TELETECH HOLDINGS INC
Form 10-K
February 23, 2009

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

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number: 001-11919

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

Delaware	**84-1291044**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

9197 South Peoria Street
Englewood, Colorado 80112
(Address of principal executive offices)

Registrant s telephone number, including area code:
(303) 397-8100

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

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	NASDAQ Global Select Market

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

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o   No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o   No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes þ   No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

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

As of June 30, 2008, the last business day of the registrant s most recently completed second fiscal quarter, there were 69,977,236 shares of the registrant s common stock outstanding. The aggregate market value of the registrant s voting and non-voting common stock that was held by non-affiliates on such date was $776,202,624 based on the closing sale price of the registrant s common stock on such date as reported on the NASDAQ Global Select Market.

As of February 20, 2009, there were 63,813,892 shares of the registrant s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required for Part III of this report is incorporated by reference to the proxy statement for the registrant s 2009 annual meeting of stockholders.

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
DECEMBER 31, 2008 FORM 10-K

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NON-GAAP FINANCIAL MEASURES

In various places throughout this Annual Report on Form 10-K (Form 10-K), we use certain financial measures to describe our performance that are not accepted measures under accounting principles generally accepted in the United States (non-GAAP financial measures). We believe such non-GAAP financial measures are informative to the users of our financial information because we use these measures to manage our business. We discuss non-GAAP financial measures in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K under the heading Presentation of Non-GAAP Measurements.

CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Form 10-K and the information incorporated by reference contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. In particular, we direct your attention to Item 1. Business, Item 3. Legal Proceedings, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, Item 7A. Quantitative and Qualitative Disclosures About Market Risk and Item 9A. Controls and Procedures. We intend the forward-looking statements throughout this Form 10-K and the information incorporated by reference to be covered by the safe harbor provisions for forward-looking statements. All projections and statements regarding our expected financial position and operating results, our business strategy, our financing plans and the outcome of any contingencies are forward-looking statements. These statements can sometimes be identified by our use of forward-looking words such as may, believe, plan, will, anticipate, estimate, expect, intend and other words and phrases of similar meaning. Known and u risks, uncertainties and other factors could cause the actual results to differ materially from those contemplated by the statements. The forward-looking information is based on information available as of the date of this Form 10-K and on numerous assumptions and developments that are not within our control. Although we believe these forward-looking statements are reasonable, we cannot assure you they will turn out to be correct. Actual results could be materially different from our expectations due to a variety of factors, including, but not limited to, the factors identified in this Form 10-K under the captions Item 1A. Risk Factors and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation, our other SEC filings and our press releases. We assume no obligation to update: (i) forward-looking statements to reflect actual results or (ii) changes in factors affecting such forward-looking statements.

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PART I

ITEM 1. BUSINESS

Our Business

Over our 27-year history, we have become one of the largest global providers of onshore, offshore and work from home business process outsourcing (BPO) services focusing on customer management and enterprise management solutions. We help Global 1000 companies enhance their strategic capabilities, improve quality and lower costs by designing, implementing and managing their critical front- and back-office processes. We provide a 24 x 7, 365 day fully integrated global solution that spans people, process, proprietary technology and infrastructure for governments and private sector clients in the automotive, broadband, cable, financial services, healthcare, logistics, media and entertainment, retail, technology, travel, wireline and wireless communication industries. As of December 31, 2008, our approximately 55,000 employees provide services from nearly 40,000 workstations across 83 delivery centers in 17 countries. We have approximately 100 global clients, many of whom are in the Global 1000. The Global 1000 is a ranking of the world s largest companies based on market capitalization. We perform a variety of BPO services for our clients and support approximately 250 unique BPO programs.

We believe BPO is a key enabler of improved business performance as measured by a company s ability to consistently outperform peers through business and economic cycles. We believe the benefits of BPO include renewed focus on core capabilities, faster time to market, streamlined processes, movement from a fixed to variable cost structure, access to borderless sourcing capabilities, and creation of proprietary best operating practices and technology, all of which contribute to increased customer satisfaction and shareholder returns for our clients.

Industry studies indicate that companies with high customer satisfaction levels enjoy premium pricing in their industry, which we believe results in increased profitability and greater shareholder returns. Given the strong correlation between customer satisfaction and improved profitability, more and more companies are increasingly focused on selecting outsourcing partners, such as TeleTech, that can deliver strategic front- and back-office capabilities to improve the customer experience rather than simply reducing costs.

Our Business History

We were founded in 1982 and reorganized as a Delaware corporation in 1994. We completed an initial public offering of our common stock in 1996 and since that time have grown our annual revenue from $183 million to $1.4 billion, representing a compounded annual growth rate (CAGR) of 18.5%.

Our revenue is derived from BPO services and is reported in our North American and International BPO segments. These services involve the transfer of our clients front- and back-office business processes to our 83 delivery centers or work from home associates. We also manage the facilities and operations of our client s service delivery centers. Customer management solutions help our clients target, acquire, retain and grow their customer base. Enterprise management solutions help companies manage their internal business process and include product or service provisioning, fulfillment, expense management, supply chain management, claims processing, payment and warranty processing, basic through advanced technical support, human resource recruiting and talent management, retirement plan administration, data analysis and market research, network management, and workforce training and scheduling.

We market our services primarily to clients in G-20 countries which represents 19 of the world s largest economies, together with the European Union and perform these services from strategically located delivery centers around the

globe. Many of our clients choose a blended strategy whereby they outsource work with us in multiple geographic locations and may also utilize our work from home offering. We believe our ability to offer one of the most geographically diverse footprints improves service flexibility while reducing operational and delivery risk in the event of a service interruption at any one location.

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With operations in 17 countries, we believe this makes us one of the largest and most geographically diverse providers of BPO services. We recently expanded into two new emerging markets (Costa Rica and South Africa) and plan to selectively expand into other attractive delivery markets over time.

Of the 17 countries from which we provide BPO services, ten provide services for onshore clients including the U.S., Australia, Brazil, China, England, Germany, New Zealand, Northern Ireland, Scotland and Spain.

The other seven countries provide services, partially or entirely, for offshore clients including Argentina, Canada, Costa Rica, Malaysia, Mexico, the Philippines and South Africa. The total number of workstations in these countries is 25,913, or 65%, of our total delivery capacity.

Historical Performance

As summarized below, following our initial public offering in 1996, we experienced double-digit revenue growth through 2000, undertook a business transformation strategy in late 2001 and began realizing the benefits of this transformation in 2004 and going forward. Beginning in 1997, we were one of the first companies to provide BPO services to U.S. clients from delivery centers in Argentina, Canada and Mexico.

Although revenue growth continued at a CAGR of 4.7% from $913 million in 2001 to $1.0 billion in 2003, we experienced net losses during this time period. We attribute these losses primarily to the global economic downturn, the dot-com bubble, the September 11, 2001 terrorist attacks and the business transformation we undertook to further strengthen our industry position and future competitiveness. The business transformation redefined our delivery model, reduced our cost structure and improved our competitive and financial position by:

- Migrating from a decentralized holding company to a centralized operating company to enhance financial and operating disciplines;
- Centralizing our technology infrastructure and migrating to a 100% IP-based delivery platform;
- Standardizing our global operational processes and applications;
- Automating and virtualizing our human capital needs primarily around talent acquisition, training and performance optimization;
- Improving the efficiency of certain underperforming operations and reducing our selling, general and administrative expenses;
- Improving pricing or rationalizing the performance of certain underperforming client programs;
- Investing in sales and client account management;
- Investing in innovative new solutions to diversify revenue into higher margin offerings, including professional services, learning services and hosted technology solutions;
- Increasing delivery capabilities with expanded onshore, offshore and work from home solutions;
- Reducing long-term debt by nearly $120 million from 2003 to 2004 with cash surpluses and borrowings under our revolving credit facility; and

Approving and executing a stock repurchase program.

As a result of this business transformation, from 2005 to 2008, our revenue grew at a CAGR of 8.8% from $1.1 billion to $1.4 billion and diluted earnings per share grew at a CAGR of 43.3% from $0.36 to $1.06. Our operating margin more than doubled to 7.8% in 2008 from 2.9% in 2005.

As of December 31, 2008, we had $87.9 million in cash and cash equivalents and a debt to equity ratio of 25.0%. We generated $98.9 million in free cash flow during 2008 and our cash flows from operations and borrowings under our revolving credit facility have enabled us to fund $61.7 million in capital expenditures. Approximately 80% of our capital expenditures were related to growth primarily in

offshore markets with the remaining 20% used for the development and maintenance of our embedded infrastructure. See Management s Discussion and Analysis of Financial Condition and Results of Operations for discussion of free cash flow and other non-GAAP measurements.

Our improved revenue and operating margin in 2008 resulted from growth with both new and existing clients across an expanding array of industry verticals, increased utilization of our delivery centers across a 24-hour period, leveraging our global purchasing power and continued expansion of services provided from our geographically diverse delivery centers.

In November 2001, the Board of Directors (Board) authorized a stock repurchase program to repurchase up to $5.0 million of our common stock with the objective of increasing stockholder returns. The Board has since periodically authorized additional increases in the program. The most recent Board authorization to purchase additional common stock occurred in July 2008, whereby the program allowance was increased by approximately $47.4 million to $100.0 million. Since inception of the program through December 31, 2008, the Board has authorized the repurchase of shares up to a value of $262.3 million. During the year ended December 31, 2008, we purchased 6.5 million shares for $89.6 million. Since inception of the program, we have purchased 21.3 million shares for $251.9 million. As of December 31, 2008, remaining allowance under the program was approximately $10.4 million. In February 2009, the Board authorized an increase of $25.0 million in the funding available for share repurchases. The stock repurchase program does not have an expiration date.

Our Future Growth Goals and Strategy

Our business strategy to increase revenue, profitability and our industry position includes the following elements:

Capitalize on the favorable trends in the global outsourcing environment, which we believe will include more companies that want to:

- Adopt or increase BPO services;
- Consolidate outsourcing providers with those that have a solid financial position, capital resources to sustain a long-term relationship and globally diverse delivery capabilities across a broad range of solutions;
- Modify their approach to outsourcing based on total value delivered versus the lowest priced provider; and
- Better integrate front- and back-office processes.

Deepen and broaden our relationships with existing clients;

Win business with new clients and focus on targeted industries where we expect accelerating adoption of business process outsourcing;

Continue to invest in innovative proprietary technology and new business offerings;

Continue to improve our operating margins through increased asset utilization of our globally diverse delivery centers;

Scaling our work from home initiative to increase operational flexibility; and

Selectively pursue acquisitions that extend our capabilities, geographic reach and/or industry expertise.

Our Market Opportunity

Companies around the world are increasingly realizing that the quality of their customer relationships are critical to maintaining their competitive advantage. This realization has driven companies to increase their focus on developing, managing, growing and continuously enhancing their customer relationships.

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Additionally, globalization of the world s economy continues to accelerate. Businesses are now competing on a large-scale basis due to rapid advances in technology and telecommunications that permit cost-effective real-time global communications and ready access to a highly-skilled worldwide labor force. As a result of these developments, companies have increasingly outsourced business processes to third-party providers in an effort to enhance or maintain their competitive position while increasing shareholder value through improved productivity and profitability.

We believe that our revenue will continue to grow over the long-term as global demand for our services is fueled by the following trends:

Integration of front- and back-office business processes to provide increased operating efficiencies and an enhanced customer experience especially in light of the weakening global economic environment. Companies have realized that integrated business processes reduce operating costs and allow customer needs to be met more quickly and efficiently resulting in higher customer satisfaction and brand loyalty thereby improving their competitive position. A majority of our historic revenue has been derived from providing customer-facing front-office solutions to our clients. Given that our global delivery centers are also fully capable of providing back-office solutions, we are uniquely positioned to grow our revenue by winning more back-office opportunities and providing the services during non-peak hours with minimal incremental investment. Furthermore, by spreading our fixed costs across a larger revenue base and increasing our asset utilization, we expect our profitability to improve over time.

Increasing percentage of company operations being outsourced to most capable third-party providers. Having experienced success with outsourcing a portion of their business processes, companies are increasingly inclined to outsource a larger percentage of this work. We believe companies will continue to consolidate their business processes with third-party providers, such as TeleTech, who are financially stable and able to invest in their business while also demonstrating an extensive global operating history and an ability to cost-effectively scale to meet their evolving needs.

Increasing adoption of outsourcing across broader groups of industries. Early adopters of the business process outsourcing trend, such as the media and communications industries, are being joined by companies in other industries, including healthcare, retail and financial services. These companies are beginning to adopt outsourcing to improve their business processes and competitiveness. For example, we have seen an increase in our revenue from the healthcare, retail and financial services industries. We believe the number of other industries that will adopt or increase their level of outsourcing will continue to grow further enabling us to increase and diversify our revenue and client base.

Focus on speed-to-market by companies launching new products or entering new geographic locations. As companies broaden their product offerings and seek to enter new emerging markets, they are looking for outsourcing providers that can provide speed-to-market while reducing their capital and operating risk. To achieve these benefits, companies are seeking BPO providers with an extensive operating history, an established global footprint, the financial strength to invest in innovation to deliver more strategic capabilities and the ability to scale and meet customer demands quickly. Given our financial stability, geographic presence in 17 countries and our significant investment in standardized technology and processes, clients increasingly select TeleTech because we can quickly ramp large, complex business processes around the globe in a short period of time while assuring a high-quality experience for their customers.

Our Business Overview

We help Global 1000 clients improve the efficiency of their front- and back-office business processes while increasing customer satisfaction. We manage our clients outsourcing needs with the primary goal of delivering a high-quality customer experience while also reducing their total delivery costs.

Our solutions provide access to skilled people in 17 countries using standardized operating processes and a centralized delivery platform to:

- Design, implement and manage industry-specific end-to-end enterprise level back-office processes to achieve efficient and effective global service delivery for discrete or multiple back-office requirements;
- Manage the customer lifecycle, from acquiring and on-boarding through support and retention;
- Support field sales teams and manage sales relationships with small and medium-sized businesses as well as governmental agencies;
- Design, implement and manage e-commerce portals;
- Provide a suite of pre-integrated TeleTech OnDemand™ business process applications through a monthly license subscription;
- Offer infrastructure deployment, including the development of data and BPO delivery centers;
- Providing services and tools for client s internal human capital operations including talent acquisition, learning services and performance optimization for use in clients internal operations; and
- Offer professional consulting services in each of the above areas.

Our Competitive Strengths

Entering a business services outsourcing relationship is typically a long-term strategic commitment for companies. The outsourced processes are usually complex and require a high degree of customization and integration with a client s core operations. Accordingly, our clients tend to enter long-term contracts which provide us with a more predictable revenue stream. In addition, we have high levels of client retention due to our operational excellence and ability to meet our clients outsourcing objectives, as well as the significant transition costs required to exit the relationship. Our client retention was 94% in 2008 and 93% in 2007.

We believe that our clients select us due to our:

- Industry reputation and our position as one of the largest and most financially sound industry providers with 27 years of expertise in delivering complex BPO solutions across targeted industries;
- Ability to scale infrastructure and employees worldwide using globally deployed best practices to ensure a consistent, high-quality service;
- Ability to optimize the performance of our workforce through proprietary hiring, training and performance optimization tools; and
- Commitment to continued product and services innovation to further the strategic capabilities of our clients.

We believe that technological excellence, best operating practices and innovative human capital strategies that can scale globally are key elements to our continued industry leadership.

Technological Excellence

Over the past six years, we have measurably transformed our technology platform by moving to a secure, private, 100% internet protocol (IP) based infrastructure. This transformation has enabled us to centralize and standardize our worldwide delivery capabilities resulting in improved quality of delivery for our clients along with lower capital and information technology (IT) operating costs.

The foundation of this platform is our five IP hosting centers known as TeleTech GigaPOPs®, which are located on three continents. These centers provide a fully integrated suite of voice and data routing,

workforce management, quality monitoring, storage and business analytic capabilities. This enables anywhere to anywhere, real-time processing of our clients business needs from any location around the globe and is the foundation for new, innovative offerings including TeleTech OnDemand^{tm}, TeleTech@Home and our suite of human capital solutions. This hub and spoke model enables us to provide our services at the lowest cost while increasing scalability, reliability, redundancy, asset utilization and the diversity of our service offerings.

Prior to this technology transformation, each of our delivery centers had a significant investment in disparate hardware and software maintained by on-site IT staff, which was costly to operate and maintain and did not provide the level of reliability or redundancy we now provide.

To ensure high end-to-end security and reliability of this critical infrastructure, we monitor and manage the TeleTech GigaPOPs® 24 x 7, 365 days per year from several strategically located state-of-the-art global command centers.

Our technology innovations have resulted in the filing of more than 20 intellectual property patent applications.

Globally Deployed Best Operating Practices

Globally deployed best operating practices assure that we can deliver a consistent, scalable, high-quality experience to our clients customers from any of our 83 delivery centers or work from home associates around the world. Standardized processes include our approach to attracting, screening, hiring, training, scheduling, evaluating, coaching and maximizing associate performance to meet our clients needs. We provide real-time reporting on performance across the globe to ensure consistency of delivery. In addition, this information provides valuable insight into what is driving customer inquiries, enabling us to proactively recommend process changes to our clients to optimize their customers experience.

Innovative Human Capital Strategies

To effectively manage and leverage our human capital requirements, we have developed a proprietary suite of business processes, software tools and client engagement guidelines that work together to improve performance for our clients while enabling us to reduce time to hire, decrease employee turnover and improve time to service and quality of performance.

The three primary components of our human capital platform Talent Acquisition, Learning Services and Performance Optimization combine to form a powerful and flexible management system to streamline and standardize operations across our global delivery centers. These three components work together to allow us to make better hires, improve training quality and provide real-time feedback and incentives for performance.

Innovative New Revenue Opportunities

We continue to develop other innovative services that leverage our investment in a centralized and standardized delivery platform to meet our clients needs, and we believe that these solutions will represent a growing percentage of our future revenue.

TeleTech OnDemand^{tm}

TeleTech OnDemand^{tm} delivers a fully integrated suite of best-in-class business process applications on a hosted (software as a service) basis, providing streamlined delivery center technology, knowledge and services. This allows our clients to empower their associates with the same technology and best practices we use internally on a monthly subscription license model. With TeleTech OnDemand^{tm}, there is no need for our clients to license software, purchase

on-premise hardware, or staff up to provide ongoing technology support.

Our TeleTech OnDemand™ solutions are easy to implement and scale seamlessly to support business growth, encompassing the full breadth of business process operations including Interaction Routing, Self-Service, Employee Desktop Management, Business Intelligence and Performance Management.

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Because they are based on our rigorous first-hand use, our hosted services are proven, reliable, scalable and continually refined and expanded.

TeleTech@Home

Our dispersed workforce solution enables employees to work from home while accessing the same proprietary training, workflow, reporting and quality tools as our delivery center associates. TeleTech@Home associates are TeleTech employees not independent contractors providing a strong cultural fit, seamless workforce control and high levels of job satisfaction. Our TeleTech@Home solution utilizes our highly scalable and centralized technical architecture and enables secure access, monitoring and reporting for our Global 1000 clients.

Features of the new TeleTech@Home offering include:

Outstanding quality, low employee turnover, high call resolution and superior sales and customer management performance;

Greater flexibility and scalability through the benefit of dispersed geography and proven processes;

Ability to reach a new and talented employee pool that includes licensed and certified professionals in a variety of industries with multiple years of experience; and

Access to a unique and flexible employee population that includes stay-at-home parents, workers with physical challenges that make office commuting undesirable, rural workers and workers in highly technical urban centers.

Clients

In 2008, we had one client that represented more than 10% of our total annual revenue. Sprint Nextel represented 13% of total revenue in 2008. Our top five and ten clients represented 39% and 58% of total revenue in 2008, respectively.

Certain of our communications clients, which represent approximately 17% of our total annual revenue, also provide us with telecommunication services through transactions that are negotiated at different times and with different legal entities. We believe each of these supplier contracts is negotiated on an arm s length basis and that the terms are substantially the same as those that have been negotiated with unrelated vendors. Expenditures under these supplier contracts represent less than one percent of total costs.

Competition

We compete with the in-house business process operations of our current and potential clients. We also compete with certain companies that provide BPO services including: Accenture Ltd.; Convergys Corporation; Genpact Limited, Sykes Enterprises Incorporated and Teleperformance, among others. We work with Accenture, Computer Sciences Corporation and IBM on a sub-contract basis and approximately 17% of our total revenue is generated from these system integrator relationships.

We compete primarily on the basis of our 27 years of experience, our global locations, our quality and scope of services, our speed and flexibility of implementation, our technological expertise, and our price and contractual terms. A number of competitors may have different capabilities and resources than ours. Additionally, niche providers or new entrants could capture a segment of the market by developing new systems or services that could impact our market potential.

Seasonality

Historically, we experience a seasonal increase in revenue in the fourth quarter related to higher volumes from clients primarily in the healthcare, package delivery, retail and other industries with seasonal businesses. Also, our operating margins in the first quarter are impacted by higher payroll-related taxes with our global workforce.

Employees

As of December 31, 2008, we had approximately 55,000 employees in 17 countries. Approximately 90% of these employees held full-time positions and 80% were located outside of the U.S. We have approximately 14,800 employees outside the U.S. and Canada covered by collective bargaining agreements. In most cases, the collective bargaining agreements are mandated under national labor laws. These collective bargaining agreements include employees in the following countries:

In Argentina, approximately 4,400 employees are covered by an industry-wide collective bargaining agreement with the Confederation of Commerce Employees that expires annually in March 2009;

In Brazil, approximately 2,400 employees are covered by industry-wide collective bargaining agreements with Sintratel and SintelMark that expire in May 2009;

In Mexico, we have approximately 4,400 employees covered by an industry-wide collective bargaining agreement with the Federacion Obrero Sindicalista that expires in January 2010;

In Spain, we have approximately 3,500 employees covered by industry-wide collective bargaining agreements with COMFIA-CCOO and FES-UGT that expires in December 2009; and

In New Zealand, we have approximately 100 employees covered by a collective bargaining agreement with the Engineering Printing and Manufacturing Union that expires in June 2009.

We anticipate that these agreements will be renewed and that any renewals will not impact us in a manner materially different from all other companies covered by such industry-wide agreements. In Australia and the United Kingdom, we have approximately 30 employees that have identified themselves as being members of unions, but there is no collective bargaining agreement in place covering these employees. We believe that our relations with our employees and unions are satisfactory. We have not experienced any material work stoppages in our ongoing business.

Intellectual Property and Proprietary Technology

Our success is partially dependent upon certain proprietary technologies and core intellectual property. We have a number of pending patent applications in the U.S. and foreign countries. Our technology is also protected under copyright laws. Additionally, we rely on trade secret protection and confidentiality and proprietary information agreements to protect our proprietary technology. We have trademarks or registered trademarks in the U.S. and other countries, including TELETECH®, the TELETECH GLOBE Design, TELETECH GIGAPOP®, TELETECH GLOBAL VENTURES®, HIREPOINT®, VISAPOINT®, IDENTIFY!®, IDENTIFY! PLUS®, INCULTURE®, TOTAL DELIVERED VALUE® and YOUR CUSTOMER MANAGEMENT PARTNER®. We believe that several of our trademarks are of material importance. Some of our proprietary technology is licensed to others under corresponding license agreements. Some of our technology is licensed from others. While our competitive position could be affected by our ability to protect our intellectual property, we believe that we have generally taken commercially reasonable steps to protect our intellectual property.

Our Corporate Information

Our principal executive offices are located at 9197 South Peoria Street, Englewood, Colorado 80112 and the telephone number at that address is (303) 397-8100. Electronic copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and Proxy Statements are available free of charge by (i) visiting the Investors section of our website at http://www.teletech.com or (ii) sending a written request to Investor Relations

at our corporate headquarters or to investor.relations@teletech.com. The public may read and copy any materials that we file with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information

statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov. Information on our website is not incorporated by reference into this report.

ITEM 1A. RISK FACTORS

In evaluating our business, you should carefully consider the risks and uncertainties discussed in this section, in addition to the other information presented in this Annual Report on Form 10-K. The risks and uncertainties described below may not be the only risks that we face. If any of these risks or uncertainties actually occurs, our business, financial condition or results of operation could be materially adversely affected and the market price of our common stock may decline.

Risks Relating to Our Business

Recent changes in U.S. and global economic conditions could have an adverse effect on the profitability of our business

Our business is directly affected by the performance of our clients and general economic conditions. Recent turmoil in the financial markets has adversely affected economic activity in the U.S. and other regions of the world in which we do business. There is evidence that this is affecting demand for some of our services. In substantially all of our client programs, we generate revenue based, in large part, on the amount of time our employees devote to our clients customers. Consequently, the amount of revenue generated from any particular client program is dependent upon consumers interest in and use of our client s products and/or services, which may be adversely affected by general economic conditions. Our clients may not be able to market or develop products and services that require their customers to use our services, especially as a result of the recent downturn in the U.S. and worldwide economy. Furthermore, a decline in our clients business or performance, including possible client bankruptcies, could impair their ability to pay for our services. Our business, financial condition, results of operations and cash flows would be adversely affected if any of our major clients were unable or unwilling, for any reason, to pay for our services.

