mr. McKenzie.

(9) Mr. Zingale is our Executive Vice President and Chief Operating Officer. Includes 20,000 shares of common stock underlying vested stock options, and excludes 90,000 shares of common stock underlying unvested options held by Mr. Zingale.

(10) Represents shares owned by the FASSET and MASSET Trusts. Mrs. Oliver is the sole trustee of each of the trusts and has sole voting power and investment power with respect to the common stock held by the trusts. Mrs. Oliver is Mr. Stephenson s sister.

(11) Mr. Morgan is our co-founder and Vice Chairman of our Board. Mr. Morgan owns 56,743 shares of common stock. Excludes 40,000 shares of common stock underlying unvested options held by Mr. Morgan.

(12) Dr. Zschau is one of our Directors. The Zschau Living Trust owns 10,000 shares of common stock. Includes 28,000 shares of common stock underlying vested stock options. Dr. Zschau s business address is Ed Zschau Enterprises, 1310 Trinity Drive, Menlo Park, California 94025.

(13) Mr. Brown is one of our Directors. Mr. Brown owns 1,500 shares of common stock. Includes 6,000 shares of common stock underlying vested stock options. Mr. Brown s business address is c/o Daniels Fund, 101 Monroe Street, Denver, CO 80206.

(14) Mr. Shannon is one of our Directors. Mr. Shannon owns 9,000 shares of common stock. Includes 10,000 shares of common stock underlying vested stock options. Mr. Shannon s business address is KSL Recreation Corporation, 50-905 Avenida Bermudas, La Quinta, CA 92253.

(15) Awad Asset Management, Inc. s address is 250 Park Avenue, 2nd Floor, New York, New York 10177. The information regarding Awad Asset Management, Inc. is as reported by Awad Asset Management, Inc. to the Securities and Exchange Commission on Schedule 13G/A filed on January 27, 2004.

(16) Includes an aggregate of 171,000 shares of common stock underlying vested stock options held by our directors and executive officers.

Except as set forth in the table above, we know of no other person that beneficially owns 5% or more of our outstanding common stock.

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SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our directors and executive officers and beneficial owners of more than 10% of our outstanding common stock (collectively, Insiders) to file reports with the SEC disclosing direct and indirect ownership of our common stock and changes in such ownership. The rules of the SEC require Insiders to provide us with copies of all Section 16(a) reports filed with the SEC. Based solely upon a review of copies of Section 16(a) reports received by us, and written representations that no additional reports were required to be filed with the SEC, we believe Insiders have complied with all Section 16(a) filing requirements applicable since January 1, 2003.

PROPOSAL 1.

ELECTION OF DIRECTORS

Our By-laws provide that our Board of Directors will consist of at least one director and no more than nine, and the Board has fixed the number of directors following the Annual Meeting at five. Each director serves an annual term. Michael W. Morgan is not standing for re-election, and at the Annual Meeting our stockholders will elect five directors to serve until the 2005 Annual Meeting of Stockholders and until successors are duly elected and qualified. Proxies may not be voted for any number of nominees greater than five.

The Board of Directors has nominated Messrs. A. Emmet Stephenson, Jr., William E. Meade, Jr., Ed Zschau, Hank Brown, and Michael S. Shannon to serve as directors until their terms expire in 2005. The names of nominees and directors continuing in office, their principal occupations, and years in which they became directors are set forth below. In the event any nominee declines or is unable to serve, proxies will be voted in the discretion of the proxy holders. We have no reason to anticipate that this will occur.

A. Emmet Stephenson, Jr.; age 58; President, Stephenson and Company[(a), (c)]

Mr. Stephenson co-founded us in 1987 and has served as our Chairman of the Board since our formation. Mr. Stephenson has also served as President of Stephenson and Company, a private investment firm in Denver, Colorado, for more than five years. Mr. Stephenson is a director of Danaher Corporation and serves on the Advisory Boards of First Berkshire Fund and Capital Resource Partners, L.P.

William E. Meade, Jr.; age 47; President and Chief Executive Officer, StarTek, Inc.

Mr. Meade has served as our President and Chief Executive Officer since June 2001. Prior to joining us, Mr. Meade was President and Chief Executive Officer of WebMiles, Inc. From 1987 to 1999 he was with the American Express Company. He finished his service there as Senior Vice-President of Business Development and Global Operations for the American Express Travelers Cheque Group.

Ed Zschau; age 64; Visiting Lecturer at Princeton University[(a), (b), (c)]

Dr. Zschau has served as one of our directors since January 1997. He is Visiting Lecturer at Princeton University in the Department of Electrical Engineering and was a Professor of Management at Harvard Business School from September 1996 to August 2000. From April 1993 to July 1995, Dr. Zschau was General Manager, IBM Corporation Storage Systems Division. Dr. Zschau is a director of the Reader s Digest Association, Inc.

Hank Brown; age 64; President and Chief Executive Officer the Daniels Fund[(a), (b), (c)]

Mr. Brown has served as one of our directors since May 2001. He is President and Chief Executive Officer of the Daniels Fund. Mr. Brown was previously a United States Senator from 1990 to 1996 and served in the

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(a) Member of the Compensation and Option Committee of the Board of Directors

(b) Member of the Audit Committee of the Board of Directors

(c) Member of the Governance and Nominating Committee of the Board of Directors

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United States Congress for five consecutive terms from 1980 through 1990. He also served in the Colorado State Senate from 1972 through 1976. Mr. Brown is currently a Director of Sealed Air Corp., Alaris Medical Inc., Frontier Airlines, Inc. and Sensient Technologies Corporation. He was a Vice President of Monfort of Colorado for 12 years.

Michael S. Shannon; age 45; President and Chief Executive Officer, KSL Recreation Corporation[(a), (b), (c)]

Mr. Shannon has served as one of our directors since May 2003. He has served as President and Chief Executive Officer of KSL Recreation Corporation based in La Quinta, California since 1992. From 1986 to 1992, Mr. Shannon was President and Chief Executive Officer of Vail Associates in Vail, Colorado. Prior to that, he was an Assistant Vice President of First National Bank of Chicago. Mr. Shannon currently serves as a director of ING Direct and Conseco, Inc.

THE BOARD OF DIRECTORS AND COMMITTEES OF THE BOARD

The Board of Directors held four regular meetings and one special meeting during 2003. All directors attended all meetings of the Board of Directors and of the Committees on which they served during 2003 that occurred while they were a director. We do not require that our Directors attend our annual meetings of stockholders. All Directors attended the 2003 Annual Meeting.

Our Board of Directors has an Audit Committee, for which the Board has adopted a written Audit Committee Charter. (See Appendix F.) The Audit Committee reviews our financial statements to confirm they reflect fairly our financial condition and to appraise the soundness, adequacy, and application of accounting and operating controls. The Audit Committee is also responsible for the selection and retention of our independent auditors, reviewing the scope of the audit function of the independent auditors and approving non-audit services provided to us by our auditors, and reviewing audit reports rendered by our independent auditors. The members of the Audit Committee are all independent directors as defined in Section 303A.02 of the NYSE s listing standards. Our Board of Directors has determined that each member of the Audit Committee qualifies as an audit committee financial expert under SEC rules. The Audit Committee met four times during 2003.

Our Board of Directors also has a Compensation and Option Committee, which reviews our compensation philosophy and programs and exercises authority with respect to payment of direct salaries and incentive compensation to our officers. In addition, the committee is responsible for oversight of the StarTek, Inc. Stock Option Plan. Three of the four members of the Compensation and Option Committee are independent directors as defined in Section 303A.02 of the NYSE s listing standards. The Compensation and Option Committee met seven times in 2003.

In February 2004 our Board of Directors created, and appointed four members to, the Governance and Nominating Committee, for which the Board has adopted a written charter. (See Appendix G.) This committee is responsible for the nomination of candidates for election to our Board, including identification of suitable candidates, and also oversees our corporate governance principles. Three of the four members of the Governance and Nominating Committee are independent directors as defined in Section 303A.02 of the NYSE s listing standards. Notwithstanding the Governance and Nominating Committee, certain of our nominees to our Board of Directors may be named in the future by certain of our stockholders pursuant to the terms of an Investor Rights Agreement described below under *Certain Transactions.*

The Governance and Nominating Committee does not have an express policy with regard to the consideration of any director candidates recommended by our stockholders, because our By-laws permit any stockholder to nominate director candidates, and the committee believes it can adequately evaluate any such nominees on a case by case basis. The committee will consider director candidates proposed in accordance with the procedures set forth below under *Stockholders Proposals,* and will evaluate stockholder-recommended

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(a) Member of the Compensation and Option Committee of the Board of Directors

(b) Member of the Audit Committee of the Board of Directors

(c) Member of the Governance and Nominating Committee of the Board of Directors

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candidates under the same criteria as internally generated candidates. Although the committee does not currently have formal minimum criteria for nominees, substantial relevant business and industry experience would generally be considered important qualifying criteria, as would the ability to attend and prepare for board, committee and stockholder meetings. Any candidate must state in advance his or her willingness and interest in serving on our Board and its Committees.

New NYSE listing standards require that NYSE-listed companies have compensation and nominating committees made up exclusively of independent directors as defined by the NYSE. We are a controlled company under NYSE listing standards and accordingly are exempt from these requirements. As described in Note 4 to *Beneficial Ownership of Common Stock by Directors, Executive Officers, and Principal Stockholders,* we have filed a registration statement to register the sale of shares of our common stock by certain of our stockholders. Should these stockholders sell some or all of their shares of our common stock, we may no longer be eligible for the controlled company exemptions, and in such case we would be required to meet the new listing standards in accordance with transition rules adopted by the NYSE. We intend to comply with applicable listing requirements.

EXECUTIVE OFFICERS

Name	Age	Position	Officer Since
A. Emmet Stephenson, Jr.	58	Chairman of the Board	1987
William E. Meade, Jr.	47	President, Chief Executive Officer and Director	2001
Eugene L. McKenzie, Jr.	45	Executive Vice President, Chief Financial Officer, Secretary and Treasurer	2003
Lawrence Zingale	48	Executive Vice President and Chief Operating Officer	2002

A. Emmet Stephenson, Jr. co-founded us in 1987 and has served as our Chairman of the Board since our formation. Mr. Stephenson has also served as President of Stephenson and Company, a private investment firm in Denver, Colorado, for more than five years. Mr. Stephenson is a director of Danaher Corporation and serves on the Advisory Boards of First Berkshire Fund and Capital Resource Partners, L.P.

William E. Meade, Jr. has served as our President and Chief Executive Officer since June 2001. Prior to joining us, Mr. Meade was President and Chief Executive Officer of WebMiles, Inc. From 1987 to 1999 he was with the American Express Company. He finished his service there as Senior Vice-President of Business Development and Global Operations for the American Express Travelers Cheque Group. He also serves as one of our Directors.

Eugene L. McKenzie, Jr. has served as our Executive Vice President and Chief Financial Officer since November 2003 and prior to that served as our Vice President and Corporate Controller since June 2002. Before joining us, Mr. McKenzie served as Director of Finance and Information Technology for a division of International Paper Company. From 1996 to 1999, he ran his own business. From 1990 to 1996, he worked for Atlantic Richfield Co. and from 1980 to 1990 he worked for Ernst & Young LLP. Mr. McKenzie is a certified public accountant.

Lawrence Zingale has served as our Executive Vice President and Chief Operating Officer since June 2002. Prior to joining us, Mr. Zingale was President of Stonehenge Telecom for approximately three years, and from 1997 to 1999 he was President and Chief Operating Officer of International Community Marketing. From 1980 to 1997, he was with AT&T, serving in various senior level positions.

Employment Agreements

In May 2001, we entered into an employment agreement with William E. Meade, Jr., pursuant to which he agreed to serve as our President and Chief Executive Officer. The agreement provides for a term through May 18, 2006, unless otherwise extended by mutual agreement or unless employment is terminated at an earlier date in

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accordance with the agreement. The agreement provides for an annual base salary (currently $420,000), which is subject to increase as determined by the Compensation and Option Committee annually. Pursuant to the agreement, Mr. Meade was also granted options to purchase 200,000 shares of our common stock, of which 15,000 have been exercised, 65,000 are fully vested and the remaining 120,000 vest at 40,000 per year in May 2004, 2005, and 2006. The agreement and Mr. Meade s employment may be terminated by us or Mr. Meade at any time for any reason upon 90 days prior written notice. Upon termination by either party other than for cause or death, Mr. Meade will be entitled to payment of his base salary then in effect for one year from the date of termination. The agreement provides for non-disclosure of our confidential or proprietary information and non-competition by Mr. Meade for a one-year period after termination of the agreement. The agreement also provides for non-solicitation by Mr. Meade of our employees, suppliers and customers for a three-year period after termination of the agreement.

In January 2001, we entered into an employment agreement with Michael W. Morgan, our current Vice Chairman of the Board, pursuant to which he agreed to provide services to us as requested by the Board of Directors. The agreement provides for a term through July 15, 2004, unless otherwise extended by mutual agreement or unless employment is terminated at an earlier date in accordance with the agreement. Mr. Morgan has advised us that he does not intend to extend the term of the agreement. The agreement provides for an annual base salary (currently $270,800) and provides for non-disclosure of our confidential or proprietary information.

In 1997, we entered into a verbal agreement with Mr. Stephenson under which Mr. Stephenson provides us with advisory services and his services as our Chairman. Mr. Stephenson is entitled to an advisory fee under this agreement of $245,000 per year.

CERTAIN TRANSACTIONS

Resale Registration Statement

In February 2004, we filed a registration statement relating to the possible sale of shares of our common stock by Toni E. Stephenson and the MASSET and FASSET Trusts. The selling stockholders will pay all of the expenses of such registration.

Registration Rights Agreement

We have entered into a registration rights agreement with Mr. Stephenson, Mrs. Stephenson, and the MASSET and FASSET Trusts, that takes effect upon the consummation of the offering to be effected pursuant to the registration statement described above, so long as the offering is consummated on or before September 30, 2004. The agreement terminates on the earlier of (i) the fifth anniversary of the consummation of such offering and (ii) when the number of shares registrable for resale under the agreement constitutes less than 10% of our common stock outstanding. Mr. Stephenson owns 3,350,882 shares, or 23.2%, of our common stock outstanding. Following the proposed underwritten offering Mrs. Stephenson will own 2,100,806 shares, or 14.6% (or 1,620,806 shares, or 11.2%, if the underwriters exercise their overallotment option in full) of our common stock outstanding. Under the registration rights agreement, the holders of one-third or more of the registrable shares as defined in the registration rights agreement may demand that we file a registration statement under the Securities Act covering some or all of their registrable shares. We are obligated to file no more than two such demand registration statements (unless the number of shares requested to be included in a demand registration has been reduced by more than 15% by an underwriter), and we are not obligated to file a registration statement pursuant to such a demand prior to the later of six months after the execution date of the agreement or ninety days after the date of the proposed underwritten offering described above. The filing of a demand registration statement may be subject to further delay upon the occurrence of other specified events. In addition to these demand registration rights, if we propose to register any of our equity securities under the Securities Act, other than pursuant to registration statements on Forms S-4 or S-8, the holders of registrable securities may require that we include all or a portion of their registrable securities in the registration statement and in any related underwriting. In an underwritten offering, the managing underwriter, if any, has the right, subject to specified conditions, to limit the number of registrable securities included in the offering. Registration of shares of our common stock pursuant to

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the rights granted to the holders of registrable securities pursuant to the registration rights agreement, and subsequent sale of such shares under the registration statement, will result in such shares becoming freely tradable without restriction under the Securities Act. In connection with demand registrations, we will bear the expenses related to such registrations to the extent we would be required to incur such expenses within 12 months or obtain substantial benefit from complying with the demand. We will bear the expenses related to registrations we file in which the selling stockholders include registrable securities, except that the selling stockholders will bear their pro-rata portion of the underwriting discounts and commissions applicable to any such registration. The selling stockholders will bear all other fees, costs and expenses of registrations under the registration rights agreement, including underwriting discounts and commissions.

The agreement also provides that, upon the occurrence of a change of control of us by merger, share exchange, stock sale or tender offer, or in the event members of the Stephenson family sell in the aggregate 15% or more of our outstanding common stock in any two year period (subject to certain conditions) no member of the Stephenson family will accept a premium for their shares in such transactions without providing an opportunity to all our other stockholders to sell their shares (or at least the same proportionate interest as the Stephenson family proposes to sell) at the same price; provided that the Stephenson family will be free to sell shares at any time in sales registered under the Securities Act, so long as the applicable members of the Stephenson family are named as selling stockholders in the related prospectus, or in Rule 144 transactions, without restriction under this provision.

Investor Rights Agreement

We have entered into an investor rights agreement with Mr. Stephenson that takes effect upon the consummation of the offering to be effected pursuant to the registration statement described above, so long as the offering is consummated on or before September 30, 2004, and terminates if Mr. Stephenson ceases to beneficially own at least 10% of our common stock. The agreement provides that following our 2004 annual meeting of stockholders and subject to the board s fiduciary duties under applicable law, we will nominate for election to our board of directors designees named by Mr. Stephenson representing (i) a number of directors equal to one less than a majority of the board if there are an odd number of directors, or two less than a majority if there are an even number of directors, so long as Mr. Stephenson, together with members of his family, beneficially owns 30% or more of our outstanding common stock, or (ii) one director, so long as Mr. Stephenson, together with members of his family, beneficially owns between 10% and 30% of our outstanding common stock. Mr. Stephenson s nominees under these provisions need not be independent or meet other specific criteria, so long as a majority of the members of our board are independent under the rules of the SEC and the New York Stock Exchange. The agreement also requires that we amend Article II, Section 6 of our Bylaws to provide that a holder of 10% or more of our outstanding common stock will be entitled to call a special stockholders meeting. The investor rights agreement provides that so long as Mr. Stephenson, together with members of his family, beneficially owns 10% or more of our outstanding common stock, Article II, Section 6 of the Bylaws, as amended, may not be amended by our board of directors without Mr. Stephenson s consent.

The rights provided to Mr. Stephenson in the investor rights agreement may not be transferred to any third party other than to Toni E. Stephenson, Mr. Stephenson s wife, upon the death or incompetence of Mr. Stephenson and to her estate, upon the subsequent death or incompetence of Mrs. Stephenson. Mr. Stephenson does not have the right to vote shares of stock held by other members of the Stephenson family.

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth certain information concerning 2001, 2002, and 2003 compensation of our Chief Executive Officer and executive officers who, in addition to the Chief Executive Officer, received the highest compensation during 2001, 2002, and 2003.

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Summary Compensation Table

Name and Principal Position	Year	Annual Compensation(a) Salary ($)	Bonus ($)	Long-Term Compensation Awards Securities Underlying Option (#)	All Other Compensation ($)
William E. Meade, Jr.	2003	411,539	60,000		2,396(f)
President, CEO and Director	2002	400,000			73,702(b)
	2001	238,462		200,000	
A. Emmet Stephenson, Jr.	2003				245,000(c)
Chairman of the Board	2002				245,000(c)
	2001				245,000(c)
Eugene L. McKenzie, Jr.(d)	2003	139,287	25,000	35,000	
Executive VP, CFO, Secretary and Treasurer					
Michael W. Morgan	2003	270,800			
Vice Chairman of the Board	2002	270,800			
	2001	324,965		100,000	
Lawrence Zingale	2003	317,500	60,000		21,710(e)
Executive VP and CEO	2002	166,923	25,000	100,000	2,232(b)
	2001				
David I. Rosenthal	2003	179,495			
Former Executive VP, CFO,	2002	179,615			
Secretary and Treasurer	2001	57,212		45,000	

(a) We did not provide perquisites or other personal benefits, securities, or property to the named executive officers which exceeded $50,000 or 10% of such officer s total salary, bonus or other compensation for 2001, 2002, and 2003.

(b) Reimbursement of relocation expenses.

(c) Effective January 1, 1997, we began paying an annual advisory fee of $245,000 to A. Emmet Stephenson, Jr., Inc.

(d) Mr. McKenzie was our Controller from June 2002 to November 2003, when he was named Executive VP, CFO, Secretary and Treasurer.

(e) Reimbursement of relocation expenses of $5,260 and payment of disability insurance premiums of $16,450.

(f) Payment of life insurance premiums.

Option Grants in Last Fiscal Year

The following table sets forth certain information relating to options granted in 2003 to named executive officers to purchase shares of our common stock under the StarTek Inc. Stock Option Plan.

Name	No. of Securities Underlying Options/SARs Granted (#)	% of Total Options Granted to Employee In Fiscal Year	Exercise or Base Price ($/Sh)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term 5% ($)	10% ($)

Eugene L. McKenzie, Jr.	35,000(a)	27.3%	$34.41	11/3/13	757,409	1,919,424

(a) These options will vest 20% per year for a five year period commencing on the date of grant.

The dollar amounts set forth under the Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term are the result of calculations of assumed annual rates of stock price appreciation from the date of grant to the date of expiration of such options of 5% and 10%. These assumptions are not intended to forecast future price appreciation of our stock price. Our stock price may increase or decrease in value over the time period set forth above.

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Option Exercises and Fiscal Year-End Values

The following table provides information related to options exercised by our named executive officers during fiscal 2003 and unexercised options held by them at December 31, 2003.

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options at Fiscal Year End (#)		Value of Unexercised In-the-Money Options at Fiscal Year End ($)(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
A. Emmet Stephenson, Jr						
William E. Meade, Jr.	15,000	570,667	65,000	120,000	1,533,350	2,830,800
Eugene L. McKenzie, Jr.			2,000	43,000	29,240	340,260
Lawrence Zingale			20,000	80,000	289,800	1,159,200
David I. Rosenthal	4,500	163,839	13,500	27,000	209,655	419,310

(1) The closing price of our common stock as reported by the New York Stock Exchange on December 31, 2003 was $40.79.

Compensation of Directors

Pursuant to our Directors Stock Option Plan, each non-employee director will be automatically granted options to acquire 3,000 shares of our common stock at an exercise price equal to market value of the common stock on the date of each annual meeting of stockholders at which such director is re-elected. Such options are immediately vested and exercisable. The Directors Stock Option Plan is administered by our Board of Directors.

Compensation and Option Committee Interlocks and Insider Participation

A. Emmet Stephenson, Jr. serves as a director, Chairman of the Board, and a member of our Compensation and Option Committee. Except for Mr. Stephenson, none of our officers or employees participate in deliberations of the Compensation and Option Committee. The Compensation and Option Committee makes salary decisions with input from the Chief Executive Officer; however, the Chief Executive Officer does not participate in deliberations regarding his own compensation. See the Summary Compensation Table set forth above for advisory fees paid to A. Emmet Stephenson, Jr., Inc.

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REPORT OF THE COMPENSATION AND OPTION COMMITTEE OF THE BOARD

OF DIRECTORS ON EXECUTIVE COMPENSATION

This committee report is not deemed to be soliciting material or to be filed with the Commission or subject to the Commission s proxy rules or to the liabilities of Section 18 of the Exchange Act, and this committee report shall not be deemed to be incorporated by reference into any prior or subsequent filing by the Company under the Securities Act of 1933, as amended (the Securities Act), or the Exchange Act.

The Compensation and Option Committee has responsibility to: (i) recommend to the full Board of Directors salary, bonus, and other benefits, direct and indirect, of the Chairman, President and Chief Executive Officer, Executive Vice Presidents, members of the Board of Directors who are also involved in management of the Company, and such other of our officers as are designated from time to time by the Board of Directors; (ii) review and submit recommendations concerning new executive compensation or stock plans; (iii) establish and review corporate policies concerning management perquisites; (iv) assess the Company s executive development plan, if any; and (v) recommend director compensation.

Total executive officer compensation is comprised of salary, bonus, and grants of options to purchase common stock of the Company. Executives and other key employees who, in the opinion of the Committee, contribute to the Company s growth, development and financial success are eligible to be awarded options to purchase common stock. These grants are normally made at or above the fair market value on the date of grant and vest over a five-year period. The amount of options granted is impacted both by the level of the employee and the amount of options previously granted to the employee. The Committee considers the value of each executive officer s contribution to the Company s performance (including the Chief Executive Officer) in determining salary levels and grants of options.

The Compensation and Option Committee has structured the compensation of the Chief Executive Officer, Mr. Meade, in order to link it to his individual performance. Mr. Meade s compensation package links his individual performance to long-term profitable growth of the company through stock options and a bonus plan linked to revenue and operating income. The Committee also considered the compensation packages available to chief executives of comparable companies and the need to attract and retain a chief executive of Mr. Meade s caliber. Mr. Meade s compensation is reviewed annually.

The 2003 salaries and other compensation of the Company s three current executive officers, the Chairman of the Board, the Vice-Chairman of the Board, and one former executive officer appear in the Summary Compensation Table. Effective January 1, 1997, the Company began paying an annual advisory fee of $245,000 to A. Emmet Stephenson, Jr., Inc. (wholly-owned by A. Emmet Stephenson, Jr., Chairman of the Board).

By the Compensation and Option Committee:

A. Emmet Stephenson, Jr., Chairperson
Ed Zschau
Hank Brown
Michael S. Shannon

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AUDIT COMMITTEE REPORT

The Audit Committee oversees the Company s financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process including the systems of internal controls. In fulfilling its oversight responsibilities, the Committee reviewed the audited financial statements in the Company s Form 10-K for the year ended December 31, 2003 with management including a discussion of the application of generally accepted accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements.

The Committee reviewed with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, their judgments as to the application of generally accepted accounting principles and such other matters as are required to be discussed with the Committee under Statement on Auditing Standards No. 61. The Committee has received from the independent auditors written disclosures required by Independence Standards Board Standard No. 1, and has discussed with the Company s independent auditors their independence. In addition, the Committee has considered the effect all other fees paid the independent auditors may have on their independence.

The Committee discussed with the Company s independent auditors the overall scope and plans for their respective audits. The Committee meets with the independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company s internal controls, and the overall quality of the Company s financial reporting. The Committee held four meetings during fiscal year 2003.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors (and the Board has approved) that the audited financial statements be included in the Form 10-K for the year ended December 31, 2003 for filing with the Securities and Exchange Commission. The Committee and the Board have also recommended, subject to stockholder approval, the selection of the Company s independent auditors.

By the Audit Committee:

Ed Zschau, Chairperson
Hank Brown
Michael S. Shannon

March 8, 2004

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STOCK PERFORMANCE GRAPH

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

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

PROPOSAL 2.

AMENDMENT TO THE STOCK OPTION PLAN TO INCREASE THE MAXIMUM NUMBER OF

SHARES AVAILABLE FOR AWARD UNDER THE PLAN FROM 1,585,000 TO 1,835,000

Our Stock Option Plan currently provides that 1,585,000 shares of authorized, but unissued shares of common stock may be issued pursuant to stock options granted thereunder. The plan provides that, in the event of stock splits, stock dividends, or certain other capital changes, there will be an appropriate adjustment in the price of the shares subject to outstanding options and in the number of shares previously covered by options or subject to allotment in the future. On December 31, 2003, options to purchase 2,024,250 shares of common stock at an average price of $21.09 per share had been granted, options to purchase 512,440 shares of common stock at an average price of $16.03 had been exercised, options to purchase 506,950 shares of common stock at an average price of $24.80 per share had been canceled, options to purchase 1,004,860 shares of common stock at an average exercise price of $21.80 per share remained outstanding, and options to purchase 67,700 shares remained available to be granted. On that date, the outstanding options were held by 417 persons. On April 2, 2004, the market value per share of the common stock was $37.16 per share based on the closing price on the New York Stock Exchange. The Compensation and Option Committee determines those consultants, independent contrac-

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tors, key employees, officers, or employee directors to be designated as participants to receive stock options under the plan.

The plan provides for grants of Incentive Stock Options (defined in Section 422 of the Internal Revenue Code and referred to as ISO s), non-qualified options (NQO s), and Stock Appreciation Rights (SAR s) to eligible participants from time to time. SAR s may only be granted in conjunction with NQO s. Options granted may be exercised for cash, or via cashless exercise, in which the grantee surrenders options or SAR s covering a sufficient number of shares to pay the exercise price for options being exercised by the grantee. Options may also be exercised by the grantee s delivery of instructions to a broker to pay us the exercise price of the options being exercised. Options and SAR s vest equally over a period of five years, unless otherwise provided by the Compensation and Option Committee.

ISO s, which can be granted only to employees, are tax-advantaged to the grantee in that no income is recognized by the grantee at the time of grant or exercise of an ISO. Moreover, any ISO gain, represented by the difference between the fair market value of the common stock at the time the stock is sold and the exercise price paid by the grantee, will be taxed as long-term capital gain. The amount by which the fair market value of the common stock is issued upon exercise of an ISO exceeds the exercise price paid by the grantee will constitute an item of adjustment that must be taken into account in determining the grantee s alternative minimum tax. In addition, the grantee must hold the shares acquired upon exercise of an ISO until the later of two years from the grant of the option and one year from the date of exercise in order to take advantage of ISO treatment. In the event the grantee of ISO s terminates his or her employment with us, the ISO s expire three months after such termination. If the grantee disposes of the common stock acquired upon exercise of an ISO prior to the expiration of the two-year or one-year periods described above, the grantee will generally be obligated to recognize ordinary income in an amount equal to the excess of the fair market value on the date of exercise over the exercise price of the option. The exercise price of ISO s must be greater than or equal to the market price of our common stock on the date of grant (or 110% of the market price in the case of grantees holding 10% or more of our common stock), and can have an expiration date no later than 10 years following the date of grant (five years in the case of grantees holding 10% or more of our common stock).

NQO s may be granted to any eligible participants in the plan. With an NQO, the grantee recognizes ordinary income when the option is exercised in an amount equal to the excess of the fair market value of the underlying common stock at the time of exercise over the exercise price of the option. Although the holding periods, exercise price requirements and termination provisions described above relating to ISO s do not apply to NQO s, the Compensation and Option Committee may impose terms or conditions (including pricing, vesting, and termination provisions) on NQO s as it determines in its sole discretion.

We recognize a deduction in the tax year in which the grantee of an ISO or NQO recognizes income, equal to the amount of capital gains or ordinary income so recognized by the grantee. A grant of an SAR does not produce taxable income to the grantee or a tax deduction for us. The exercise of an SAR for cash is taxable as ordinary income to the grantee and deductible from taxable income by us.

The Board of Directors and the Compensation and Option Committee have approved an amendment to the plan. A copy of the plan in effect as of the date hereof is attached hereto as Exhibit A. The Amendment will provide for an increase in the number of shares of common stock available for issuance pursuant to the plan by 250,000 shares, subject to future adjustment as provided in the plan, resulting in maximum shares issuable under the plan of 1,835,000. We believe this increase to be advisable so we can continue to reward our officers and directors, or employees and consultants having substantial responsibilities, with the opportunity to acquire a proprietary interest in us as an additional incentive to promote our success. We also believe option grants may be necessary to recruit qualified management personnel as we continue to grow. In order to achieve these objectives, our Board of Directors has approved the Amendment and recommends that it be submitted to our stockholders for approval.

As of March 27, 2004, approximately 6,617 employees were eligible for awards under the plan, including three directors, two of whom serve as executive officers. The Compensation and Option Committee determines from time to time the type or level of employees to whom options will be granted. We have not historically granted options to consultants.

Under paragraph 15 of the plan, adoption of the Amendment requires the affirmative vote of the holders of a majority of the outstanding shares of common stock represented at the annual meeting of shareholders.

The Board Recommends that the shareholders vote FOR the adoption of the proposed amendment to the Stock Option Plan.

Equity Compensation Plans

The following table summarizes information as of December 31, 2003 about our stock option plans for employees and non-employee directors. We do not offer any other equity compensation plans.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights	(c) Number of Securities Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by stockholders	1,083,860	22.09	68,700
Equity compensation plans not approved by stockholders			
Total	1,083,860	22.09	68,700

PROPOSAL 3.

AMENDMENT TO THE DIRECTORS STOCK OPTION PLAN TO INCREASE THE MAXIMUM NUMBER OF SHARES AVAILABLE FOR AWARD UNDER THE PLAN FROM 90,000 TO 140,000

Our Directors Stock Option Plan currently provides that 90,000 shares of authorized, but unissued shares of common stock may be issued pursuant to stock options granted thereunder. The plan provides that, in the event of stock splits, stock dividends, or certain other capital changes, there will be an appropriate adjustment in the price of the shares subject to outstanding options and in the number of shares previously covered by options or subject to allotment in the future. On December 31, 2003, options to purchase 89,000 shares of common stock at an average price of $24.88 per share had been granted, options to purchase 10,000 shares of common stock at an average price of $18.51 had been exercised, no options had been canceled, options to purchase 79,000 shares of common stock at an average exercise price of $25.68 per share remained outstanding, and options to purchase 1,000 shares remained available to be granted. On that date, the outstanding options were held by 5 persons. On April 2, 2004, the market value per share of the common stock was $37.16 per share based on the closing price on the New York Stock Exchange.

The plan provides for a grant of 10,000 options to each non-employee Director at the time such Director is first elected to our board, and 3,000 options to each non-employee director upon his or her re-election to our board by our stockholders. We currently have three non-employee directors, each of whom participates in the plan. These directors will receive an aggregate of 9,000 options under the plan if the proposed amendment to the plan is approved by our stockholders. Options granted may be exercised for cash, or via cashless exercise, in which the grantee surrenders options covering a sufficient number of shares to pay the exercise price for options being exercised by the grantee. Options may also be exercised by the grantee s delivery of instructions to a broker to pay us the exercise price of the options being exercised. Options granted under the Directors Stock Option Plan are immediately vested and have a ten year term.

Options granted under the plan will be treated as NQO s for tax purposes. Accordingly, the grantee recognizes ordinary income when the option is exercised in an amount equal to the excess of the fair market value of the underlying common stock at the time of exercise over the exercise price of the option. We recognize a deduction in the tax year in which the grantee recognizes income, equal to the amount of ordinary income so recognized by the grantee.

The Board of Directors and the Compensation and Option Committee have approved an amendment to the plan. A copy of the plan in effect as of the date hereof is attached hereto as Exhibit B. The Amendment will provide for an increase in the number of shares of common stock available for issuance pursuant to the plan by 50,000 shares, subject to future adjustment as provided in the plan, resulting in maximum shares issuable under the plan of 140,000. We believe we should continue to grant options to our non-employee directors to provide them with the opportunity to acquire a proprietary interest in us, as an additional incentive to promote our success. We also believe option grants may be necessary to recruit qualified non-employee directors in the future. In order to achieve these objectives, our Board of Directors has approved the Amendment and recommends that it be submitted to our stockholders for approval.

Under paragraph 15 of the plan, adoption of the Amendment requires the affirmative vote of the holders of a majority of the outstanding shares of common stock represented at the annual meeting of shareholders.

The Board Recommends that the shareholders vote FOR the adoption of the proposed amendment to the Directors Stock Option Plan.

PROPOSAL 4.

APPROVAL OF APPOINTMENT OF AUDITORS

The Board of Directors has appointed Ernst & Young LLP, an international firm of independent certified public accountants, to act as our independent accountants for the year ending December 31, 2004. Ernst & Young LLP has been our auditor since the year ended June 30, 1991, and has advised us that it does not have any direct or indirect financial interest in us or any of our subsidiaries, and has not had any such interest during the past five years. We expect that a representative of Ernst & Young LLP will be present at the Annual Meeting, will have an opportunity to make a statement if he or she desires to do so, and will be available to respond to appropriate questions.

The aggregate fees for professional services rendered to us by Ernst & Young LLP for the years ended December 31, 2003 and 2002 were as follows:

Audit Fees. During the years ended December 31, 2003 and 2002, we paid $197,050 and $178,500, respectively, to Ernst & Young LLP for audit services.

Audit-Related Fees. During the years ended December 31, 2003 and 2002, we paid $6,400 and $8,500, respectively, for audit-related services. Audit-related services included assistance in the assessment of the impact of Section 404 of the Sarbanes-Oxley Act of 2002 on us and compliance reports issued in connection with requirements of statutory governments.

Tax Fees. During the years ended December, 31, 2003, and 2002 we paid $1,650 and $46,000, respectively, to Ernst & Young LLP for tax services. Tax services included fees for tax compliance and consulting services related to our annual federal and state tax returns.

All Other Fees. During the years ended December, 31, 2003 and 2002, we paid $0 and $5,000, respectively, to Ernst & Young LLP for real estate advisory services.

In accordance with our Audit Committee Charter, the Audit Committee approves in advance any and all audit services, including audit engagement fees and terms, and non-audit services provided to us by our independent auditors (subject to the de minimus exception for non-audit services contained in Section 10A(i)(1)(B) of the Securities Exchange Act of 1934, as amended), all as required by applicable law or listing standards. The independent auditors and our management are required to periodically report to the Audit Committee the extent of services provided by the independent auditors and the fees associated with these services.

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Auditor Independence

The Audit Committee of the Board of Directors has considered the effect that provision of the services described under All Other Fees may have on the independence of Ernst & Young LLP. The Audit Committee has determined that provision of those services is compatible with maintaining the independence of Ernst & Young LLP as our principal accountants.

The Audit Committee and the Board of Directors unanimously recommend stockholders vote FOR ratification and approval of selection of Ernst & Young LLP as our independent auditors for the year ending December 31, 2004.

STOCKHOLDERS PROPOSALS

Stockholder proposals intended to be presented at our 2005 Annual Meeting of Stockholders must be received at our executive offices at 100 Garfield Street, Denver, Colorado 80206, Attention of the Secretary, no later than January 7, 2005 for inclusion in our proxy statement relating to the 2005 Annual Meeting. Under our By-laws, we must receive notice between February 7, 2005 and March 8, 2005 of any matters to be proposed by a stockholder at the 2005 Annual Meeting in order for such matters to be properly considered at the meeting.

STOCKHOLDER COMMUNICATION WITH THE BOARD

Our Board of Directors believes that it is important for stockholders to have a process to send communications to the Board. Accordingly, stockholders desiring to send a communication to the Board of Directors, or to a specific director, may do so by delivering a letter to our executive offices at 100 Garfield Street, Denver, Colorado 80206, Attention of the Secretary. The mailing envelope must contain a clear notation indicating that the enclosed letter is a stockholder-board communication or stockholder-director communication. All such letters must identify the author as a stockholder and clearly state whether the intended recipients of the letter are all members of the Board of Directors or certain specified individual directors. The Secretary will open such communications and make copies, and then circulate them to the appropriate director or directors.

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MISCELLANEOUS

In an effort to reduce printing costs and postage fees, we have adopted a practice approved by the SEC called householding. Under this practice, stockholders who have the same address and last name and do not participate in electronic delivery of proxy materials will receive only one copy of our proxy materials unless one or more of these stockholders notifies us that they wish to continue receiving individual copies. Stockholders who participate in householding will continue to receive separate proxy cards.

If you share an address with another stockholder and received only one set of proxy materials and would like to request a separate copy of these materials and/or future proxy materials, please send your request to: 100 Garfield Street, Denver, Colorado 80206, Attention of the Secretary. You may also contact us if you received multiple copies of the proxy materials and would prefer to receive a single copy in the future.