A large portion of our revenue is generated from a limited number of clients, and the loss of one or more of our clients could cause a reduction in our revenue and operating results

We rely on strategic, long-term relationships with large, global companies in targeted industries. As a result, we derive a substantial portion of our revenue from relatively few clients. Our five largest clients collectively represented 39% of revenue in 2008 and 40% of revenue in 2007. Our ten largest clients represented 58% of revenue in 2008 and 59% of revenue in 2007. One of our clients, Sprint Nextel, represented 13% of our revenue in 2008 and 15% of our revenue in 2007. Sprint Nextel was the only client that represented over 10% of our revenue during these periods.

We believe that a substantial portion of our total revenue will continue to be derived from a relatively small number of our clients in the future. The contracts with our five largest clients expire between 2009 and 2011. We have historically renewed most of our contracts with our largest clients. However, there is no assurance that any contracts will be renewed or, if renewed, will be on terms as favorable as the existing contracts. The volumes and profit margins of our most significant programs may decline and we may not be able to replace such clients or programs with clients or programs that generate comparable revenue and profits. The loss of all or part of a major client s business could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Client consolidations could result in a loss of clients or contract concessions that would adversely affect our operating results

We serve clients in targeted industries that have historically experienced a significant level of consolidation. If one of our clients is acquired by another company (including another one of our clients), provisions in certain of our contracts allow these clients to cancel or renegotiate their contracts, or to seek contract concessions. Such consolidations may result in the termination or phasing out of an existing client contract, volume discounts and other contract concessions that could have an adverse effect on our business, financial condition, results of operations and cash flows.

Unauthorized disclosure of sensitive or confidential client and customer data could expose us to protracted and costly litigation, penalties and cause us to lose clients

We are dependent on IT networks and systems to process, transmit and store electronic information and to communicate among our locations around the world and with our alliance partners and clients. Security breaches of this infrastructure could lead to shutdowns or disruptions of our systems and potential unauthorized disclosure of confidential information. We are also required at times to manage, utilize and store sensitive or confidential client or customer data. As a result, we are subject to numerous U.S. and foreign laws and regulations designed to protect this information, such as the European Union Directive on Data Protection and various U.S. federal and state laws governing the protection of health or other individually identifiable information. If any person, including any of our employees, negligently disregards or intentionally breaches our established controls with respect to such data or otherwise mismanages or misappropriates that data, we could be subject to monetary damages, fines and/or criminal prosecution. Unauthorized disclosure of sensitive or confidential client or customer data, whether through systems failure, employee negligence, fraud or misappropriation, could damage our reputation and cause us to lose clients. Similarly, unauthorized access to or through our information systems or those we develop for our clients, whether by our employees or third parties, could result in negative publicity, legal liability and damage to our reputation, business, financial condition, results of operations and cash flows.

Our financial results depend on our capacity utilization, in particular our ability to forecast our clients customer demand and make corresponding decisions regarding staffing levels, investments and operating expenses

Our delivery center utilization rates have a substantial and direct effect on our profitability, and we may not achieve desired utilization rates. Our utilization rates are affected by a number of factors, including:

- Our ability to maintain and increase capacity in each of our delivery centers during peak and non-peak hours;
- Our ability to predict our clients customer demand for our services and thereby to make corresponding decisions regarding staffing levels, investments and other operating expenditures in each of our delivery center locations;
- Our ability to hire and assimilate new employees and manage employee turnover; and
- Our need to devote time and resources to training, professional development and other non-chargeable activities.

We attempt to maximize utilization. However, because the majority of our business is inbound from our clients customer-initiated encounters, we have significantly higher utilization during peak (weekday) periods than during off-peak (night and weekend) periods. We have experienced periods of idle capacity, particularly in our multi-client delivery centers. Historically, we experience idle peak period capacity upon opening a new delivery center or termination or completion of a large client program. On a quarterly basis, we assess the expected long-term capacity utilization of our delivery centers. We may consolidate or close under-performing delivery centers in order to maintain or improve targeted utilization and margins. In the event we close delivery centers in the future, we may be required to record restructuring or impairment charges, which could adversely impact our results of operations. There can be no assurance that we will be able to achieve or maintain desired delivery center capacity utilization. As a result of the fixed costs associated with each delivery center, quarterly variations in client volumes, many of which are outside our control, can have a material adverse effect on our utilization rates. If our utilization rates are below expectations in any given quarter, our financial condition, results of operations and cash flows for that quarter could be adversely affected.

Our business depends on uninterrupted service to clients

Our operations are dependent upon our ability to protect our facilities, computer and telecommunications equipment and software systems against damage or interruption from fire, power loss, terrorist or cyber

attacks, sabotage, telecommunications interruption or failure, labor shortages, weather conditions, natural disasters and other similar events. Additionally, severe weather can cause our employees to miss work and interrupt the delivery of our services, resulting in a loss of revenue. In the event we experience a temporary or permanent interruption at one or more of our locations (including our corporate headquarters building), our business could be materially adversely affected and we may be required to pay contractual damages or face the suspension or loss of a client s business. Although we maintain property and business interruption insurance, such insurance may not adequately compensate us for any losses we may incur.

Many of our contracts utilize performance pricing that link some of our fees to the attainment of various performance or business targets, which could increase the variability of our revenue and operating margin

A majority of our contracts include performance clauses that condition some of our fees on the achievement of agreed-upon performance standards or milestones. These performance standards can be complex and often depend in some measure on our clients actual levels of business activity or other factors outside of our control. If we fail to satisfy these measures, it could reduce our revenue under the contracts or subject us to potential damage claims under the contract terms.

Our contracts provide for early termination, which could have a material adverse effect on our operating results

Most of our contracts do not ensure that we will generate a minimum level of revenue and the profitability of each client program may fluctuate, sometimes significantly, throughout the various stages of a program. Our objective is to sign multi-year contracts with our clients. However, our contracts generally enable the clients to terminate the contract or reduce customer interaction volumes. Our larger contracts generally require the client to pay a contractually agreed amount and/or provide prior notice in the event of early termination. There can be no assurance that we will be able to collect early termination fees.

We may not be able to offset increased costs with increased service fees under long-term contracts

Some of our larger long-term contracts allow us to increase our service fees if and to the extent certain cost or price indices increase. The majority of our expenses are payroll and payroll-related, which includes healthcare costs. Over the past several years, payroll costs, including healthcare costs, have increased at a rate much greater than that of general cost or price indices. Increases in our service fees that are based upon increases in cost or price indices may not fully compensate us for increases in labor and other costs incurred in providing services. There can be no assurance that we will be able to recover increases in our costs through increased service fees.

Our business may be affected by our ability to obtain financing

From time to time, we may need to obtain debt or equity financing for capital expenditures, stock repurchases, payment of existing obligations, replenishment of cash reserves, acquisitions or joint ventures. Additionally, our existing credit facility requires us to comply with certain financial covenants. There can be no assurance that we will be able to obtain additional debt or equity financing, or that any such financing would be on terms acceptable to us. Furthermore, there can be no assurance that we will be able to meet the financial covenants under our debt agreements or, in the event of noncompliance, will be able to obtain waivers or amendments from the lenders.

Our business may be affected by risks associated with international operations and expansion

An important component of our growth strategy is continued international expansion. There are certain risks inherent with conducting international business, including but not limited to:

Management of personnel overseas;

Longer payment cycles;

Difficulties in accounts receivable collections;

Foreign currency exchange rates;

Difficulties in complying with foreign laws;

Unexpected changes in regulatory requirements;

Political and social instability, as demonstrated by terrorist threats, regime change, increasing tension in the Middle East and other regions, and the resulting need for enhanced security measures; and

Potentially adverse tax consequences.

Any one or more of these or other factors could have a material adverse effect on our international operations and, consequently, on our business, financial condition, results of operations and cash flows. There can be no assurance that we will be able to manage our international operations successfully.

Our financial results may be impacted by foreign currency exchange risk

We serve an increasing number of our clients from delivery centers in other countries that include Argentina, Canada, Costa Rica, Malaysia, Mexico, the Philippines and South Africa. Contracts with these clients are typically priced, invoiced, and paid in U.S. dollars while the costs incurred to operate these delivery centers are denominated in the functional currency of the applicable non-U.S.-based operating subsidiary. Therefore, fluctuations between the currencies of the contracting and operating subsidiary present foreign currency exchange risks. In addition, because our financial statements are denominated in U.S. dollars, and approximately 30% of our revenue is derived from contracts denominated in other currencies, our results of operations and revenue could be adversely affected if the U.S. dollar strengthens significantly against foreign currencies.

While we enter into forward and option contracts to hedge against the effect of exchange rate fluctuations, the foreign exchange exposure between the contracting and operating subsidiaries is not hedged 100%. Since the operating subsidiary assumes the foreign exchange exposure, its operating margins could decrease if the contracting subsidiary s currency devalues against the operating subsidiary s currency.

For example, our operating subsidiaries are at risk if the U.S. dollar weakens. If the U.S. dollar devalues, the financial results of certain operating subsidiaries and TeleTech (upon consolidation) will be negatively affected. While our hedging strategy effectively offsets a portion of these foreign currency changes, there can be no assurance that we will be able to continue to successfully hedge this foreign currency exchange risk or that the value of the U.S. dollar will not materially weaken. If we fail to manage our foreign currency exchange risk, our business, financial condition, results of operations and cash flows could be adversely affected.

Our global operations expose us to numerous and sometimes conflicting legal and regulatory requirements

Because we provide services to clients in 50 countries, we are subject to numerous, and sometimes conflicting, legal regimes on matters as diverse as import/export controls, content requirements, trade restrictions, tariffs, taxation, sanctions, government affairs, immigration, internal and disclosure control obligations, data privacy and labor relations. Violations of these regulations could result in liability for monetary damages, fines and/or criminal prosecution, unfavorable publicity, restrictions on our ability to process information and allegations by our clients that we have not performed our contractual obligations. Due to the varying degrees of development of the legal systems of

the countries in which we operate, local laws might be insufficient to protect our contractual and intellectual property rights, among other rights.

Changes in U.S. federal, state and international laws and regulations may adversely affect the sale of our services, including expansion of overseas operations. In the U.S., some of our services must comply with

various federal and state regulations regarding the method of placing outbound telephone calls. In addition, we could incur liability for failure to comply with laws or regulations related to the portions of our clients businesses that are transferred to us. Changes in these regulations and requirements, or new restrictive regulations and requirements, may slow the growth of our services or require us to incur substantial costs. Changes in laws and regulations could also mandate significant and costly changes to the way we implement our services and solutions, such as preventing us from using offshore resources to provide our services, or could impose additional taxes on the provision of our services and solutions. These changes could threaten our ability to continue to serve certain markets.

Our financial results and projections may be impacted by our ability to maintain and find new locations for our delivery centers in countries with stable wage rates

Our industry is labor-intensive and the majority of our operating costs relate to wages, employee benefits and employment taxes. As a result, our future growth is dependent upon our ability to find cost-effective locations in which to operate, both domestically and internationally. Some of our delivery centers are located in countries that have experienced rising standards of living, which may in turn require us to increase employee wages. In addition, approximately 14,800 employees outside the U.S. are covered by collective bargaining agreements. Although we anticipate that the terms of agreements will not impact us in a manner materially different than other companies located in these countries, we may not be able to pass increased labor costs on to our clients. There is no assurance that we will be able to find cost-effective locations. Any increases in labor costs may have a material adverse effect on our business, financial condition, results of operations and cash flows.

The business process outsourcing markets are highly competitive, and we might not be able to compete effectively

Our ability to compete will depend on a number of factors, including our ability to:

- Initiate, develop and maintain new client relationships;
- Maintain and expand existing client programs;
- Staff and equip suitable delivery center facilities in a timely manner; and
- Develop new solutions and enhance existing solutions we provide to our clients.

Moreover, we compete with a variety of companies with respect to our offerings, including:

- Large multinational providers, including the service arms of large global technology providers;
- Offshore service providers in lower-cost locations that offer services similar to those we offer, often at highly competitive prices;
- Niche solution or service providers that compete with us in a specific geographic market, industry segment or service area; and
- Most importantly, the in-house operations of clients or potential clients.

Because our primary competitors are the in-house operations of existing or potential clients, our performance and growth could be adversely affected if our existing or potential clients decide to provide in-house business process services they currently outsource, or retain or increase their in-house business processing services and product support capabilities. In addition, competitive pressures from current or future competitors also could cause our services to lose

market acceptance or put downward pressure on the prices we charge for our services and on our operating margins. If we are unable to provide our clients with superior services and solutions at competitive prices, our business, financial condition, results of operations and cash flows could be adversely affected.

We may not be able to develop our services and solutions in response to changes in technology and client demand

Our success depends on our ability to develop and implement systems technology and outsourcing services and solutions that anticipate and respond to rapid and continuing changes in technology, industry developments and client needs. Our continued growth and future profitability will be highly dependent on a number of factors, including our ability to develop new technologies that:

- Expand our existing solutions and offerings;
- Achieve cost efficiencies in our existing delivery center operations; and
- Introduce new solutions that leverage and respond to changing technological developments.

We may not be successful in anticipating or responding to these developments on a timely basis. Our integration of new technologies may not achieve their intended cost reductions and services and technologies offered by current or future competitors may make our service offerings uncompetitive or obsolete. Our failure to maintain our technological capabilities or to respond effectively to technological changes could have a material adverse effect on our business, financial condition, results of operations and cash flows.

If we fail to recruit, hire, train and retain key executives or qualified employees, our business will be adversely affected

Our business is labor intensive and places significant importance on our ability to recruit, train, and retain qualified personnel. We generally experience high employee turnover and are continuously required to recruit and train replacement personnel as a result of a changing and expanding work force. Demand for qualified technical professionals conversant in multiple languages, including English, and/or certain technologies may exceed supply, as new and additional skills are required to keep pace with evolving technologies. In addition, certain delivery centers are located in geographic areas with relatively low unemployment rates, which could make it more costly to hire qualified personnel. Our ability to locate and train employees is critical to achieving our growth objective. Our inability to attract and retain qualified personnel or an increase in wages or other costs of attracting, training, or retaining qualified personnel could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our success is also dependent upon the efforts, direction and guidance of our executive management team. Although members of our executive team are subject to non-competition agreements, they can terminate their employment at any time. The loss of any member of our senior management team could adversely affect our business, financial condition, results of operations and cash flows and growth potential.

If we fail to integrate businesses and assets that we may acquire through joint ventures or acquisitions, we may lose clients and our liquidity, capital resources and profitability may be adversely affected

We may pursue joint ventures or strategic acquisitions of companies with services, technologies, industry specializations, or geographic coverage that extend or complement our existing business. Acquisitions and joint ventures often involve a number of special risks, including the following:

- We may encounter difficulties integrating acquired software, operations and personnel and our management s attention could be diverted from other business concerns;

We may not be able to successfully incorporate acquired technology and rights into our service offerings and maintain uniform standards, controls, procedures and policies;

The businesses or assets we acquire may fail to achieve the revenue and earnings we anticipated, causing us to incur additional debt to fund operations and to write down the value of acquisitions on our financial statements;

We may assume liabilities associated with the sale of the acquired company s products or services;

Our resources may be diverted in asserting and defending our legal rights and we may ultimately be liable for contingent and other liabilities, not previously disclosed to us, of the companies that we acquire;

Acquisitions may disrupt our ongoing business and dilute our ownership interest;

Acquisitions may result in litigation from former employees or third parties; and

Due diligence may fail to identify significant issues with product quality, product architecture, ownership rights and legal contingencies, among other matters.

We may pursue strategic alliances in the form of joint ventures and partnerships, which involve many of the same risks as acquisitions as well as additional risks associated with possible lack of control if we do not have a majority ownership position. Any of the factors identified above could have a material adverse effect on our business and on the market value of our common stock.

In addition, negotiation of potential acquisitions and the resulting integration of acquired businesses, products, or technologies, could divert management s time and resources. Future acquisitions could cause us to issue dilutive equity or incur debt, contingent liabilities, additional amortization charges from intangible assets, asset impairment charges, or write-off charges for in-process research and development and other indefinite-lived intangible assets that could adversely affect our business, financial condition, results of operations and cash flows.

Risks Relating to Our Common Stock

The market price for our common stock may be volatile

The trading price of our common stock has been volatile and may be subject to wide fluctuations in response to, among other factors, the following:

Actual or anticipated variations in our quarterly results;

Announcements of new contracts or contract cancellations;

Changes in financial estimates by securities analysts;

Our ability to meet the expectations of securities analysts;

Conditions or trends in the business process outsourcing industry;

Changes in the market valuations of other business process outsourcing companies;

Developments in countries where we have significant delivery centers, GigaPOPs or operations;

The ability of our clients to pay for our services; or

Other events or factors, many of which are beyond our control.

In addition, the stock market in general, the NASDAQ Global Select Market and the market for BPO providers in particular have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of particular companies. These broad market and industry factors may materially and adversely affect our stock price, regardless of our operating performance.

You may suffer significant dilution as a result of our outstanding stock options and our equity incentive programs

We have adopted benefit plans for the compensation of our employees and directors under which restricted stock units (RSUs) and options to purchase our common stock have been and will continue to be granted. Options to purchase approximately 4.2 million shares of our common stock were outstanding

at December 31, 2008, of which approximately 3.5 million shares were exercisable. RSUs representing approximately 2.6 million shares were outstanding at December 31, 2008, all of which were unvested. The large number of shares issuable upon exercise of our options and other equity incentive grants could have a significant depressing effect on the market price of our stock and cause dilution to the earnings per share of our common stock.

Our Chairman and Chief Executive Officer has practical control over all matters requiring action by our stockholders

Kenneth D. Tuchman, our Chairman and Chief Executive Officer, beneficially owns approximately 49.4% of our common stock. As a result, Mr. Tuchman has practical control over all matters requiring action by our stockholders, including the election of our entire Board of Directors. It is unlikely that a change in control of our company could be effected without his approval.

We and certain of our officers and directors have been named as parties to class action and related lawsuits relating to our historical equity-based compensation practices and resulting restatements, and additional lawsuits may be filed in the future

In connection with our historical equity-based compensation practices and resulting restatements, a securities class action lawsuit and a shareholder derivative lawsuit were filed against the Company, certain of our current directors and officers and others. There may be additional lawsuits of this nature filed in the future. We cannot predict the outcome of these lawsuits, nor can we predict the amount of time and expense that will be required to resolve these lawsuits. Although we expect the majority of expenses related to the lawsuits to be covered by insurance, there can be no assurance that all such expenses will be reimbursed.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have received no written comments regarding our periodic or current reports from the staff of the SEC that were issued 180 days or more preceding the end of our 2008 fiscal year that remain unresolved.

ITEM 2. PROPERTIES

Our corporate headquarters are located in Englewood, Colorado, which consists of approximately 264,000 square feet of office space.

As of December 31, 2008, excluding delivery centers we have exited, we operated 83 delivery centers that are classified as follows:

Multi-Client Center We lease space for these centers and serve multiple clients in each facility;

Dedicated Center We lease space for these centers and dedicate the entire facility to one client; and

Managed Center These facilities are leased or owned by our clients and we staff and manage these sites on behalf of our clients in accordance with facility management contracts.

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As of December 31, 2008, our delivery centers were located in the following countries:

	Multi-Client Centers	Dedicated Centers	Managed Centers	Total Number of Delivery Centers
Argentina	6		2	8
Australia	3	1	1	5
Brazil	2		1	3
Canada	3	7	1	11
China	1		1	2
Costa Rica	1			1
England	1		1	2
Germany			1	1
Malaysia	1			1
Mexico	3			3
New Zealand	1		3	4
Northern Ireland	1			1
Philippines	12			12
Scotland		1	3	4
South Africa	1			1
Spain	3	1	2	6
U.S	6	5	7	18
Total	45	15	23	83

The leases for all of our delivery centers have remaining terms ranging from one to 12 years and generally contain renewal options. We believe that our existing delivery centers are suitable and adequate for our current operations, and we have plans to build additional centers to accommodate future business.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we have been involved in claims and lawsuits, both as plaintiff and defendant, which arise in the ordinary course of business. Accruals for claims or lawsuits have been provided for to the extent that losses are deemed both probable and estimable. Although the ultimate outcome of these claims or lawsuits cannot be ascertained, on the basis of present information and advice received from counsel, we believe that the disposition or ultimate resolution of such claims or lawsuits will not have a material adverse effect on our financial position, cash flows or results of operations.

Securities Class Action

On January 25, 2008, a class action lawsuit was filed in the United States District Court for the Southern District of New York entitled *Beasley v. TeleTech Holdings, Inc., et al.* against TeleTech, certain current directors and officers and others alleging violations of Sections 11, 12(a)(2) and 15 of the Securities Act, Section 10(b) of the Securities Exchange Act and Rule 10b-5 promulgated thereunder and Section 20(a) of the Securities Exchange Act. The

complaint alleges, among other things, false and misleading statements in the Registration Statement and Prospectus in connection with (i) a March 2007 secondary offering of common stock and (ii) various disclosures made and periodic reports filed by us between February 8, 2007 and November 8, 2007. On February 25, 2008, a second nearly identical class action complaint, entitled *Brown v. TeleTech Holdings, Inc., et al.,* was filed in the same court. On May 19, 2008, the actions described above were consolidated under the caption *In re: TeleTech Litigation* and lead plaintiff and lead counsel were approved. TeleTech and the other individual defendants intend to defend this case vigorously. Although we expect the majority of expenses related to the class action lawsuit to be covered by insurance, there can be no assurance that all of such expenses will be reimbursed.

Derivative Action

On July 28, 2008, a shareholder derivative action was filed in the Court of Chancery, State of Delaware, entitled *Susan M. Gregory v. Kenneth D. Tuchman, et al.*, against certain of TeleTech s former and current

officers and directors alleging, among other things, that the individual defendants breached their fiduciary duties and were unjustly enriched in connection with: (i) equity grants made in excess of plan limits; and (ii) manipulating the grant dates of stock option grants from 1999 through 2008. TeleTech is named solely as a nominal defendant against whom no recovery is sought. Although we expect the majority of expenses related to the shareholder derivative action to be covered by insurance, there can be no assurance that all such expenses will be reimbursed.

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

No matters were submitted to a vote of our security holders during the fourth quarter of 2008.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the NASDAQ Global Select Market under the symbol TTEC. The following table sets fourth the range of the high and low sales prices per share of the common stock for the quarters indicated as reported on the NASDAQ Global Select Market:

	High	Low
Fourth Quarter 2008	$ 13.20	$ 6.43
Third Quarter 2008	$ 21.07	$ 10.02
Second Quarter 2008	$ 26.88	$ 19.88
First Quarter 2008	$ 23.59	$ 16.17
Fourth Quarter 2007	$ 27.43	$ 18.76
Third Quarter 2007	$ 35.24	$ 22.75
Second Quarter 2007	$ 40.41	$ 30.05
First Quarter 2007	$ 37.52	$ 23.34

As of December 31, 2008 we had approximately 562 holders of record of our common stock. We have never declared or paid any dividends on our common stock and we do not expect to do so in the foreseeable future.

Stock Repurchase Program

In November 2001, the Board of Directors (Board) authorized a stock repurchase program to repurchase up to $5.0 million of our common stock with the objective of increasing stockholder returns. The Board has since periodically authorized additional increases in the program. The most recent Board authorization to purchase additional common stock occurred in July 2008, whereby the program allowance was increased by approximately $47.4 million to $100.0 million. Since inception of the program through December 31, 2008, the Board has authorized the repurchase of shares up to a value of $262.3 million. During the year ended December 31, 2008, we purchased 6.5 million shares for $89.6 million. Since inception of the program, we have purchased 21.3 million shares for $251.9 million. As of December 31, 2008, remaining allowance under the program was approximately $10.4 million. In February 2009, the Board authorized an increase of $25.0 million in the funding available for share repurchases. The stock repurchase program does not have an expiration date.

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Issuer Purchases of Equity Securities During the Fourth Quarter of 2008

The following table provides information about our repurchases of equity securities during the quarter ended December 31, 2008:

Period	Total Number of Shares Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (In thousands)
October 1, 2008 - October 31, 2008	182,600	$ 12.53	182,600	$ 22,759
November 1, 2008 - November 30, 2008	775,800	9.01	775,800	15,765
December 1, 2008 - December 31, 2008	719,200	7.44	719,200	10,418
Total	1,677,600		1,677,600	

Equity Compensation Plan Information

The following table sets forth, as of December 31, 2008, the number of shares of our common stock to be issued upon exercise of outstanding options, RSUs, warrants and rights, the weighted-average exercise price of outstanding options, warrants and rights, and the number of securities available for future issuance under equity-based compensation plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, RSUs, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights(b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	6,825,275(1)	$ 11.71(2)	3,202,904
Equity compensation plans not approved by security holders			

Total	6,825,275		3,202,904

[1] Includes options to purchase 4,201,404 shares and 2,623,871 RSUs issued under our equity incentive plans.

[2] Weighted average exercise price of outstanding stock options; excludes RSUs, which have no exercise price.

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Stock Performance Graph

The graph depicted below compares the performance of TeleTech common stock with the performance of the NASDAQ Composite Index; the Russell 2000 Index; and two customized peer groups over the period beginning on December 31, 2003 and ending on December 31, 2008. The Old Peer Group, which we initially formulated in 2002, is composed of APAC Customer Services Inc. (NASDAQ: APAC), Convergys Corporation (NYSE: CVG), Sykes Enterprises, Incorporated (NASDAQ: SYKE) and, in prior years, also included Electronic Data Systems Corporation, Sitel Corporation and West Corporation. The latter three companies are not included in the Old Peer Group because their common stock is no longer publicly traded. In part because the number of companies in the Old Peer Group has dwindled, we have chosen a New Peer Group composed of Convergys Corporation (NYSE: CVG), Genpact Limited (NYSE: G), Sykes Enterprises, Incorporated (NASDAQ: SYKE) and Teleperformance (NYSE Euronext: RCF). We also believe that the companies in the New Peer Group are more relevant to our current business model, market capitalization and position in the overall BPO industry.