Our Annual Report to Stockholders for the year ended December 31, 2003 will be furnished with this Proxy Statement to stockholders of record as of April 2, 2004. The Annual Report to Stockholders for the year ended December 31, 2003 does not constitute a part of the proxy soliciting materials.

Our Board of Directors and management team are not aware of any other business that may come before the Annual Meeting. However, if additional matters properly come before the Annual Meeting, proxies will be voted at the discretion of the proxy holders.

By Order of the Board of Directors

EUGENE L. MCKENZIE, JR.
Secretary

Dated: April 16, 2004

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2003, including consolidated financial statements, required to be filed with the Commission pursuant to Rule 13a-1 of the Exchange Act will be furnished, excluding exhibits, without charge, to any stockholder upon written request. A copy may be requested by writing to Office of the Chairman, StarTek, Inc., 100 Garfield Street, Denver, Colorado 80206. Our Annual Report on Form 10-K can be obtained over the Internet through our web site. Our Internet address is http://www.startek.com. Additionally, the Annual Report on Form 10-K and other information we file with the Commission can be inspected at and obtained from the Commission at prescribed rates at public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Judiciary Plaza, Washington, D.C. 20549, and at certain regional offices of the Commission located at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 6061. The Commission maintains a web site at http://www.sec.gov that contains reports, proxies, information statements, and other information regarding us that has been filed electronically with the Commission.

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APPENDIX A

STARTEK, INC. AND SUBSIDIARIES

DIVIDEND POLICY

On February 24, 2004, we paid a cash dividend of $0.38 per share of common stock, or $5.5 million in the aggregate, to our stockholders of record on February 13, 2004. This dividend increased from the $0.37 per share dividend we declared and paid in November 2003, and the $0.36 per share dividend we declared and paid in August 2003. Prior to August 2003, we did not pay any dividends on our common stock.

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

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APPENDIX B

STARTEK, INC. AND SUBSIDIARIES

SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this Form 10-K. Additionally, the following selected financial data should be read in conjunction with *Management s Discussion and Analysis of Financial Condition and Results of Operations* appearing elsewhere in this Form 10-K.

	Year Ended December 31,				
	1999	**2000**	**2001**	**2002**	**2003**
	(Dollars in thousands, except per share data)				
Statement of Operations Data:					
Revenue	$ 205,227	$ 200,750	$ 182,576	$ 207,864	$ 231,189
Cost of services	166,880	153,629	137,622	157,005	171,401
Gross profit	38,347	47,121	44,954	50,859	59,788
Selling, general and administrative expenses	20,338	29,950	25,938	22,562	28,489
Operating profit	18,009	26,171	19,016	28,297	31,299
Net interest income and other	2,814	4,655	4,318	1,986	4,048
Loss on impaired investments			(15,452)	(6,210)	
Income before income taxes	20,823	30,826	7,882	24,073	35,347
Income tax expense	7,800	11,406	3,011	8,907	13,149
Net income	$ 13,023	$ 19,420	$ 4,871	$ 15,166	$ 22,198
Earnings per share:					
Basic	$ 0.94	$ 1.39	$ 0.35	$ 1.07	$ 1.56
Diluted	$ 0.92	$ 1.36	$ 0.34	$ 1.05	$ 1.52
Weighted average shares outstanding:					
Basic	13,874,556	14,016,851	14,053,484	14,140,765	14,243,273
Diluted	14,139,149	14,279,409	14,168,044	14,385,389	14,623,066
Selected Operating Data:					
Capital expenditures, net of proceeds	$ 12,591	$ 8,625	$ 19,008	$ 5,839	$ 23,736
Depreciation and amortization	$ 4,715	$ 5,482	$ 6,898	$ 9,220	$ 10,045
Balance Sheet Data (December 31):					
Working capital	$ 40,214	$ 56,146	$ 59,129	$ 80,379	$ 77,226
Total assets	101,435	122,283	129,153	140,421	153,607
Total debt	7,424	11,497	11,806	6,482	104

Total stockholders equity	$	71,046	$	91,964	$	95,609	$	114,594	$	133,000

APPENDIX C

STARTEK, INC. AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

All statements contained in this Management s Discussion and Analysis of Financial Condition and Results of Operations that are not statements of historical facts are forward-looking statements that involve substantial risks and uncertainties. Forward-looking statements are preceded by terms such as may, will, should, anticipates, expects, believes, plans, future, estimate, continue, intends, bud outlook and similar expressions. The following are important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. These factors include, but are not limited to, loss of our principal clients, concentration of our client base in a few select industries, highly competitive markets, risks related to our contracts, decreases in numbers of vendors used by clients or potential clients, lack of success of our clients products or services, considerable pricing pressure, risks relating to fluctuations in the value of our investment securities portfolio, risks associated with advanced technologies, inability to grow our business, inability to effectively manage growth, dependence on qualified employees and key management personnel, potential future declines in revenue, lack of a significant international presence, and risks relating to conducting business in Canada and the United Kingdom. These factors include risks and uncertainties beyond our ability to control, and in many cases we cannot predict the risks and uncertainties that could cause actual results to differ materially from those indicated by use of forward-looking statements. Similarly, it is impossible for management to foresee or identify all such factors. As such, investors should not consider the foregoing list to be an exhaustive statement of all risks, uncertainties, or potentially inaccurate assumptions. All forward-looking statements herein are made as of the date hereof, and we undertake no obligation to update any such forward-looking statements. All forward-looking statements herein are qualified in their entirety by information set forth under Risk Factors, below.

Overview

We are a leading provider of business process outsourced services, which consist of business process management and supply chain management services. Our business process management services include provisioning management, wireless telephone number porting, receivables management, wireless telephone activations, and high-end technical support and customer care services. Our supply chain management services include packaging, fulfillment, marketing support and logistics services. Currently, we provide services from 18 operational facilities, including our corporate headquarters, totaling over one million square feet in the United States, United Kingdom, and Canada.

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

Revenue from our business process management services has grown from $31.8 million in 1999 to $165.1 million in 2003. Revenue from our supply chain management services has declined from $173.4 million in 1999 to $66.1 million in 2003. The results of our supply chain management services include the results of our European operations and insignificant revenues from other operations, including our Domain.com subsidiary. In 2003, business process management services constituted 71.4% of our total revenues compared to 15.5% in 1999. In 2003, supply chain management services constituted 28.6% of our total revenues compared to 84.5% in 1999.

We also recognize income from our investment portfolio. As of December 31, 2003, our portfolio constituted 27.2% of our total assets, and was comprised of investment-grade and non investment-grade corporate bonds, convertible bonds, mutual funds, alternative investment partnerships, common stock and options. Net

interest income and other, which is primarily driven by gains or losses in our investment portfolio, has grown from $2.8 million in 1999 to $4.0 million in 2003.

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

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

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

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

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

We will continue to explore international opportunities. We are evaluating international locations for potential new facilities in regions that offer labor cost advantages and technical, language and quality support capabilities meeting or exceeding our clients requirements. While we have historically operated in the United Kingdom and have recently continued our expansion in Canada, we are evaluating the addition of substantial capacity in other international locations, possibly India or the Philippines, with available technical support capacity sufficient to allow us to maintain our level of service quality, but with lower wage structures than those

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prevailing in the United States. We have budgeted $5 million for capital expenditures in connection with international expansion in 2004, and we expect to incur slightly higher selling, general and administrative expenses in connection with this effort than we would in opening a domestic facility.

Basis of Presentation

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

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

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

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

Critical Accounting Policies and Judgments

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

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

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

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

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

Results of Operations

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

	Year Ended December 31,					
	2001		2002		2003	
	(dollars in millions)					
Revenue	$182.6	100.0%	$207.9	100.0%	$231.2	100.0%
Cost of services	137.6	75.4	157.0	75.5	171.4	74.1
Gross profit	45.0	24.6	50.9	24.5	59.8	25.9
Selling, general and administrative expenses	26.0	14.2	22.6	10.9	28.5	12.3
Operating profit	19.0	10.4	28.3	13.6	31.3	13.5
Net interest income and other	4.3	2.4	2.0	1.0	4.0	1.7
Loss on impaired investments	(15.4)	(8.4)	(6.2)	(3.0)	0.0	0.0
Income before income taxes	7.9	4.3	24.1	11.6	35.3	15.3
Income tax expense	3.0	1.6	8.9	4.3	13.1	5.7
Net income	$ 4.9	2.7%	$ 15.2	7.3%	$ 22.2	9.6%

2003 Compared to 2002

Revenue. Revenue increased $23.3 million, or 11.2%, from $207.9 million in 2002 to $231.2 million in 2003. Revenue from business process management services increased $43.9 million, or 36.2%, from $121.2 million in 2002 to $165.1 million in 2003. Substantially all of this increase was due to higher volumes in services provided to AT&T Wireless Services and T-Mobile. Revenue from supply chain management services declined $20.6 million, or 23.8%, from $86.7 million in 2002 to $66.1 million in 2003. Substantially all of this decrease is attributable to the decrease in services provided to Microsoft compared to the prior year.

Cost of Services. Cost of services increased $14.4 million, or 9.2%, from $157.0 million in 2002 to $171.4 million in 2003. Cost of services decreased as a percentage of revenue, from 75.5% in 2002 to 74.1% in 2003.

Our cost of services as a percentage of revenue decreased because a larger proportion of our revenue was generated by higher gross margin business process management services relative to the lower gross margin supply chain management services. This decrease was partially offset by increased Canadian foreign currency exchange costs in 2003 attributable to the declining value of the US dollar relative to the Canadian dollar.

Our cost of services increased in dollar terms as a result of three of our new facilities commencing operations during 2003, and increased activity in our business process management services. Costs attributable to our Canadian operations also increased by $6.1 million as a result of a weaker US dollar during 2003. These increased costs were partially offset by lower costs in our supply chain management services, which had lower volume in 2003.

Gross Profit. Gross profit increased $8.9 million in 2003, or 17.5%, from $50.9 million in 2002 to $59.8 million in 2003. As a percentage of revenue, gross profit increased from 24.5% in 2002 to 25.9% in 2003.

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Selling, General, and Administrative Expenses. Selling, general, and administrative expenses increased $5.9 million, or 26.1%, from $22.6 million in 2002 to $28.5 million in 2003. As a percentage of revenue, selling, general, and administrative expenses increased from 10.9% in 2002 to 12.3% in 2003. Our selling, general, and administrative expenses as a percent of revenue increased due to indirect costs associated with preparing our four new facilities for operations, three of which commenced operations in 2003, and increased salaries and bonuses associated with hiring additional members of senior management.

Operating Profit. Operating profit increased $3.0 million, or 10.6%, from $28.3 million in 2002 to $31.3 million in 2003. As a percentage of revenue, operating profit decreased from 13.6% in 2002 to 13.5% in 2003, primarily as a result of increased Canadian foreign currency exchange costs, and higher selling, general, and administrative expenses associated with preparing our four new facilities for operations.

Net Interest Income and Other. Net interest income and other increased $2.0 million, or 100.0%, from $2.0 million of income in 2002 to $4.0 million of income in 2003. The increase is primarily the result of realized portfolio gains of $2.7 million due to improving conditions in the capital markets, partially offset by costs totaling $0.3 million relating to our idle facility in Aurora, Colorado.

Loss on Impaired Investments. In 2002, we recognized a non-cash loss on impaired investments of $6.2 million due to declines classified as other-than-temporary in the fair value of investments available for sale, principally our investments in common stock that we determined to be other-than-temporary, offset by a $0.1 million partial cash recovery of the Six Sigma investment impaired in 2001.

Income Before Income Taxes. Income before income taxes increased $11.2 million, or 46.5%, from $24.1 million in 2002 to $35.3 million in 2003. As a percentage of revenue, income before taxes increased from 11.6% in 2002 to 15.3% in 2003.

Income Tax Expense. Income tax expense increased from $8.9 million in 2002 to $13.1 million in 2003, which reflects a provision for federal, state, and foreign income taxes at an effective rate of 36.9% in 2002 and 37.1% in 2003.

Net Income. Net income increased $7.0 million, or 46.1%, from $15.2 million in 2002 to $22.2 million in 2003.

2002 Compared to 2001

Revenue. Revenue increased $25.3 million, or 13.9%, from $182.6 million in 2001 to $207.9 million in 2002. Revenue from business process management services increased $37.9 million, or 45.5% from $83.3 million in 2001 to $121.2 million in 2002. This increase is attributable to higher volumes in services for AT&T Wireless, T-Mobile, and AT&T Corporation, partially offset by the loss of a contract that accounted for $13.0 million in revenue in 2001. We have been advised that the customer moved the functions we performed under this contract to a competitor s facility offshore. Revenue from supply chain management services decreased $12.6 million, or 12.7%, from $99.3 million in 2001 to $86.7 million in 2002. This decrease was primarily due to a reduction in revenues from Microsoft.

Microsoft did not renew its Singapore supply chain management contract when it expired in January 2002 and its UK supply chain management contract when it expired in June 2002. The expiration of these contracts resulted in a loss of revenue of approximately $13.0 million.

Cost of Services. Cost of services increased $19.4 million, or 14.1%, from $137.6 million in 2001 to $157.0 million in 2002. As a percentage of revenue, cost of services was 75.4% in 2001 and 75.5% in 2002.

The change in our cost of services as a percentage of revenue resulted from higher margin business process management services generating a greater proportion of total revenue in 2002, offset by including certain expenses in cost of services that were included in selling, general and administrative expenses in 2001. The change in the treatment of these expenses was a result of our examination of costs and job functions associated with certain managers in 2002, and consequent allocation of these costs from selling, general and administrative expenses to cost of services.

Gross Profit. Gross profit increased $5.9 million in 2002, or 13.1%, from $45.0 million in 2001 to $50.9 million in 2002. As a percentage of revenue, gross profit was essentially unchanged at 24.6% in 2001 and 24.5% in 2002.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses decreased $3.4 million, or 13.1%, from $26.0 million in 2001 to $22.6 million in 2002. As a percentage of revenue, selling, general and administrative expenses decreased from 14.2% in 2001 to 10.9% in 2002.

In 2002 we examined the costs and job functions associated with certain managers that were previously included in selling, general and administrative expenses. As a result, these costs that would have been captured in selling, general and administrative expenses were classified as direct costs, and accordingly were reflected as cost of services. A portion of this decrease was due to the lack of new facilities opened in 2002 compared to three new facilities opened in 2001, partially offset by increased costs associated with the hiring of new senior management personnel.

Operating Profit. Operating profit increased $9.3 million, or 48.9%, from $19.0 million in 2001 to $28.3 million in 2002. As a percentage of revenue, operating profit increased from 10.5% in 2001 to 13.6% in 2002. Although the expiration of Microsoft agreements negatively impacted revenue in 2002, operating profits were not significantly affected because of the low profit margins associated with the Microsoft Singapore agreement, and our ability to make adjustments to our personnel levels and infrastructure and otherwise eliminate costs associated with performing these agreements.

Net Interest Income and Other. Net interest income and other decreased $2.3 million, or 53.5%, from $4.3 million in 2001 to $2.0 million in 2002. Substantially all net interest income and other was derived from cash equivalents and investment balances, partially offset by interest expense incurred as a result of our various debt and lease arrangements. The decrease resulted primarily from reduced portfolio income of $1.7 million as compared to 2001 due to the weakened economy, lower interest rates and poor securities markets.

Loss on Impaired Investments. Loss on impaired investments decreased $9.2 million, or 59.7% from $15.4 million in 2001 to $6.2 million in 2002. As a percentage of revenue, loss on impaired investments decreased from 8.4% in 2001 to 3.0% in 2002.

The 2002 non-cash loss is the result of $6.3 million of declines in the fair value of investments available for sale that we determined to be other-than-temporary, offset by a $0.1 million partial cash recovery of the Six Sigma investment impaired in 2001. The 2001 loss was the result of the impairment of two investments. The first impairment, of $3.1 million, was related to our investment in Six Sigma, LLC and occurred due to the bankruptcy filing of Six Sigma, LLC because of alleged misappropriation of funds from its customer. The second impairment, of $12.4 million, was related to our investment in Gifts.com, Inc. and resulted from continued operating losses, negative cash flows, and a deficiency in working capital of Gifts.com, Inc.

Income Before Income Taxes. Income before income taxes increased $16.2 million, or 205.1%, from $7.9 million in 2001 to $24.1 million in 2002. As a percentage of revenue, income before income taxes increased from 4.3% in 2001 to 11.6% in 2002.

Income Tax Expense. Income tax expense for 2001 and 2002 increased from $3.0 million in 2001 to $8.9 million in 2002, which reflects a provision for federal, state, and foreign income taxes at an effective rate of 38.0% in 2001 and 36.9% in 2002.

Net Income. Net income increased $10.3 million, or 210.2%, from $4.9 million in 2001 to $15.2 million in 2002.

Liquidity and Capital Resources

Since our initial public offering in 1997, we have primarily financed our operations, liquidity requirements, capital expenditures, and capacity expansion through cash flows from operations, and to a lesser degree through various forms of debt and leasing arrangements.

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In addition to funding basic operations, our primary uses of cash relate to capital expenditures to open new facilities, capital expenditures to upgrade our existing information technologies and the payment of dividends. In 2004, we have budgeted for $15 million in capital expenditures to open new facilities and $11 million in capital expenditures on our information technology infrastructure. Our actual capital expenditures for new facilities may vary depending on the number and locations of new facilities opened in 2004. We believe our existing facilities are adequate for our current operations, but capacity expansion will be required to support our continued growth. Management intends to maintain a certain amount of excess capacity to enable us to readily provide for the needs of new clients and the increasing needs of existing clients. Our anticipated investment in information technology infrastructure is geared toward remaining competitive in our current business and to acquire additional functionalities necessary for us to be able to compete for new business.

We established a quarterly dividend policy in August 2003 and we intend to continue to pay quarterly dividends. In the first quarter of 2004 we paid a dividend of $0.38 per share, or an aggregate of $5.5 million. Assuming we continue to pay a dividend at the same rate and do not issue a substantial number of shares of common stock, we will use approximately $21.8 million of cash to pay dividends in 2004.

We maintain a $10.0 million unsecured line of credit with Wells Fargo Bank West, N.A. which we use to finance regular, short-term operating expenses. Borrowing under this line of credit bears interest at the bank s prime rate minus 1% (3.00% as of December 31, 2003). In 2003, interest expense associated with this facility totaled $18,963. Under this line of credit, we are not permitted to post net losses in any two consecutive quarterly periods. In addition, we were required to have a minimum tangible net worth of $80.0 million as of December 31, 2003. At the close of each subsequent fiscal year, we will be required to have a minimum tangible net worth equal to the minimum tangible net worth we were required to have at the end of the prior fiscal year plus 25% of net income (if positive) for that year. We may not pay dividends in an amount that would cause a failure to meet our financial covenants. As of December 31, 2003, we were in compliance with the financial covenants pertaining to the unsecured line of credit and $10.0 million was available under this line of credit. In February 2004, we entered into a secured equipment loan with Wells Fargo Equipment Finance, Inc. in the amount of $10.0 million. The loan bears interest at a rate of 3.65% per annum. Principal and interest are payable in 48 monthly installments in an amount of $224,228. The loan is secured by certain furniture, telephone and computer equipment purchased with the proceeds of the loan.

Cash from Operating Activities. Net cash provided by operating activities increased from $21.1 million for the year ended December 31, 2002 to $27.4 million for the year ended December 31, 2003. Growth in net income from 2002 to 2003 was offset by an increase in net accounts receivable of $6.2 million accounted for the increase. The increase in net accounts receivable was associated with the increase in the proportion of our revenues attributable to business process management services, which has a longer collections period.

Cash from Investing Activities. Net cash used in investing activities increased from $19.0 million for the year ended December 31, 2002 to $19.6 million for the year ended December 31, 2003. Purchases of property, plant, and equipment increased $18.0 million, from $5.9 million in 2002 to $23.9 million in 2003. Investments in new client service facilities accounted for most of the increase in capital expenditures. In 2002, we opened no new facilities. In 2003, we opened four new facilities, including three that commenced operations that year and one that commenced operations in February 2004. The increase in purchases of property, plant, and equipment was largely offset by a $17.0 million increase in proceeds from disposition of investments available for sale.

Cash from Financing Activities. Net cash used in financing activities increased from $3.7 million for the year ended December 31, 2002 to $14.9 million for the year ended December 31, 2003. The declaration of dividend payments totaling $5.1 million in the third quarter of 2003 and $5.3 million in the fourth quarter of 2003 accounted for most of this increase.

We paid a cash dividend of $0.38 per share, or an aggregate of $5.5 million, on February 24, 2004. We expect to continue to pay quarterly dividends on our common stock. The payment of any dividends, however, will be at the discretion of our board of directors and will depend on, among other things, availability of funds, future earnings, capital requirements, contractual restrictions, our general financial condition and business conditions generally.

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Foreign Currency Translation Effects. We are paid for our services with clients and subcontractors typically in US dollars except for certain agreements related to our United Kingdom operations, which accounted for 2.5% of our revenue in the year ended December 31, 2003. The effect of currency exchange rate changes on translation of revenue from our United Kingdom operations was not substantial during the year ended December 31, 2003.

Because we translate US dollars into Canadian dollars to pay our expenses in Canada, our financial results in US dollars are affected by changes in currency translation rates. Expenditures related to our operations in Canada increased $22.8 million Canadian, or 47.5%, from $48.0 million Canadian in 2002 to $70.8 million Canadian in 2003. In US dollars, these expenditures were $30.6 million in 2002 and $51.1 million in 2003, an increase of $20.5 million, or 67.0%. If Canadian expenditures had remained constant from 2002 to 2003, the exchange rate impact from the weakening US dollar from 2002 to 2003 would have been $4.1 million. Increased Canadian expenditures in 2003 resulted in an additional exchange rate impact of $2.0 million. Thus, the total exchange rate impact of the weakening US dollar from 2002 to 2003 was $6.1 million.

If the international portion of our business continues to grow, more revenue and expenses will be denominated in foreign currencies and our exposure to fluctuations in currency exchange rates will increase. See *Quantitative and Qualitative Disclosure About Market Risk* set forth herein for a further discussion of exposure to foreign currency exchange risks in connection with our investments.

Management believes our cash, cash equivalents, investments, anticipated cash flows from future operations, and line of credit will be sufficient to support our operations, capital expenditures, and various repayment obligations under our debt and lease agreements for at least the next twelve months. Liquidity and capital requirements depend on many factors, including, but not limited to, our ability to retain or successfully and timely replace our principal clients and the rate at which we expand our business, whether internally or through acquisitions and strategic alliances. To the extent funds generated from sources described above are insufficient to support our activities in the short or long-term, we will be required to raise additional funds through public or private financing. Additional financing may not be available, or if available, it may not be available on terms favorable to us.

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 significant 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. The following table presents a summary of our contractual obligations and payments, by period, as of December 31, 2003:

	Less Than One Year	One to Three Years	Four to Five Years	More than Five Years	Total
			(Dollars in thousands)		
Long-term debt(1)	$ 26	$ 52	$ 26	$	$ 104
Operating leases(2)	3,440	5,236	4,198	4,627	17,501
Purchase obligations(3)	5,762	10,670	844		17,276
Total contractual obligations	$9,228	$15,958	$5,068	$4,627	$34,881

(1) Our debt associated with our Greeley North facility is forgiven at a rate of $26,136 per year as long as we remain in the facility. The table does not reflect $10.0 million principal amount of equipment purchase debt that we incurred in February 2004.

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

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

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New Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. We adopted SFAS No. 143 on January 1, 2003, and the adoption of this statement did not result in any material impact.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, which provides guidance related to accounting for costs associated with disposal activities covered by SFAS No. 144 and with exit or restructuring activities previously covered by Emerging Issues Task Force (EITF) Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).* SFAS No. 146 supercedes EITF Issue No. 94-3 in its entirety. SFAS No. 146 requires that costs related to exiting an activity or to a restructuring not be recognized until the liability is incurred. SFAS No. 146 has been applied prospectively to exit or disposal activities initiated after December 31, 2002, and it had no material impact on results of operations and financial position.

In December 2002, the FASB issued SFAS No. 148, which provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, SFAS No. 148 requires disclosure of the pro forma effect in interim financial statements. The transition requirements of SFAS No. 148 are effective for our fiscal year 2003. SFAS No. 123, Accounting and Disclosure of Stock-Based Compensation, establishes an alternative method of expense recognition for stock-based compensation awards to employees based on estimated fair values. We elected not to adopt SFAS 123 for expense recognition purposes. It is expected FASB may require fair value accounting for stock options in the future, potentially beginning in 2005. However, the methodology to establish fair value for this purpose has not yet been determined.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* (SFAS No. 150). SFAS No. 150 clarifies the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity and requires that those instruments be classified as liabilities (or assets in certain circumstances) in statements of financial position. SFAS No. 150 also requires disclosures about alternative ways of settling the instruments and the capital structure of entities all of whose shares are mandatorily redeemable. SFAS No. 150 is generally effective for all financial instruments entered into or modified after May 31, 2003. The adoption of SFAS 150 had no impact on our financial statements.

On December 17, 2003, the Staff of the Securities and Exchange Commission (SEC or the Staff) issued Staff Accounting Bulletin No. 104 (SAB 104), *Revenue Recognition,* which supercedes SAB 101, *Revenue Recognition in Financial Statements.* SAB 104 s primary purpose is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, superceded as a result of the issuance of EITF 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables.* SAB 104 did not have a significant impact on our consolidated statements of income or financial position.

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Risk Factors

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

The following table represents revenue concentrations of our principal clients:

	Year Ended December 31,		
	2001	**2002**	**2003**
AT&T Wireless Services, Inc.	19.1%	26.3%	38.1%
Microsoft Corporation	48.4%	34.4%	21.7%
T-Mobile, a subsidiary of Deutsche Telekom	6.5%	12.2%	16.1%
AT&T Corporation	10.8%	13.3%	13.1%

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

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

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

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

The revenue we generate from Microsoft Corporation, which is primarily from sales of supply chain management services, has steadily declined over the past several years, decreasing from a high of $159.1 million in 1999 to $50.1 million in 2003. We expect that the revenue we receive from Microsoft Corporation will

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continue to decline throughout 2004 and may become an insignificant portion of our overall revenue stream in subsequent years. While we hope to replace this business with other supply chain management clients or by selling other business process outsourced services to new and existing clients, we may not be successful in these efforts. If we are unable to replace this revenue, our business and results of operations will be harmed.

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

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

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

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

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

- permit termination upon 30 to 90 days notice by our clients;
- do not designate us as our clients exclusive outsourced services provider;
- do not penalize our clients for early termination;
- hold us responsible for work performed that does not meet pre-defined specifications; and
- do not contain minimum purchase requirements.

Accordingly, we face the risk that our clients may cancel contracts we have with them, which may harm our results. If a principal client cancelled our contract with them, our results would suffer. In addition, because the amount of revenue generated from any particular client is generally dependent on end customers purchase and use of that client s products, our business depends in part on the success of our clients products. The number of customers who are attracted to the products of our clients may not be sufficient or our clients may not continue to develop new products that will require our services, in which case it may be more likely for our clients to terminate their contracts with us.

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

Our existing clients, such as Microsoft Corporation, as well as a number of clients we are currently targeting, have begun to decrease the number of firms they rely on to outsource their business process outsourced services. We believe these clients are taking this action in order to increase accountability and decrease their costs. If this consolidation results in us losing one or more of our clients, our business and results of operations

will be harmed. In addition, this consolidation could make it more difficult for us to secure new clients, which could limit our growth opportunities.

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

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

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

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

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

Approximately 27.2% of our total assets as of December 31, 2003 consisted of investment securities. We have made investments in publicly-traded debt, equity and equity-linked securities, and the market prices of the securities have been volatile. We have also invested in limited partnerships that own marketable securities, and we are generally unable to sell these limited partnership interests or withdraw our capital from these investment partnerships without 30 to 60 days prior notice to the general partner. We periodically review investments available for sale for other than temporary declines in fair value, and write down investments to their fair value when such a decline has occurred. In 2001, we recognized a loss on impaired investments totaling $15.5 million related to our investments in Six Sigma, LLC and Gifts.com, Inc., and in 2002 we recognized a loss on impaired investments totaling $6.2 million related to a decline in the value of investments we determined to be other than temporary. Unrealized gains or losses on investments acquired as trading securities are recognized as they occur. Future adverse changes in market conditions or poor operating results of companies in which we have invested could result in losses. Such charges harm our reported financial results in the period during which they are recognized.

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

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

competitors may have greater resources to devote to research and development than we do, and accordingly may have an ability to develop and market new technologies with which we are not able to successfully compete.

Several constraints may impede our ability to grow our business.

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

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

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

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

Our success is largely dependent on our ability to recruit, hire, train, and retain qualified employees. Our business is labor intensive and, as is typical for our industry, continues to experience relatively high personnel turnover. Our operations, especially our technical support and customer care services, generally require specially trained employees. Increases in our employee turnover rate could increase our recruiting and training costs and decrease our operating efficiency and productivity. Also, the addition of new clients or implementation of new projects for existing clients may require us to recruit, hire, and train personnel at accelerated rates. We may not be able to successfully recruit, hire, train, and retain sufficient qualified personnel to adequately staff for existing business or future growth, particularly when we undertake new client relationships in industries in which we have not previously provided services. We intend to enter the financial services and health care markets, which may require us to recruit, hire and train personnel with experience relevant to those industries. In addition, because a substantial portion of our operating expenses consists of labor related costs, labor shortages or increases in wages (including minimum wages as mandated by the U.S. federal government, employee benefit costs, employment tax rates, and other labor related expenses) could cause our business, operating profits, and financial condition to suffer.

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

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

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

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

The movement of business process services to other countries, particularly India, has been extensively reported by the press. Most analysts continue to believe that many outsourced services will continue to migrate to other countries with lower wages than those prevailing in the United States. Accordingly, unless and until we develop additional international operations, we may be competitively disadvantaged versus a number of our competitors who have already devoted significant time and money to operating offshore. If we decide to open facilities in or otherwise expand into additional countries, we may not be able to successfully establish operations in the markets that we target.

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

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

- competition from local businesses or established multinational companies, who may have firmly established operations in particular foreign markets giving them an advantage regarding labor and material costs;
- potentially longer working capital cycles;
- unexpected changes in foreign government programs, policies, regulatory requirements, and labor laws; and
- difficulties in staffing and effectively managing foreign operations.

One or more of these factors may have an impact on our international operations. Our lack of significant international operating experience may result in any of these factors impacting us to a greater degree than they impact our competitors. To the extent one or more of these factors harms our international operations, it could harm our business, results of operations, growth prospects, and financial condition as a whole.

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

Because we conduct a material portion of our business in Canada and the United Kingdom, we are exposed to market risk from changes in the value of the Canadian dollar, and to a lesser extent the British pound. Fluctuations in exchange rates impact our results though translation and consolidation of the financial results of our foreign operations, and therefore may impact our results of operations and financial condition. A significant change in the value of the dollar against the currency of one or more countries where we operate may have a negative impact on our results. Our results of operations have been negatively impacted by the increase in the value of the Canadian dollar in relation to the value of the U.S. dollar during 2003 because our contracts are denominated in U.S. dollars while our costs of doing business in Canada are denominated in Canadian dollars. Further increases in the value of the Canadian dollar or currencies in other foreign markets in which we operate in relation to the value of the U.S. dollar would further increase such costs and harm our results of operations. Because our results of operations have been impacted by fluctuations in the Canadian dollar, in March 2004 we began to hedge a portion of our exposure to such fluctuations, and we intend to closely monitor our hedging policy to be consistent with our future growth strategy.

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

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

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

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

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

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

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

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

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

During the recent economic downturn, we, like a number of companies in our industry, sought to limit our labor costs by limiting salary increases and payment of cash bonuses to our employees. If the recent economic upturn in the United States continues or accelerates, we may need to increase salaries or otherwise compensate our employees at higher levels in order to remain competitive and avoid losing personnel. Higher salaries or other forms of compensation are likely to increase our cost of operations, and if such cost increases are not more than offset by increased revenue they will harm our financial results.

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

Our profitability is influenced by our facilities capacity utilization. The majority of our business involves technical support and customer care services initiated by our clients customers, and as a result our capacity utilization varies and demands on our capacity are, to some degree, beyond our control. We have experienced periods of idle capacity, particularly in our multi-client supply chain management facilities. In addition, we have experienced, and in the future may experience, idle peak period capacity when we open a new facility or terminate or complete a large client program. These periods of idle capacity may be exacerbated if we expand our facilities or open new facilities in anticipation of new client business, because we generally do not have the ability to require a client to enter into a long-term contract or to require clients to reimburse us for capacity expansion costs if they terminate their relationship with us. From time to time, we assess the expected long-term capacity utilization of our facilities. Accordingly, we may, if deemed necessary, consolidate or close under-performing facilities in order to maintain or improve targeted utilization and margins. There can be no assurance that we will be able to achieve or maintain optimal facilities capacity utilization.

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

In the past three years we have appointed a new Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer. In addition, we have hired a number of additional management-level employees, many of them into newly-created positions, in the past year. We must successfully integrate all new management and other key positions within our organization in order to achieve our operating objectives. Our future financial performance will depend to a significant extent on our ability to motivate and retain key management personnel. Competition for qualified management personnel is intense and in the event we experience further changes in our senior management positions, we cannot be assured that we will be able to recruit suitable replacements. Even if we are successful, changes in key management positions may temporarily harm our financial performance and results of operations as new management becomes familiar with our business. We do not maintain key person life insurance on any of our executive officers, and with the exception of Mr. Meade, our Chief Executive Officer, have generally not entered into noncompetition agreements with our executive officers.

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

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

Our largest stockholder, together with members of his family, have the ability to significantly influence major corporate actions.

A. Emmet Stephenson, Jr., our Chairman of the Board and co-founder, his wife Toni E. Stephenson, and two trusts controlled by Mr. Stephenson s sister own 60.3% of our outstanding common stock currently. We have announced that Mrs. Stephenson and the trusts are proposing to sell up to 3,680,000 shares of our common stock

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in an underwritten public offering, following which Mr. and Mrs. Stephenson will beneficially own an aggregate of approximately 38.0% of our outstanding common stock, or 34.6% if the underwriters over-allotment option is exercised in full. See *Certain Relationships and Related Transactions.* As a result, Mr. Stephenson and his wife will continue to be our largest stockholders and together may be able to elect our entire Board of Directors and to control substantially all other matters requiring action by our stockholders. Under an agreement to take effect upon consummation of the proposed public offering, so long as Mr. Stephenson, together with members of his family, beneficially owns 30% or more of our outstanding common stock, Mr. Stephenson will be entitled to designate our nominees for one less than a majority of the directors to be elected to our board if our board consists of an odd number of directors, or two less than a majority of the nominees if our board consists of an even number of directors. So long as Mr. Stephenson, together with members of his family, beneficially owns 10% or more but less than 30% of our outstanding common stock, Mr. Stephenson will be entitled to designate one of our nominees for election to the board. In addition, upon consummation of the proposed public offering we will be obligated to amend our bylaws to allow that any holder of 10% or more of our outstanding common stock may call a special meeting of our stockholders. The concentration of voting power in Mr. and Mrs. Stephenson s hands, and the control Mr. Stephenson may exercise over us as our Chairman and as described above, may discourage, delay or prevent a change in control that might otherwise benefit our stockholders.

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

The market price of our common stock has been volatile and could be subject to wide fluctuations in response to quarterly variations in our operating results, our success in implementing our business and growth strategies, announcements of new contracts or contract cancellations, announcements of technological innovations or new products and services by us or our competitors, changes in financial estimates by securities analysts, or other events or factors we cannot currently foresee. Additionally, the stock market has experienced substantial price and volume fluctuations that have affected the market prices of equity securities of many companies, and that have often been unrelated to the operating performance of such companies. These broad market fluctuations may harm the market price of our common stock. Additionally, because our common stock trades at relatively low volume levels, any change in demand for our stock can be expected to substantially influence market prices thereof. The trading price of our stock varied from a low of $21.51 to a high of $42.80 during 2003.

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

On February 24, 2004, we paid a cash dividend of $0.38 per share of common stock, or $5.5 million in the aggregate, to our stockholders of record on February 13, 2004. We also declared and paid dividends of $0.37 per share in November 2003 and $0.36 per share in August, 2003. See *Dividend Policy.*

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

APPENDIX D

STARTEK, INC. AND SUBSIDIARIES

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The following discusses our exposure to market risks related to changes in interest rates and other general market risks, equity market prices, and foreign currency exchange rates as of December 31, 2003. All of our investment decisions are supervised or managed by our Chairman of the Board. Our investment portfolio policy, approved by the Board of Directors during 2001, provides for, among other things, investment objectives and portfolio allocation guidelines. This discussion contains forward-looking statements subject to risks and uncertainties. Actual results could vary materially as a result of a number of factors, including but not limited to, changes in interest and inflation rates or market expectations thereon, equity market prices, foreign currency exchange rates, and those set forth in *Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Factors.*

Interest Rate Sensitivity and Other General Market Risks

Cash and Cash Equivalents. At December 31, 2003, we had $6.0 million in cash and cash equivalents, which consisted of: (i) $5.4 million invested in various money market funds and overnight investments at a combined weighted average interest rate of approximately 0.42%; and (ii) $0.6 million in various non-interest bearing accounts. Cash and cash equivalents are not restricted. We paid cash dividends to stockholders of $0.36 per share in August 2003, $0.37 per share in November 2003, and $0.38 per share in February 2004. We consider cash equivalents to be short-term, highly liquid investments readily convertible to known amounts of cash, and so near their maturity they present insignificant risk of changes in value because of changes in interest rates. We do not expect any substantial loss with respect to our cash and cash equivalents as a result of interest rate changes, and the estimated fair value of our cash and cash equivalents approximates original cost.

Outstanding Debt of the Company. We believe a hypothetical 10.0% increase in interest rates would not have a material adverse effect on us. Increases in interest rates would, however, increase interest expense associated with future variable-rate borrowings by us, if any. For example, we may from time to time effect borrowings under our $10.0 million line of credit for general corporate purposes, including working capital requirements, capital expenditures, and other purposes related to expansion of our capacity. Borrowings under the $10.0 million line of credit bear interest at the lender s prime rate less 1% (3.0% as of December 31, 2003). As of December 31, 2003 we were in compliance with the financial covenants pertaining to the line of credit, and no balance was outstanding under the line of credit. In the past, we have not hedged against interest rate changes.

Investments Available for Sale. At December 31, 2003, we had investments available for sale which, in the aggregate, had a basis and fair market value of $33.6 million and $36.0 million, respectively. At December 31, 2003, investments available for sale generally consisted of investment-grade and non investment-grade corporate bonds, convertible bonds, mutual funds, common stock and option contracts purchased. Our investment portfolio is subject to interest and inflation rate risks and will fall in value if market interest and/or inflation rates or market expectations relating to these rates increase.