The graph assumes that $100 was invested on December 31, 2003 in our common stock and in each comparison index, and that all dividends were reinvested. We have not declared any dividends on our common stock. Stock price performance shown on the graph below is not necessarily indicative of future price performance.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among TeleTech Holdings, Inc., The NASDAQ Composite Index,
The Russell 2000 Index, An Old Peer Group And A New Peer Group

	12/03	12/04	12/05	12/06	12/07	12/08
TeleTech Holdings, Inc.	$ 100	$ 86	$ 107	$ 211	$ 188	$ 74
NASDAQ Composite	$ 100	$ 110	$ 113	$ 127	$ 138	$ 80
Russell 2000	$ 100	$ 118	$ 124	$ 146	$ 144	$ 95
Old Peer Group	$ 100	$ 84	$ 97	$ 144	$ 106	$ 60
New Peer Group	$ 100	$ 94	$ 109	$ 156	$ 130	$ 77

*$100 invested on 12/31/03 in stock & index-including reinvestment of dividends.
Fiscal year ending December 31.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, the Consolidated Financial Statements and the related notes appearing elsewhere in this Form 10-K (amounts in thousands except share amounts).

	Year Ended December 31,				
	2008	2007	2006	2005	2004
Statement of Operations Data					
Revenue	$ 1,400,147	$ 1,369,632	$ 1,210,753	$ 1,085,903	$ 1,052,690
Cost of services	(1,024,451)	(1,001,459)	(882,809)	(809,059)	(772,573)
Selling, general and administrative	(199,495)[(1)]	(207,528)[(1)]	(199,995)	(183,111)	(165,533)
Depreciation and amortization	(59,166)	(55,953)	(51,989)	(54,412)	(61,147)
Other operating expenses	(8,077)[(2)]	(22,904)[(4)]	(2,195)[(6)]	(7,384)[(7)]	(4,693)[(8)]
Income from operations	108,958	81,788	73,765	31,937	48,744
Other income (expense)	(4,354)	(6,437)[(5)]	(4,442)	(156)	(15,250)[(9)]
Provision for income taxes	(27,269)[(3)]	(19,562)	(16,474)[(3)]	(3,953)[(3)]	(9,124)
Minority Interest	(3,588)	(2,686)	(1,868)	(1,542)	(738)
Net income	$ 73,747	$ 53,103	$ 50,981	$ 26,286	$ 23,632
Weighed average shares outstanding					
Basic	68,208	70,228	69,184	72,121	74,751
Diluted	69,578	72,638	69,869	73,134	75,637
Net income per share					
Basic	$ 1.08	$ 0.76	$ 0.74	$ 0.36	$ 0.32
Diluted	$ 1.06	$ 0.73	$ 0.73	$ 0.36	$ 0.31
Balance Sheet Data					
Total assets	$ 668,942	$ 760,295	$ 664,421	$ 527,973	$ 499,567
Total long-term liabilities	$ 127,949	$ 118,729	$ 111,800	$ 68,646	$ 36,805

(1) Includes $14.6 million and $11.5 million for 2008 and 2007, respectively, for costs incurred for the Company s review of its equity-based compensation practices and restatement of the Consolidated Financial Statements.

(2) Includes $3.3 million charge related to reductions in force; $3.0 million charge related to facility exit charges in accordance with Statement of Financial Accounting Standards (SFAS) No. 146 *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS 146); and a $2.0 million charge related to the impairment of property and equipment in accordance with SFAS No. 144 A*ccounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144).

(3) Includes benefits due to the reversal of income tax valuation allowances of $3.9 million, $5.7 million, and $12.7 million for the years 2008, 2006 and 2005, respectively. The year 2006 includes a $3.3 million benefit due to the Enhansiv Holdings, Inc. loss carry forward. The year 2005 includes a $3.7 million charge related to the repatriation of foreign earnings under a Qualified Domestic Reinvestment Plan.

(4) Includes the following items: $13.4 million charge related to the impairment of goodwill in accordance with SFAS No. 142 *Goodwill and Other Intangible Assets* (SFAS 142); $2.4 million charge related to the impairment of property and equipment in accordance with SFAS 144; $3.8 million charge related to reductions in force; $4.0 million charge related to facility exit charges in accordance with SFAS 146; and $0.7 million benefit related to the revised estimates of restructuring charges.

(5) Includes $6.1 million charge related to the sale of assets in accordance with SFAS 144; $7.0 million benefit related to the sale of assets in accordance with SFAS 144; and $2.2 million benefit related to the execution of a software and intellectual property license agreement.

(6) Includes $1.0 million charge related to reductions in force; $0.8 million related to facility exit costs in accordance with SFAS 146; and $0.6 million charge related to the impairment of property and equipment in accordance with SFAS 144.

(7) Includes $2.3 million charge related to the impairment of property and equipment in accordance with SFAS 144; $2.1 million charge related to reductions in force; $2.6 million charge related to facility exit charges in accordance with SFAS 146; $0.6 million impairment loss related to a decision to exit a lease early and to discontinue use of certain software; and $0.2 million benefit related to revised estimates of restructuring and impairment charges.

(8) Includes $2.6 million charge related to the impairment of property and equipment in accordance with SFAS 144; and $2.1 million charge related to a reduction in workforce and facility exit charges under SFAS 146.

(9) Includes $7.6 million one-time charge related to restructuring of our long-term debt; and $2.8 million one-time charge related to the termination of an interest rate swap agreement.

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

Executive Summary

TeleTech is one of the largest and most geographically diverse global providers of business process outsourcing solutions. We have a 27-year history of designing, implementing and managing critical business processes for Global 1000 companies to help them improve their customers experience, expand their strategic capabilities and increase their operating efficiencies. By delivering a high-quality customer experience through the effective integration of customer-facing, front-office processes with internal back-office processes, we enable our clients to better serve, grow and retain their customer base. We have developed deep vertical industry expertise and support approximately 250 business process outsourcing programs serving 100 global clients in the automotive, broadband, cable, financial services, government, healthcare, logistics, media and entertainment, retail, technology, travel, wireline and wireless communication industries.

As globalization of the world s economy continues to accelerate, businesses are increasingly competing on a large-scale basis due to rapid advances in technology and telecommunications that permit cost-effective real-time global communications and ready access to a highly-skilled worldwide labor force. As a result of these developments, companies have increasingly outsourced business processes to third-party providers in an effort to enhance or maintain their competitive position while increasing shareholder value through improved productivity and profitability.

We believe that our revenue will continue to grow over the long-term as global demand for our services is fueled by the following trends:

Integration of front- and back-office business processes to provide increased operating efficiencies and an enhanced customer experience especially in light of the weakening global economic environment. Companies have realized that integrated business processes reduce operating costs and allow customer needs to be met more quickly and efficiently resulting in higher customer satisfaction and brand loyalty thereby improving their competitive position. A majority of our historic revenue has been derived from providing customer-facing front-office solutions to our clients. Given that our global delivery centers are also fully capable of providing back-office solutions, we are uniquely positioned to grow our revenue by winning more

back-office opportunities and providing the services during non-peak hours with minimal incremental investment. Furthermore, by spreading our fixed costs across a larger revenue base and increasing our asset utilization, we expect our profitability to improve over time.

Increasing percentage of company operations being outsourced to most capable third-party providers. Having experienced success with outsourcing a portion of their business processes,

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companies are increasingly inclined to outsource a larger percentage of this work. We believe companies will continue to consolidate their business processes with third-party providers, such as TeleTech, who are financially stable and able to invest in their business while also demonstrating an extensive global operating history and an ability to cost-effectively scale to meet their evolving needs.

Increasing adoption of outsourcing across broader groups of industries. Early adopters of the business process outsourcing trend, such as the media and communications industries, are being joined by companies in other industries, including healthcare, retail and financial services. These companies are beginning to adopt outsourcing to improve their business processes and competitiveness. For example, we have seen an increase in our revenue from the healthcare, retail and financial services industries. We believe the number of other industries that will adopt or increase their level of outsourcing will continue to grow further enabling us to increase and diversify our revenue and client base.

Focus on speed-to-market by companies launching new products or entering new geographic locations. As companies broaden their product offerings and seek to enter new emerging markets, they are looking for outsourcing providers that can provide speed-to-market while reducing their capital and operating risk. To achieve these benefits, companies are seeking BPO providers with an extensive operating history, an established global footprint, the financial strength to invest in innovation to deliver more strategic capabilities and the ability to scale and meet customer demands quickly. Given our financial stability, geographic presence in 17 countries and our significant investment in standardized technology and processes, clients increasingly select TeleTech because we can quickly ramp large, complex business processes around the globe in a short period of time while assuring a high-quality experience for their customers.

Our Strategy

Our objective is to become the world s largest, most technologically advanced and innovative provider of onshore, offshore and work from home BPO solutions. Companies within the Global 1000 are our primary client targets due to their size, global nature, focus on outsourcing and desire for the global, scalable integrated process solutions that we offer. We have developed, and continue to invest in, a broad set of capabilities designed to serve this growing client need. These investments include our TeleTech@Home offering which allows our employees to serve clients from their home. This capability has enhanced the flexibility of our offering allowing clients to choose our onshore, offshore or work from home employees to meet their outsourced business process needs. In addition we have begun to offer hosted services where clients can license any aspect of our global network and proprietary applications. While the revenue from these offerings is small relative to our consolidated revenue, we believe it will continue to grow as these services become more widely adopted by our clients. We aim to further improve our competitive position by investing in a growing suite of new and innovative business process services across our targeted industries.

Our business strategy to increase revenue, profitability and our industry position includes the following elements:

Deepen and broaden our relationships with existing clients;

Win business with new clients and focus on targeted industries where we expect accelerating adoption of business process outsourcing;

Continue to invest in innovative proprietary technology and new business offerings;

Continue to improve our operating margins through increased asset utilization of our globally diverse delivery centers; and

Selectively pursue acquisitions that extend our capabilities, geographic reach and/or industry expertise.

Our 2008 Financial Results

In 2008, our revenue grew 2.2% over 2007 to $1,400 million. Our income from operations grew 33.2% to $109.0 million or 7.8% of revenue in 2008 from $81.8 million or 6.0% of revenue in 2007. Income from operations in 2008 included $8.1 million of asset impairment and restructuring charges and $14.6 million of selling, general and administrative charges associated with our equity-based compensation review, financial restatement and related lawsuits. Excluding both of these charges, which totaled $22.7 million, our income from operations in 2008 increased 13.3% to $131.7 million or 9.4% of revenue from $116.2 million or 8.5% of revenue in 2007 excluding $11.5 million of charges associated with our equity-based compensation review and financial restatement and $22.9 million of asset impairment and restructuring charges.

Our improved revenue and operating margin resulted from growth with both new and existing clients across an expanding array of industry verticals, increased utilization of our delivery centers across a 24-hour period, leveraging our global purchasing power and continued expansion of services from our geographically diverse delivery centers.

We have experienced growth in our offshore delivery centers, which primarily serve clients located in other countries. Our offshore delivery capacity now spans seven countries and 25,913 workstations and currently represents 65% of our global delivery capabilities. Revenue in these offshore locations grew 14% in 2008 to $628 million and represented 45% of our total revenue. To meet continued client demand in 2008, we added 5,700 gross workstations primarily in offshore locations including the Philippines, South Africa and Latin America. While historically it was primarily US-based clients that were willing to utilize our offshore delivery capabilities, we have increasingly seen clients in Europe and Asia Pacific willing to utilize our offshore delivery capabilities and expect this trend to continue with clients in other countries. In light of this trend, we plan to continue to selectively expand into new offshore markets. For example, we believe we are one of the first multi-national BPO providers to enter the African continent. As we grow our offshore delivery capabilities and our exposure to foreign currency fluctuations increase, we continue to actively manage this risk via a multi-currency hedging program designed to minimize operating margin volatility.

Our strong financial position due to our cash flow from operations and low debt levels allowed us to finance a significant portion of our capital needs and stock repurchases through internally generated cash flows. At December 31, 2008, we had $87.9 million of cash and cash equivalents and a total debt to equity ratio of 25.0%. During 2008, we repurchased $89.6 million of our common stock and since inception of the share repurchase program in 2001 have acquired $251.9 million, or 21.3 million shares, of our outstanding stock.

We have incurred substantial expenses for accounting, legal, tax and other professional services in connection with the Audit Committee s and our internal review of historical, equity-based compensation practices (the Review), as well as preparation of our Consolidated Financial Statements and restated Consolidated Financial Statements. These third-party expenses, which are included in selling, general and administrative expenses, were $12.8 million and $8.6 million for the years ended December 31, 2008 and 2007, respectively. In addition, in the years ended December 31, 2008 and 2007 we recorded additional compensation expense of $1.8 million and $2.9 million, respectively, including amounts for incremental federal, state and employment taxes, assessed upon employees under Section 409A of the Internal Revenue Code, including penalties, interest and tax gross-ups. We have committed to make our employees whole for any adverse tax consequences arising as a result of the vesting or exercise of mispriced options identified through the Review.

Business Overview

We serve our clients through the primary business of BPO services. Our BPO business provides outsourced business process and customer management services for a variety of industries through global delivery centers. When we begin

operations in a new country, we determine whether the country is intended to primarily serve U.S. based clients, in which case we include the country in our North American

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BPO segment, or if the country is intended to serve both domestic clients from that country and U.S. based clients, in which case we include the country in our International BPO segment. This is consistent with our management of the business, internal financial reporting structure and operating focus. Operations for each segment of our BPO business are conducted in the following countries:

North American BPO	International BPO
United States	Argentina
Canada	Australia
Philippines	Brazil
	China
	Costa Rica
	England
	Germany
	Malaysia
	Mexico
	New Zealand
	Northern Ireland
	Scotland
	South Africa
	Spain

On December 18, 2007, we completed the sale of Customer Solutions Mauritius, an indirect subsidiary that owned a 60% interest in our TeleTech Services India Ltd. joint venture and generated less than 1% of our revenue in 2007. See Note 2 to the Consolidated Financial Statements for further discussion of this disposition.

On September 27, 2007, Newgen Results Corporation and related companies (hereinafter collectively referred to as Newgen) and TeleTech entered into an agreement to sell substantially all of the assets and certain liabilities associated with our Database Marketing and Consulting business. The transaction was completed on September 28, 2007. This business, which only represented 1% of our revenue in 2007, provided outsourced database management, direct marketing and related customer acquisitions and retention services for automobile dealerships and manufacturers in North America. During 2007, our income from operations was reduced by $20.4 million related to asset impairment and restructuring charges for this business. During 2007, our income from operations before income taxes and minority interest was reduced by $24.3 million. This includes the $20.4 million of asset impairment and restructuring charges discussed above along with a $3.9 million net charge related to the above disposal. The disposal charge includes a loss on the sale of assets of $6.1 million partially offset by software license income of $2.2 million recorded in Other, net. See Note 7 to the Consolidated Financial Statements for further discussion on the impairment charges and Note 2 to the Consolidated Financial Statements for further discussion of this disposition. On December 22, 2008, as discussed in Note 3 to the Consolidated Financial Statements, Newgen Results Corporation, filed a voluntary petition for liquidation under Chapter 7 in the United States Bankruptcy Court for the District of Delaware. Accordingly, we deconsolidated Newgen Results Corporation as of December 22, 2008.

See Note 4 to the Consolidated Financial Statements for additional discussion regarding our preparation of segment information.

BPO Services

The BPO business generates revenue based primarily on the amount of time our associates devote to a client s program. We primarily focus on large global corporations in the following industries: automotive, cable and communications, financial services, healthcare, logistics, media and entertainment, retail, technology, travel and wireline and wireless telecommunications. Revenue is recognized as services are

provided. The majority of our revenue is from multi-year contracts and we expect that trend to continue. However, we do provide certain client programs on a short-term basis.

We have historically experienced annual attrition of existing client programs of approximately 6% to 10% of our revenue. Attrition of existing client programs during 2008 and 2007 was 6% and 7%, respectively.

The BPO industry is highly competitive. We compete primarily with the in-house business processing operations of our current and potential clients. We also compete with certain companies that provide BPO on an outsourced basis. Our ability to sell our existing services or gain acceptance for new products or services is challenged by the competitive nature of the industry. There can be no assurance that we will be able to sell services to new clients, renew relationships with existing clients, or gain client acceptance of our new products.

We have improved our revenue and profitability in both the North American and the International BPO segments by:

Capitalizing on the favorable trends in the global outsourcing environment, which we believe will include more companies that want to:

- Adopt or increase BPO services;
- Consolidate outsourcing providers with those that have a solid financial position, capital resources to sustain a long-term relationship and globally diverse delivery capabilities across a broad range of solutions;
- Modify their approach to outsourcing based on total value delivered versus the lowest priced provider; and
- Better integrate front- and back-office processes.

Deepening and broadening relationships with existing clients;

Winning business with new clients and focusing on targeted high growth industry verticals;

Continuing to diversify revenue into higher-margin offerings such as professional services, talent acquisition, learning services and our hosted TeleTech OnDemand™ capabilities;

Increasing capacity utilization during peak and non-peak hours;

Scaling our work from home initiative to increase operational flexibility; and

Completing select acquisitions that extend our core BPO capabilities or vertical expertise.

Our ability to renew or enter into new multi-year contracts, particularly large complex opportunities, is dependent upon the macroeconomic environment in general and the specific industry environments in which our clients operate. A weakening of the U.S. or the global economy could lengthen sales cycles or cause delays in closing new business opportunities.

Our potential clients typically obtain bids from multiple vendors and evaluate many factors in selecting a service provider, including, among other factors, the scope of services offered, the service record of the vendor and price. We generally price our bids with a long-term view of profitability and, accordingly, we consider all of our fixed and

variable costs in developing our bids. We believe that our competitors, at times, may bid business based upon a short-term view, as opposed to our longer-term view, resulting in a lower price bid. While we believe our clients perceptions of the value we provide results in our being successful in certain competitive bid situations, there are often situations where a potential client may prefer a lower cost.

Our industry is labor-intensive and the majority of our operating costs relate to wages, employee benefits and employment taxes. An improvement in the local or global economies where our delivery centers are located could lead to increased labor-related costs. In addition, our industry experiences high personnel turnover, and the length of training time required to implement new programs continues to increase due to

increased complexities of our clients businesses. This may create challenges if we obtain several significant new clients or implement several new, large-scale programs and need to recruit, hire and train qualified personnel at an accelerated rate.

As discussed above, to some extent our profitability is influenced by the number of new client programs entered into within the period. For new programs we defer revenue related to initial training (Training Revenue) when training is billed as a separate component from production rates. Consequently, the corresponding training costs associated with this revenue, consisting primarily of labor and related expenses (Training Costs), are also deferred. In these circumstances, both the Training Revenue and Training Costs are amortized straight-line over the life of the contract. In situations where Training Revenue is not billed separately, but rather included in the production rates, there is no deferral as all revenue is recognized over the life of the contract and the associated training expenses are expensed as incurred.

Deferred Training Revenue increased $2.6 million in 2008 to $15.3 million from $12.7 million as of December 31, 2008 and 2007, respectively. Correspondingly, Deferred Training Costs increased $1.3 million in 2008 to $6.6 million from $5.3 million as of December 31, 2008 and 2007, respectively. The increase in these deferrals was due to growth in new client programs where training was billed separately during the period. As of December 31, 2008, we had Deferred Training Revenue, net of Deferred Training Costs, of $8.7 million that will be recognized into our income from operations over the remaining life of the corresponding contracts (approximately 14 months). See Note 14 to the Consolidated Financial Statements for further discussion of deferred training revenue.

We may have difficulties managing the timeliness of launching new or expanded client programs and the associated internal allocation of personnel and resources. This could cause slower than anticipated revenue growth and/or higher than expected costs primarily related to hiring, training and retaining the required workforce, either of which could adversely affect our operating results.

Quarterly, we review our capacity utilization and projected demand for future capacity. In conjunction with these reviews, we may decide to consolidate or close under-performing delivery centers, including those impacted by the loss of a major client program, in order to maintain or improve targeted utilization and margins. In addition, because clients may request that we serve their customers from international delivery centers with lower prevailing labor rates, in the future we may decide to close one or more of our delivery centers, even though it is generating positive cash flow, because we believe the future profits from conducting such work outside the current delivery center may more than compensate for the one-time charges related to closing the facility.

Our profitability is influenced by our ability to increase capacity utilization in our delivery centers. We attempt to minimize the financial impact resulting from idle capacity when planning the development and opening of new delivery centers or the expansion of existing delivery centers. As such, management considers numerous factors that affect capacity utilization, including anticipated expirations, reductions, terminations, or expansions of existing programs and the potential size and timing of new client contracts that we expect to obtain. As a result, we expanded our capacity in 2008 by approximately 5,700 gross workstations in primarily offshore locations including the Philippines, South Africa and Latin America. Concurrent with these increases, we also reduced our capacity in 2008 by approximately 3,200 workstations in North America, Asia Pacific, Spain and Mexico as we continue to rationalize our capacity based on client demand.

To respond more rapidly to changing market demands, to implement new programs and to expand existing programs, we may be required to commit to additional capacity prior to the contracting of additional business, which may result in idle capacity. This is largely due to the significant time required to negotiate and execute a client contract as we concentrate our marketing efforts toward obtaining large, complex BPO programs.

We internally target capacity utilization in our delivery centers at 80% to 90% of our available workstations. As of December 31, 2008, the overall capacity utilization in our Multi-Client Centers

was 71% and is lower than the prior year due to softness of existing client volumes in light of the weakening economic environment. The table below presents workstation data for our multi-client centers as of December 31, 2008 and 2007. Dedicated and Managed Centers (9,048 and 10,055 workstations, at December 31, 2008 and 2007, respectively) are excluded from the workstation data as unused workstations in these facilities are not available for sale. Our utilization percentage is defined as the total number of utilized production workstations compared to the total number of available production workstations. We may change the designation of shared or dedicated centers based on the normal changes in our business environment and client needs.

	December 31, 2008			December 31, 2007		
	Total Production Workstations	In Use	% In Use	Total Production Workstations	In Use	% In Use
North American BPO						
Sites open < 1 year	2,401	1,043	43%	3,061	1,204	39%
Sites open > 1 year	15,682	12,515	80%	13,036	11,839	91%
Total North American BPO	18,083	13,558	75%	16,097	13,043	81%
International BPO						
Sites open < 1 year	2,795	1,233	44%	2,502	1,346	54%
Sites open > 1 year	10,010	7,239	72%	9,746	7,879	81%
Total International BPO	12,805	8,472	66%	12,248	9,225	75%
Total	30,888	22,030	71%	28,345	22,268	79%

Database Marketing and Consulting

On September 27, 2007, Newgen and TeleTech entered into an agreement to sell substantially all of the assets and certain liabilities associated with our Database Marketing and Consulting business. As a result of the transaction which was completed on September 28, 2007, Newgen received $3.2 million in cash and recorded a loss on disposal of $6.1 million. See Note 2 to the Consolidated Financial Statements for further discussion of this disposition.

The revenue from this business was generated utilizing a database and contact system to promote the sales and service business of automobile dealership customers using targeted marketing solutions through the phone, mail, email, and the Web. This business generated a loss from operations of approximately $0.6 million for the year ended December 31, 2008.

Concurrent with the sale, we entered into an agreement with the buyer of our Database Marketing and Consulting business to provide ongoing BPO services to that segment that were previously being performed by us. We reviewed the direct cash flows associated with this agreement and compared them to our estimates of the revenue associated with the Database Marketing and Consulting business. We concluded that these direct cash flows were significant. As a result, the operations included in the Database Marketing and Consulting business did not meet the criteria under Statement of Accounting Standards (SFAS) No. 144 A*ccounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144) and therefore was not classified as discontinued operations.

Prior to the sale and as a result of the business continued losses, during June 2007, we determined that it was more-likely-than-not that we would dispose of our Database Marketing and Consulting business. This triggered impairment testing on an interim basis for this segment under the guidance of SFAS No. 142 *Goodwill and Other Intangible Assets* (SFAS 142) as discussed in Note 7 to the Consolidated Financial Statements. As a result, the Database, Marketing and Consulting business recorded an impairment loss of $13.4 million during the second quarter of 2007 to reduce the carrying value of their goodwill to zero.

On December 22, 2008, as discussed in Note 3 to the Consolidated Financial Statements, Newgen Results Corporation, a wholly-owned subsidiary of the Company, filed a voluntary petition for liquidation under Chapter 7 in the United States Bankruptcy Court for the District of Delaware. Under Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, a consolidation of a majority-owned subsidiary is precluded where control does not rest with the majority owners. Accordingly, the Company deconsolidated Newgen Results Corporation as of December 22, 2008.

Overall

As shown in the Results of Operations section which follows later, we have improved income from operations for our North American and International BPO segments. The increases are attributable to a variety of factors such as expansion of work on certain client programs, transitioning work on certain client programs to lower cost operating centers, improving individual client program profit margins and/or eliminating underperforming programs and our multi phased cost reduction plan.