A substantial decline in values of equity securities and equity prices in general would have a material adverse effect on our equity investments. Also, prices of common stocks we hold could generally be expected to be adversely affected by increasing inflation or interest rates or market expectations thereon, poor management, shrinking product demand, and other risks that may affect single companies or groups of companies, as well as adverse economic conditions generally. We have partially hedged against some equity price changes.

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

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The table below provides information as of December 31, 2003 about maturity dates and corresponding weighted average interest rates related to certain of our investments available for sale:

	Weighted Average Interest Rates	Expected Maturity Date -Basis-						Total	Fair Value
		1 Year	2 Years	3 Years	4 Years	5 Years	Thereafter		
					(Dollars in thousands)				
Corporate bonds	6.34%	$5,036						$ 5,036	$ 5,175
Corporate bonds	7.35%		$9,287					$ 9,287	$ 9,538
Corporate bonds	8.15%			$2,394				$ 2,394	$ 2,435
Corporate bonds	8.21%				$4,424			$ 4,424	$ 5,293
Total	7.38%	$5,036	$9,287	$2,394	$4,424	$	$	$21,141	$22,441

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

Trading Securities. We were invested in trading securities which, in the aggregate, had an original cost and fair market value at December 31, 2003 of $4.0 million and $5.9 million, respectively. At December 31, 2003, trading securities generally consisted of alternative investment partnerships and option contracts sold. Trading securities were held to meet short-term investment objectives. As part of trading securities, we may write option contracts on equity securities. Our exposure relating to call options we write on securities we do not hold in our investment portfolio increases as the value of the underlying security increases, and therefore is technically unlimited. As of December 31, 2003, we had sold call options for a total of 33,000 shares of US equity securities, and sold put options for a total of 44,500 shares of US equity securities. These options expired between January 17, 2004 and February 21, 2004.

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

Foreign Currency Exchange Risks

A total of 2.5% of our revenue for the year ended December 31, 2003 was derived from our United Kingdom operations and principally denominated in British pounds and Euros. A total of 29.5% of our expenses for the year ended December 31, 2003 were paid in currencies other than US dollars of which 25.6% were paid in Canadian dollars and 3.9% were paid in British pounds and Euros. Our US and Canadian operations generate revenues denominated in US dollars. If an arrangement provides for us to receive payments in a foreign currency, revenue realized from such an arrangement may be lower if the value of such foreign currency declines. Similarly, if an arrangement provides for us to make payments in a foreign currency, cost of services and operating expenses for such an arrangement may be higher if the value of such foreign currency increases. For example, a 10% change in the relative value of such foreign currency could cause a related 10% change in our previously expected revenue, cost of services, and operating expenses. If the international portion of our business continues to grow, more revenue and expenses will be denominated in foreign currencies, which increases our exposure to fluctuations in currency exchange rates. In the past, we have not hedged against foreign currency

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exchange rate changes related to our international operations. Because our results of operations have been impacted by fluctuations in the Canadian dollar, in March 2004 we began to hedge a portion of our exposure to such fluctuations, and we intend to closely monitor our hedging policy to be consistent with our future growth strategy.

Inflation and General Economic Conditions

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.

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APPENDIX E

STARTEK, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders

StarTek, Inc.

We have audited the accompanying consolidated balance sheets of StarTek, Inc. and subsidiaries (the Company) as of December 31, 2003 and 2002, and the related consolidated statements of operations, cash flows and stockholders equity for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of StarTek, Inc. and subsidiaries at December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

ERNST & YOUNG LLP

Denver, Colorado
February 24, 2004

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STARTEK, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2002	December 31, 2003
	(Dollars in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,143	$ 5,955
Investments	44,022	41,812
Trade accounts receivable, less allowance for doubtful accounts of $816 and $790 in 2002 and 2003, respectively	37,232	43,388
Inventories	1,463	1,720
Income tax receivable	335	805
Deferred tax assets	4,300	2,250
Prepaid expenses and other assets	958	907
Total current assets	101,453	96,837
Property, plant and equipment, net	38,797	54,563
Long-term deferred tax assets	110	1,743
Other assets	61	464
Total assets	$ 140,421	$ 153,607
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 11,156	$ 8,917
Accrued liabilities	7,235	10,310
Current portion of long-term debt	2,221	26
Other	462	358
Total current liabilities	21,074	19,611
Long-term debt, less current portion	4,261	78
Other	492	918
Stockholders equity:		
Common stock, 32,000,000 shares, $0.01 par value, authorized; 14,192,581 and 14,351,011 shares issued and outstanding, respectively	142	144
Additional paid-in capital	50,060	53,917
Cumulative translation adjustment	(123)	446
Unrealized gain (loss) on investments available for sale	(738)	1,462
Retained earnings	65,253	77,031
Total stockholders equity	114,594	133,000
Total liabilities and stockholders equity	$ 140,421	$ 153,607

See notes to consolidated financial statements.

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STARTEK, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2001	**2002**	**2003**
	(Dollars in thousands, except per share data)		
Revenue	$ 182,576	$ 207,864	$ 231,189
Cost of services	137,622	157,005	171,401
Gross profit	44,954	50,859	59,788
Selling, general and administrative expenses	25,938	22,562	28,489
Operating profit	19,016	28,297	31,299
Net interest income and other	4,318	1,986	4,048
Loss on impaired investments	(15,452)	(6,210)	
Income before income taxes	7,882	24,073	35,347
Income tax expense	3,011	8,907	13,149
Net income(A)	$ 4,871	$ 15,166	$ 22,198
Weighted average shares of common stock(B)	14,053,484	14,140,765	14,243,273
Dilutive effect of stock options	114,560	244,624	379,793
Common stock and common stock equivalents(C)	14,168,044	14,385,389	14,623,066
Earnings per share:			
Basic (A/ B)	$ 0.35	$ 1.07	$ 1.56
Diluted (A/ C)	$ 0.34	$ 1.05	$ 1.52

See notes to consolidated financial statements.

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STARTEK, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2001	2002	2003
	(Dollars in thousands)		
Operating Activities			
Net income	$ 4,871	$ 15,166	$ 22,198
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	6,898	9,220	10,045
Deferred income taxes	(4,497)	1,399	(1,218)
Loss (gain) on sale of assets	1	2	(30)
Loss on investment impairments	15,452	6,210	
Changes in operating assets and liabilities:			
Sales of trading securities, net	6,334	1,085	1,537
Trade accounts receivable, net	(5,786)	(11,047)	(6,156)
Inventories	(668)	1,151	(257)
Prepaid expenses and other assets	(548)	305	(352)
Accounts payable	3,603	(822)	(2,239)
Income taxes payable	(746)	(2,149)	482
Accrued and other liabilities	954	621	3,397
Net cash provided by operating activities	25,868	21,141	27,407
Investing Activities			
Purchases of investments available for sale	(56,966)	(45,337)	(45,054)
Proceeds from disposition of investments available for sale	41,509	32,214	49,226
Purchases of property, plant and equipment	(19,016)	(5,877)	(23,867)
Proceeds from disposition of property, plant and equipment	8	38	131
Net cash used in investing activities	(34,465)	(18,962)	(19,564)
Financing Activities			
Stock options exercised	738	1,681	2,907
Principal payments on borrowings, net	(12,460)	(5,420)	(7,368)
Proceeds from borrowings and capital lease obligations	12,850		
Dividends on common stock			(10,420)
Net cash used in financing activities	1,128	(3,739)	(14,881)
Effect of exchange rate changes on cash	(792)	421	(150)
Net decrease in cash and cash equivalents	(8,261)	(1,139)	(7,188)
Cash and cash equivalents at beginning of year	22,543	14,282	13,143
Cash and cash equivalents at end of year	$ 14,282	$ 13,143	$ 5,955
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest	$ 355	$ 419	$ 283
Income taxes paid	$ 8,318	$ 9,394	$ 13,792
Property plant and equipment acquired or refinanced under long-term debt	$ 7,049		
Change in unrealized loss on investments available for sale, net of tax	$ (1,695)	$ 1,452	$ 2,200

See notes to consolidated financial statements.

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STARTEK, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders Equity
	Shares	Amount				
	(Dollars in thousands)					
Balance, December 31, 2000	14,033,221	$140	$47,095	$ 45,216	$ (487)	$ 91,964
Stock options exercised	49,340	1	737			738
Income tax benefit from stock options exercised			170			170
Net income				4,871		4,871
Cumulative translation adjustment					(439)	(439)
Unrealized loss on investments available for sale					(1,695)	(1,695)
Comprehensive income						2,737
Balance, December 31, 2001	14,082,561	$141	$48,002	$ 50,087	$(2,621)	$ 95,609
Stock options exercised	110,020	1	1,680			1,681
Income tax benefit from stock options exercised			378			378
Net income				15,166		15,166
Cumulative translation adjustment					308	308
Unrealized gain on investments available for sale					1,452	1,452
Comprehensive income						16,926
Balance, December 31, 2002	14,192,581	$142	$50,060	$ 65,253	$ (861)	$114,594
Stock options exercised	158,430	2	2,905			2,907
Income tax benefit from stock options exercised			952			952
Dividends paid				(10,420)		(10,420)
Net income				22,198		22,198
Cumulative translation adjustment					569	569
Unrealized gain on investments available for sale					2,200	2,200
Comprehensive income						24,967
Balance, December 31, 2003	14,351,011	$144	$53,917	$ 77,031	$ 1,908	$133,000

See notes to consolidated financial statements.

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STARTEK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share data)

1. Basis of Presentation and Summary of Significant Accounting Policies

StarTek, Inc. s business was founded in 1987 and, through its wholly-owned subsidiaries, has provided business process outsourced services since inception. On December 30, 1996, StarTek, Inc. (the Company or StarTek) was incorporated in Delaware, and in June 1997 StarTek completed an initial public offering of its common stock. Prior to December 30, 1996, StarTek USA, Inc. and StarTek Europe, Ltd. conducted business as affiliates under common control. In 1998, the Company formed StarTek Pacific, Ltd., a Colorado corporation and Domain.com, Inc., a Delaware corporation, both of which are also wholly-owned subsidiaries of the Company. In 2001, the Company formed StarTek Canada Services, Ltd. a Nova Scotia, Canada corporation, which is a wholly-owned subsidiary of the Company. StarTek, Inc. is a holding company for the businesses conducted by its wholly-owned subsidiaries. The consolidated financial statements include accounts of all wholly-owned subsidiaries after elimination of intercompany accounts and transactions.

Business Operations

StarTek has an established position as a leading provider of business process outsourced services, which consist of business process management and supply chain management services. The Company s business process management services include provisioning management, wireless telephone number porting, receivables management, wireless telephone activations, and high-end technical support and customer care services. Supply chain management services include packaging, fulfillment, marketing support and logistics services. As an outsourcer of process management services as its core business, StarTek allows its clients to focus on their primary business, reduce overhead, replace fixed costs with variable costs, and reduce working capital needs. The Company has continuously expanded its process management business and facilities to offer additional outsourcing services in response to growing needs of its clients and to capitalize on market opportunities. The Company has facilities in North America, the United Kingdom, and through 2001, in Singapore. The facility in Singapore closed on January 31, 2002.

Foreign Currency Translation

Assets and liabilities of the Company s foreign operations are translated into US dollars at current exchange rates. Revenues and expenses are translated at average monthly exchange rates. Resulting translation adjustments, net of applicable deferred income taxes (2002 $(73); 2003 $264) are reported as a separate component of stockholders equity. Foreign currency transaction gains and losses are included in determining net income. Such gains and losses were not material for any period presented.

Comprehensive Income

Financial Accounting Standards Board Statement No. 130, Reporting Comprehensive Income , establishes rules for the reporting and display of comprehensive income. Comprehensive income is defined essentially as all changes in stockholders equity, exclusive of transactions with owners. Comprehensive income was $2,737, $16,926, and $24,967 for 2001, 2002 and 2003, respectively.

Use of Estimates

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

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STARTEK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The below table shows the roll forward of the Company s allowances for doubtful accounts and inventory reserves.

	December 31,		
	2001	2002	2003
Allowance for Doubtful Accounts			
Balance at beginning of year	$ 672	$ 789	$816
Additions/recoveries	312	29	20
Write offs	(195)	(2)	(46)
Balance at end of year	$ 789	$ 816	$790
Inventory Reserve			
Balance at beginning of year	$ 437	$ 530	$467
Additions	178	238	181
Write offs	(85)	(301)	(49)
Balance at end of year	$ 530	$ 467	$599

Revenue Recognition

We recognize revenue as business process management services are completed. We recognize revenue on supply chain management services when products are shipped.

Training

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

Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, investments, accounts receivable, accounts payable, notes receivable, and debt. Carrying values of cash and cash equivalents, accounts receivable, and accounts payable approximate fair value. Investments are reported at fair value. Management believes differences between fair values and carrying values of notes receivable and debt would not be materially different because interest rates approximate market rates for material items.

Cash and Cash Equivalents

The Company considers cash equivalents to be short-term, highly liquid investments 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.

Investments

Investments available for sale consist of debt and equity securities reported at fair value, with unrealized gains and losses, net of tax (tax benefits (effect) of $433 and $(866) for 2002 and 2003, respectively) reported as a separate component of stockholders equity. Investments are evaluated for other-than-temporary impairment if the fair value is below the Company s cost for six months. The Company then considers

additional factors such as market conditions, the industry sectors in which the issuer of the investment operates, and the viability and prospects of each entity. Other-than-temporary declines in fair value are reflected on the income statement as loss on impaired investments. Original cost of investments available for sale, which are sold, is based on the specific identification method. Interest income from investments available for sale is included in net interest income and

STARTEK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

other. Trading securities and investments available for sale are carried at fair market values. Fair market values are determined by the most recently traded price of the security or underlying investment as of the balance sheet date. Gross unrealized gains and losses from trading securities are reflected in income currently and as part of net interest income and other.

Derivative Instruments and Hedging Activities

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), requires companies to recognize all of its derivative instruments as either assets or liabilities in the statement of financial position at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, the Company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation.

The Company has historically not entered into hedging transactions, however, in February 2004 the Company entered into a hedging agreement with Wells Fargo Bank to secure an exchange rate for the purchase of Canadian dollars.

Inventories

Inventories are valued at the lower of average costs, which approximate actual costs, computed on a first-in, first-out basis, or market.

Property, Plant and Equipment

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

	Estimated Useful Lives
Buildings and improvements	5 to 30.5 years
Equipment	3 to 5 years
Furniture and fixtures	7 years

Income Taxes

The Company accounts for income taxes using the liability method of accounting for income taxes as prescribed by SFAS No. 109, Accounting for Income Taxes . Deferred income taxes reflect net effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. The Company is subject to foreign income taxes on its foreign operations.

Stock Option Plans

The Company stock options plans, which are described more fully in Note 14, Stock Options, are accounted for under the intrinsic value recognition and measurement principles of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees , and related Interpretations. As the exercise price of all options granted under these plans was equal to the market price of the underlying stock on the grant date, no stock-based employee compensation cost was recognized in net income. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based

Compensation .

STARTEK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For purposes of this pro forma disclosure, the estimated fair value of the options is assumed to be amortized to expense over the options vesting periods.

	2001	2002	2003
Net income, as reported	$4,871	$15,166	$22,198
Fair value-based compensation cost, net of tax	1,756	5,234	2,851
Pro forma net income	$3,115	$ 9,932	$19,347
Basic earnings per share			
As reported	$ 0.35	$ 1.07	$ 1.56
Pro forma	$ 0.22	$ 0.70	$ 1.36
Diluted earnings per share			
As reported	$ 0.34	$ 1.05	$ 1.52
Pro forma	$ 0.22	$ 0.69	$ 1.32

New Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations . SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. The Company adopted SFAS No. 143 on January 1, 2003, and the adoption of this statement did not result in any material impact.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities , which provides guidance related to accounting for costs associated with disposal activities covered by SFAS No. 144 and with exit or restructuring activities previously covered by Emerging Issues Task Force (EITF) Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).* SFAS No. 146 supercedes EITF Issue No. 94-3 in its entirety. SFAS No. 146 requires that costs related to exiting an activity or to a restructuring not be recognized until the liability is incurred. SFAS No. 146 has been applied prospectively to exit or disposal activities initiated after December 31, 2002, and it had no material impact on results of operations and financial position.

In December 2002, the FASB issued SFAS No. 148, which provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, SFAS No. 148 requires disclosure of the pro forma effect in interim financial statements. The transition requirements of SFAS No. 148 are effective for the Company s fiscal year 2003. SFAS No. 123, Accounting and Disclosure of Stock-Based Compensation, establishes an alternative method of expense recognition for stock-based compensation awards to employees based on estimated fair values. The Company elected not to adopt SFAS 123 for expense recognition purposes. It is expected FASB may require fair value accounting for stock options in the future, potentially beginning in 2005. However, the methodology to establish fair value for this purpose has not yet been determined.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* (SFAS No. 150). SFAS No. 150 clarifies the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity and requires that those instruments be classified as liabilities (or assets in certain circumstances) in statements of financial position. SFAS No. 150 also requires disclosures about alternative ways of settling the instruments and the capital structure of entities all of whose shares are mandatorily redeemable. SFAS No. 150 is generally effective for all

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STARTEK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

financial instruments entered into or modified after May 31, 2003. The adoption of SFAS 150 had no impact on the Company s financial statements.

On December 17, 2003, the Staff of the Securities and Exchange Commission (SEC or the Staff) issued Staff Accounting Bulletin No. 104 (SAB 104), *Revenue Recognition,* which supercedes SAB 101, *Revenue Recognition in Financial Statements.* SAB 104 s primary purpose is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, superceded as a result of the issuance of EITF 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables.* SAB 104 did not have a significant impact on the Company s consolidated statements of income or financial position.

2. Earnings Per Share

Basic earnings per share is computed on the basis of weighted average number of common shares outstanding. Diluted earnings per share is computed on the basis of weighted average number of common shares outstanding plus effects of outstanding stock options using the treasury stock method.

3. Investments

As of December 31, 2002, investments available for sale consisted of*:*

	Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate bonds	$16,627	$610	$ (9)	$17,228
Equity securities	21,172	175	(1,947)	19,400
Total	$37,799	$785	$(1,956)	$36,628

As of December 31, 2003, investments available for sale consisted of:

	Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate bonds	$21,141	$1,302	$ (2)	$22,441
Equity securities	12,486	1,158	(130)	13,514
Total	$33,627	$2,460	$(132)	$35,955

As of December 31, 2003, amortized costs and estimated fair values of investments available for sale by contractual maturity were:

	Basis	Estimated Fair Value

Corporate bonds maturing within:		
One year or less	$ 5,036	$ 5,175
Two to five years	16,105	17,266
	$21,141	$22,441
Equity securities	12,486	13,514
Total	$33,627	$35,955

Equity securities primarily consisted of publicly traded common stock of US based companies, equity mutual funds, and real estate investment trusts.

STARTEK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2002, the Company was also invested in trading securities, which, in the aggregate, had an original cost and fair market value of $6,214 and $7,394, respectively. Trading securities consisted primarily of US and international mutual funds and investments in limited partnerships. Certain investments include hedging and derivative securities. Trading securities were held to meet short-term investment objectives. As part of trading securities and as of December 31, 2002, the Company had sold call options for a total of 18,000 shares of US equity securities which, in the aggregate, had a basis and market value of $9 and $7, respectively, and sold put options for a total of 12,000 shares of US equity securities which, in the aggregate, had a basis and market value of $14 and $13, respectively. The foregoing call and put options were reported net as components of trading securities and expired January 18, 2003.