As we pursue acquisition opportunities, it is possible that the contemplated benefits of any future acquisitions may not materialize within the expected time periods or to the extent anticipated. Critical to the success of our acquisition strategy is the orderly, effective integration of acquired businesses into our organization. If this integration is unsuccessful, our business may be adversely impacted. There is also the risk that our valuation assumptions and models for an acquisition may be overly optimistic or incorrect.

Critical Accounting Policies and Estimates

Management s discussion and analysis of its financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with generally accepted accounting principles (GAAP). The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent assets and liabilities. We regularly review our estimates and assumptions. These estimates and assumptions, which are based upon historical experience and on various other factors believed to be reasonable under the circumstances, form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Reported amounts and disclosures may have been different had management used different estimates and assumptions or if different conditions had occurred in the periods presented. Below is a discussion of the policies that we believe may involve a high degree of judgment and complexity.

Revenue Recognition

For each client arrangement, we determine whether evidence of an arrangement exists, delivery of our service has occurred, the fee is fixed or determinable and collection is reasonably assured. If all criteria are met, we recognize revenue at the time services are performed. If any of these criteria are not met, revenue recognition is deferred until such time as all of the criteria are met.

Our BPO segments recognize revenue under three models:

Production Rate Revenue is recognized based on the billable time or transactions of each associate, as defined in the client contract. The rate per billable time or transaction is based on a pre-determined contractual rate. This contractual rate can fluctuate based on our performance against certain pre-determined criteria related to quality and performance.

Performance-based Under performance-based arrangements, we are paid by our clients based on the achievement of certain levels of sales or other client-determined criteria specified in the client contract. We recognize

performance-based revenue by measuring our actual results against the performance criteria specified in the contracts. Amounts collected from clients prior to the performance of services are recorded as deferred revenue, which is recorded in Other short-term liabilities or Other long-term liabilities in the accompanying Consolidated Balance Sheets.

Hybrid Hybrid models include production rate and performance-based elements. For these types of arrangements, we allocate revenue to the elements based on the relative fair value of each element. Revenue for each element is recognized based on the methods described above.

Certain client programs provide for adjustments to monthly billings based upon whether we meet or exceed certain performance criteria as set forth in the contract. Increases or decreases to monthly billings arising from such contract terms are reflected in revenue as earned or incurred.

Periodically we make certain expenditures related to acquiring contracts, or providing up front discounts for future services to existing customers (recorded as Contract Acquisition Costs in the accompanying Consolidated Balance Sheets). Those expenditures are capitalized and amortized in proportion to the expected future revenue from the contract, which in most cases results in straight-line amortization over the life of the contract. Amortization of these amounts are recorded as a reduction of revenue.

Income Taxes

We account for income taxes in accordance with SFAS No. 109 *Accounting for Income Taxes* (SFAS 109), which requires recognition of deferred tax assets and liabilities for the expected future income tax consequences of transactions that have been included in the Consolidated Financial Statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. When circumstances warrant, we assess the likelihood that our net deferred tax assets will more likely than not be recovered from future projected taxable income.

As required by SFAS 109, we continually review the likelihood that deferred tax assets will be realized in future tax periods under the more-likely-than-not criteria. In making this judgment, SFAS 109 requires that all available evidence, both positive and negative, should be considered to determine whether, based on the weight of that evidence, a valuation allowance is required.

The Financial Accounting Standards Board recently issued Interpretation No. 48 *Accounting for Uncertainty in Income Taxes* (FIN 48), an interpretation of SFAS 109. FIN 48 was effective for our 2007 year. FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS 109. The first step is to determine if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained on audit. The second step is to estimate and measure the tax benefit as the amount that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority. We evaluate these uncertain tax positions on a quarterly basis. This evaluation is based on the consideration of several factors including changes in facts or circumstances, changes in applicable tax law, and settlement of issues under audit. We recognize interest and penalties related to uncertain tax positions in Provision for Income Taxes in our Consolidated Statements of Operations and Comprehensive Income (Loss). See Note 1 and Note 11 to the Consolidated Financial Statements for a discussion of the impact FIN 48 has had on our Consolidated Financial Statements.

Allowance for Doubtful Accounts

We have established an allowance for doubtful accounts to reserve for uncollectible accounts receivable. Each quarter, management reviews the receivables on an account-by-account basis and assigns a probability of collection. Management s judgment is used in assessing the probability of collection. Factors considered in making this judgment include, among other things, the age of the identified receivable, client financial condition, previous client payment history and any recent communications with the client.

Impairment of Long-Lived Assets

The Company evaluates the carrying value of property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carry amount may not be recoverable in accordance with SFAS 144. An asset is considered to be impaired when the anticipated undiscounted future cash

flows of an asset group are estimated to be less than its carrying value. The amount of impairment recognized is the difference between the carrying value of the asset group and its fair value. Fair value estimates are based on assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates.

Goodwill

We assess the realizability of goodwill annually and whenever events or changes in circumstances indicate it may be impaired. Impairment occurs when the carrying amount of goodwill exceeds its estimated fair value. The impairment, if any, is measured based on the estimated fair value of the reporting unit. We aggregate segment components with similar economic characteristics in forming a reporting unit; aggregation can be based on types of customers, methods of distribution of services, shared operations, acquisition history, and management judgment and reporting.

We estimate fair value using discounted cash flows of the reporting units. The most significant assumptions used in these analyses are those made in estimating future cash flows. In estimating future cash flows, we use financial assumptions in our internal forecasting model such as projected capacity utilization, projected changes in the prices we charge for our services, projected labor costs, as well as contract negotiation status. The projected revenue average growth rates of our reporting units ranged from a revenue decline of (14%) to a revenue growth of 6% per annum over a three year period. The financial and credit market volatility directly impacts our fair value measurement through our weighted average cost of capital that we use to determine our discount rate. We use a discount rate we consider appropriate for the country where the business unit is providing services. Based on the analyses performed in the fourth quarter of 2008, there was no impairment to the December 31, 2008 goodwill balances of our reporting units. If actual results are less than the assumptions used in performing the impairment test, the fair value of the reporting units may be significantly lower, causing the carrying value to exceed the fair value and indicating an impairment has occurred. However, a decrease of 8-10% in the estimated fair value of any of our reporting units at December 31, 2008 would not have resulted in a goodwill impairment charge.

Restructuring Liability

We routinely assess the profitability and utilization of our delivery centers and existing markets. In some cases, we have chosen to close under-performing delivery centers and complete reductions in workforce to enhance future profitability. We follow SFAS No. 146 *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS 146), which specifies that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, rather than upon commitment to a plan.

A significant assumption used in determining the amount of the estimated liability for closing delivery centers is the estimated liability for future lease payments on vacant centers, which we determine based on our ability to successfully negotiate early termination agreements with landlords and/or our ability to sublease the facility. If our assumptions regarding early termination and the timing and amounts of sublease payments prove to be inaccurate, we may be required to record additional losses, or conversely, a reversal of previously reported losses.

Adoption of SFAS No. 123(R) and Equity-Based Compensation Expense

During the first quarter of 2006, we adopted SFAS No. 123(R) *Accounting for Share Based Payment* (SFAS 123(R)) applying the modified prospective method. SFAS 123(R) requires all equity-based payments to employees to be recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss) based on the grant date fair value of the award. Prior to the adoption of SFAS 123(R), we accounted for equity-based awards under the intrinsic value method, which followed recognition and measurement principles of APB 25 and related interpretations, and equity-based compensation was included as pro-forma disclosure within the notes to the financial statements. We did not modify the terms of any previously granted options in anticipation of the adoption of SFAS 123(R).

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In accordance with SFAS 123(R), we are required to estimate a forfeiture rate related to pre-vested equity awards based on historical forfeitures. Stock-based compensation expense is adjusted once an equity award cancels or vests, which could result in a difference from what was originally recorded. See Note 18 to the Consolidated Financial Statements for more discussion on equity-based accounting.

Fair Value Measurement

Effective January 1, 2008, the Company adopted SFAS No. 157 *Fair Value Measurements* (SFAS 157), which provides a framework for measuring fair value under GAAP. As defined in SFAS 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilizes market data or assumptions that the Company believes market participants would use in pricing the asset or liability, including assumptions about counter party credit risk, including the ability of each party to execute its obligation under the contract, and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable.

The Company primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best available information. Accordingly, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company is able to classify fair value balances based on the observability of those inputs.

SFAS 157 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy defined by SFAS 157 are as follows:

Level 1 Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives, listed equities and U.S. government treasury securities.

Level 2 Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category include non-exchange-traded derivatives such as over-the-counter forwards, options and repurchase agreements.

Level 3 Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management s best estimate of fair value from the perspective of a market participant. Level 3 instruments include those that may be more structured or otherwise tailored to customers needs. At each balance sheet date, the Company performs an analysis of all instruments subject to SFAS 157 and includes in Level 3 all of those whose fair value is based on significant unobservable inputs.

Derivatives

We account for financial derivative instruments in accordance with SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities, as amended* (SFAS 133). We enter into foreign exchange forward and option contracts to reduce our exposure to foreign currency exchange rate

fluctuations that are associated with forecasted revenue in non-functional currencies. Upon proper qualification, these contracts are accounted for as cash flow hedges, as defined by SFAS 133. We also entered into foreign exchange forward contracts to hedge our net investment in a foreign operation.

All derivative financial instruments are reported on the Consolidated Balance Sheets at fair value. Changes in fair value of derivative instruments designated as cash flow hedges are recorded in Accumulated Other Comprehensive Income (Loss), a component of Stockholders Equity, to the extent they are deemed effective. Based on the criteria established by SFAS 133, all of our cash flow hedge contracts are deemed to be highly effective. Changes in fair value of our net investment hedge is recorded in cumulative translation adjustment in Accumulated Other Comprehensive Income (Loss) on the Consolidated Balance Sheets offsetting the change in cumulative translation adjustment attributable to the hedged portion of our net investment in the foreign operation. Any realized gains or losses resulting from the cash flow hedges are recognized together with the hedged transaction within Revenue. Gains and losses from the settlements of our net investment hedge remain in Accumulated Other Comprehensive Income (Loss) until partial or complete liquidation of the applicable net investment.

We also enter into fair value derivative contracts that hedge against translation gains and losses. Changes in the fair value of derivative instruments designated as fair value hedges affect the carrying value of the asset or liability hedged, with changes in both the derivative instrument and the hedged asset or liability being recognized in earnings.

While we expect that our derivative instruments will continue to be highly effective and in compliance with applicable guidance under SFAS 133, as amended, if our hedges did not qualify as highly effective or if we determine that forecasted transactions will not occur, the changes in the fair value of the derivatives used as hedges would be reflected currently in earnings.

In addition to hedging activities, we also have embedded derivatives in certain foreign lease contracts. We bifurcate the embedded derivative feature from the host contract in accordance with SFAS 133, with any changes in fair value of the embedded derivatives recognized in Cost of Services.

Contingencies

We record a liability in accordance with SFAS No. 5 *Accounting for Contingencies* for pending litigation and claims where losses are both probable and reasonably estimable. Each quarter, management, reviews all litigation and claims on a case-by-case basis and assigns probability of loss and range of loss.

Explanation of Key Metrics and Other Items

Cost of Services

Cost of services principally includes costs incurred in connection with our BPO operations and database marketing services, including direct labor, telecommunications, printing, postage, sales and use tax and certain fixed costs associated with delivery centers. In addition, cost of services includes income related to grants we may receive from local or state governments as an incentive to locate delivery centers in their jurisdictions which reduce the cost of services for those facilities.

Selling, General and Administrative

Selling, general and administrative expenses primarily include costs associated with administrative services such as sales, marketing, product development, legal settlements, legal, information systems (including core technology and telephony infrastructure) and accounting and finance. It also includes equity-based compensation expense, outside

professional fees (i.e. legal and accounting services), building expense for non-delivery center facilities and other items associated with general business administration.

Restructuring Charges, Net

Restructuring charges, net primarily include costs incurred in conjunction with reductions in force or decisions to exit facilities, including termination benefits and lease liabilities, net of expected sublease rentals.

Interest Expense

Interest expense includes interest expense and amortization of debt issuance costs associated with our debts and capitalized lease obligations.

Other Income

The main components of other income are miscellaneous receipts not directly related to our operating activities, such as foreign exchange transaction gains and income from the sale of a software and intellectual property license agreement.

Other Expenses

The main components of other expenses are expenditures not directly related to our operating activities, such as foreign exchange transaction losses and corporate legal settlements.

Presentation of Non-GAAP Measurements

Free Cash Flow

Free cash flow is a non-GAAP liquidity measurement. We believe that free cash flow is useful to our investors because it measures, during a given period, the amount of cash generated that is available for debt obligations and investments other than purchases of property, plant and equipment. Free cash flow is not a measure determined by GAAP and should not be considered a substitute for income from operations, net income, net cash provided by operating activities, or any other measure determined in accordance with GAAP. We believe this non-GAAP liquidity measure is useful, in addition to the most directly comparable GAAP measure of net cash provided by operating activities, because free cash flow includes investments in operational assets. Free cash flow does not represent residual cash available for discretionary expenditures, since it includes cash required for debt service. Free cash flow also excludes cash that may be necessary for acquisitions, investments and other needs that may arise.

The following table reconciles free cash flow to net cash provided by operating activities for our consolidated results (amounts in thousands):

	Year Ended December 31,		
	2008	**2007**	**2006**
Free cash flow	$ 98,854	$ 42,431	$ 33,058
Purchases of property, plant and equipment	61,712(1)	61,083	66,016
Net cash provided by operating activities	$ 160,566	$ 103,514	$ 99,074

(1) Purchases of property, plant and equipment in 2008 are net of proceeds from a government grant of $4,276.

We discuss factors affecting free cash flow between periods in the Liquidity and Capital Resources section below.

Non-GAAP Income from Operations

We discuss our income from operations for the years ended December 31, 2008 and 2007 excluding asset impairment and restructuring charges, and costs associated with our equity-based compensation review and financial restatement, which is a non-GAAP financial measure. We believe this measure provides meaningful supplemental information by indentifying matters that are not indicative of core business operating results or are of a substantially non-recurring nature. A reconciliation of this non-

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GAAP financial measure to the most directly comparable GAAP financial measure is included with the presentation of the non-GAAP financial measure.

Non-GAAP Effective Tax Rate

The effective tax rate for the years ended December 31, 2008, 2007 and 2006 is discussed using non-GAAP financial measures that exclude the effects of amounts associated with restructuring and asset impairments charges, the release of valuation allowances and reduction in our FIN 48 tax liability, gains/losses from the dispositions of assets, and changes due to certain tax planning and corporate restructuring activities. Management believes that it is helpful to exclude these effects to better understand and analyze the periods effective tax rate given the discrete nature of these items. A reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measure is included with the presentation of the non-GAAP financial measures.

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RESULTS OF OPERATIONS

Year Ended December 31, 2008 Compared to December 31, 2007

The following tables are presented to facilitate Management s Discussion and Analysis. The following table presents results of operations by segment for the years ended December 31, 2008 and 2007 (dollar amounts in thousands):

	Year Ended December 31,					
	2008	% of Segment Revenue	2007	% of Segment Revenue	$ Change	% Change
Revenue						
North American BPO	$ 974,815	69.6%	$ 955,810	69.8%	$ 19,005	2.0%
International BPO	425,332	30.4%	396,080	28.9%	29,252	7.4%
Database Marketing and Consulting		0.0%	17,742	1.3%	(17,742)	(100.0)%
	$ 1,400,147	100.0%	$ 1,369,632	100.0%	$ 30,515	2.2%
Cost of services						
North American BPO	$ 708,290	72.7%	$ 689,793	72.2%	$ 18,497	2.7%
International BPO	315,989	74.3%	299,927	75.7%	16,062	5.4%
Database Marketing and Consulting	172	0.0%	11,739	66.2%	(11,567)	(98.5)%
	$ 1,024,451	73.2%	$ 1,001,459	73.1%	$ 22,992	2.3%
Selling, general and administrative						
North American BPO	$ 125,034	12.8%	$ 126,517	13.2%	$ (1,483)	(1.2)%
International BPO	74,044	17.4%	66,700	16.8%	7,344	11.0%
Database Marketing and Consulting	417	0.0%	14,311	80.7%	(13,894)	(97.1)%
	$ 199,495	14.2%	$ 207,528	15.2%	$ (8,033)	(3.9)%
Depreciation and amortization						
North American BPO	$ 36,521	3.7%	$ 31,964	3.3%	$ 4,557	14.3%
International BPO	22,631	5.3%	20,076	5.1%	2,555	12.7%
Database Marketing and Consulting	14	0.0%	3,913	22.1%	(3,899)	(99.6)%
	$ 59,166	4.2%	$ 55,953	4.1%	$ 3,213	5.7%
Restructuring charges, net						
North American BPO	$ 2,880	0.3%	$ 1,280	0.1%	$ 1,600	125.0%
International BPO	3,226	0.8%	1,050	0.3%	2,176	207.2%
	(47)	0.0%	4,785	27.0%	(4,832)	(101.0)%

Database Marketing and Consulting								
	$	6,059	0.4%	$	7,115	0.5%	$	(1,056)	(14.8)%
Impairment losses									
North American BPO	$	1,854	0.2%	$	154	0.0%	$	1,700	1103.9%
International BPO		164	0.0%			0.0%		164	100.0%
Database Marketing and Consulting			0.0%		15,635	88.1%		(15,635)	(100.0)%
	$	2,018	0.1%	$	15,789	1.2%	$	(13,771)	(87.2)%
Income (loss) from operations									
North American BPO	$	100,236	10.3%	$	106,102	11.1%	$	(5,866)	(5.5)%
International BPO		9,278	2.2%		8,327	2.1%		951	11.4%
Database Marketing and Consulting		(556)	0.0%		(32,641)	(184.0)%		32,085	98.3%
	$	108,958	7.8%	$	81,788	6.0%	$	27,170	33.2%
Other income (expense)	$	(4,354)	(0.3)%	$	(6,437)	(0.5)%	$	2,083	32.4%
Provision for income taxes	$	(27,269)	(1.9)%	$	(19,562)	(1.4)%	$	(7,707)	(39.4)%

Revenue

Our strategy of continuing to increase our offshore revenue delivery resulted in an increase in our percentage of offshore revenue. Our offshore delivery capacity now represents 65% of our global delivery capabilities. Revenue in these offshore locations grew 14% in 2008 from the prior year to $628 million from $549 million, and represented 45% of our total revenue. An important component of our growth strategy is continued international expansion. Factors that may impact our ability to maintain our offshore

operating margins are potential increases in competition for the available workforce, the trend of higher occupancy costs and foreign currency fluctuations.

Revenue for North American BPO for 2008 compared to 2007 was $974.8 million and $955.8 million, respectively. The increase in revenue for the North American BPO was due to net expansion of client programs of $58.4 million offset by certain program terminations of $39.4 million.

Revenue for International BPO for 2008 compared to 2007 was $425.3 million and $396.1 million, respectively. The increase in revenue for the International BPO was due to the net expansion of client programs of $36.9 million, positive changes in foreign exchange rates causing an increase in revenue of $7.3 million, offset by certain program terminations of $15.0 million.

Revenue for Database Marketing and Consulting for 2008 compared to 2007 was $0.0 million and $17.7 million, respectively. Substantially all of the assets and liabilities associated with this business were sold in September 2007 and therefore, no revenue was generated in 2008.

Cost of Services

Cost of services for North American BPO for 2008 compared to 2007 was $708.3 million and $689.8 million, respectively. Cost of services as a percentage of revenue in the North American BPO increased slightly compared to the prior year. In absolute dollars the increase is due to an increase of $20.0 million in employee related expenses due to implementation of new and expanded client programs and a net decrease of $1.5 million in other expenses.

Cost of services for International BPO for 2008 compared to 2007 was $316.0 million and $299.9 million, respectively. Cost of services as a percentage of revenue in the International BPO decreased compared to the prior year due to expanded off-shoring of certain international clients. In absolute dollars the increase is due to an increase of $7.7 million in employee related expenses due to implementation of new clients and the growth of existing clients, with approximately $4.2 million of that increase due to changes in foreign exchange rates, a $4.6 million increase in rent and telecommunications, and $3.8 million in net increases in other expenses.

Cost of services for Database Marketing and Consulting for 2008 compared to 2007 was $0.2 million and $11.7 million, respectively. The decrease from the prior year was due to the sale of substantially all of the assets and liabilities associated with this business in September 2007.

Selling, General and Administrative

Selling, general and administrative expenses for North American BPO for 2008 compared to 2007 were $125.0 million and $126.5 million, respectively. The expenses decreased in absolute dollars and as a percentage of revenue as a result of decreased employee related expenses of $5.9 million offset by an increase of $1.9 million of professional fees and payroll taxes associated with the equity-based compensation review and restatement of our historic financial statements and related lawsuits, and a net increase in other expenses of $2.5 million.

Selling, general and administrative expenses for International BPO for 2008 compared to 2007 were $74.0 million and $66.7 million, respectively. The expenses increased in absolute dollars and as a percentage of revenue as a result of an increase to employee related expenses of $3.0 million, an increase of $1.3 million of professional fees and payroll taxes associated with the equity-based compensation review and restatement of our historical financial statements and related lawsuits, and a net increase of $3.0 million in other expenses.

Selling, general and administrative expenses for Database Marketing and Consulting for 2008 compared to 2007 were $0.4 million and $14.3 million, respectively. The decrease was due to the sale of substantially all of the assets and liabilities associated with this business in September 2007.

Depreciation and Amortization

Depreciation and amortization expense on a consolidated basis for 2008 and 2007 was $59.2 million and $56.0 million, respectively. Depreciation and amortization expense in both the North American BPO and International BPO as a percentage of revenue increased slightly compared to the prior year. The North American BPO included an increase in the Philippines of $5.0 million due to investment in new capacity. The International BPO included an increase for Latin America of $1.9 million and an increase for Africa of $0.6 million both due to new capacity. The Database Marketing and Consulting depreciation expense decreased by $3.9 million due to the sale of substantially all of the assets and liabilities associated with this business in September 2007.

Restructuring Charges

During 2008, we recorded $6.1 million of restructuring charges compared to $7.1 million in 2007. During 2008, we undertook several restructuring activities including the closure of four North American BPO delivery centers and reductions in workforce in our International BPO segment to better align our workforce with current business needs.

Impairment Losses

During 2008, we recorded $2.0 million of impairment charges compared to $15.8 million in 2007. In 2008, these impairment charges related primarily to the closure of two North American BPO delivery centers. In 2007, this charge related primarily to the impairment of fixed assets and goodwill in our Database Marketing and Consulting business.

Other Income (Expense)

For 2008, total other income (expense) decreased by $2.1 million primarily due to an increase of interest income of $2.5 million due to higher cash and cash equivalent balances, primarily in international locations earning higher average interest rates.

Income Taxes

The effective tax rate for 2008 was 26.1%. This compares to an effective tax rate of 26.0% in 2007. The 2008 effective tax rate is positively influenced by earnings in international jurisdictions currently under an income tax holiday and the distribution of income between the U.S. and international tax jurisdictions. The effective tax rate for 2008 was lower than expected due to the release of $3.9 million of valuation allowance in the United Kingdom, the Netherlands and the United States and a net reduction of $0.1 million FIN 48 tax liability. Without these items, our effective tax rate in 2008 would have been 29.9%. The effective tax rate for 2007 of 26.0% was lower than expected due to the second quarter impairment and third quarter restructuring and loss on the sale of subsidiary recorded for our Database Marketing and Consulting business as discussed in Note 11 to the Consolidated Financial Statements. These charges were all recorded in the U.S. tax jurisdiction and reduced income before taxes recorded in the U.S. and thereby increased the proportion of income before taxes earned in international tax jurisdictions. Finally, we realized a $2.4 million benefit related to a permanent difference in calculating the gain from disposition of our India joint venture in the fourth quarter of 2007 as discussed in Note 2 to the Consolidated Financial Statements and a $1.4 million benefit related to certain tax planning and corporate restructuring activities and the reversal of $0.9 million in deferred tax valuation allowance recorded against tax assets in prior years. Without these items, our effective tax rate in 2007 would have been 32.2%. Our effective tax rate could be adversely affected by several factors, many of which are outside of our control. Further, income taxes are subject to changing tax laws, regulations and interpretations in multiple jurisdictions, in which we operate, as well as the requirements, pronouncements and rulings of certain tax, regulatory and accounting organizations. In future years, our effective tax rate is expected to return to approximately 30% to 33%, principally because we expect our distribution of pre-tax income between the

U.S. and our international tax jurisdictions to return to more typical levels seen in recent years.