As of December 31, 2003, the Company was also invested in trading securities, which, in the aggregate, had an original cost and fair market value of $4,042 and $5,857, respectively. Trading securities consisted primarily of alternative investment partnerships and option contracts sold. Certain investments include hedging and derivative securities. Trading securities were held to meet short-term investment objectives. As part of trading securities and as of December 31, 2003, the Company had sold call options for a total of 33,000 shares of US equity securities which, in the aggregate, had a basis and market value of $14 and $42, respectively, and sold put options for a total of 44,500 shares of US equity securities which, in the aggregate, had a basis and market value of $23 and $13, respectively. The foregoing call and put options expired between January 17, 2004 and February 21, 2004.

Risk of loss to the Company in the event of nonperformance by any party is not considered substantial. The foregoing call and put options may involve elements of credit and market risks in excess of the amounts recognized in the Company s financial statements. A substantial decline and/or change in value of equity securities, equity prices in general, international equity mutual funds, investment limited partnerships, and/or call and put options could have a material adverse effect on the Company s portfolio of trading securities. Also, trading securities could be materially and adversely affected by increasing interest and/or inflation rates or market expectations thereon, poor management, shrinking product demand, and other risks that may affect single companies, as well as groups of companies.

4. Loss on Impaired Investments

In January 2001, the Company purchased an investment in Six Sigma, LLC (Six Sigma). Six Sigma provided its audited financial statements, which included an unqualified independent auditors opinion. The purpose of Six Sigma was to provide revolving platform financing to its customer, a national mortgage company (Mortgage Company) and all advances were to be secured by first mortgages or deeds of trust on residential properties located in 47 different states. Six Sigma was to receive interest from the lender and a portion of the loan origination fees. Subsequently, a federal court placed the Mortgage Company into receivership based on allegations by the SEC that the president of the Mortgage Company had misappropriated large amounts of funds. The concurrent default on the line of credit extended by Six Sigma to the Mortgage Company triggered a bankruptcy filing by Six Sigma. Based on the limited information available to the Company in 2001, the Company believed it to be probable that its investment in Six Sigma had been impaired, and took a charge for a loss on the entire investment balance of $3,000 and accrued interest and fees of $40.

Through its wholly owned subsidiary Domain.com, Inc., the Company has a 19.9% investment in and notes receivable from Gifts.com, Inc. for a total of $12,412. Gifts.com, Inc. has experienced recurring operating losses, negative cash flows, and a deficiency in working capital. In 2001, management determined it to be probable the Company s investment in and notes receivable from Gifts.com, Inc. was impaired, and took a charge for a loss on the entire balance of $12,412.

The Company periodically evaluates investment holdings on an individual basis and in 2002 determined certain declines in the fair value of investments available for sale to be other than temporary. The Company

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STARTEK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

recorded $6,356 in investment impairment and a $146 cash recovery of the Six Sigma impairment originally recorded in 2001. No other-than-temporary impairments were recorded in 2003.

5. Inventories

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

	December 31,	
	2002	2003
Purchased components and fabricated assemblies	$1,373	$1,652
Finished goods	90	68
Total	$1,463	$1,720

6. Property, Plant and Equipment

	December 31,	
	2002	2003
Land	$ 2,400	$ 2,348
Buildings and improvements	24,734	31,132
Equipment	38,666	55,707
Furniture and fixtures	4,935	8,281
	70,735	97,468
Less accumulated depreciation and amortization	(31,938)	(42,905)
Property, plant and equipment, net	$ 38,797	$ 54,563

7. Line of Credit

The Company maintains a $10.0 million unsecured line of credit with Wells Fargo Bank West, N.A. (the Bank) that expires on September 30, 2005. Borrowings under the line of credit bear interest at the Bank s prime rate minus 1% (3.00% as of December 31, 2003). Under this line of credit, the Company is required to maintain minimum tangible net worth of $80.0 million and operate at a profit. The Company may not pay dividends in an amount that would cause a failure to meet the minimum tangible net worth covenant. As of December 31, 2003, the Company was in compliance with the financial covenants, and no balance was outstanding under the line of credit.

STARTEK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Leases

The Company leases facilities and equipment under various non-cancelable operating leases. As of December 31, 2003 future minimum rental commitments for operating leases were:

	Operating Leases
2004	$ 3,440
2005	2,664
2006	2,572
2007	2,373
2008	1,825
Thereafter	4,627
Total minimum lease payments	$ 17,501

Rent expense, including equipment rentals, for 2001, 2002, and 2003 was $1,044, $1,407, and $2,136, respectively.

9. Tennessee Financing Agreement

On July 8, 1998, the Company entered into certain financing agreements with the Industrial Development Board of the County of Montgomery, Tennessee, (the Development Board) in connection with the Development Board s issuance to StarTek USA, Inc. of an Industrial Development Revenue Note, Series A not to exceed $4,500 (the Facility Note) and an Industrial Development Revenue Note, Series B not to exceed $3,500 (the Equipment Loan). The Facility Note bears interest at 9.0% per annum commencing on October 1, 1998, payable quarterly and maturing on July 8, 2008. Concurrently, the Company advanced $3,575 in exchange for the Facility Note and entered into a lease agreement, maturing July 8, 2008, with the Development Board for the use and acquisition of a 305,000 square-foot process management and distribution facility in Clarksville, Tennessee (the Facility Lease). The Facility Lease requires the Company to pay to the Development Board lease payments sufficient to pay, when and as due, the principal of and interest on the Facility Note due to the Company from the Development Board. Pursuant to the provisions of the Facility Lease and upon the Company s payment of the Facility Lease in full, the Company shall have the option to purchase the 305,000 square-foot, Clarksville, Tennessee facility for a lump sum payment of one hundred dollars. The Equipment Loan bears interest at 9.0% per annum, generally contains the same provisions as the Facility Note, and provides for an equipment lease, except the Equipment Loan and equipment lease matured on January 1, 2004 and continues on a month-to-month basis. As of December 31, 2003, the Company had used approximately $4,468 and $1,988 of the Facility Note and Equipment Loan, respectively, and correspondingly entered into further lease arrangements with the Development Board.

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

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STARTEK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Long-Term Debt

	December 31,	
	2002	**2003**
5.0% to 5.4% equipment loans	$ 5,304	$
Variable rate equipment loan	469	
Non-interest bearing promissory note with incentive provisions	553	
Other debt obligations	156	104
	6,482	104
Less current portion of long-term debt	(2,221)	(26)
Long-term debt, less current portion	$ 4,261	$ 78

As of December 31, 2003, future scheduled annual principal payments on long-term debt were:

2004	$ 26
2005	26
2006	26
2007	26
	$104

In February 2004, the Company entered into a $10 million loan secured by various computer, telecommunications and office equipment. The loan bears interest at 3.65% and is payable in installments over forty-eight months.

11. Income Taxes

Significant components of the provision for income taxes were:

	2001	2002	2003
Current:			
Federal	$ 6,485	$5,771	$13,771
Foreign	292	907	1,180
State	731	830	(314)
Total current	7,508	7,508	14,637
Deferred:			
Federal	(3,906)	1,378	(1,113)
Foreign		(175)	(10)

State	(591)	196	(95)
Total deferred	(4,497)	1,399	(1,218)
Income tax expense	$ 3,011	$ 8,907	$ 13,419

Income tax benefits associated with disqualifying dispositions of incentive stock options during 2001, 2002 and 2003 reduced income taxes by $170, $378 and $952 for 2001, 2002 and 2003, respectively. Such benefits were recorded as an increase to additional paid-in capital.

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STARTEK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	2002	2003
Current deferred tax assets (liabilities):		
Bad debt allowance	$ 317	$ 323
Vacation accrual	639	776
Deferred revenue	96	62
Accrued expenses	489	509
Unrealized loss on investments	446	787
Loss on impaired investments available for sale	2,259	56
Other		

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Three Month $ Change
		(Amounts in millions)	
Corporate general and administrative expenses	$ 9.4	$ 5.2	$ 4.2

Corporate general and administrative expenses increased $4.2 million, or 80.8%, from $5.2 million during the three months ended September 30, 2009 to $9.4 million for the three months ended September 30, 2010. The increase in corporate general and administrative expense is primarily the result of an increase in non-cash compensation of approximately $4.1 million related to the issuance of nonvested shares of the Company s class A common stock in August 2010.

Excluding non-cash compensation, corporate general and administrative expenses for the three months ended September 30, 2010 remained consistent with the prior year quarter.

We expect to recognize approximately $9.5 million of non-cash compensation expense in the fourth quarter of 2010 related to the nonvested shares of class A common stock issued in August 2010. In early November 2010, certain members of our senior management and our board of directors elected to voluntarily forfeit approximately 2.5 million shares of restricted stock previously granted by the Company. The Company intends to replace these forfeited restricted shares with approximately 3.3 million stock options (representing approximately 7.5% of the equity of the reorganized debtors as of the Effective Date), the terms of which shall be governed by the Plan. The forfeiture of restricted stock and subsequent issuance of stock options to these individuals is expected to be accounted for as a modification of the original award, and the Company expects the non-cash compensation expense in future periods to approximate the amounts associated with the original grant. While the income tax implications have not been finalized, the modification will likely impact the fourth quarter effective tax rate. See discussion at Part I, Item 1. Financial Statements (Unaudited) Notes 8, 9 and 15.

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Depreciation and Amortization

	Successor	Predecessor	
	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009 (Amounts in millions)	Three Month $ Change
Depreciation and amortization:			
Depreciation	$ 3.6	$ 3.8	$ (0.2)
Amortization	21.3	3.7	17.6
Total depreciation and amortization	$ 24.9	$ 7.5	$ 17.4

Depreciation and amortization expense was $24.9 million during the three months ended September 30, 2010, compared to $7.5 million for the three months ended September 30, 2009, an increase of $17.4 million, or 232.0%. This increase in depreciation and amortization expense is attributable to a $17.6 million increase in amortization expense due mainly to the increase in fair value of the Successor s customer relationships at the Radio Markets as of the Fresh-Start Date.

As a result of the application of fresh-start reporting, we increased the carrying values of definite-lived intangible assets by $243.6 million. Accordingly, we expect to recognize approximately $20 million of amortization expense in the fourth quarter of 2010 related to these definite-lived intangible assets.

Other, Net

	Successor	Predecessor	
	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009 (Amounts in millions)	Three Month $ Change
Other, net	$ 1.2	$ 5.3	$ (4.1)

For the three months ended September 30, 2010, other, net of approximately $1.2 million is comprised of bankruptcy-related expenses incurred by the Successor. For the three months ended September 30, 2009, other, net of approximately $5.3 million represents pre-petition restructuring-related costs for financial advisory services and legal expenditures incurred by the Predecessor.

Operating Income

	Successor	Predecessor	
	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009 (Amounts in millions)	Three Month $ Change
Operating income	$ 34.0	$ 38.0	$ (4.0)

Operating income decreased by approximately $4.0 million, from an operating income of $38.0 million for the third quarter of 2009 to operating income of $34.0 million for the third quarter of 2010. The decrease in operating income is primarily the result of an increase in depreciation and amortization expense of $17.4 million, partially offset by an increase in net revenue of $4.8 million and a decrease in operating expenses, exclusive of depreciation and amortization, of $8.6 million.

Interest Expense, Net

	Successor Three Months Ended September 30, 2010	Predecessor Three Months Ended September 30, 2009	Three Month $ Change
		(Amounts in millions)	
Interest expense, net	$ 20.5	$ 64.6	$ (44.1)

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Net interest expense decreased to $20.5 million for the three months ended September 30, 2010 from $64.6 million for the three months ended September 30, 2009, a decrease of $44.1 million, due to the restructuring of the Predecessor s debt pursuant to the Plan.

During the three months ended September 30, 2010, interest expense was incurred on the balance of the New Term Loan at 11.0%.

During the 2009 third quarter, the Predecessor incurred interest both on its Senior Credit and Term Facility at an average rate of approximately 2.2% and in the amount of $12.0 million related to its interest rate swap. In addition, included in net interest expense for the three months ended September 30, 2009 are $22.8 million in facility fees incurred at an annual rate of 4.50% on the Predecessor s Tranche A Term Loans and revolving loans and 4.25% on the Tranche B Term Loans, amortization of debt issuance costs and debt discount of $13.8 million and a loss of $3.5 million resulting from an increase in the fair value of the Predecessor s interest rate swap liability.

Income Taxes

	Successor Three Months Ended September 30, 2010	Predecessor Three Months Ended September 30, 2009	Three Month $ Change
		(Amounts in millions)	
Income tax expense (benefit)	$ 9.8	$ (5.4)	$ 15.2

For the quarter ended September 30, 2010, the Company recognized income tax expense of $9.8 million based on income before income taxes of $13.4 million, or an effective tax rate of 73.4%. This effective rate differs from the federal tax rate of 35% primarily due to non-deductible compensation, state income taxes, net of federal benefit and other permanent differences.

For the quarter ended September 30, 2009, the Predecessor recognized income tax benefit of $5.4 million based on a loss before income taxes of $26.7 million, or an effective tax rate of 20.3%. This effective rate differs from the federal tax rate of 35% primarily due to changes in the Predecessor s valuation allowance and the $985.7 million asset impairment charge recognized by the Predecessor.

Net Income (Loss)

Net income improved to $3.6 million for the three months ended September 30, 2010, or $0.08 per basic and diluted share, compared to a net loss of $21.3 million, or $(0.08) per basic and diluted share, for the quarter ended September 30, 2009 as a result of the factors described above.

Basic earnings per share includes the total amount of class A common stock, class B common stock and Special Warrants outstanding or held in reserve to be issued, as well as approximately 3.7 million nonvested shares of class A common stock issued to employees of the Successor since the date of grant. Diluted earnings per share is computed in the same manner as basic earnings per share after assuming issuance of common stock for all potentially dilutive equivalent shares. There were no diluted shares outstanding for the three months ended September 30, 2010.

For the three months ended September 30, 2009, there were no potentially dilutive equivalent shares related to stock options or nonvested shares of common stock of the Predecessor. Potentially dilutive equivalent shares related to the conversion of the Predecessor s convertible subordinated notes, along with the related interest expense impact, net of tax, into 1.9 million shares of the Predecessor s common stock were excluded form the computation of diluted weighted average shares outstanding as their effect was antidilutive.

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Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009

Net Revenue

	Successor	Predecessor		
	Period from June 1, 2010 through September 30, 2010	Period from January 1, 2010 through May 31, 2010	Nine Months Ended September 30, 2009	Nine Month $ Change
	(Amounts in millions)			
Net revenue:				
Local	$ 169.5	$ 194.2	$ 351.7	$ 12.0
National	83.1	101.2	179.1	5.2
Net revenue	$ 252.6	$ 295.4	$ 530.8	$ 17.2

Net revenue for the nine months ended September 30, 2010 increased by approximately $17.2 million, or 3.2%, from approximately $530.8 million during the nine months ended September 30, 2009 to approximately $548.0 million. This increase was due to higher revenue of $21.2 million from our Radio Markets, which was slightly offset by a decrease of $3.8 million from the Radio Network. The increase in revenue at our Radio Markets segment is primarily due to increases in both national and local advertising. Generally, our stations in larger metropolitan markets performed better than our stations in the medium to small metropolitan markets.

Cost of Revenue

	Successor	Predecessor		
	Period from June 1, 2010 through September 30, 2010	Period from January 1, 2010 through May 31, 2010	Nine Months Ended September 30, 2009	Nine Month $ Change
	(Amounts in millions)			
Cost of revenue (exclusive of depreciation and amortization shown separately below)	$ 92.7	$ 116.1	$ 229.5	$ (20.7)

Cost of revenue decreased approximately $20.7 million, or 9.0%, to $208.8 million for the nine months ended September 30, 2010 as compared to $229.5 million for the nine months ended September 30, 2009. This decrease is primarily attributable to reductions in programming costs at both the Radio Markets and the Radio Network, including reductions in compensation expense, in addition to a reduction in compensation paid to affiliates at the Radio Network.

We expect to recognize approximately $0.6 million of non-cash compensation expense in the fourth quarter of 2010 related to the nonvested shares of class A common stock issued in August 2010. See Part I, Item 1. Financial Statements (Unaudited) Note 9.

Selling, General and Administrative

	Successor	Predecessor		
	Period from June 1, 2010 through September 30, 2010	Period from January 1, 2010 through May 31,	Nine Months Ended September 30, 2009	Nine Month $ Change

		2010					
			(Amounts in millions)				
Selling, general and administrative expenses	$	64.9	$ 78.6	$	152.2	$	(8.7)

Selling, general and administrative expenses for the nine months ended September 30, 2010 decreased approximately $8.7 million, or 5.7%, to $143.5 million from $152.2 million for the nine months ended September 30, 2009. This decrease was primarily attributed to reductions in selling-related costs at the Radio Markets and reductions in compensation costs at the Radio Network.

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We expect to recognize approximately $2.2 million of non-cash compensation expense in the fourth quarter of 2010 related to the nonvested shares of class A common stock issued in August 2010. See Part I, Item 1. Financial Statements (Unaudited) Note 9.

Corporate General and Administrative Expenses

	Successor	Predecessor		
	Period from June 1, 2010 through September 30, 2010	Period from January 1, 2010 through May 31, 2010	Nine Months Ended September 30, 2009	Nine Month $ Change
		(Amounts in millions)		
Corporate general and administrative expenses	$ 11.2	$ 8.9	$ 20.2	$ (0.1)

Corporate general and administrative expenses decreased $0.1 million, or 0.5%, from $20.2 million during the nine months ended September 30, 2009 to $20.1 million for the nine months ended September 30, 2010.

Non-cash compensation of approximately $5.0 million for the nine months ended September 30, 2010 is primarily related to the issuance of nonvested shares of the Company s class A common stock in August 2010. Non-cash compensation of approximately $4.9 million for the nine months ended September 30, 2009 was primarily due to the recognition of $3.6 million in compensation expense related to the Predecessor s chief executive officer voluntarily cancelling both (i) the 2,000,000 shares of restricted stock with both performance-based and time-based vesting conditions and (ii) the 2,000,000 shares of restricted stock with solely time-based vesting conditions on April 1, 2009. Excluding non-cash compensation, corporate general and administrative expenses remained consistent with the prior year period.

We expect to recognize approximately $9.5 million of non-cash compensation expense in the fourth quarter of 2010 related to the nonvested shares of class A common stock issued in August 2010. In early November 2010, certain members of our senior management and our board of directors elected to voluntarily forfeit approximately 2.5 million shares of restricted stock previously granted by the Company. The Company intends to replace these forfeited restricted shares with approximately 3.3 million stock options (representing approximately 7.5% of the equity of the reorganized debtors as of the Effective Date), the terms of which shall be governed by the Plan. The forfeiture of restricted stock and subsequent issuance of stock options to these individuals is expected to be accounted for as a modification of the original award, and the Company expects the non-cash compensation expense in future periods to approximate the amounts associated with the original grant. While the income tax implications have not been finalized, the modification will likely impact the fourth quarter effective tax rate. See discussion at Part I, Item 1. Financial Statements (Unaudited) Notes 8, 9 and 15.