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Year Ended December 31, 2007 Compared to December 31, 2006

The following table presents results of operations by segment for the years ended December 31, 2007 and 2006 (amounts in thousands):

	Year Ended December 31,					
	2007	% of Segment Revenue	2006	% of Segment Revenue	$ Change	% Change
Revenue						
North American BPO	$ 955,810	69.8%	$ 814,419	67.3%	$ 141,391	17.4%
International BPO	396,080	28.9%	356,106	29.4%	39,974	11.2%
Database Marketing and Consulting	17,742	1.3%	40,228	3.3%	(22,486)	(55.9)%
	$ 1,369,632	100.0%	$ 1,210,753	100.0%	$ 158,879	13.1%
Cost of services						
North American BPO	$ 689,793	72.2%	$ 587,984	72.2%	$ 101,809	17.3%
International BPO	299,927	75.7%	271,986	76.4%	27,941	10.3%
Database Marketing and Consulting	11,739	66.2%	22,839	56.8%	(11,100)	(48.6)%
	$ 1,001,459	73.1%	$ 882,809	72.9%	$ 118,650	13.4%
Selling, general and administrative						
North American BPO	$ 126,517	13.2%	$ 112,688	13.8%	$ 13,829	12.3%
International BPO	66,700	16.8%	62,434	17.5%	4,266	6.8%
Database Marketing and Consulting	14,311	80.7%	24,873	61.8%	(10,562)	(42.5)%
	$ 207,528	15.2%	$ 199,995	16.5%	$ 7,533	3.8%
Depreciation and amortization						
North American BPO	$ 31,964	3.3%	$ 27,918	3.4%	$ 4,046	14.5%
International BPO	20,076	5.1%	16,569	4.7%	3,507	21.2%
Database Marketing and Consulting	3,913	22.1%	7,502	18.6%	(3,589)	(47.8)%
	$ 55,953	4.1%	$ 51,989	4.3%	$ 3,964	7.6%
Restructuring charges, net						
North American BPO	$ 1,280	0.1%	$ 103	0.0%	$ 1,177	1142.7%
International BPO	1,050	0.3%	1,420	0.4%	(370)	(26.1)%
Database Marketing and Consulting	4,785	27.0%	107	0.3%	4,678	4372.0%

	$	7,115	0.5%	$	1,630	0.1%	$	5,485	336.5%
Impairment losses									
North American BPO	$	154	0.0%	$	87	0.0%	$	67	77.0%
International BPO			0.0%		478	0.1%		(478)	(100.0)%
Database Marketing and Consulting		15,635	88.1%			0.0%		15,635	100.0%
	$	15,789	1.2%	$	565	0.0%	$	15,224	2694.5%
Income (loss) from operations									
North American BPO	$	106,102	11.1%	$	85,639	10.5%	$	20,463	23.9%
International BPO		8,327	2.1%		3,219	0.9%		5,108	158.7%
Database Marketing and Consulting		(32,641)	(184.0)%		(15,093)	(37.5)%		(17,548)	(116.3)%
	$	81,788	6.0%	$	73,765	6.1%	$	8,023	10.9%
Other income (expense)	$	(6,437)	(0.5)%	$	(4,442)	(0.4)%	$	(1,995)	(44.9)%
Provision for income taxes	$	(19,562)	(1.4)%	$	(16,474)	(1.4)%	$	(3,088)	(18.7)%

Revenue

Revenue for the North American BPO for 2007 compared to 2006 was $955.8 million and $814.4 million, respectively. The increase in revenue for the North American BPO was due to net expansion of client programs of $153.2 million, the inclusion of a full-year of revenue from Direct Alliance Corporation (DAC) of $27.7 million offset by certain program terminations of $39.5 million. DAC was purchased effective June 30, 2006 thus the increase relates to 2006 including six months of revenue and 2007 including twelve months of revenue.

Revenue for the International BPO for 2007 compared to 2006 was $396.1 million and $356.1 million, respectively. The increase in revenue for the International BPO was due to net expansion of client programs of $38.5 million, positive changes in foreign exchange rates causing an increase in revenue of $32.3 million, and certain program terminations of $30.9 million.

Revenue for Database Marketing and Consulting for 2007 compared to 2006 was $17.7 million and $40.2 million, respectively. The decrease is due primarily to a net decline in clients and the disposition of the business in September 2007.

Cost of Services

Cost of services for the North American BPO for 2007 compared to 2006 was $689.8 million and $588.0 million, respectively. Cost of services as a percentage of revenue in the North American BPO remained consistent as compared to the prior year. In absolute dollars, the increase is due to an increase of $77.5 million in employee related expenses due to implementation of new and expanded client programs, an increase of $17.3 million due to the inclusion of a full-year of DAC, an increase of $5.0 million for rent and telecommunications and $2.0 million in net increases in other expenses.

Cost of services for the International BPO for 2007 compared to 2006 was $299.9 million and $272.0 million, respectively. Cost of services as a percentage of revenue in the International BPO decreased due to rapid expansion of our offshore capacity in lower cost locations. In absolute dollars, the increase is due to an increase of $19.0 million in employee related expenses due to implementation of new and the growth of existing clients, with approximately $22.2 million of that increase due to changes in foreign exchange rates, an increase of $3.2 million for rent and telecommunications, and $5.7 million in net increases in other expenses.

Cost of services for Database Marketing and Consulting for 2007 compared to 2006 was $11.7 million and $22.8 million, respectively. The decrease from the prior year was primarily due to cost reductions and the disposition of the business in September 2007.

Selling, General and Administrative

Selling, general and administrative expenses for the North American BPO for 2007 compared to 2006 were $126.5 million and $112.7 million, respectively. The expenses increased in absolute dollars as a result of $8.2 million of professional fees and payroll taxes associated with the equity-based compensation review and restatement of our historical financial statements, $9.0 million due to the inclusion of a full-year of DAC, offset by net decreases in other expenses.

Selling, general and administrative expenses for the International BPO for 2007 compared to 2006 were $66.7 million and $62.4 million, respectively. These expenses for the International BPO increased in absolute dollars as a result of higher business volumes and $3.2 million of professional fees and payroll taxes associated with the equity-based compensation review and restatement of our historical financial statements and decreased as a percentage of revenue due to headcount reductions in our operations in Europe and Asia Pacific and greater economies of scale.

Selling, general and administrative expenses for Database Marketing and Consulting for 2007 compared to 2006 were $14.3 million and $24.9 million, respectively. The decrease was primarily due to cost reductions, the lower allocation of corporate-level operating expenses and the disposition of the business in September 2007.

Depreciation and Amortization

Depreciation and amortization expense on a consolidated basis for 2007 compared to 2006 was $56.0 million and $52.0 million, respectively. Depreciation and amortization expense in the North American BPO remained relatively consistent as a percentage of revenue with the prior year and increased in the International BPO segment due to expansion of capacity in certain offshore markets. The North American BPO included an increase in the Philippines of $4.7 million due to investment in new capacity. The International BPO included an increase for Latin America of $3.4 million due to new

capacity. The Database Marketing and Consulting depreciation expense decreased by $3.6 million due to assets, primarily software development costs, reaching the end of their depreciable lives and the disposition of the business in September 2007.

Restructuring Charges, Net

During 2007, we recognized restructuring charges of $7.1 million related to both a reduction in force across all three segments and a $4.0 million charge for certain facility exit costs in our Database Marketing and Consulting business.

Impairment Losses

During 2007, we recognized impairment losses of $15.8 million primarily related to the following items:
(i) $15.6 million related to our Database Marketing and Consulting business comprised of $13.4 million related to the impairment of the business goodwill in June 2007 and $2.2 million related to leasehold improvement impairments; and (ii) $0.2 million related to the reduction of the net book value of long-lived assets in the North American BPO to their estimated fair values.

Other Income (Expense)

For 2007, interest income and expense were relatively unchanged from 2006. Other, net decreased by $2.1 million in 2007, compared to 2006. Other, net in 2007 included a $7.0 million gain on the sale of our India joint venture, a $2.2 million gain from the sale of a software license to the purchaser of our Database Marketing and Consulting business, a loss on the sale of the Database Marketing and Consulting business of $6.1 million and foreign currency transaction losses of $4.1 million.

Income Taxes

The effective tax rate for 2007 was 26.0%. This compares to an effective tax rate of 23.8% in 2006. The 2007 effective tax rate is positively influenced by earnings in international jurisdictions currently under an income tax holiday and the distribution of income between the U.S. and international tax jurisdictions. The effective tax rate for 2007 is lower than expected due to the second quarter impairment and third quarter restructuring and loss on the sale of subsidiary recorded for our Database Marketing and Consulting business as discussed in Note 11 to the Consolidated Financial Statements. These charges were all recorded in the U.S. tax jurisdiction and reduced income before taxes recorded in the U.S. and thereby increased the proportion of income before taxes earned in international tax jurisdictions. Finally, we realized a $2.4 million benefit related to a permanent difference in calculating the gain from disposition of our India joint venture in the fourth quarter as discussed in Note 2 to the Consolidated Financial Statements and a $1.4 million benefit related to certain tax planning and corporate restructuring activities and the reversal of $0.9 million in deferred tax valuation allowance recorded against tax assets in prior years. Without these items, our effective tax rate in 2007 would have been 32.2%. In 2006 the effective tax rate of 23.8% includes the benefit from the reversal of a $4.0 million deferred tax valuation allowance recorded against tax assets recorded in prior years. In addition, we recorded new deferred tax assets of $3.3 million due to a corporate restructuring. Without these items, our effective tax rate in 2006 would have been 34.3%. Our effective tax rate could be adversely affected by several factors, many of which are outside of our control. Further, income taxes are subject to changing tax laws, regulations and interpretations in multiple jurisdictions, in which we operate, as well as the requirements, pronouncements and rulings of certain tax, regulatory and accounting organizations. In future years, our effective tax rate is expected to return to approximately 30% to 33%, principally because we expect our distribution of pre-tax income between the U.S. and our international tax jurisdictions to return to more typical levels seen in recent years.

Liquidity and Capital Resources

Our principal sources of liquidity are our cash generated from operations, our cash and cash equivalents, and borrowings under our Amended and Restated Credit Agreement, dated September 28, 2006 (the Credit Facility). During the year ended December 31, 2008, we generated positive operating cash flows of $160.6 million. We believe that our cash generated from operations, existing cash and cash

equivalents, and available credit will be sufficient to meet expected operating and capital expenditure requirements for the next 12 months.

We manage a centralized global treasury function in the United States with a particular focus on concentrating and safeguarding our global cash and cash equivalent reserves. While we generally prefer to hold U.S. Dollars, we maintain adequate cash in the functional currency of our foreign subsidiaries to support local operating costs. While there are no assurances, we believe our global cash is protected given our cash management practices, banking partners, and low-risk investments.

We primarily utilize our Credit Facility to fund working capital, stock repurchases, and other strategic and general operating purposes. In September 2008, we exercised the upsizing feature under the Credit Facility to increase our borrowing capacity by an additional $45.0 million, which increased the total commitments to $225.0 million. As of December 31, 2008 and December 31, 2007, we had $80.8 million and $65.4 million in outstanding borrowings under our Credit Facility, respectively. After consideration for issued letters of credit under the Credit Facility, totaling $6.3 million, our remaining borrowing capacity was $137.9 million as of December 31, 2008.

We continue to closely monitor the credit crisis and evaluate how recent events are impacting the liquidity and capitalization of our investment-grade rated syndication of banks. We do not foresee an issue that would limit our access to borrowings under the Credit Facility.

The amount of capital required over the next 12 months will also depend on our levels of investment in infrastructure necessary to maintain, upgrade or replace existing assets. Our working capital and capital expenditure requirements could also increase materially in the event of acquisitions or joint ventures, among other factors. These factors could require that we raise additional capital through future debt or equity financing. There can be no assurance that additional financing will be available, at all, or on terms favorable to us.

The following discussion highlights our cash flow activities during the years ended December 31, 2008, 2007 and 2006.

Cash and Cash Equivalents

We consider all liquid investments purchased within 90 days of their original maturity to be cash equivalents. Our cash and cash equivalents totaled $87.9 million and $91.2 million as of December 31, 2008 and 2007, respectively.

Cash Flows from Operating Activities

We reinvest our cash flows from operating activities in our business or in the purchase of our outstanding stock. For the years 2008, 2007 and 2006, we reported net cash flows provided by operating activities of $160.6 million, $103.5 million and $99.1 million, respectively. The increase from 2007 to 2008 is primarily due to an increase in net income of $20.6 million, greater collections of accounts receivable of $50.3 million offset by decreases in impairment losses of $13.8 million. The increase from 2006 to 2007 is primarily due to increases in impairment losses of $15.2 million, an increase in prepaids of $12.7 million, offset by a decrease in collection of accounts receivable and higher revenue of $19.7 million

Cash Flows from Investing Activities

We reinvest cash in our business primarily to grow our client base and to expand our infrastructure. For the years 2008, 2007 and 2006, we reported net cash flows used in investing activities of $62.1 million, $49.1 million and $113.8 million, respectively. The increase from 2007 to 2008 was primarily due to the disposition of two of our

entities. The decrease from 2006 to 2007 resulted from not having the DAC acquisition which was a one-time event in 2006 and from a decrease in capital expenditures.

Cash Flows from Financing Activities

For the years 2008, 2007 and 2006, we reported net cash flows provided by (used in) financing activities of $(75.6) million, $(30.1) million and $38.4 million, respectively. The change from 2007 to 2008 is due to

increased purchases of our outstanding stock of $42.6 million, increased net borrowings on the line of credit of $15.0 million offset by a decrease in proceeds from stock option exercises of $13.0 million. The change from 2006 to 2007 is due primarily to a decrease in net borrowings on the line of credit of $37.9 million due to higher cash balances and increased purchases of our outstanding stock of $30.4 million.

Free Cash Flow

Free cash flow (see Presentation of Non-GAAP Measurements for definition of free cash flow) was $98.9 million, $42.4 million and $33.1 million for the years 2008, 2007 and 2006, respectively. The increase from 2007 to 2008 resulted primarily from an increase in net income and positive changes in working capital. The increase from 2006 to 2007 resulted primarily from higher cash flows from operations and lower purchases of property, plant and equipment.

Obligations and Future Capital Requirements

Future maturities of our outstanding debt and contractual obligations as of December 31, 2008 are summarized as follows (amounts in thousands):

	Less than 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Credit Facility[1]	$ 2,065	$ 84,415	$	$	$ 86,480
Capital lease obligations	2,058	3,771	576		6,405
Purchase obligations	19,106	26,254	11,966		57,326
Operating lease commitments	30,645	50,243	28,813	21,056	130,757
Total	$ 53,874	$ 164,683	$ 41,355	$ 21,056	$ 280,968

(1) Includes estimated interest payments based on the weighted average interest rate and debt outstanding as of December 31, 2008.

Contractual obligations to be paid in a foreign currency are translated at the period end exchange rate.

Purchase obligations primarily consist of outstanding purchase orders for goods or services not yet received, which are not recognized as liabilities in our Consolidated Balance Sheets until such goods and/or services are received.

The contractual obligation table excludes our FIN 48 liabilities of $1.6 million because we cannot reliably estimate the timing of cash payments. See Note 11 to the Consolidated Financial Statements for further discussion.

Purchase Obligations

Occasionally we contract with certain of our communications clients (which currently represent approximately 17% of our annual revenue) to provide us with telecommunication services. We believe these contracts are negotiated on an arm s-length basis and may be negotiated at different times and with different legal entities.

Future Capital Requirements

We expect total capital expenditures in 2009 to be approximately $45 $55 million. Approximately 75% of the expected capital expenditures in 2009 are related to the opening and/or expansion of delivery centers and 25% relates to the maintenance capital required for existing assets and internal technology projects. The anticipated level of 2009 capital expenditures is primarily dependent upon new client contracts and the corresponding requirements for additional delivery center capacity as well as enhancements to our technological infrastructure.

We also expect to continue to incur outside legal, accounting and consulting expenses in conjunction with the shareholder class action and derivative action lawsuits filed against us and certain current directors

and officers as a result of our review of historical equity-based accounting practices. Although we cannot predict the amount of such expenses in 2009, we incurred $14.6 million and $11.5 million of expenses in 2008 and 2007, respectively, for accounting, legal, tax, other professional services and additional compensation in connection with the Audit Committee s review as well as restatement of our Consolidated Financial Statements.

We may consider restructurings, dispositions, mergers, acquisitions and other similar transactions. Such transactions could include the transfer, sale or acquisition of significant assets, businesses or interests, including joint ventures or the incurrence, assumption, or refinancing of indebtedness and could be material to the consolidated financial condition and consolidated results of our operations.

The launch of large client contracts may result in short-term negative working capital because of the time period between incurring the costs for training and launching the program and the beginning of the accounts receivable collection process. As a result, periodically we may generate negative cash flows from operating activities.

Debt Instruments and Related Covenants

Our Credit Facility, dated September 28, 2006, permits us to borrow up to a maximum of $225 million. The Credit Facility expires on September 27, 2011 and allows us to request a one-year extension beyond the maturity date subject to unanimous approval by the lenders. The Credit Facility is secured by the majority of our domestic accounts receivable and a pledge of 65% of the capital stock of specified material foreign subsidiaries. Our domestic subsidiaries are guarantors under the Credit Facility.

The Credit Facility, which includes customary financial covenants, may be used for general corporate purposes, including working capital, purchases of treasury stock and acquisition financing. As of December 31, 2008, we were in compliance with all financial covenants. The Credit Facility accrues interest at a rate based on either (1) Prime Rate, defined as the higher of the lender s prime rate or the Federal Funds Rate plus 0.50%, or (2) LIBOR plus an applicable credit spread, at our option. The interest rate will vary based on our leverage ratio as defined in the Credit Facility. As of December 31, 2008, interest accrued at the weighted-average rate of approximately 2.3% In addition, we pay commitment fees on the unused portion of the Credit Facility at a rate of 0.125% per annum. As of December 31, 2008 and 2007, we had outstanding borrowings under the Credit Facility of $80.8 million and $65.4 million, respectively. Our borrowing capacity is reduced by $6.3 million as a result of the letters of credit issued under the Credit Facility. The unused commitment under the Credit Facility was $137.9 million as of December 31, 2008.

Client Concentration

Our five largest clients accounted for 39%, 40% and 42% of our annual revenue for the years ended December 31, 2008, 2007 and 2006, respectively. In addition, these five clients accounted for an even greater proportional share of our consolidated earnings. The profitability of services provided to these clients varies greatly based upon the specific contract terms with any particular client. In addition, clients may adjust business volumes served by us based on their business requirements. The relative contribution of any single client to consolidated earnings is not always proportional to the relative revenue contribution on a consolidated basis. We believe the risk of this concentration is mitigated, in part, by the long-term contracts we have with our largest clients. Although certain client contracts may be terminated for convenience by either party, this risk is mitigated, in part, by the service level disruptions that would arise for our clients.

The contracts with our five largest clients expire between 2009 and 2011. A particular client may have multiple contracts with different expiration dates. We have historically renewed most of our contracts with our largest clients. However, there is no assurance that future contracts will be renewed or, if renewed, will be on terms as favorable as

the existing contracts.

Recently Issued Accounting Pronouncements

We discuss the potential impact of recent accounting pronouncements in Notes 1 and 11 to the Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our consolidated financial position, consolidated results of operations, or consolidated cash flows due to adverse changes in financial and commodity market prices and rates. Market risk also includes credit and non-performance risk by counterparties to our various financial instruments, our banking partners. We are exposed to market risk due to changes in interest rates, and foreign currency exchange rates as measured against the U.S. dollar; as well as changes in the financial stability of our various counterparty banks. These exposures are directly related to our normal operating and funding activities. As discussed below, we enter into derivative instruments to manage and reduce the impact of currency exchange rate changes, primarily between the U.S. dollar/Canadian dollar, the U.S. dollar/Philippine peso, the U.S. dollar/Mexican peso, the U.S. dollar/Argentine peso, the U.S. dollar/S. African rand, and the U.S dollar/Brazilian real. In order to mitigate against credit and non-performance risk, it is our policy to only enter into derivative contracts and other financial instruments with investment grade counterparty financial institutions and, correspondingly, our derivative valuations reflect the creditworthiness of our counterparties. As of the date of this report, we have not experienced, nor do we anticipate, any issues related to derivative counterparty defaults.

Interest Rate Risk

The interest rate on our Credit Facility is variable based upon the Prime Rate and the London Interbank Offered Rate (LIBOR) and, therefore, is affected by changes in market interest rates. As of December 31, 2008, there was an $80.8 million outstanding balance under the Credit Facility with a weighted average interest rate of 2.3%. If the Prime Rate or LIBOR increased 100 basis points, there would not be a material impact to our consolidated financial position or results of operations.

Foreign Currency Risk

In addition to the U.S., we have operations in Argentina, Australia, Brazil, Canada, China, Costa Rica, England, Germany, Malaysia, Mexico, New Zealand, Northern Ireland, the Philippines, Scotland, South Africa, and Spain. For the years ended December 31, 2008, 2007 and 2006, revenue associated with operations in non-U.S. countries represented 71%, 68%, and 64% of our consolidated revenue, respectively.

The expenses from these foreign operations, are denominated in local currency, thereby creating exposure to changes in exchange rates between local currencies and contractual currencies primarily the U.S. dollar. As a result, we may experience foreign currency gains or losses, which may positively or negatively affect our results of operations attributed to these subsidiaries. The majority of this exposure is related to work performed from delivery centers located in Canada, the Philippines, Argentina, and Mexico.

In order to mitigate the risk of these foreign currencies from strengthening against the functional currency of the contracting subsidiary, which thereby decreases the economic benefit of performing work in these countries, we may hedge a portion, though not 100%, of the foreign currency exposure related to client programs served from these foreign countries. While our hedging strategy can protect us from adverse changes in foreign currency rates in the short term, an overall strengthening of the foreign currencies would adversely impact margins in the segments of the contracting subsidiary over the long-term.

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The following summarizes relative (weakening) strengthening of the local currency against the U.S. Dollar during the years presented:

	Year Ended December 31,		
	2008	2007	2006
Canadian Dollar vs. U.S. Dollar	(23.9)%	15.2%	0.1%
Philippine Peso vs. U.S. Dollar	(15.1)%	15.9%	7.5%
Argentine Peso vs. U.S. Dollar	(11.5)%	(2.7)%	(1.4)%
Mexican Peso vs. U.S. Dollar	(26.7)%	(1.1)%	(1.6)%
S. African Rand vs. U.S. Dollar	(36.1)%	2.7%	N/A

Cash Flow Hedging Program

Our subsidiaries in Argentina, Canada, Costa Rica, the United Kingdom, Mexico, the Philippines and South Africa use the local currency as their functional currency for paying labor and other operating costs. Conversely, revenue for these foreign subsidiaries is derived principally from client contracts that are invoiced and collected in U.S. dollars and other foreign currencies. To hedge against the risk of principally a weaker U.S. dollar, we purchase forward, non-deliverable forward and/or option contracts to acquire the functional currency of the foreign subsidiary at a fixed exchange rate at specific dates in the future. We have designated and account for these derivative instruments as cash flow hedges, forecasted revenue in non-functional currencies, as defined by SFAS 133.

While we have implemented certain strategies to mitigate risks related to the impact of fluctuations in currency exchange rates, we cannot ensure that we will not recognize gains or losses from international transactions, as this is part of transacting business in an international environment. Not every exposure is or can be hedged and, where hedges are put in place based on expected foreign exchange exposure, they are based on forecasts for which actual results may differ from the original estimate. Failure to successfully hedge or anticipate currency risks properly could adversely affect our consolidated operating results.

Our cash flow hedging instruments as of December 31, 2008 and 2007 are summarized as follows (amounts in thousands). All hedging instruments are forward contracts, except as noted.

2008	Local Currency Notional Amount	U.S. Dollar Amount	% Maturing in 2009	Contracts Maturing Through
Canadian Dollar	88,300	$ 77,865	54.1%	December 2011
Canadian Dollar Call Options	44,400	39,305	54.1%	December 2010
Philippine Peso	6,656,909	150,418(1)	75.6%	February 2011
Argentine Peso	102,072	29,054(2)	91.2%	May 2010
Mexican Peso	856,500	70,530	68.0%	September 2011
S. African Rand	92,000	8,399	81.5%	February 2010
British Pound Sterling	1,725	2,537(3)	44.3%	March 2011
		$ 378,108		

2007	Local Currency Notional Amount	U.S. Dollar Amount
Canadian Dollar	54,000	$ 49,679
Canadian Dollar Call Options	82,800	73,344
Philippine Peso	7,600,000	166,457
Argentine Peso	126,674	37,842
Mexican Peso	464,500	40,846
		$ 368,168

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(1) Includes contracts to purchase Philippine pesos in exchange for British pound sterling and New Zealand dollars, which are translated into equivalent U.S. dollars on December 31, 2008 and 2007.

(2) Includes contracts to purchase Argentine pesos in exchange for Euros, which are translated into equivalent U.S. dollars on December 31, 2008 and 2007.

(3) Includes contracts to purchase British pound sterling in exchange for Euros, which are translated into equivalent U.S. dollars on December 31, 2008 and 2007.

The fair value of our cash flow hedges at December 31, 2008 is (assets/(liabilities)):

	December 31, 2008	Maturing in 2009
Canadian Dollar	$ (3,059)	$ (2,837)
Philippine Peso	(13,301)	(11,639)
Argentine Peso	(5,710)	(4,953)
Mexican Peso	(11,370)	(9,862)
S. African Rand	809	683
British Pound Sterling	(458)	(222)
	$ (33,089)	$ (28,830)

The portfolio is valued using models based on market observable inputs, including both forward and spot foreign exchange rates, implied volatility, and counterparty credit risk. The year over year change in fair value largely reflects the recent global economic conditions which resulted in high foreign exchange volatility and an overall strengthening in the U.S. dollar.

We recorded net gains of $4.9 million, $13.6 million, and $6.3 million for settled cash flow hedge contracts and the related premiums for the years ended December 31, 2008, 2007 and 2006, respectively. These gains are reflected in Revenue in the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss). If the exchange rates between our various currency pairs were to increase or decrease by 10% from current period-end levels, we would incur a material gain or loss on the contracts. However, any gain or loss would be mitigated by corresponding gains or losses in our underlying exposures.

Other than the transactions hedged as discussed above and in Note 10 to the accompanying Consolidated Financial Statements, the majority of the transactions of our U.S. and foreign operations are denominated in the respective local currency while some transactions are denominated in other currencies. Approximately 30% of revenue is derived from contracts denominated in other currencies, thus our results from operations and revenue could be adversely affected if the U.S. dollar strengthens significantly against foreign currencies. We do not currently engage in hedging activities related to these types of foreign currency risks because we believe them to be insignificant as we endeavor to settle these accounts on a timely basis.

Fair Value of Debt and Equity Securities

We did not have any investments in debt or equity securities as of December 31, 2008 or 2007.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by this item are located beginning on page F-1 of this report and incorporated herein by reference.

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

This Form 10-K includes the certifications of our Chief Executive Officer and Interim Chief Financial Officer required by Rule 13a-14 of the Securities Exchange Act of 1934 (the   Exchange Act). See Exhibits 31.1 and 31.2. This Item 9A includes information concerning the controls and control evaluations referred to in those certifications.

Background

As previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2007 management concluded that our internal control over financial reporting was not effective as of December 31, 2007 because of certain deficiencies that constituted material weaknesses in our internal control over financial reporting, including weaknesses involving: (i) insufficient complement of personnel with appropriate accounting knowledge and training; (ii) equity-based compensation accounting; and (iii) lease accounting. Those weaknesses resulted in the restatement of our previously issued annual and interim financial statements from 1996 through the second quarter of 2007. Restated financial information is presented in our Annual Report on Form 10-K for 2007, which also contains a discussion of the investigation, the accounting errors and irregularities identified, and the adjustments made as a result of the restatement.

As noted below, management believes the material weaknesses have been corrected and remediated as of December 31, 2008. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected in a timely basis.

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the   Exchange Act)) are designed to have reasonable assurance that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer (CEO) and Interim Chief Financial Officer (Interim CFO), to allow timely decisions regarding required disclosures.

In connection with the preparation of this Form 10-K, our management, under the supervision and with the participation of our CEO and Interim CFO, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. As a result of that evaluation, the CEO and Interim CFO have concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of December 31, 2008.

Management s Report on Internal Control Over Financial Reporting

Management, under the supervision of our CEO and Interim CFO, is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting (as defined in Rules 13a-15(f) and 15d(f) under the Exchange Act) is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Internal control over financial reporting includes those policies and procedures which (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets, (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, (c) provide reasonable assurance that receipts and expenditures are being made only in accordance with appropriate authorization of management and the Board of Directors, and (d) provide

reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

In connection with the preparation of this Form 10-K, our management, under the supervision and with the participation of our CEO and Interim CFO, conducted an evaluation of the effectiveness of our internal

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control over financial reporting as of December 31, 2008 based on the framework established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As a result of that evaluation, management has concluded that our internal control over financial reporting was effective at a reasonable assurance level as of December 31, 2008. The effectiveness of our internal control over financial reporting as of December 31, 2008 has also been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm, as stated in their report, which is included in Part II Item 8 Financial Statements and Supplementary Data.

Changes in Internal Control Over Financial Reporting

As described below, there have been changes in our internal control over financial reporting during the quarter ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting. During 2008, management was actively engaged in the implementation of remediation efforts to address the material weaknesses that were identified as of December 31, 2007. Those remediation efforts were designed both to address the identified material weaknesses and to enhance our overall financial control environment. The plan to remediate those material weaknesses was described in detail in our Annual Report on Form 10-K for 2007 and our efforts to implement that plan are summarized below:

Attained a sufficient complement of personnel with an appropriate level of accounting knowledge, experience and training in the application of U.S. GAAP, thereby enhancing the effectiveness over the preparation and review of account reconciliations and analysis over the completeness and accuracy of account balances. This was achieved by executing the following activities:

- In March 2008, we hired a Vice President and Assistant General Counsel with experience at major law firms, a public company, the SEC and a public accounting firm, who will provide advice with regard to the disclosures in our periodic reports and our equity-based compensation practices;

- In May 2008, we hired a Vice President and Controller who is a licensed CPA with extensive experience in public accounting and public company accounting operations;

- In July 2008, we hired an Accounting Manager over equity-based compensation and lease accounting;

- In August 2008, we hired an Assistant Controller who is responsible for the general ledger operations and monthly/quarterly closing processes;

- In the second half of 2008, we hired additional accounting personnel at various levels within the accounting organization with sufficient knowledge and technical expertise in the application of U.S. GAAP;

- In Q4 2008, we instituted a CPA reimbursement program to promote and support CPA certification;

- In Q3 2008, we improved the effectiveness over the preparation and review of account reconciliations;

- In Q3 2008, we realigned the Accounting Organization based on the skill sets of the individuals and functional areas within the organization; and

- Throughout 2008, we provided specific training over equity and lease accounting and will continue to provide training designed to ensure that we have sufficient personnel with knowledge, experience, and training in the application of U.S. GAAP.

We have enhanced our processes, procedures and controls in our equity-based compensation practices which have remediated our past deficiencies in our historical equity-based

compensation practices. We have implemented the following actions which became completely effective as of the fourth quarter:

- The Compensation Committee makes annual equity awards to named recipients at a set time each year;

- The Compensation Committee makes all periodic equity awards, including new hire, promotion and special circumstance grants, at pre-scheduled monthly meetings;

- A senior member of the Human Capital Department, supported by designated members of the Legal, Tax and Accounting Departments, is responsible for ensuring that the accounting treatment, recipient notification requirements, and required disclosures have been determined for each equity award before the award is authorized by the Compensation Committee;

- In advance of each meeting, the Compensation Committee is provided with information on the accounting treatment and any non-standard terms of each proposed equity award;

- Other than as approved under new grant procedures, changes to grants after their approval date are prohibited, other than to withdraw a grant to an individual in its entirety because of a change in circumstances between approval and issuance of the grant (or to correct clear clerical errors);

- In July 2008, we hired an Accounting Manager to oversee equity-based compensation with specific experience in equity-based compensation accounting;

- In December 2008, the Board of Directors approved the Company s proposed policy regarding equity award procedures;

- In the second half of 2008, we provided training for pertinent personnel in the terms of our equity compensation plans and improved policies and procedures;

- In Q4 2008, internal audit performed expanded audit procedures over the Company s grant approval and documentation process; and

- Currently in the process of implementing a software system that tracks all equity-based awards and automates the equity-based compensation calculations. Implementation is expected to be completed in 2009.

We remediated the lease accounting control deficiency by redesigning our accounting and control processes over the complete and accurate recording of our real estate lease transactions. Specifically:

- We instituted additional levels of managerial review over all lease agreements and the associated accounting;

- We established processes to evaluate all new or modified leases, including the preparation of a summary of key terms for each lease in order to ensure complete and accurate recording of real estate lease arrangements in accordance with U.S. GAAP; and

- We hired an Accounting Manager over leases with specific experience in lease accounting.

During the fourth quarter of 2008, remediation was fully implemented and operationalized. Our remediation activities during that period included continued focus on all remediation efforts and further testing to ensure the effectiveness of new and existing controls and procedures.

Our efforts to remediate the identified material weaknesses and to enhance our overall control environment have been regularly reviewed with, and monitored by, our Audit Committee.

We believe the remediation measures described above have been successful in correcting and remediating the material weaknesses previously identified and have further strengthened and

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enhanced our internal control over financial reporting. Management will continue to improve, strengthen, and enhance our internal control processes and will continue to diligently and vigorously review our financial reporting controls and procedures. Our goal is to reduce the need for manual processes, subjective assumptions, and management discretion; reduce the opportunity for errors and omissions; and decrease our reliance on manual controls to detect and correct accounting and financial reporting inaccuracies.

Inherent Limitations of Internal Controls

Our system of controls is designed to provide reasonable, not absolute, assurance regarding the reliability and integrity of accounting and financial reporting. Management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met. These inherent limitations include the following:

- Judgments in decision-making can be faulty, and control and process breakdowns can occur because of simple errors or mistakes;
- Controls can be circumvented by individuals, acting alone or in collusion with each other, or by management override;
- The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions;
- Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures; and
- The design of a control system must reflect the fact that resources are constrained, 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, have been detected.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information in our 2009 Definitive Proxy Statement on Schedule 14A (the 2009 Proxy Statement) set forth under the captions Information Regarding Executive Officers, Election of Directors and Code of Conduct and Committee Charters is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information in our 2009 Proxy Statement set forth under the captions Executive Compensation and Compensation Discussion and Analysis is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information in our 2009 Proxy Statement set forth under the captions Security Ownership of Certain Beneficial Owners and Management and Equity Compensation Plan Information is incorporated herein by reference.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information in our 2009 Proxy Statement set forth under the caption Certain Relationships and Related Party Transactions is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANTS FEES AND SERVICES

The information in our 2009 Proxy Statement set forth under the caption Fees Paid to Accountants is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

1. *Consolidated Financial Statements.*

   The Index to Consolidated Financial Statements is set forth on page F-1 of this report.

2. *Financial Statement Schedules.*

   All schedules for TeleTech have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information is included in the respective Consolidated Financial Statements or notes thereto.

3 *Exhibits.*

EXHIBIT INDEX

Exhibit No.	Description
3.01	Restated Certificate of Incorporation of TeleTech (incorporated by reference to Exhibit 3.1 to TeleTech s Amendment No. 2 to Form S-1 Registration Statement (Registration No. 333-04097) filed on July 5, 1996)
3.02	Amended and Restated Bylaws of TeleTech (incorporated by reference to Exhibit 3.2 to TeleTech s Current Report on Form 8-K filed on May 29, 2008)
10.01	TeleTech Holdings, Inc. Stock Plan, as amended and restated (incorporated by reference to Exhibit 10.7 to TeleTech s Amendment No. 2 to Form S-1 Registration Statement (Registration No. 333-04097) filed on July 5, 1996)**
10.02	TeleTech Holdings, Inc. Amended and Restated Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to TeleTech s Form S-8 Registration Statement (Registration No. 333-69668) filed on September 19, 2001)**
10.03	TeleTech Holdings, Inc. Directors Stock Option Plan, as amended and restated (incorporated by reference to Exhibit 10.8 to TeleTech s Amendment No. 2 to Form S-1 Registration Statement

	(Registration No. 333-04097) filed on July 5, 1996)**
10.04	TeleTech Holdings, Inc. Amended and Restated 1999 Stock Option and Incentive Plan (incorporated by reference to Exhibit 99.1 to TeleTech s Form S-8 Registration Statement (Registration No. 333-96617) filed on July 17, 2002)**
10.05*	Amendment to 1999 Stock Option and Incentive Plan dated February 11, 2009
10.06	Form of Restricted Stock Unit Agreement (effective in 2007 and 2008) (incorporated by reference to Exhibit 10.05 to TeleTech s Annual Report on Form 10-K for the year ended December 31, 2007)**
10.07*	Amendment to Form of Restricted Stock Unit Agreement (effective December 2008)
10.08*	Form of Restricted Stock Unit Agreement (effective in 2009) (incorporated by reference to Exhibit 10.1 TeleTech s Current Report on Form 8-K filed on February 17, 2009)**
10.09	Form of Non-Qualified Stock Option Agreement (below Vice President) (incorporated by reference to Exhibit 10.06 to TeleTech s Annual Report on Form 10-K for the year ended December 31, 2007)**

Exhibit No.	Description
10.10	Form of Non-Qualified Stock Option Agreement (Vice President and above) (incorporated by reference to Exhibit 10.07 to TeleTech s Annual Report on Form 10-K for the year ended December 31, 2007)**
10.11	Form of Non-Qualified Stock Option Agreement (Non-Employee Director) (incorporated by reference to Exhibit 10.08 to TeleTech s Annual Report on Form 10-K for the year ended December 31, 2007)**
10.12	Employment Agreement between James E. Barlett and TeleTech dated October 15, 2001 (incorporated by reference to Exhibit 10.66 to TeleTech s Annual Report on Form 10-K for the year ended December 31, 2001)**
10.13*	Amendment to Employment Agreement between James E. Barlett and TeleTech dated December 31, 2008
10.14	Stock Option Agreement dated October 15, 2001 between James E. Barlett and TeleTech (incorporated by reference to Exhibit 10.70 to TeleTech s Annual Report on Form 10-K for the year ended December 31, 2001)**
10.15*	Amendment dated September 17, 2008 to Stock Option Agreement between James E. Barlett and TeleTech
10.16	Employment Agreement between Kenneth D. Tuchman and TeleTech dated October 15, 2001 (incorporated by reference to Exhibit 10.68 to TeleTech s Annual Report on Form 10-K for the year ended December 31, 2001)**
10.17*	Amendment to Employment Agreement between Kenneth D. Tuchman and TeleTech dated December 31, 2008
10.18	Stock Option Agreement between Kenneth D. Tuchman and TeleTech dated October 1, 2001 (incorporated by reference to Exhibit 10.69 to TeleTech s Annual Report on Form 10-K for the year ended December 31, 2001)**
10.19*	Amendment dated September 17, 2008 to Stock Option Agreement between Kenneth D. Tuchman and TeleTech
10.20	Employment Agreement dated April 6, 2004 between Gregory G. Hopkins and TeleTech (incorporated by reference to Exhibit 10.1 to TeleTech s Quarterly Report on Form 10-Q for the for the quarter ended September 30, 2008)**
10.21*	Amendment to Employment Agreement between Gregory G. Hopkins and TeleTech dated December 16, 2008
10.22	Amended and Restated Credit Agreement among TeleTech Holdings, Inc. as Borrower, The Lenders named herein, as lenders and Keybank National Association, as Lead Arranger, Sole Book Runner and Administrative Agent dated as of September 28, 2006 (incorporated by reference to Exhibit 10.39 to TeleTech s Annual Report on Form 10-K filed on February 7, 2007)
10.23	First Amendment to the Amended and Restated Credit Agreement among TeleTech Holdings, Inc. as Borrower, the Lenders named herein, as Lenders and Keybank National Association, as Lead Arranger, Sole Book Runner and Administrative Agent dated as of October 24, 2006 (incorporated by reference to Exhibit 10.40 to TeleTech s Annual Report on Form 10-K filed on February 7, 2007)
10.24	Second Amendment to the Amended and Restated Credit Agreement among TeleTech Holdings, Inc. as Borrower, the Lenders named herein, as Lenders and Keybank National Association, as Lead Arranger, Sole Book Runner and Administrative Agent dated as of November 15, 2007 (incorporated by reference to Exhibit 10.1 to TeleTech s Current Report on Form 8-K filed on December 4, 2007)
10.25	Third Amendment to the Amended and Restated Credit Agreement among TeleTech Holdings, Inc. as Borrower, the Lenders named herein, as Lenders and Keybank National Association, as Lead Arranger, Sole Book Runner and Administrative Agent dated as of March 25, 2008 (incorporated by reference to Exhibit 10.1 TeleTech s Current Report on Form 8-K filed on March 27, 2008)

10.26	Fourth Amendment to the Amended and Restated Credit Agreement among TeleTech Holdings, Inc. as Borrower, the Lenders named herein, as Lenders and Keybank National Association, as Lead Arranger, Sole Book Runner and Administrative Agent dated as of June 30, 2008 (incorporated by reference to Exhibit 10.1 TeleTech s Current Report on Form 8-K filed on June 30, 2008)

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Exhibit No.	Description
10.27	Fifth Amendment to the Amended and Restated Credit Agreement among TeleTech Holdings, Inc. as Borrower, the Lenders named herein, as Lenders and Keybank National Association, as Lead Arranger, Sole Book Runner and Administrative Agent dated as of September 4, 2008 (incorporated by reference to Exhibit 10.1 TeleTech s Current Report on Form 8-K filed on September 8, 2008)
21.01*	List of subsidiaries
23.01*	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm
23.02*	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm
31.01*	Rule 13a-14(a) Certification of CEO of TeleTech
31.02*	Rule 13a-14(a) Certification of CFO of TeleTech
32.01*	Written Statement of Chief Executive Officer and Acting Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

* Filed herewith.

** Identifies exhibit that consists of or includes a management contract or compensatory plan or arrangement.

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 on February 23**,** 2009.

TELETECH HOLDINGS, INC.

By: /s/ Kenneth D. Tuchman

Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on February 23, 2009, by the following persons on behalf of the registrant and in the capacities indicated:

Signature	Title
/s/ Kenneth D. Tuchman Kenneth D. Tuchman	PRINCIPAL EXECUTIVE OFFICER Chief Executive Officer and Chairman of the Board
/s/ John R. Troka, Jr. John R. Troka, Jr.	PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER Senior Vice President Finance Global Operations and Interim Chief Financial Officer
/s/ James E. Barlett James E. Barlett	DIRECTOR
/s/ William A. Linnenbringer William A. Linnenbringer	DIRECTOR
/s/ Ruth C. Lipper Ruth C. Lipper	DIRECTOR
/s/ Shrikant Mehta Shrikant Mehta	DIRECTOR
/s/ Robert M. Tarola Robert M. Tarola	DIRECTOR
/s/ Shirley Young Shirley Young	DIRECTOR

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS OF TELETECH HOLDINGS, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of
TeleTech Holdings, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations and comprehensive income (loss), of stockholders equity and of cash flows present fairly, in all material respects, the financial position of TeleTech Holdings, Inc. and its subsidiaries at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008 based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in Management s Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

Denver, CO
February 23, 2009

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of TeleTech Holdings, Inc.

We have audited the accompanying consolidated statements of operations and comprehensive income, stockholders equity and cash flows of TeleTech Holdings, Inc. and subsidiaries for the year ended December 31, 2006. These consolidated financial statements are the responsibility of TeleTech Holdings, Inc. s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of TeleTech Holdings, Inc. and subsidiaries for the year ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

/s/
ERNST & YOUNG LLP

Denver, Colorado
February 7, 2007,
except for the impact of the restatement of the consolidated statements of operations and comprehensive income, stockholders equity and cash flows referred to above, due to (i) equity-based compensation adjustments, (ii) lease accounting adjustments, (iii) other accounting and income tax adjustments, and (iv) tax effects relating to items (i) through (iii) above, as to which the date is
July 16, 2008

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(Amounts in thousands except share amounts)

	December 31, 2008	December 31, 2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 87,942	$ 91,239
Accounts receivable, net	236,997	270,988
Prepaids and other current assets	31,279	62,344
Deferred tax assets, net	30,328	8,386
Income taxes receivable	18,342	26,868
Total current assets	404,888	459,825
Long-term assets		
Property, plant and equipment, net	157,747	174,809
Goodwill	44,150	45,154
Contract acquisition costs, net	7,591	6,984
Deferred tax assets, net	31,504	39,764
Other long-term assets	23,062	33,759
Total long-term assets	264,054	300,470
Total assets	$ 668,942	$ 760,295
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 26,214	$ 38,761
Accrued employee compensation and benefits	71,919	87,480
Other accrued expenses	18,887	28,872
Income taxes payable	19,168	18,552
Deferred tax liabilities, net		88
Deferred revenue	12,867	13,057
Other current liabilities	31,044	
Total current liabilities	180,099	186,810
Long-term liabilities		
Line of credit	80,800	65,400
Grant advances	1,824	6,741
Negative investment in deconsolidated subsidiary	4,865	
Deferred tax liabilities, net		57
Other long-term liabilities	40,460	46,531
Total long-term liabilities	127,949	118,729
Total liabilities	308,048	305,539

Minority interest	5,011	3,555
Commitments and contingencies (Note 15)		
Stockholders equity		
Preferred stock; $0.01 par; 10,000,000 shares authorized; zero shares outstanding as of December 31, 2008 and 2007		
Common stock; $.01 par value; 150,000,000 shares authorized; 63,816,379 and 69,827,671 shares outstanding as of December 31, 2008 and 2007, respectively	638	698
Additional paid-in capital	341,887	334,593
Treasury stock at cost: 18,238,066 and 12,077,609 shares, respectively	(228,596)	(143,205)
Accumulated other comprehensive income (loss)	(33,020)	57,888
Retained earnings	274,974	201,227
Total stockholders equity	355,883	451,201
Total liabilities and stockholders equity	$ 668,942	$ 760,295

The accompanying notes are an integral part of these consolidated financial statements.

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations and Comprehensive Income (Loss)
(Amounts in thousands except per share amounts)

	Year Ended December 31,		
	2008	**2007**	**2006**
Revenue	$ 1,400,147	$ 1,369,632	$ 1,210,753
Operating expenses			
Cost of services (exclusive of depreciation and amortization presented separately below)	1,024,451	1,001,459	882,809
Selling, general and administrative	199,495	207,528	199,995
Depreciation and amortization	59,166	55,953	51,989
Restructuring charges, net	6,059	7,115	1,630
Impairment losses	2,018	15,789	565
Total operating expenses	1,291,189	1,287,844	1,136,988
Income from operations	108,958	81,788	73,765
Other income (expense)			
Interest income	4,816	2,364	2,209
Interest expense	(6,738)	(6,645)	(6,560)
Other, net	(2,432)	(2,156)	(91)
Total other expense	(4,354)	(6,437)	(4,442)
Income before income taxes and minority interest	104,604	75,351	69,323
Provision for income taxes	(27,269)	(19,562)	(16,474)
Income before minority interest	77,335	55,789	52,849
Minority interest	(3,588)	(2,686)	(1,868)
Net income	$ 73,747	$ 53,103	$ 50,981
Other comprehensive income (loss)			
Foreign currency translation adjustments	(48,412)	25,887	9,068
Derivatives valuation, net of tax	(42,596)	21,593	(4,925)
Other	100	(117)	(71)
Total other comprehensive income (loss)	(90,908)	47,363	4,072

Comprehensive income (loss)	$	(17,161)	$	100,466	$	55,053
Weighted average shares outstanding						
Basic		68,208		70,228		69,184
Diluted		69,578		72,638		69,869
Net income per share						
Basic	$	1.08	$	0.76	$	0.74
Diluted	$	1.06	$	0.73	$	0.73

The accompanying notes are an integral part of these consolidated financial statements.

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders Equity
(Amounts in thousands except share amounts)

	Preferred Stock		Common Stock		Treasury	Additional Paid-in	Accumulated Other Comprehensive Income	Retained	Total Stockholders
	Shares	Amount	Shares	Amount	Stock	Capital	(Loss)	Earnings	Equity
Balance as of December 31, 2005		$	69,162	$ 692	$ (79,637)	$ 269,175	$ 6,453	$ 98,380	$ 295,063
Net income								50,981	50,981
Foreign currency translation adjustments							9,068		9,068
Derivatives valuation, net of tax							(4,925)		(4,925)
Exercise of stock options			2,231	22		19,412			19,434
Excess tax benefit from exercise of stock options						2,255			2,255
Equity-based compensation expense						7,485			7,485
Purchases of common stock			(1,290)	(13)	(16,563)				(16,576)
Other							(71)		(71)
Balance as of December 31, 2006			70,103	701	(96,200)	298,327	10,525	149,361	362,714
Net income								53,103	53,103
Foreign currency translation adjustments							25,887		25,887
Derivatives valuation, net							21,593		21,593

of tax							
Cumulative effect of adoption of FIN 48						(1,237)	(1,237)
Exercise of stock options	1,311	13		15,936			15,949
Excess tax benefit from exercise of stock options				6,969			6,969
Equity-based compensation expense				13,361			13,361
Purchases of common stock	(1,586)	(16)	(47,005)				(47,021)
Other					(117)		(117)
Balance as of December 31, 2007	69,828	698	(143,205)	334,593	57,888	201,227	451,201
Net income						73,747	73,747
Foreign currency translation adjustments					(48,412)		(48,412)
Derivatives valuation, net of tax					(42,596)		(42,596)
Vesting of restricted stock units	148	2		(1,059)			(1,057)
Exercise of stock options	334	3	4,124	(1,194)			2,933
Excess tax benefit from exercise of stock options				(1,176)			(1,176)
Equity-based compensation expense				10,312			10,312
Modifications to equity-based awards				411			411
Purchases of common stock	(6,494)	(65)	(89,515)				(89,580)
Other					100		100
	$ 63,816	$ 638	$ (228,596)	$ 341,887	$ (33,020)	$ 274,974	$ 355,883

Balance as of December 31, 2008

The accompanying notes are an integral part of these consolidated financial statements.