Asset Impairment and Disposal Charges

	Successor	Predecessor		
	Period from June 1, 2010 through September 30, 2010	Period from January 1, 2010 through May 31, 2010	Nine Months Ended September 30, 2009	Nine Month $ Change
		(Amounts in millions)		
Asset impairment and disposal charges	$	$	$ 985.7	$ (985.7)

The radio marketplace continued to deteriorate during the first six months of 2009, and the Predecessor expected advertising revenue to continue to decline in comparison to the same periods in the prior year for the remainder of 2009. Radio market revenue estimates for future years had continued to decline at a rate greater than anticipated at December 31, 2008. In May 2009, the Predecessor engaged a financial advisor to assist in the evaluation of the Predecessor s financial options, including a possible refinancing and restructuring of its capital structure. As a result of the continued deterioration in the radio marketplace during 2009 and the greater than anticipated decline in overall radio market revenue estimates for future years, as well as fair value indicators resulting from the Predecessor s evaluation of its capital structure, the Predecessor conducted an interim impairment test for its Radio Markets and Radio Network as of June 30, 2009 that resulted in a non-cash impairment charge of approximately $933.1 million to reduce the carrying value of FCC licenses and goodwill by $762.3 million and $170.8 million,

respectively, to their estimated fair values at that time. The Predecessor also recognized non-cash impairment and disposal charges of $10.0 million during the nine-month period ended September 30, 2009 in order to write down the FCC licenses of the stations in the Divestiture Trusts to their estimated fair value at that time since these stations are more likely than not to be disposed, as well as approximately $17.2 million and $25.4 million to reduce the carrying value of definite-lived customer relationships and affiliate relationships at the Radio Network to their estimated fair values at that time. The material assumptions utilized in the Predecessor s analyses as of June 30, 2009 included overall future market revenue growth rates for the residual year of approximately 1.5%, a weighted average cost of capital of 12.0% and estimated EBITDA multiples of approximately 5.0 times.

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There was no similar asset impairment or disposal charge during the nine months ended September 30, 2010.

Depreciation and Amortization

	Successor	Predecessor		
	Period from June 1, 2010 through September 30, 2010	Period from January 1, 2010 through May 31, 2010	Nine Months Ended September 30, 2009	Nine Month $ Change
	(Amounts in millions)			
Depreciation and amortization:				
Depreciation	$ 5.0	$ 6.1	$ 11.5	$ (0.4)
Amortization	28.4	5.2	16.5	17.1
Total depreciation and amortization	$ 33.4	$ 11.3	$ 28.0	$ 16.7

Depreciation and amortization expense was $44.7 million during the nine months ended September 30, 2010, compared to $28.0 million for the nine months ended September 30, 2009, an increase of $16.7 million, or 59.6%.This increase depreciation and amortization expense is attributable to a $17.1 million increase in amortization expense due mainly to the increase in fair value of the Successor s customer relationships at the Radio Markets as of the Fresh-Start Date.

As a result of the application of fresh-start reporting, we increased the carrying values of definite-lived intangible assets by $243.6 million. Accordingly, we expect to recognize approximately $20 million of amortization expense in the fourth quarter of 2010 related to these definite-lived intangible assets.

Other, Net

	Successor	Predecessor		
	Period from June 1, 2010 through September 30, 2010	Period from January 1, 2010 through May 31, 2010	Nine Months Ended September 30, 2009	Nine Month $ Change
	(Amounts in millions)			
Other, net	$ 2.2	$ 0.9	$ 6.3	$ (3.2)

For the nine months ended September 30, 2010, other, net of approximately $3.1 million includes approximately $2.2 million of bankruptcy-related expenses incurred by the Successor. For the nine months ended September 30, 2009, other, net of approximately $6.3 million includes $6.1 million of pre-petition restructuring-related costs for financial advisory services and legal expenditures incurred by the Predecessor.

Operating Income

	Successor	Predecessor		
	Period from June 1, 2010 through September 30, 2010	Period from January 1, 2010 through May 31, 2010	Nine Months Ended September 30, 2009	Nine Month $ Change
	(Amounts in millions)			
Operating income (loss)	$ 47.9	$ 79.1	$ (891.9)	$ 1,018.9

Operating income improved approximately $1,018.9 million from an operating loss of $891.9 million for the nine months ended September 30, 2009 to operating income of $127.0 million for the corresponding 2010 period. The nine months ended September 30, 2009 reflected asset impairment charges of approximately $985.7 million. Excluding the non-cash asset impairment charges, the increase in operating income of approximately $33.2 million is primarily the result of higher revenue of $17.2 million in addition to lower station and network operating expenses of approximately $32.7 million offset by an increase in depreciation and amortization expense of $16.7 million.

Reorganization Items, net

	Successor	Predecessor		
	Period from June 1, 2010 through September 30, 2010	Period from January 1, 2010 through May 31, 2010	Nine Months Ended September 30, 2009	Nine Month $ Change
	(Amounts in millions)			
Reorganization items, net	$	$ (1,014.1)	$	$ (1,014.1)

Reorganization activity associated with the Predecessor s bankruptcy filing in December of 2009 resulted in a net gain of $1,014.1 million for the nine months ended September 30, 2010. This amount represents gains of $921.8 million and $139.8 million due to the revaluation of assets and liabilities and the extinguishment of liabilities, respectively, which are both related to our emergence from bankruptcy, partially offset by $42.2 million in professional fees paid for legal, consulting, and other Plan-related costs and services and $5.3 million to adjust the liability related to rejected executory contracts to their estimated allowed claim amounts. The Predecessor incurred no similar costs during the same period in 2009. Beginning on the Fresh-Start Date, continuing expenses related to the remaining bankruptcy matters are recorded in other, net in the Successor s accompanying statement of operations.

Interest Expense, Net

	Successor	Predecessor		
	Period from June 1, 2010 through September 30, 2010	Period from January 1, 2010 through May 31, 2010	Nine Months Ended September 30, 2009	Nine Month $ Change
	(Amounts in millions)			
Interest expense, net	$ 26.9	$ 17.8	$ 128.0	$ (83.3)

Net interest expense decreased to $44.7 million for the nine months ended September 30, 2010 from $128.0 million for the nine months ended September 30, 2009, a decrease of $83.3 million, due to the restructuring of the Predecessor s debt pursuant to the Plan.

During the four months from the Fresh-Start Date through September 30, 2010, interest expense was incurred on the balance of the New Term Loan at 11.0%. For the period from January 1, 2010 through May 31, 2010, interest expense was incurred on the $2.1 billion outstanding under the Predecessor s Senior Credit and Term Facility at a rate of approximately 2.0%.

During the nine months ended September 30, 2009, the Predecessor incurred interest both on its Senior Credit and Term Facility at rates ranging from approximately 1.8% to 3.0% and in the amount of $32.5 million related to its interest rate swap. In addition, included in net interest expense for the nine months ended September 30, 2009 are $45.6 million in facility fees incurred at an annual rate of 4.50% on the Predecessor s Tranche A Term Loans and revolving loans and 4.25% on the Tranche B Term Loans and amortization of debt issuance costs and debt discount of $29.9 million, partially offset by a gain of $18.1 million resulting from a decrease in the fair value of the Predecessor s interest rate swap liability.

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Income Taxes

	Successor	Predecessor		
	Period from June 1, 2010 through September 30, 2010	Period from January 1, 2010 through May 31, 2010	Nine Months Ended September 30, 2009	Nine Month $ Change
Income tax expense (benefit)	$ 14.4	$ 5.7	$ (235.1)	$ 255.2

For the nine months ended September 30, 2010, the Company recognized income tax expense of $20.1 million based on income before income taxes of $1,096.5 million, or an effective tax rate of 1.8%. This effective rate differed from the federal tax rate of 35% primarily due to reorganization benefits related to the application of fresh-start reporting for which no income tax expense was recognized and changes in the Company s valuation allowance.

For the nine months ended September 30, 2009, the Predecessor recognized income tax benefit of $235.1 million based on a loss before income taxes of $1,020.3 million, or an effective tax rate of 23.0%. This effective rate differs from the federal tax rate of 35% primarily due to a change in the Predecessor s valuation allowance and the $985.7 million asset impairment charge recognized by the Predecessor.

Net Income (Loss)

Net income of $1,076.4 million for the nine months ended September 30, 2010 is comprised of Successor s net income of $6.7 million, or $0.14 per basic and diluted share, and Predecessor s net income for the five months ended May 31, 2010 of $1,069.7 million, or $4.02 per basic share and $3.99 per diluted share, which is mainly due to a net gain of $1,014.1 million recognized by the Predecessor in conjunction with the application of fresh-start reporting. This compares to a net loss of $785.2 million, or $(2.98) per basic and diluted share, for the nine months ended September 30, 2009.

Basic earnings per share for the four months ended September 30, 2010 includes the total amount of class A common stock, class B common stock and Special Warrants outstanding or held in reserve to be issued, as well as approximately 3.7 million nonvested shares of class A common stock issued to employees of the Successor since the date of grant. Diluted earnings per share is computed in the same manner as basic earnings per share after assuming issuance of common stock for all potentially dilutive equivalent shares. There were no diluted shares outstanding for the four months ended September 30, 2010.

The diluted shares outstanding for the five months ended May 31, 2010 include approximately 1.9 million shares of common stock of the Predecessor related to the conversion of the Predecessor s convertible subordinated notes. While operating under chapter 11 of the Bankruptcy Code, the Predecessor was prohibited from paying unsecured pre-petition debts, including the convertible subordinated notes and interest thereon. Therefore, for the five months ended May 31, 2010, there was no related interest expense to consider in the calculation of the Predecessor s diluted shares. Potentially dilutive equivalent shares related to the conversion of the Predecessor s convertible subordinated notes into 1.9 million shares of common stock of the Predecessor for the nine months ended September 30, 2009, along with the related interest expense impact, net of tax, were excluded from the computation of diluted weighted average shares outstanding as their effect is antidilutive. There are no potentially dilutive equivalent shares related to stock options or nonvested shares of common stock for the five months ended May 31, 2010 or the nine months ended September 30, 2009.

Segment Results of Operations

The Company presents segment operating income (SOI), which is a non-GAAP measure, as a primary measure of profit and loss for its operating segments. SOI is defined as operating income by segment adjusted to exclude depreciation and amortization, local marketing agreement fees, asset impairment and disposal charges, non-cash compensation, corporate general and administrative expenses, and other, net. The Company believes the presentation of SOI is relevant and useful for investors because it allows investors to view segment performance in a manner similar to a primary method used by the Company s management and enhances their ability to understand the Company s operating performance. The reconciliation of SOI to the Company s consolidated results of operations is presented at Note 13 to the consolidated condensed financial statements.

The following tables present the Company s revenue, SOI, local marketing agreement fees, asset impairment and disposal charges, non-cash compensation expense and depreciation and amortization by segment for the three and nine months ended September 30, 2010 and 2009.

Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009

	Successor Three Months Ended September 30, 2010	Predecessor Three Months Ended September 30, 2009
	(Amounts in millions)	
Net revenue:		
Radio Markets	$ 161.5	$ 155.8
Radio Network	28.3	29.4
Segment revenue	$ 189.8	$ 185.2
Intersegment revenue:		
Radio Markets	$ (1.2)	$ (1.4)
Radio Network		
Total intersegment revenue	$ (1.2)	$ (1.4)
Net revenue	$ 188.6	$ 183.8
SOI:		
Radio Markets	$ 67.4	$ 58.4
Radio Network	3.6	(0.5)
Total SOI	71.0	57.9
Corporate general and administrative	(9.4)	(5.2)
Local marketing agreement fees	(0.2)	(0.3)
Non-cash compensation expense	(1.3)	(1.5)
Depreciation and amortization	(24.9)	(7.6)
Other, net	(1.2)	(5.3)
Total operating income (loss)	$ 34.0	$ 38.0
Local marketing agreement fees		
Radio Markets	$ 0.2	$ 0.3
Radio Network		
Total local marketing agreement fees	$ 0.2	$ 0.3
Segment non-cash compensation expense:		
Radio Markets	$ 1.1	$ 1.1

Radio Network	0.2	0.4
Total segment non-cash compensation expense	$ 1.3	$ 1.5
Segment depreciation and amortization:		
Radio Markets	$ 21.6	$ 5.6
Radio Network	3.3	2.0
Total segment depreciation and amortization	$ 24.9	$ 7.6

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Radio Markets

	Successor Three Months Ended September 30, 2010	Predecessor Three Months Ended September 30, 2009
	(Amounts in millions)	
Radio Markets		
Net revenue	$ 161.5	$ 155.8
SOI	$ 67.4	$ 58.4
Local marketing agreement fees	(0.2)	(0.3)
Non-cash compensation expense	(1.1)	(1.1)
Depreciation and amortization	(21.6)	(5.6)
Operating income - Radio Markets	$ 44.5	$ 51.4

Radio Markets revenue increased to $161.5 million for the three months ended September 30, 2010 from $155.8 million for the three months ended September 30, 2009, an increase of $5.7 million, or 3.7%. The increase in revenue is driven primarily by increases in both national and local advertising. Both the larger metropolitan markets as well as the medium to small metropolitan markets showed overall growth.

SOI was $67.4 million for the three months ended September 30, 2010 as compared to $58.4 million for the three months ended September 30, 2009, an increase of $9.0 million, or 15.4%. The increase in SOI for the three months ended September 30, 2010 was primarily the result of the $5.7 million increase in net revenue, as well as reductions in programming and selling-related expenses.

Depreciation and amortization expense increased $16.0 million, or 285.7%, primarily due to amortization expense related to definite-lived intangibles established as of the Fresh-Start Date. See discussion of depreciation and amortization expense for the three months ended September 30, 2010.

Radio Network

	Successor Three Months Ended September 30, 2010	Predecessor Three Months Ended September 30, 2009
	(Amounts in millions)	
Radio Network		
Net revenue	$ 28.3	$ 29.4
SOI	$ 3.6	$ (0.5)
Non-cash compensation expense	(0.2)	(0.4)
Depreciation and amortization	(3.3)	(2.0)
Operating income (loss) - Radio Network	$ 0.1	$ (2.9)

Radio Network net revenue decreased $1.1 million, or 3.7%, to $28.3 million for the three months ended September 30, 2010, from $29.4 million for the three months ended September 30, 2009. This decrease was primarily related to declines in revenue from our news-related products and the overall impact of eliminating certain programs.

Radio Network SOI was $3.6 million for the three months ended September 30, 2010 as compared to a loss of $0.5 million for the three months ended September 30, 2009, an increase of $4.1 million. The increase in SOI for the three months ended September 30, 2010 was primarily the result of a reduction in programming costs, which includes decreases in salaries, as well as reductions in selling-related costs and administrative expenses, partially offset by the $1.1 million decrease in net revenue.

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The increase in depreciation and amortization expense is primarily attributable to amortization expense related to definite-lived intangibles established as of the Fresh-Start Date. See discussion of depreciation and amortization expense for the three months ended September 30, 2010.

Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009

	Successor	Predecessor	
	Period from June 1, 2010 through September 30, 2010	Period from January 1, 2010 through May 31, 2010	Nine Months Ended September 30, 2009
	(Amounts in millions)		
Net revenue:			
Radio Markets	$ 217.0	$ 247.1	$ 442.9
Radio Network	37.2	50.3	91.3
Segment revenue	$ 254.2	$ 297.4	$ 534.2
Intersegment revenue:			
Radio Markets	$ (1.6)	$ (2.0)	$ (3.4)
Radio Network			
Total intersegment revenue	$ (1.6)	$ (2.0)	$ (3.4)
Net revenue	$ 252.6	$ 295.4	$ 530.8
SOI:			
Radio Markets	$ 91.7	$ 94.0	$ 155.4
Radio Network	4.6	8.0	(2.3)
Total SOI	96.3	102.0	153.1
Corporate general and administrative	(11.2)	(8.9)	(20.2)
Local marketing agreement fees	(0.3)	(0.5)	(0.8)
Asset impairment and disposal charges			(985.7)
Non-cash compensation expense	(1.3)	(1.3)	(4.0)
Depreciation and amortization	(33.4)	(11.3)	(28.0)
Other, net	(2.2)	(0.9)	(6.3)
Total operating income (loss)	$ 47.9	$ 79.1	$ (891.9)
Asset impairment and disposal charges			
Radio Markets	$	$	$ 912.6
Radio Network			73.1

Total asset impairment and disposal charges	$		$		$	985.7
Local marketing agreement fees						
Radio Markets	$	0.3	$	0.5	$	0.8
Radio Network						
Total local marketing agreement fees	$	0.3	$	0.5	$	0.8
Segment non-cash compensation expense:						
Radio Markets	$	1.1	$	1.1	$	3.0
Radio Network		0.2		0.2		1.0
Total segment non-cash compensation expense	$	1.3	$	1.3	$	4.0
Segment depreciation and amortization:						
Radio Markets	$	29.0	$	8.3	$	16.8
Radio Network		4.4		3.0		11.2
Total segment depreciation and amortization	$	33.4	$	11.3	$	28.0

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Radio Markets

	Successor	Predecessor	
	Period from June 1, 2010 through September 30, 2010	Period from January 1, 2010 through May 31, 2010	Nine Months Ended September 30, 2009
	(Amounts in millions)		
Radio Markets			
Net revenue	$ 217.0	$ 247.1	$ 442.9
SOI	$ 91.7	$ 94.0	$ 155.4
Asset impairment and disposal charges			(912.6)
Local marketing agreement fees	(0.3)	(0.5)	(0.8)
Non-cash compensation expense	(1.1)	(1.1)	(3.0)
Depreciation and amortization	(29.0)	(8.3)	(16.8)
Operating income (loss) - Radio Markets	$ 61.3	$ 84.1	$ (777.8)

Radio Markets revenue increased to $464.1 million for the nine months ended September 30, 2010 from $442.9 million for the nine months ended September 30, 2009, an increase of $21.2 million, or 4.8%. The increase in revenue is driven primarily by increases in both national and local advertising. Generally, our stations in larger metropolitan markets performed better than our stations in the medium to small metropolitan markets.

SOI was $185.7 million for the nine months ended September 30, 2010 as compared to $155.4 million for the nine months ended September 30, 2009, an increase of $30.3 million, or 19.5%. The increase in SOI for the nine months ended September 30, 2010 was primarily the result of the $21.2 million increase in net revenue, as well as reductions in programming costs, including decreases in compensation, as well as decreases in selling-related costs.

Depreciation and amortization expense increased $20.5 million, or 122.0%, primarily due to amortization expense related to definite-lived intangibles established as of the Fresh-Start Date. See discussion of depreciation and amortization expense for the nine months ended September 30, 2010.

Radio Network

	Successor	Predecessor	
	Period from June 1, 2010 through September 30, 2010	Period from January 1, 2010 through May 31, 2010	Nine Months Ended September 30, 2009
	(Amounts in millions)		
Radio Network			
Net revenue	$ 37.2	$ 50.3	$ 91.3
SOI	$ 4.6	$ 8.0	$ (2.3)
Asset impairment and disposal charges			(73.1)

Non-cash compensation expense	(0.2)	(0.2)	(1.0)
Depreciation and amortization	(4.4)	(3.0)	(11.2)
Operating income (loss) - Radio Network	$	$ 4.8	$ (87.6)

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Radio Network net revenue decreased $3.8 million, or 4.2%, to $87.5 million for the nine months ended September 30, 2010, from $91.3 million for the nine months ended September 30, 2009. This decrease was primarily related to declines in revenue from our news-related products and the overall impact of eliminating certain programs.

Radio Network SOI was $12.6 million for the nine months ended September 30, 2010 as compared to a loss of $2.3 million for the nine months ended September 30, 2009, an increase of $14.9 million. The increase in SOI for the nine months ended September 30, 2010 was primarily the result of a reduction in programming expenses, which includes decreases in salaries and station compensation paid to affiliates, as well as reductions in selling-related costs and administrative expense, partially offset by the $3.8 million decrease in net revenue.

The decrease in depreciation and amortization expense is primarily attributable to lower intangible asset values during the five months ended May 31, 2010 as a result of the asset impairment charge for definite-lived intangible assets recognized in the second quarter of 2009.

Liquidity and Capital Resources

Our primary sources of liquidity are cash and cash equivalents and cash provided by the operations of our Radio Markets and our Radio Network.