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Amounts in thousands)

	December 31,		
	2008	**2007**	**2006**
Cash flows from operating activities			
Net income	$ 73,747	$ 53,103	$ 50,981
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	59,166	55,953	51,989
Amortization of contract acquisition costs	2,384	2,544	3,392
Provision for doubtful accounts	1,990	576	2,723
Loss on embedded derivatives	1,942		
(Gain) loss on disposal of assets	(305)	(428)	232
Impairment losses	2,018	15,789	565
Deferred income taxes	752	(1,079)	(9,367)
Minority interest	3,588	2,686	1,868
Excess tax benefit from exercise of stock options	(1,485)		
Equity-based compensation expense	10,312	13,361	7,485
Changes in assets and liabilities:			
Accounts receivable	17,668	(32,588)	(12,934)
Prepaids and other assets	8,658	(1,834)	(14,751)
Accounts payable and other accrued expenses	(14,259)	(5,135)	12,130
Deferred revenue and other liabilities	(5,610)	566	4,761
Net cash provided by operating activities	160,566	103,514	99,074
Cash flows from investing activities			
Proceeds from disposition of assets		11,968	(45,802)
Proceeds from grant for property, plant and equipment	4,276		
Purchases of property, plant and equipment	(65,988)	(61,083)	(66,016)
Purchases of intangible assets			(1,510)
Purchases of foreign currency option contracts	(416)		(486)
Net cash used in investing activities	(62,128)	(49,115)	(113,814)
Cash flows from financing activities			
Proceeds from line of credit	1,147,730	657,700	468,400
Payments on line of credit	(1,132,330)	(657,300)	(430,100)
Payments on long-term debt and capital lease obligations	(1,359)	(1,301)	(1,511)
Payments of debt issuance costs	(1,109)	(18)	(923)
Payments to minority shareholder	(2,148)	(5,076)	(2,594)
Proceeds from exercise of stock options	2,933	15,949	19,434
Excess tax benefit from exercise of stock options	309	6,969	2,255
Purchases of treasury stock	(89,580)	(47,021)	(16,576)
Net cash (used in) provided by financing activities	(75,554)	(30,098)	38,385

Effect of exchange rate changes on cash and cash equivalents		(26,181)		8,586		2,393
Increase (decrease) in cash and cash equivalents		(3,297)		32,887		26,038
Cash and cash equivalents, beginning of year		91,239		58,352		32,314
Cash and cash equivalents, end of year	$	87,942	$	91,239	$	58,352
Supplemental disclosures						
Cash paid for interest	$	4,098	$	5,696	$	4,798
Cash paid for income taxes	$	21,196	$	19,658	$	8,746
Noncash investing and financing activities						
Acquisition of equipment through capital leases	$		$	2,030	$	479
Landlord incentives credited to deferred rent	$		$	1,978	$	487
Recognition of asset retirement obligations	$		$	180	$	486

The accompanying notes are an integral part of these consolidated financial statements

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(1) OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Overview

TeleTech Holdings, Inc. and its subsidiaries (TeleTech or the Company) serve their clients through the primary businesses of Business Process Outsourcing (BPO), which provides outsourced business process, customer management and marketing services for a variety of industries via operations in the U.S., Argentina, Australia, Brazil, Canada, China, Costa Rica, England, Germany, Malaysia, Mexico, New Zealand, Northern Ireland, the Philippines, Scotland, South Africa and Spain.

Basis of Presentation

The Consolidated Financial Statements are comprised of the accounts of TeleTech, its wholly owned subsidiaries, its 55% equity owned subsidiary in Percepta, LLC and 60% equity owned TeleTech Services (India) Limited. As discussed in Note 2, in December 2007, the Company completed the sale of its 60% equity interest in its Indian joint venture, which provided BPO solutions primarily for in-country clients. On December 22, 2008, as discussed in Note 3, Newgen Results Corporation, a wholly-owned subsidiary of the Company, filed a voluntary petition for liquidation under Chapter 7 in the United States Bankruptcy Court for the District of Delaware. Under Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, a consolidation of a majority-owned subsidiary is precluded where control does not rest with the majority owners. Accordingly, the Company deconsolidated Newgen Results Corporation as of December 22, 2008. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the Consolidated Financial Statements in conformity with accounting principles generally accepted in the U.S. (GAAP) requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting period. The Company s use of accounting estimates is primarily in the areas of (i) forecasting future taxable income for determining whether deferred tax valuation allowances are necessary; (ii) providing for self-insurance reserves, litigation reserves and restructuring reserves; (iii) estimating future estimated cash flows for evaluating the carrying value of long-lived assets including goodwill; and (iv) assessing recoverability of accounts receivable and providing for allowance for doubtful accounts. Actual results may differ from those estimates.

Concentration of Credit Risk

The Company is exposed to credit risk in the normal course of business, primarily related to accounts receivable and derivative instruments. Historically, the losses related to credit risk have been immaterial. The Company regularly monitors its credit risk to mitigate the possibility of current and future exposures resulting in a loss. The Company evaluates the creditworthiness of its clients prior to entering into an agreement to provide services and on an on-going basis as part of the processes for revenue recognition and accounts receivable. The Company does not believe it is exposed to more than a nominal amount of credit risk in its derivative hedging activities, as the counter parties are established, well-capitalized financial institutions.

Fair Value of Financial Instruments

Fair values of cash equivalents and current accounts receivable and payable approximate the carrying amounts because of their short-term nature. Long-term debt carried on the Company s Consolidated Balance Sheets as of December 31, 2008 and 2007 has a carrying value that approximates its estimated fair value due to the revolving nature of the debt and varying interest rates.

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Cash and Cash Equivalents

The Company considers all cash and highly liquid short-term investments with an original maturity of 90 days or less to be cash equivalents. The Company manages a concentrating global treasury function in the United States with a particular focus on centralizing and safeguarding its global cash and cash equivalent reserves. While the Company generally prefers to hold U.S. Dollars, it maintains adequate cash in the functional currency of its foreign subsidiaries to support local operating costs. While there are no assurances, the Company believes its global cash is protected given cash management practices, banking partners, and low-risk investments.

Accounts Receivable

An allowance for doubtful accounts is calculated based on the aging of the Company s accounts receivable, historical experience, client financial condition, and management judgment. The Company writes off accounts receivable against the allowance when the Company determines a balance is uncollectible.

Derivatives

The Company accounts for financial derivative instruments in accordance with SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities, as amended* (SFAS 133). The Company enters into foreign exchange forward and option contracts to reduce its exposure to foreign currency exchange rate fluctuations that are associated with forecasted revenue in non-functional currencies. Upon proper qualification, these contracts are accounted for as cash flow hedges, as defined by SFAS 133. The Company also entered into foreign exchange forward contracts to hedge its net investment in a foreign operation. The Company formally documents at the inception of the hedge all relationships between hedging instruments and hedge items as well as its risk management objective and strategy for undertaking various hedging activities.

All derivative financial instruments are reported in Other assets and Other liabilities on the Consolidated Balance Sheets at fair value. Changes in fair value of derivative instruments designated as cash flow hedges are recorded in Accumulated Other Comprehensive Income (Loss), a component of Stockholders Equity, to the extent they are deemed effective. Ineffectiveness is measured based on the change in fair value of the forward contracts and the fair value of the hypothetical derivatives with terms that match the critical terms of the risk being hedged. Based on the criteria established by SFAS 133, all of the Company s cash flow hedge contracts are deemed to be highly effective. Changes in fair value of the Company s net investment hedge is recorded in cumulative translation adjustment in Accumulated Other Comprehensive Income (Loss) on the Consolidated Balance Sheets offsetting the change in cumulative translation adjustment attributable to the hedged portion of the Company s net investment in the foreign operation. Any realized gains or losses resulting from the cash flow hedges are recognized together with the hedged transaction within Revenue. Gains and losses from the settlements of the Company s net investment hedges remain in Accumulated Other Comprehensive Income (Loss) until partial or complete liquidation of the applicable net investment.

In addition to hedging activities, the Company has embedded derivatives in certain foreign lease contracts. The Company bifurcates the embedded derivative feature from the host contract in accordance with SFAS 133, with any changes in fair value of the embedded derivatives recognized in Cost of Services.

The Company also enters into fair value derivative contracts that hedge against translation gains and losses. Changes in the fair value of derivative instruments designated as fair value hedges affect the carrying value of the asset or liability hedged, with changes in both the derivative instrument and the hedged asset or liability being recognized in earnings.

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Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and amortization. Maintenance, repairs and minor renewals are expensed as incurred.

Depreciation and amortization are computed on the straight-line method based on the following estimated useful lives:

Building	25 years
Computer equipment and software	3 to 5 years
Telephone equipment	4 to 7 years
Furniture and fixtures	5 to 7 years
Leasehold improvements	Lesser of economic useful life or original lease term
Other	3 to 7 years

The Company depreciates leasehold improvements over the shorter of the expected useful life or the initial term of the lease.

The Company evaluates the carrying value of property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable in accordance with SFAS No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144). An asset is considered to be impaired when the anticipated undiscounted future cash flows of an asset group are estimated to be less than its carrying value. The amount of impairment recognized is the difference between the carrying value of the asset group and its fair value. Fair value estimates are based on assumptions concerning the amount and timing of estimated future cash flows.

Software Development Costs

The Company capitalizes certain costs incurred to internally develop software in accordance with the American Institute of Certified Public Accountants Statement of Position 98-1 *Accounting for the Cost of Computer Software Developed or Obtained for Internal Use.*

Goodwill

The Company assesses realizability of goodwill annually in the fourth quarter, and whenever events or changes in circumstances indicate it may be impaired. Impairment, if any, is measured based on the estimated fair value of the reporting unit. The Company determines fair value based on discounted estimated future probability-weighted cash flows. Impairment occurs when the carrying amount of goodwill exceeds its estimated fair value.

Contract Acquisition Costs

Amounts paid to or on behalf of clients to obtain long-term contracts are capitalized and amortized in proportion to the initial expected future revenue from the contract, which in most cases results in straight-line amortization over the life of the contract. These costs are recorded as a reduction to Revenue in accordance with Emerging Issues Task Force (EITF) No. 01-09 *Accounting for Consideration Given by a Vendor to a Customer or Reseller of the Vendor s*

Products (EITF 01-09   ). The Company evaluates the recoverability of these costs based on the individual underlying client contracts   estimated future cash flows.

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Other Intangible Assets

The Company accounts for other intangible assets, which include trademarks, customer relationships and non-compete agreements in accordance with SFAS 142 *Goodwill and Other Intangible Assets* (SFAS 142). Definite life intangible assets are amortized on a straight-line basis over the length of the contract or benefit period, which generally ranges from two to 10 years. The Company periodically evaluates recoverability of intangible assets and takes into account events or circumstances that indicate a potential impairment exists or that warrant revised estimates of useful lives.

Self Insurance Liabilities

The Company self-insures for certain levels of workers compensation, employee health insurance and general liability insurance. The Company records estimated liabilities for these insurance lines based upon analyses of historical claims experience. The most significant assumption the Company makes in estimating these liabilities is that future claims experience will emerge in a similar pattern with historical claims experience. The liabilities related to workers compensation and employee health insurance are included in Accrued Employee Compensation and Benefits in the accompanying Consolidated Balance Sheets. The liability for other general liability insurance is included in Other Accrued Expenses in the accompanying Consolidated Balance Sheets.

Restructuring Liabilities

SFAS No. 146 *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS 146) specifies that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, instead of upon commitment to a plan. In some cases, management has chosen to close under-performing delivery centers and implement reductions in force to enhance future profitability.

A significant assumption used in determining the amount of estimated liability for closing delivery centers is the future lease payments on vacant centers, which the Company determines based on its ability to successfully negotiate early termination agreements with landlords and/or to sublease the facility. If the Company s actual results differ from these estimates, additional gains or losses would be recorded in its Consolidated Statements of Operations and Comprehensive Income (Loss). The accrual for Restructuring Liabilities is included in Other Accrued Expenses in the accompanying Consolidated Balance Sheets.

Grant Advances

The Company receives grants from various government levels as an incentive to locate delivery centers in their jurisdictions. The Company s policy is to account for grant monies received in advance as a liability and recognize to income as either a reduction to Cost of Services or Depreciation Expense over the term of the grant, when it is reasonably assured that the conditions of the grant have been or will be met.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109 *Accounting for Income Taxes* (SFAS 109), which requires recognition of deferred tax assets and liabilities for the expected future income tax consequences of transactions that have been included in the Consolidated Financial Statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement

and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Gross deferred tax assets may then be reduced by a valuation allowance for amounts that do not satisfy the realization criteria of SFAS 109.

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The Financial Accounting Standards Board recently issued Interpretation No. 48 *Accounting for Uncertainty in Income Taxes* (FIN 48), an interpretation of SFAS 109. FIN 48 was effective for the Company s 2007 year. FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS 109. The first step is to determine if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained on audit. The second step is to estimate and measure the tax benefit as the amount that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority. The Company evaluates these uncertain tax positions on a quarterly basis. This evaluation is based on the consideration of several factors including changes in facts or circumstances, changes in applicable tax law, and settlement of issues under audit. The Company recognizes interest and penalties related to uncertain tax positions Provision for Income Taxes in the Company s Consolidated Statements of Operations and Comprehensive Income (Loss).

The Company provides for U.S. income tax expense on the earnings of foreign subsidiaries unless the subsidiaries earnings are considered permanently reinvested outside the U.S.

Stock Option Accounting

On January 1, 2006, the Company adopted SFAS No. 123 (revised 2004) *Share-Based Payment* (SFAS 123(R)), applying the modified prospective method. SFAS 123(R) requires all equity-based payments to employees to be recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss) at the fair value of the award on the grant date. Under the modified prospective method, the Company is required to record equity-based compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards outstanding as of the date of adoption. The fair values of all stock options granted by the Company are determined using the Black-Scholes-Merton model (B-S-M Model). The Company has elected to adopt FSP No. FAS 123(R)-3 *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards,* to calculate the Company s pool of windfall tax benefits.

Foreign Currency Translation

The assets and liabilities of the Company s foreign subsidiaries, whose functional currency is not the U.S. dollar, are translated at the exchange rates in effect on the last day of the period and income and expenses are translated using the monthly average exchange rates in effect for the period in which the items occur. Foreign currency translation gains and losses are recorded in Accumulated Other Comprehensive Income (Loss) within equity. Foreign currency transaction gains and losses are included in Other, net in the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss).

Revenue Recognition

For each client arrangement, the Company determines whether evidence of an arrangement exists, delivery of service has occurred, the fee is fixed or determinable and collection is reasonably assured. If all criteria are met, the Company recognizes revenue at the time services are performed. The Company s BPO business recognizes revenue as follows:

Production Rate Revenue is recognized based on the billable time or number of transactions of each associate, as defined in the client contract. The rate per billable time or number of transactions is based on a pre-determined contractual rate. This contractual rate can fluctuate based on the Company s performance against certain pre-determined criteria related to quality, performance and volume.

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Performance-based Under performance-based arrangements, the Company is paid by its clients based on the achievement of certain levels of sales or other client-determined criteria specified in the client contract. The Company recognizes performance-based revenue by measuring its actual results against the performance criteria specified in the contracts. Amounts collected from clients prior to the performance of services are recorded as deferred revenue, which is recorded in Other short-term liabilities or Other long-term liabilities in the accompanying Consolidated Balance Sheets.

Hybrid Hybrid models include production rate and performance-based elements. For these types of arrangements, the Company allocates revenue to the elements based on the relative fair value of each element. Revenue for each element is recognized based on the methods described above.

Certain client programs provide for adjustments to monthly billings based upon whether the Company meets or exceeds certain performance criteria as set forth in the contract. Increases or decreases to monthly billings arising from such contract terms are reflected in Revenue in the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss), as earned or incurred.

Training Revenue and Costs

The Company follows EITF No. 00-21 *Revenue Arrangements with Multiple Deliverables* (EITF 00-21), which provides guidance on how to account for multiple element contracts. The Company has determined that EITF 00-21 requires the deferral of revenue for the initial training that occurs upon commencement of a new client contract if that training is billed separately to a client. Accordingly, the corresponding training costs, consisting primarily of labor and related expenses, are also deferred. In these circumstances, both the training revenue and costs are amortized straight-line over the life of the client contract as a component of Revenue and Cost of Services, respectively. In situations where these initial training costs are not billed separately, but rather included in the hourly service rates paid by the client over the life of the contract, no deferral is necessary as the revenue is being recognized over the life of the contract and the associated training costs are expensed as incurred.

Deferred Revenue

The Company records amounts billed and received, but not earned, as deferred revenue. These amounts are recorded as a component of Other Short-term Liabilities or Other Long-term Liabilities based on the period over which the Company expects to render services in the accompanying Consolidated Balance Sheets.

Rent Expense

The Company has negotiated certain rent holidays, landlord/tenant incentives and escalations in the base price of rent payments over the initial term of its operating leases. The initial term includes the build-out period of leases, where no rent payments are typically due under the terms of the lease. The Company recognizes rent holidays and rent escalations on a straight-line basis to rent expense over the lease term. The landlord/tenant incentives are recorded as an increase to deferred rent liabilities and amortized on a straight line basis to rent expense over the initial lease term.

Asset Retirement Obligations

SFAS No. 143 *Accounting for Asset Retirement Obligations* (SFAS 143) applies to legal obligations associated with the retirement of long-lived assets resulting from the acquisition, construction, development and/or normal use of the underlying assets.

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The Company records all asset retirement obligations, which primarily relate to make-good clauses in operating leases for its delivery centers, at estimated fair value. The associated asset retirement obligations are capitalized as part of the carrying amount of the underlying asset and depreciated over the estimated useful life of the asset. The liability, reported within Other Long-Term Liabilities, is accreted through charges to operating expenses. If the asset retirement obligation is settled for at other than the carrying amount of the liability, the Company recognizes a gain or loss on settlement.

Recently Issued Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS 157) which defines fair value, establishes a framework for measurement and expands disclosure about fair value measurements. Where applicable, SFAS 157 simplifies and codifies related guidance within generally accepted accounting principles. Except for non-financial assets and liabilities recognized on a non-recurring basis, the Company adopted SFAS 157 in the first quarter of 2008. As permitted by FASB Staff Position, FSP FAS 157-2, the Company will adopt SFAS 157 for non-financial assets and liabilities recognized on a non-recurring basis as of January 1, 2009. Adoption of SFAS 157 in the first quarter of 2008 did not have a significant impact on the Company s results of operations, financial position or cash flows. The Company is still evaluating the impact, if any, that adoption of SFAS 157 will have in the first quarter of 2009 for the remaining assets and liabilities included on the Company s results of operations, financial position or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value, with unrealized gains and losses related to these financial instruments reported in earnings at each subsequent reporting date. The decision about whether to elect the fair value option is generally: (i) applied instrument by instrument; (ii) irrevocable (unless a new election date occurs, as discussed in SFAS 157); and (iii) applied only to an entire instrument and not to only specified risks, specific cash flows, or portions of that instrument. Under SFAS 159, financial instruments, for which the fair value option is elected, must be valued in accordance with SFAS 157 (as above) and must be marked to market each period through the income statement. Upon adoption on January 1, 2008, the Company has not elected to change its accounting for any of its financial instruments as permitted by SFAS 159. Therefore, the adoption of SFAS 159 did not have a material impact on the Company s results of operations, financial position or cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised), *Business Combinations a replacement of FASB Statement No. 141* (SFAS 141(R)), which significantly changes the principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This statement is effective prospectively, except for certain retrospective adjustments to deferred tax balances, for fiscal years beginning after December 15, 2008. This statement will be effective for the Company beginning in 2009. The Company does not expect that this pronouncement will have a material impact on its results of operations, financial position, or cash flows.

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51* (SFAS 160). This statement establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 requires non-controlling interests in subsidiaries initially to be measured at fair value and classified as a separate component of equity. SFAS 160 also requires a new

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presentation on the face of the consolidated financial statements to separately report the amounts attributable to controlling and non-controlling interests. This statement is effective prospectively, except for certain retrospective disclosure requirements, for fiscal years beginning after December 15, 2008. This statement will be effective for the Company beginning in 2009. Upon adoption, the Company will change the presentation of its non-controlling interests in its Consolidated Financial Statements to comply with the requirements of SFAS 160.

In February 2008, the FAB issued FASB Staff Position (FSP) No. FAS 140-3 (FSP FAS 140-3), *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*. FSP FAS 140-3 concludes that a transferor and transferee should not separately account for a transfer of a financial asset and a related repurchase financing unless the two transactions have a valid and distinct business or economic purpose for being entered into separately and the repurchase financing does not result in the initial transferor regaining control over the financial asset. FSP FAS 140-3 is effective for financial statements issued for fiscal years beginning on or after November 15, 2008. The Company does not anticipate that the adoption of this pronouncement to have a material effect on its results of operations, financial position, or cash flows.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). SFAS 161 amends SFAS 133 s disclosure requirements related to (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for under SFAS 133 and related interpretations, and (iii) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. The new disclosures will be expanded to include more tables and discussion about the qualitative aspects of the Company s hedging strategies. The is effective January 1, 2009. Since SFAS No. 161 requires only additional disclosures concerning derivatives and hedging activities, adoption of SFAS No. 161 will not affect the Company s financial condition, results of operations or cash flows.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions that are used to determine the useful life of a recognized intangible asset. FSP FAS 142-3 also requires expanded disclosure related to the determination of intangible asset useful lives. FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company does not expect this pronouncement to have a material impact on its results of operations, financial position, or cash flows.

In May 2008, the FASB issued FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting principles to be used in the preparation and presentation of financial statements in accordance with accounting principles generally accepted in the United States of America. SFAS 162 will become effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. This pronouncement did not have a material impact on the Company s results of operations, financial position, or cash flows.

In October 2008, as a result of the recent credit crisis, the FASB issued FSP No. FAS 157-3 (FSP FAS 157-3), *Determining the Fair Value of a Financial Asset in a Market That is Not Active*. FSP FAS 157-3 clarifies the application of SFAS 157 in a market that is not active. FSP FAS 157-3 addresses how management should consider measuring fair value when relevant observable data does not exist. FSP FAS 157-3 also provides guidance on how observable market information in a market that is not active should be considered when measuring fair value, as well as how the use of market quotes should be considered when assessing the relevance of observable and unobservable

data available to measure fair value. FSP FAS 157-3 is effective upon issuance for companies that have adopted SFAS 157. The

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adoption of FSP FAS 157-3 did not have a material impact on the Company s results of operations, financial position or cash flows.

(2) DISPOSITIONS AND ACQUISITIONS

Dispositions

Database Marketing and Consulting

On September 27, 2007, Newgen Results Corporation and related companies (hereinafter collectively referred to as Newgen) and the Company entered into an asset purchase agreement to sell substantially all of the assets and certain liabilities associated with its Database Marketing and Consulting business. As a result of the transaction, which was completed on September 28, 2007, Newgen received $3.2 million in cash and the Company recorded a loss on disposal of $6.1 million.

In addition to the asset purchase agreement, Newgen and the Company entered into a transition services agreement to provide the buyer certain transition services for a period not to exceed 90 days. In connection with this agreement, the Company and Newgen allocated $0.5 million of the sale price to account for the fair value of certain services that were recorded in Other, net over the transition period. The services under the transition services agreement were completed as of December 31, 2007.

The Company also entered into a services agreement with the buyer to provide ongoing BPO services that were previously being performed by the Company. Management reviewed the direct cash flows associated with this agreement and compared them to management s estimates of the revenue associated with the Database Marketing and Consulting business. The Company concluded that these direct cash flows were significant. As a result, the operations included in the Database Marketing and Consulting business did not meet the criteria under SFAS 144 to be classified as discontinued operations.

The Company also entered into a software and intellectual property license agreement with the buyer, which provides for exclusive and nonexclusive licenses in certain territories for $2.2 million. In addition, the buyer will pay the Company certain ongoing royalties associated with future revenue generated by the buyer from the use of the software. The agreement required that the Company deliver the software to the buyer, which was completed on September 29, 2007. The agreement does not require the Company to provide any ongoing support for the software. The Company believes that the total consideration of $2.2 million is a reasonable estimate of the fair value of this license and, as such, the Company recorded the $2.2 million in Other, net for the year ended December 31, 2007.

Customer Solutions Mauritius

The Company, through its affiliated company TeleTech Europe B.V., and Bharti Ventures Ltd. entered into a share transfer agreement to sell TeleTech Services (India) Ltd., the Company s Indian joint venture, to Aegis BPO Services Ltd. and certain of its affiliated companies (Aegis). The sale closed on December 18, 2007.

Under the agreement, Aegis agreed to purchase the joint venture, which provided BPO solutions primarily for in-country clients. The Company received $8.7 million for its 60% share of the joint venture. The Company recorded a $7.0 million gain on the transaction in the fourth quarter of 2007.

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A reconciliation of the gain is as follows:

Current assets	$ (840)
Property, plant and equipment	(1,601)
Non-current assets	(1,196)
Liabilities assumed	1,911
Net assets disposed of	(1,726)
Fair value of consideration received, net of costs of sale	8,731
Gain recorded on sale	$ 7,005

Acquisitions

On June 30, 2006, the Company acquired 100 percent of the outstanding common shares of Direct Alliance Corporation (DAC) from Insight Enterprises, Inc. DAC is a provider of e-commerce, professional sales and account management solutions primarily to Fortune 500 companies that sell into and maintain long-standing relationships with small and medium businesses as well as governmental agencies. DAC is included in the Company s North American BPO segment.

The total purchase price of $46.4 million in cash was funded utilizing the Company s Credit Facility. The purchase agreement provides for the seller to (i) receive a future payment of up to $11.0 million based upon the earnings of DAC for the last six months of 2006 exceeding specified amounts and (ii) pay the Company up to $5.0 million in the event certain clients of DAC do not renew, on substantially similar terms, their service agreement with DAC as set forth in the purchase agreement. DAC did not meet the base targets for 2006 and therefore no adjustment to the purchase price was made for the first item. The Company has made a claim against Insight under item (ii) for the purchase price adjustment of $5.0 million. Insight is disputing this claim. In accordance with the stock purchase agreement, this dispute will be decided in arbitration. Therefore, no adjustment to the purchase price or the Company s allocation of the purchase price has been made at this time.

The following table presents the pro-forma combined results of operations assuming (i) DAC s historical unaudited financial results; (ii) the DAC acquisition closed on January 1, 2006; (iii) pro-forma amortization expense of the intangible assets and (iv) pro-forma interest expense assuming the Company utilized its Credit Facility to finance the acquisition (amounts in thousands):

	(Unaudited) Year Ended December 31, 2006
Revenue	$ 1,244,848
Income from operations	$ 76,371

Net income	$	51,571
Weighted average shares outstanding		
Basic		69,184
Diluted		69,869
Net income per share		
Basic	$	0.75
Diluted	$	0.74

The pro-forma results above are not necessarily indicative of the operating results that would have actually occurred if the acquisition had been in effect on the date indicated, nor are they necessarily indicative of future results of the combined companies.