Operating Activities

	Successor	**Predecessor**		
	Period from June 1, 2010 through September 30, 2010	**Period from January 1, 2010 through May 31, 2010**	**Nine Months Ended September 30, 2009**	**Nine Month $ Change**
		(Amounts in millions)		
Net cash provided by operating activities	$ 34.9	$ 40.5	$ 29.7	$ 45.7

Net cash provided by operating activities was $75.4 million for the nine months ended September 30, 2010 as compared to $29.7 million for the nine months ended September 30, 2009. The increase of $45.7 million was primarily due to the increase in net revenue of $17.2 million, decreases in operating expenses and in cash paid for interest of $29.4 million and $23.8 million, respectively, and a reduction in cash used in working capital of $25.0 million, partially offset by increased cash paid for reorganization and other bankruptcy-related items in the Successor period of $50.0 million.

Investing Activities

	Successor	**Predecessor**		
	Period from June 1, 2010 through September 30, 2010	**Period from January 1, 2010 through May 31, 2010**	**Nine Months Ended September 30, 2009**	**Nine Month $ Change**
		(Amounts in millions)		
Net cash used in investing activities	$ (1.2)	$ (7.1)	$ (9.3)	$ 1.0

Net cash used in investing activities for the nine months ended September 30, 2010 of $8.3 million consists primarily of capital expenditures of $7.8 million and a net increase of restricted cash of $0.6 million. Cash used in investing activities of $9.3 million in the prior year consisted primarily of capital expenditures of $5.3 million and an investment of $4.0 million in restricted cash.

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Financing Activities

	Successor	Predecessor		
	Period from June 1, 2010 through September 30, 2010	Period from January 1, 2010 through May 31, 2010	Nine Months Ended September 30, 2009	Nine Month $ Change
	(Amounts in millions)			
Net cash used in financing activities	$ (2.0)	$ (0.1)	$ (12.7)	$ 10.6

Net cash used in financing activities was $2.1 million for the nine months ended September 30, 2010, compared to $12.7 million during the nine months ended September 30, 2009. During the nine months ended September 30, 2010, the Company made a scheduled payment in the amount of $1.9 million on the New Term Loan. Cash used in financing activities for the nine months ended September 30, 2009 included $11.5 million in payments for debt issuance costs associated with the fourth amendment to our Predecessor s Senior Credit and Term Facility.

In addition to debt service, our principal liquidity requirements are for working capital, general corporate purposes and capital expenditures. Our capital expenditures totaled $7.8 million during the nine months ended September 30, 2010, as compared to $5.3 million during the nine months ended September 30, 2009. At September 30, 2010, we had cash and cash equivalents of $122.5 million. Based on our anticipated future operations, we believe that cash on hand and expected cash flows will be adequate to meet our anticipated working capital requirements, capital expenditures for both maintenance and growth, and scheduled payments of principal and interest on our outstanding indebtedness.

We intend to focus our attention on our stations in the larger markets and may seek opportunities, if available, to divest some of our stations, subject to restrictions imposed under the New Term Loan. We are currently required to divest certain stations to comply with FCC ownership limits. The Company will continue to evaluate reasonable offers to purchase these stations or other markets that are contemplated for sale; however, there can be no assurance that any minimum level of asset sales will be completed.

Senior Debt

Senior debt consists of the following as of September 30, 2010 and December 31, 2009:

	Successor September 30, 2010	Predecessor December 31, 2009
	(in thousands)	
Type of Borrowing		
New term loan	$ 760,593	$
Premium on new term loan	17,792	
Tranche A term loans		526,176
Tranche B term loans		1,345,017
Revolving loans		135,747
	778,385	2,006,940
Interest rate swap		72,628
Facility fee		64,819
	778,385	2,144,387
Less current portion of senior debt	7,625	

Total senior debt less current portion	$ 770,760	$	2,144,387 a

a. Classified as liability subject to compromise as of December 31, 2009.

The interest rate for the amount borrowed under the Successor s New Term Loan as of September 30, 2010 was 11.0% compared to the rate applicable to each of the components of the Predecessor s Senior Credit and Term Facility as of December 31, 2009 of 1.99%.

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In connection with the Merger in June 2007, the Predecessor entered into the Senior Credit and Term Facility.

On the Effective Date, approximately $2.1 billion of the debt outstanding under the Predecessor s Senior Credit and Term Facility was converted into the New Term Loan, which is guaranteed by the Company s operating subsidiaries. The initial principal amount of $762.5 million under the New Term Loan is payable in 20 consecutive quarterly installments of approximately $1.9 million, due on the last day of each fiscal quarter, which commenced on September 30, 2010, with the final maturity of $724.4 million on June 3, 2015.

The New Term Loan includes a letter of credit facility for previously outstanding letters of credit in the amount of approximately $3 million that is backed by cash collateral of the Company. This amount represents restricted cash, which is included in prepaid expenses and other current assets in the accompanying consolidated condensed balance sheets.

A valuation premium of $19.1 million was estimated to record the New Term Loan at its estimated fair value upon issuance. This premium is being amortized as a reduction of interest expense, net, over the contractual term of the New Term Loan.

The New Term Loan contains covenants related to the satisfaction of financial ratios and compliance with financial tests. The consolidated total leverage ratio, as defined in the New Term Loan agreement, requires a maximum ratio as of each quarter end of 5.25 to 1.0 beginning with the quarter ended September 30, 2010. The requirement decreases periodically as follows: to 4.75 to 1.0 as of June 30, 2011, to 4.25 to 1.0 on September 30, 2011, to 3.75 to 1.0 on December 31, 2012, to 3.50 to 1.0 on December 31, 2013, and to 3.00 to 1.0 as of December 31, 2014.

The consolidated interest coverage ratio, as defined in the New Term Loan agreement, requires a minimum ratio as of the end of the quarter of 1.75 to 1.0 beginning with the quarter ended September 30, 2010. The minimum ratio adjusts periodically as follows: to 2.00 to 1.0 as of September 30, 2011, to 2.25 to 1.0 on December 31, 2012, to 2.50 to 1.0 on December 31, 2013, and to 3.00 to 1.0 as of December 31, 2014.

The New Term Loan also contains customary restrictive non-financial covenants, which, among other things, and with certain exceptions, limit the Company s ability to incur or guarantee additional indebtedness, liens and contingent obligations; consolidate; enter into acquisitions or mergers; dispose of property, business or assets; make investments or loans; declare or pay dividends; redeem or repurchase shares of any class of stock; make acquisitions; enter into transactions with affiliates; enter into derivative contracts; enter into sale and leaseback transactions; or change the nature of its business.

We were in compliance with the covenants under our New Term Loan as of September 30, 2010.

At the Company s election, interest on outstanding principal for the New Term Loan accrue at a rate based on either: (a) the greatest of (1) the Prime Rate in effect; (2) the Federal Funds Rate plus 0.50%; and (3) the one-month Eurodollar rate plus 1.0%, in all cases subject to a 4.0% floor, plus, in each case, a spread of 7.0% (ABR Loan) or (b) the Eurodollar rate, subject to a 3.0% floor, plus 8.0% (Eurodollar Loan).

Interest payments on ABR Loans are due on the last day of each calendar quarter. Interest payments on Eurodollar Loans are due on the last day of the individual loan period, which can range from one to six months, unless such loan period exceeds three months, in which case, interest payments are due on each successive date three months after the first day of the loan period.

The Company will be required to prepay the outstanding amount of the New Term Loan with 75% of excess cash flow (as defined in the New Term Loan agreement), less the amount of all voluntary prepayments made as described in the New Term Loan, subject to certain thresholds and exceptions. The Company is required to prepay the New Term Loan, subject to certain exceptions, with stipulated portions of net proceeds from the issuance of debt not otherwise permitted to be incurred under the New Term Loan, the issuance of capital stock (as defined in the New Term Loan agreement), and certain asset sales.

The Company may voluntarily repay outstanding loans under the New Term Loan at any time with customary breakage costs (as defined in the New Term Loan agreement), if any, and a prepayment fee equal to (a) 5.0% of the aggregate principal amount of such prepayments made prior to the first anniversary of the Effective Date and (b) 2.0% of the aggregate principal amount of such prepayments made on or after the first anniversary of the Effective Date and before the second anniversary of the Effective Date. All prepayments after the second anniversary of the Effective Date will be made without penalty or premium.

We continue to evaluate refinancing opportunities related to our New Term Loan.

Subordinated Debt and Convertible Subordinated Notes

On February 18, 2004, the Predecessor sold $330.0 million principal amount of convertible subordinated notes. These convertible subordinated notes (the Original Notes) were scheduled to mature in February of 2011 and bore interest at a rate of 1.875% per annum, payable February 15 and August 15 each year. The Original Notes were redeemable prior to maturity under certain circumstances.

Pursuant to the terms of a settlement agreement regarding previous litigation with certain of the holders of the Original Notes that was dismissed in 2008, the Predecessor issued $274.5 million aggregate principal amount of amended and restated convertible subordinated notes through an exchange offer and cash tender for the Original Notes at a price of $900 per $1,000 principal amount of Original Notes. These amended and restated notes had increased interest rates and specifically negotiated redemption terms (Amended Notes). The conversion terms of the Amended Notes did not differ in any material respect from those of the Original Notes. Through September 30, 2009, the Predecessor had repurchased an aggregate amount of $281.7 million in principal amount of convertible subordinated notes, including $0.7 million repurchased during the nine months ended September 30, 2009, which resulted in a gain of approximately $0.4 million, net of transaction fees. The Amended Notes were scheduled to mature on February 15, 2011 and bore interest at a rate of 8.0% per annum during the year ended December 31, 2009.

The Predecessor ceased accruing interest on all unsecured debt subject to compromise, including the convertible subordinated notes, since the amount of the allowed claim for the convertible subordinated notes was known as of December 31, 2009. The balance of convertible subordinated notes was $48.3 million as of December 31, 2009, including $0.5 million of Original Notes, and this amount, along with unpaid interest of $1.3 million related to the convertible subordinated notes was included in liabilities subject to compromise in the accompanying consolidated condensed balance sheets.

At the time that the Predecessor issued the Amended Notes, the underlying terms contained contingent interest rate adjustments that could have caused interest to vary in future periods depending on the outstanding balance of Amended Notes. The estimated value of the contingent interest rate derivative instrument was measured at estimated fair value at each subsequent reporting date. As of September 30, 2009, this analysis attributed no value to its derivative. The change in fair value for the three and nine months ended September 30, 2009 represented gains of $0.2 million and $1.8 million, respectively, which is included in the accompanying consolidated condensed statement of operations as a component of interest expense, net.

The debt issuance costs and discount amounts corresponding to the convertible subordinated notes had been amortized over the remaining contractual term of the Amended Notes, which was accelerated pursuant to the terms of the convertible subordinated notes and the resulting classification as a current liability beginning with the quarter ended March 31, 2009. However, the Predecessor ceased amortization of these assets as of December 19, 2009 since subsequent to the Petition Date, interest expense was only recognized to the extent it would be paid. For the three and nine months ended September 30, 2009, the amortization of these debt issuance costs was $0.1 million and $0.2 million, respectively. For the three and nine months ended September 30, 2009, the amortization of debt discount was $0.2 million and $0.4 million, respectively. The Predecessor wrote off the remaining balance of deferred financing costs and debt discount in the fourth quarter of 2009 since the amount of the allowed claim for the convertible subordinated notes was known as of December 31, 2009.

In accordance with the Plan, on the Effective Date all of the obligations of the Predecessor with respect to the convertible subordinated notes were terminated and the notes were cancelled.

Adoption of New Accounting Standards

See Part I, Item 1. Financial Statements (Unaudited) Note 1

Critical Accounting Policies

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. These estimates and assumptions relate in particular to the allocations of enterprise value made in connection with fresh-start reporting, fair values of assets and liabilities as of the Fresh-Start Date, the evaluation of goodwill and intangible assets for potential impairment, including changes in market conditions that could affect the estimated fair values, the analysis of the measurement of deferred tax assets, the identification and quantification of income tax liabilities due to uncertain tax positions, calculating the valuation allowance to reduce the amount of deferred tax asset to the amount that is more likely than not to be realized, and the determination of the allowance for estimated uncollectible accounts and notes

receivable. The Company also uses assumptions when estimating the value of its supplemental executive retirement plan. The Predecessor used estimates when employing the Black-Scholes valuation model to estimate the fair value of stock options, to calculate the value of certain fully vested stock units and equity awards containing market conditions, and in determining the estimated fair values of its interest rate swap, credit risk adjustments and certain derivative financial instruments. These best estimates were based on the information that was available to management at the time of the estimate. Actual results could differ materially from those estimates. Other than the items discussed above, there have been no material changes in such policies or estimates since we filed our Annual Report on Form 10-K for the year ended December 31, 2009.

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Contractual Obligations and Commercial Commitments

There have been no significant changes in our contractual commitments as of September 30, 2010 as compared to amounts disclosed in our quarterly report on Form 10-Q for the quarterly period ended June 30, 2010.

Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements or transactions.

Impact of Inflation

We do not believe inflation has a significant impact on our operations. However, there can be no assurance that future inflation would not have an adverse impact on our financial condition and results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to a number of financial market risks in the ordinary course of business. We believe our primary financial market risk exposure pertains to interest rate changes, primarily as a result of our New Term Loan, which bears interest based on variable rates. Therefore, the $760.6 million outstanding under our New Term Loan as of September 30, 2010 is subject to fluctuations in the underlying interest rates. The outstanding balance under our New Term Loan is based on the Eurodollar rate, which is subject to a 3.0% floor. This base rate is currently far below this floor; changes in the Eurodollar rate will not cause our overall interest rate to vary unless the rate were to exceed the 3.0% floor. However, for illustrative purposes, we have performed a sensitivity analysis assuming a hypothetical increase in interest rates of 100 basis points applied to our indebtedness under the New Term Loan. Based on this analysis, the impact on future pre-tax earnings for the following twelve months would be approximately $7.6 million of increased interest expense. This potential increase is based on certain simplifying assumptions, including a constant level of variable rate debt and a constant interest rate, which is assumed to exceed the 3.0% floor and is based on the variable rates in place as of September 30, 2010.

We believe our receivables do not represent a significant concentration of credit risk due to the wide variety of customers and markets in which we operate.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that material information relating to the Company is made known to the officers who certify the Company s financial reports and to other members of senior management and the board of directors.

Based on their evaluation as of September 30, 2010, the principal executive officer and principal financial officer of the Company have concluded that the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) are effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

Management, including our chief executive officer and chief financial officer, does not expect our disclosure controls and procedures will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

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Changes in Internal Control over Financial Reporting

We have not implemented any change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting during the quarter ended September 30, 2010.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On June 3, the Debtors consummated their reorganization and the Plan became effective. See Part I, Item 1. Financial Statements (Unaudited) Note 1.

ITEM 1A. RISK FACTORS

The following factors (in addition to others, including those disclosed in Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009) could have a material impact on our business:

Indebtedness may adversely affect the Successor company s operations and financial condition.

According to the terms and conditions of the Plan, we now have outstanding indebtedness of $760.6 million under the New Term Loan.

Our ability to service our debt obligations will depend upon, among other things, our future operating performance. These factors depend partly on economic, financial, competitive and other factors beyond our control. We may not be able to generate sufficient cash from operations to meet our debt service obligations as well as fund necessary capital expenditures. In addition, if we need to refinance our debt, obtain additional financing or sell assets or equity, we may not be able to do so on commercially reasonable terms, if at all.

Any default under the New Term Loan could adversely affect our growth, financial condition, results of operations, the value of our equity and our ability to make payments on such debt. We may incur significant additional debt in the future. If current debt amounts increase, the related risks that we now face will intensify.

The New Term Loan contains certain restrictions and limitations that could significantly affect our ability to operate our business, as well as significantly affect our liquidity.

The New Term Loan contains a number of significant covenants that could adversely affect our ability to operate our businesses, as well as significantly affect our liquidity, and therefore could adversely affect our results of operations. These covenants restrict (subject to certain exceptions) our ability to: incur additional indebtedness; grant liens; consummate mergers, acquisitions, consolidations, liquidations and dissolutions; sell assets; pay dividends and make other payments in respect of capital stock; make capital expenditures; make investments, loans and advances; make payments and modifications to subordinated and other material debt instruments; enter into transactions with affiliates; consummate sale-leaseback transactions; change our fiscal year; enter into hedging arrangements (except as otherwise expressly permitted); allow third parties to manage our stations, and sell substantially all of the stations programming or advertising; transfer or assign FCC licenses to third parties; and change our lines of business. In addition, we are required to maintain a minimum interest coverage ratio and a maximum leverage ratio.

The breach of any covenants or obligations in the New Term Loan, not otherwise waived or amended, could result in a default under the New Term Loan agreement and could trigger acceleration of those obligations. Any default under the New Term Loan could adversely affect our growth, financial condition, results of operations and ability to make payments on debt.

Because we are quoted over-the-counter instead of on an exchange or national quotation system, our investors may have a tougher time selling their stock or experience negative volatility on the market price of our stock.

Our class A common stock is traded over-the-counter under the symbol CDELA , our class B common stock is traded over-the-counter under the symbol CDELB , and the Special Warrants are traded over-the-counter under the symbol CDDGW. The over-the-counter market is often highly illiquid. There is a greater chance of volatility for securities that trade over-the-counter as compared to securities that trade on an exchange or national quotation system. This volatility may be caused by a variety of factors, including the lack of readily available price quotations, the absence of consistent administrative supervision of bid and ask quotations, lower trading volume, and market conditions. Investors in our equity may experience high fluctuations in the market price and volume of the trading market for our securities. These fluctuations, when they occur, have a negative effect on the market price for our securities. Accordingly, our stockholders may not be able to realize a fair price from their shares when they determine to sell them or may have to hold them for a substantial period of time until the market for our equity improves.

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Shares of our class A and class B common stock may not meet eligibility standards to be listed on an exchange or national quotation system.

Currently, our class A and class B common stock trade over-the-counter, as they do not meet the listing standards for the New York Stock Exchange (NYSE) or the NASDAQ Stock Market (NASDAQ). While it is our goal to have our class A and class B common stock trade on the NYSE or NASDAQ, due to the small quantity of holders of our class A and class B common stock, as well as the limited number of shares issued, our common stock is currently ineligible for listing on these exchanges and it is uncertain if or when we may meet the applicable listing requirements.

The conversion of our shares of class B common stock and our Special Warrants is subject to our compliance with applicable FCC regulations.

Our class B common stock is convertible into class A common stock only if the conversion does not cause the equity holder to then have an attributable interest in another entity that would cause us to violate applicable FCC multiple ownership rules and regulations and provided that ownership of the Company by the stockholder does not cause us to violate applicable FCC rules and regulations surrounding foreign ownership of broadcast licenses. Special Warrants may be exercised to purchase class B common stock, provided that ownership of the Company by the stockholder does not cause us to violate applicable FCC rules and regulations surrounding foreign ownership of broadcast licenses. Because conversion of these equity interests is restricted by our compliance with certain FCC rules, our stockholders may be prohibited from converting their equity interests and/or may experience difficulty or delays in converting their equity interests.

ITEM 6. EXHIBITS

Exhibits

The following exhibits are furnished or filed herewith:

Exhibit Number	Exhibit Description
10.1	Citadel Broadcasting Corporation Supplemental Executive Retirement Plan, effective June 3, 2010 (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed with the SEC on August 20, 2010.)
31.1	Certification of Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities and Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities and Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

		CITADEL BROADCASTING CORPORATION
Date: November 15, 2010	By:	/s/ FARID SULEMAN **Farid Suleman** **Chief Executive Officer** **(Principal Executive Officer)**
Date: November 15, 2010	By:	/s/ RANDY L. TAYLOR **Randy L. Taylor** **Chief Financial Officer** **(Principal Accounting Officer)**

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