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(3) DECONSOLIDATION OF A SUBSIDIARY

On December 22, 2008, Newgen Results Corporation, a wholly-owned subsidiary of the Company, filed a voluntary petition for liquidation under Chapter 7 in the United States Bankruptcy Court for the District of Delaware. Under Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, a consolidation of a majority-owned subsidiary is precluded where control does not rest with the majority owners. Under these rules, legal reorganization or bankruptcy represents conditions that can preclude consolidation as control rests with the Bankruptcy Court, rather than the majority owner. Accordingly, the Company deconsolidated Newgen Results Corporation as of December 22, 2008. As a result, the Company has reflected its negative investment of $4.9 million on the Consolidated Balance Sheet as of December 31, 2008.

The following condensed financial statements of Newgen Results Corporation have been prepared in accordance with American Institute of Certified Public Accountants Statement of Position 90-7, *Financial Reporting by Entities in Reorganization under the Bankruptcy Code*, which requires the liabilities subject to compromise by the Bankruptcy Court to be reported separately from the liabilities not subject to compromise. All liabilities included in the condensed financial statements below are subject to compromise as of December 31, 2008 and represent the current estimate of the amount of known or potential pre-petition claims that are subject to final settlement. Such claims remain subject to future adjustments.

	December 22, 2008	December 31, 2008
Total current assets	$ 1,700	$ 1,700
Total long-term assets	3,110	2,379
Total assets	4,810	4,079
Total current liabilities	$ 3,931	$ 7,886
Total long-term liabilities	5,744	
Total liabilities	9,675	7,886
Total stockholders deficit	(4,865)	(3,807)
Total liabilities and stockholders deficit	$ 4,810	$ 4,079

(4) SEGMENT INFORMATION

The Company serves its clients through the primary business of BPO services.

The Company s BPO business provides outsourced business process and customer management services for a variety of industries through global delivery centers and represents 100% of total annual revenue. When the Company begins operations in a new country, it determines whether the country is intended primarily to serve U.S.-based clients, in which case the country is included in the North American BPO segment. If the country is intended to serve domestic clients from that country and U.S.-based clients, or clients from another country, then the country is included in the

International BPO segment. This is consistent with the Company s management of the business, internal financial

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reporting structure and operating focus. Operations for each segment of the Company s BPO business are conducted in the following countries:

North American BPO	International BPO
United States	Argentina
Canada	Australia
Philippines	Brazil
	China
	Costa Rica
	England
	Germany
	Malaysia
	Mexico
	New Zealand
	Northern Ireland
	Scotland
	South Africa
	Spain

The Database Marketing and Consulting segment, of which the Company sold substantially all the assets and liabilities in September 2007, provided outsourced database management, direct marketing and related customer acquisitions and retention services for automobile dealerships and manufacturers in North America. During 2007, income from operations was reduced by $20.4 million related to asset impairment and restructuring charges for this business. Income from Operations Before Income Taxes and Minority Interest was reduced by $24.3 million which includes the $20.4 million of asset impairment and restructuring charges discussed above along with a $3.9 million net charge comprised of a loss on the sale of assets of $6.1 million partially offset by software license income of $2.2 million both of which were recorded in Other, Net. See Notes 7 and 12 for further discussion on these impairments. On December 22, 2008, as discussed in Note 3, Newgen Results Corporation, which comprises the Database Marketing and Consulting segment, filed a voluntary petition for liquidation under Chapter 7 in the United States Bankruptcy Court for the District of Delaware. Accordingly, the Company deconsolidated Newgen Results Corporation as of December 22, 2008.

The Company allocates to each segment its portion of corporate operating expenses. All inter company transactions between the reported segments for the periods presented have been eliminated.

One of the Company s strategies is to secure additional business through the lower cost opportunities offered by certain foreign countries. Accordingly, the Company contracts with certain clients in one country to provide services from delivery centers in other foreign countries including Argentina, Brazil, Canada, Costa Rica, Mexico, Malaysia, the Philippines and South Africa. Under this arrangement, the contracting subsidiary invoices and collects from its local clients, while also entering into a contract with the foreign operating subsidiary to reimburse the foreign subsidiary for its costs plus a reasonable profit. This reimbursement is reflected as revenue by the foreign subsidiary. As a result, a portion of the revenue from these client contracts is recorded by the contracting subsidiary, while a portion is recorded by the foreign operating subsidiary. For U.S. clients served from Canada and the Philippines, which represents the

majority of these arrangements, all the revenue remains within the North American BPO segment. For European and Asia Pacific clients served from the Philippines, a portion of the revenue is reflected in the North American BPO segment. For U.S. clients served from Argentina and Mexico, a portion of the revenue is reflected in the International BPO segment.

For the years ended December 31, 2008, 2007 and 2006, approximately $5.9 million, $2.0 million and $0.2 million, respectively, of income from operations in the North American BPO segment were generated from these arrangements. For the years ended December 31, 2008, 2007 and 2006,

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approximately $23.7 million, $16.8 million and $7.4 million, respectively, of income from operations in the International BPO segment were generated from these arrangements.

The following tables present certain financial data by segment (amounts in thousands):

	As of and for the Year Ended December 31,		
	2008	**2007**	**2006**
Revenue			
North American BPO	$ 974,815	$ 955,810	$ 814,419
International BPO	425,332	396,080	356,106
Database Marketing and Consulting		17,742	40,228
Total	$ 1,400,147	$ 1,369,632	$ 1,210,753
Depreciation and amortization			
North American BPO	$ 36,521	$ 31,964	$ 27,918
International BPO	22,631	20,076	16,569
Database Marketing and Consulting	14	3,913	7,502
Total	$ 59,166	$ 55,953	$ 51,989
Income from operations			
North American BPO	$ 100,236	$ 106,102	$ 85,639
International BPO	9,278	8,327	3,219
Database Marketing and Consulting	(556)	(32,641)	(15,093)
Total	$ 108,958	$ 81,788	$ 73,765
Capital expenditures			
North American BPO	$ 40,216	$ 42,445	$ 46,265
International BPO	25,772	18,008	18,149
Database Marketing and Consulting		630	1,602
Total	$ 65,988	$ 61,083	$ 66,016
Assets			
North American BPO	$ 432,450	$ 469,261	$ 390,889
International BPO	236,492	288,757	238,887
Database Marketing and Consulting		2,277	34,645
Total	$ 668,942	$ 760,295	$ 664,421

Goodwill			
North American BPO	$ 35,885	$ 35,885	$ 35,885
International BPO	8,265	9,269	8,613
Database Marketing and Consulting			13,361
Total	$ 44,150	$ 45,154	$ 57,859

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The following tables present certain financial data based upon the geographic location where the services are provided (amounts in thousands):

	As of and for the Year Ended December 31,		
	2008	2007	2006
Revenue			
United States	$ 407,546	$ 431,602	$ 441,821
Latin America	304,093	234,167	171,658
Philippines	290,402	222,499	122,950
Canada	154,190	203,061	205,691
Europe	151,069	146,451	141,550
Asia Pacific / Africa	92,847	131,852	127,083
Total	$ 1,400,147	$ 1,369,632	$ 1,210,753
Property, plant and equipment, gross			
United States	$ 261,064	$ 241,660	$ 275,214
Latin America	82,201	88,823	66,863
Philippines	71,974	62,044	35,759
Canada	49,813	63,126	58,177
Europe	19,226	16,206	15,618
Asia Pacific / Africa	22,620	52,824	51,256
Total	$ 506,898	$ 524,683	$ 502,887
Other long-term assets			
United States	$ 15,836	$ 25,139	$ 17,918
Latin America	1,814	3,363	3,627
Philippines	2,573	2,555	2,050
Canada	561	631	4,648
Europe	781	726	900
Asia Pacific / Africa	1,497	1,345	1,366
Total	$ 23,062	$ 33,759	$ 30,509

(5) ACCOUNTS RECEIVABLE AND SIGNIFICANT CLIENTS

Accounts Receivable in the accompanying Consolidated Balance Sheets consists of the following (amounts in thousands):

	December 31,	
	2008	2007
Accounts receivable	$ 242,548	$ 275,713
Less: Allowance for doubtful accounts	(5,551)	(4,725)
Accounts receivable, net	$ 236,997	$ 270,988

Activity in the Company s Allowance for Doubtful Accounts consists of the following (amounts in thousands):

	Year Ended December 31,		
	2008	2007	2006
Balance, beginning of year	$ 4,725	$ 4,720	$ 3,422
Provision for doubtful accounts	1,990	576	2,723
Deductions for uncollectible receivables written-off	(193)	(380)	(466)
Effect of foreign currency	(971)	(191)	(959)
Balance, end of year	$ 5,551	$ 4,725	$ 4,720

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Company had one client, Sprint Nextel Corporation that contributed in excess of 10% of total revenue for the years ended December 31, 2008, 2007 and 2006, which operates in the communications industry. The revenue from this client as a percentage of total revenue was as follows:

	Year Ended December 31,		
	2008	**2007**	**2006**
Sprint Nextel	13.0%	14.9%	15.5%

Accounts receivable from Sprint Nextel Corporation were as follows (amounts in thousands):

	Year Ended December 31,	
	2008	**2007**
	$ 20,979	$ 37,347

The loss of one or more of its significant clients could have a material adverse effect on the Company s business, operating results, or financial condition. The Company does not require collateral from its clients. To limit the Company s credit risk, management performs ongoing credit evaluations of its clients and maintains allowances for uncollectible accounts. Although the Company is impacted by economic conditions in various industry segments, management does not believe significant credit risk exists as of December 31, 2008.

(6) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following (amounts in thousands):

	December 31,	
	2008	**2007**
Land and buildings	$ 44,532	$ 44,532
Computer equipment and software	215,688	214,714
Telephone equipment	47,692	57,037
Furniture and fixtures	54,402	56,353
Leasehold improvements	143,105	142,597
Construction-in-progress	1,333	6,351
Other	146	3,099
Property, plant and equipment, gross	506,898	524,683
Less: Accumulated depreciation and amortization	(349,151)	(349,874)
Property, plant and equipment, net	$ 157,747	$ 174,809

Depreciation and amortization expense for property, plant and equipment was $57.6 million, $54.3 million and $50.8 million for the years ended December 31, 2008, 2007 and 2006, respectively.

In addition, the Company had $0.4 million and $1.0 million of unamortized Software Development Costs as of December 31, 2008 and 2007, respectively. Amortization expense for Software Development Costs was $1.0 million, $3.1 million and $4.5 million for the years ended December 31, 2008, 2007 and 2006, respectively, which is included in the depreciation and amortization expense for property, plant and equipment discussed above.

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(7) GOODWILL

Goodwill consisted of the following (amounts in thousands):

	December 31, 2007	Acquisitions	Impairments	Effect of Foreign Currency	December 31, 2008
North American BPO	$ 35,885	$	$	$	$ 35,885
International BPO	9,269			(1,004)	8,265
Database Marketing and Consulting					
Total	$ 45,154	$	$	$ (1,004)	$ 44,150

	December 31, 2006	Acquisitions	Impairments	Effect of Foreign Currency	December 31, 2007
North American BPO	$ 35,885	$	$	$	$ 35,885
International BPO	8,613			656	9,269
Database Marketing and Consulting	13,361		(13,361)		
Total	$ 57,859	$	$ (13,361)	$ 656	$ 45,154

Impairment

The Company performs impairment testing of its goodwill balances annually in the fourth quarter, unless circumstances indicate potential impairment in a preceding quarter. There were no impairments indicated for the North American BPO or the International BPO based upon this testing.

In the second quarter of 2007, management determined that the carrying value of the Database Marketing and Consulting business goodwill should be reviewed for potential impairment. Management reached this conclusion due to repeated quarterly losses by the operations of the business, the deterioration of the automobile industry, which was the business market, and indications of lower value from interested third-parties to a possible sale of the business. As required by SFAS 142 the Company performed a two-step analysis of the fair value of the business goodwill.

The first step of the impairment testing indicated that the carrying value of the Database Marketing and Consulting business exceeded its fair value. The Company determined the fair value of the business using a discounted future cash flow method and compared the result to indications of fair market value received from interested third-party purchasers of the Database Marketing and Consulting business, based on the probability of the different outcomes. Because the first step indicated a potential impairment, the Company performed the second step required by

SFAS 142.

The second step of the impairment testing indicated that the book value of the reporting unit s goodwill exceeded the implied fair value of that goodwill. The implied fair value was determined by reviewing the business current assets and liabilities; property, plant and equipment; and other identifiable intangible assets (both those recorded and not recorded) to determine the appropriate fair value of the business assets and liabilities in a hypothetical purchase accounting analysis. The fair value of these items based on the hypothetical analysis was then compared to the fair value used in the step one test (the hypothetical purchase price) to calculate the implied fair value of the business goodwill. The implied fair value of the business goodwill was zero. As a result, an impairment charge of $13.4 million for the entirety of the business goodwill was recorded during the second quarter of 2007. This was recorded in Impairment Losses in the accompanying Consolidated Statement of Operations and Comprehensive Income. See discussion of the sale of the Database Marketing and Consulting business in Note 2.

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(8) CONTRACT ACQUISITION COSTS

Contract acquisition costs, net consisted of the following (amounts in thousands):

	December 31, 2008	December 31, 2007
Contract acquisition costs, gross	$ 26,802	$ 23,811
Less: Accumulated amortization	(19,211)	(16,827)
Contract acquisition costs, net	$ 7,591	$ 6,984

Amortization of contract acquisition costs recorded as a reduction to Revenue was $2.4 million, $2.5 million and $3.4 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Expected future amortization of contract acquisition costs is as follows (amounts in thousands):

2009	$ 3,111
2010	2,407
2011	1,968
2012	105
Total	$ 7,591

(9) OTHER INTANGIBLE ASSETS

Other intangible assets consisted of the following (amounts in thousands):

	As of December 31, 2008		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Customer relationships	$ 11,445	$ (5,494)	$ 5,951
Trade name indefinite life	1,800		1,800
	$ 13,245	$ (5,494)	$ 7,751

	As of December 31, 2007		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Customer relationships	$ 12,689	$ (4,937)	$ 7,752
Trade name indefinite life	1,800		1,800
	$ 14,489	$ (4,937)	$ 9,552

Amortization expense related to other intangible assets was $1.6 million, $1.7 million and $1.2 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Expected future amortization of Other Intangible Assets is as follows (amounts in thousands):

2009	$ 1,206
2010	730
2011	730
2012	730
Thereafter	2,555
Total	$ 5,951

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(10) DERIVATIVES

Cash Flow Hedges

The Company enters into foreign exchange forward and option contracts to reduce its exposure to foreign currency exchange rate fluctuations that are associated with forecasted revenue in non-functional currencies. These contracts are designated as cash flow hedges. The following table summarizes the aggregate unrealized net gain and loss in Accumulated Other Comprehensive Income (Loss) for the years ended December 31, 2008, 2007 and 2006 (amounts in thousands and net of tax):

	Year Ended December 31,		
	2008	2007	2006
Aggregate unrealized net gain (loss) at beginning of year	$ 21,417	$ (176)	$ 4,749
Net gain reclassified to earnings	(2,973)	(8,295)	(3,810)
Change in fair value of cash flow hedges	(39,624)	29,888	(1,115)
Aggregate unrealized net (loss) gain at end of year	$ (21,180)	$ 21,417	$ (176)

The Company s cash flow hedging instruments as of December 31, 2008 and 2007 are summarized as follows (amounts in thousands). All hedging instruments are forward contracts, except as noted.

2008	Local Currency Notional Amount	U.S. Dollar Amount	% Maturing in 2009	Contracts Maturing Through
Canadian Dollar	88,300	$ 77,865	54.1%	December 2011
Canadian Dollar Call Options	44,400	39,305	54.1%	December 2010
Philippine Peso	6,656,909	150,418(1)	75.6%	February 2011
Argentine Peso	102,072	29,054(2)	91.2%	May 2010
Mexican Peso	856,500	70,530	68.0%	September 2011
S. African Rand	92,000	8,399	81.5%	February 2010
British Pound Sterling	1,725	2,537(3)	44.3%	March 2011
		$ 378,108		

&nbarked accordingly. The confidential portions have been

provided separately to the SEC pursuant to the confidential treatment request.

**
Furnished herewith.

Denotes management contract or compensatory plan or arrangement.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized, in Princeton, Mercer County, State of New Jersey, on this 29th day of January 2014.

ADVAXIS, INC.

By: /s/ Daniel J. O'Connor
Daniel J. O'Connor, Chief Executive Officer and Director

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Daniel J. O'Connor and Mark J. Rosenblum (with full power to act alone), as his true and lawful attorneys-in-fact and agents, with full powers of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitute or substitutes, lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

SIGNATURE	Title	DATE
/s/ Daniel J. O'Connor Daniel J. O'Connor	President, Chief Executive Officer and Director (Principal Executive Officer)	January 29, 2014
/s/ Mark J. Rosenblum Mark J. Rosenblum	Chief Financial Officer, Senior Vice President and Secretary (Principal Financial and Accounting Officer)	January 29, 2014
/s/ James Patton James Patton	Chairman of the Board	January 29, 2014
/s/ Roni Appel Roni Appel	Director	January 29, 2014
/s/ Richard Berman Richard Berman	Director	January 29, 2014
/s/ Thomas McKearn Thomas McKearn	Director	January 29, 2014

/s/ Thomas Moore Thomas Moore	Director	January 29, 2014
/s/ David Sidransky David Sidransky	Director	January 29, 2014

ADVAXIS, INC.

FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee of the
Board of Directors and Shareholders of
Advaxis, Inc.

We have audited the accompanying balance sheets of Advaxis, Inc. (a development stage company) (the "Company") as of October 31, 2013 and 2012, and the related statements of operations, changes in shareholders' equity (deficiency) and cash flows for the years then ended and for the cumulative period from March 1, 2002 (inception) to October 31, 2013. The financial statements for the period from March 1, 2002 (inception) through October 31, 2011 were audited by other auditors. The financial statements for the period from March 1, 2002 (inception) to October 31, 2011 include total revenues and net loss of $1,863,343 and $35,487,856, respectively. Our opinion on the statements of operations, shareholders' equity (deficiency) and cash flows for the period from March 1, 2002 (inception) to October 31, 2013, insofar as it relates to amounts through October 31, 2011 is based solely on the report of the other auditors. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial position of Advaxis, Inc. (a development stage company), as of October 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended and the cumulative period from March 1, 2002 (inception) to October 31, 2013 in conformity with accounting principles generally accepted in the United States of America.

/s/ Marcum llp

New York, NY
January 29, 2014

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders

Advaxis, Inc.
Princeton, New Jersey

We have audited the statements of operations, stockholders' equity (deficiency), and cash flows for the cumulative period from March 1, 2002 (inception) to October 31, 2011 of Advaxis, Inc. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations of Advaxis, Inc. and its cash flows for the cumulative period from March 1, 2002 (inception) to October 31, 2011 in conformity with U.S. generally accepted accounting principles.

/s/ McGLADREY LLP
McGLADREY LLP

New York, New York

January 26, 2012, except for the last paragraph of Note 1, as to which the date is July 12, 2013

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ADVAXIS, INC.
(A Development Stage Company)

	October 31, 2013		October 31, 2012	
ASSETS				
Current Assets:				
Cash	$	20,552,062	$	232
Prepaid Expenses		31,255		25,798
Other Current Assets		8,182		8,182
Deferred Expenses - current		218,007		860,293
Total Current Assets		20,809,506		894,505
Deferred Expenses long-term		129,041		342,007
Property and Equipment (net of accumulated depreciation)		80,385		78,068
Intangible Assets (net of accumulated amortization)		2,528,551		2,413,755
Deferred Financing Cost (net of accumulated amortization)		-		49,024
Other Assets		38,438		38,438
TOTAL ASSETS	$	23,585,921	$	3,815,797
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)				
Current Liabilities:				
Accounts Payable	$	3,841,771	$	5,155,797
Accrued Expenses		869,260		1,367,412
Short-term Convertible Notes and Fair Value of Embedded Derivative		62,882		2,089,099
Notes Payable Officer (including interest payable)		163,132		477,274
Notes Payable other		-		250,000
Total Current Liabilities		4,937,045		9,339,582
Deferred Rent		-		4,803
Common Stock Warrant Liability		646,734		434,136
Total Liabilities		5,583,779		9,778,521
Commitments and Contingencies				
Shareholders' Deficiency:				
Preferred Stock, $0.001 par value; 5,000,000 shares authorized; Series B Preferred Stock; issued and outstanding 0 at October 31, 2013 and 740 at October 31, 2012. Liquidation preference of $0 at October 31, 2013 and $9,722,570 at October 31, 2012.				
Common Stock - $0.001 par value; authorized 25,000,000 shares, issued and outstanding 13,719,861 at October 31 2013 and 3,158,419 at October 31, 2012.		13,720		3,158
Additional Paid-In Capital		88,454,245		52,119,567
Promissory Note Receivable		-		(10,484,022)

Deficit Accumulated During the Development Stage		(70,465,823)		(47,601,427)
Total Shareholders' Equity (Deficiency)		18,002,142		(5,962,724)
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY (DEFICIENCY)	$	23,585,921	$	3,815,797

The accompanying notes should be read in conjunction with the financial statements.

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ADVAXIS, INC.
(A Development Stage Company)
Statement of Operations

	Year Ended October 31, 2013		Year Ended October 31, 2012		Period from March 1, 2002 (Inception) to October 31, 2013	
Revenue	$	-	$	-	$	1,863,343
Research & Development Expenses		5,621,989		6,646,094		35,424,823
General & Administrative Expenses		9,071,613		5,688,677		35,940,123
Total Operating expenses		14,693,602		12,334,771		71,364,946
Loss from Operations		(14,693,602)		(12,334,771)		(69,501,603)
Other Income (expense):						
Interest Expense		(987,746)		(4,536,528)		(15,973,612)
Other Income (Expense)		(70,876)		12,002		188,833
(Loss) on Note Retirement		(3,455,327)		(2,187,787)		(4,448,269)
Gain (Loss) on Change in Fair Value of Common Stock Warrant Liability and Embedded Derivative Liability		(1,504,465)		6,630,610		19,537,832
Net Loss before Income ax Benefit		(20,712,016)		(12,416,474)		(70,196,819)
Income Tax Benefit		725,190		346,787		2,652,450
Net Loss		(19,986,826)		(12,069,687)		(67,544,369)
Dividends Attributable to Preferred Shares		555,000		740,000		2,877,570
Net Loss applicable to Common Stock	$	(20,541,826)	$	(12,809,687)	$	(70,421,939)
Net Loss per Common Share, Basic and Diluted	$	(4.10)	$	(4.99)		
Weighted average number of common shares outstanding, basic and diluted		5,012,105		2,564,820		

The accompanying notes should be read in conjunction with the financial statements.

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ADVAXIS, INC.
(a development stage company)
STATEMENT OF SHAREHOLDERS' EQUITY (DEFICIENCY)
Period from March 1, 2002 (inception) to October 31, 2013

	Preferred Stock		Common Stock		Promissory Note and Interest Receivable	Additional Paid-in Capital	Deficit Accumulated During the Development Stage	Shareholders' Equity (Deficiency)
	Number of Shares of Outstanding	Amount	Number of shares of outstanding	Amount				
Preferred stock issued	3,418	$ 235,000						$ 235,000
Common Stock Issued			320	1		$ (1)		
Options granted to consultants & professionals						10,493		10,493
Net Loss							(166,936)	(166,936)
Retroactive restatement to reflect re-capitalization on Nov. 12, 2004	(3,418)	(235,000)	124,461	124		234,876		
Balance at December 31, 2002			124,781	$ 125		$ 245,368	(166,936)	78,557
Note payable converted into preferred stock	232	15,969						$ 15,969
Options granted to consultants and professionals						8,484		8,484
Net loss							(909,745)	(909,745)
Retroactive restatement to reflect re-capitalization on Nov. 12, 2004	(232)	(15,969)				15,969		
Balance at December 31, 2003			124,781	$ 125		$ 269,821	(1,076,681)	(806,735)
Stock dividend on preferred stock	638	43,884					(43,884)	
Net loss							(538,076)	(538,076)
Options granted to consultants and professionals						5,315		5,315
Retroactive restatement to	(638)	(43,884)				43,884		

reflect re-capitalization on Nov. 12, 2004					
Balance at October 31, 2004	124,781	$ 125	$ 319,020	$ (1,658,641)	$ (1,339,496)
Common Stock issued to Placement Agent on re-capitalization	6,020	6	(6)		
Effect of re-capitalization	6,020	6	(6)		
Options granted to consultants and professionals			64,924		64,924
Conversion of Note payable to Common Stock	17,091	17	613,141		613,158
Issuance of Common Stock for cash, net of shares to Placement Agent	139,605	140	4,352,860		4,353,000
Issuance of common stock to consultants	4,695	5	166,772		166,777
Issuance of common stock in connection with the registration statement	3,275	3	117,495		117,498
Issuance costs			(329,673)		(329,673)
Net loss				(1,805,789)	(1,805,789)
Restatement to reflect re-capitalization on Nov. 12, 2004 including cash paid of $44,940			(88,824)		(88,824)
Balance at October 31, 2005	301,487	$ 302	$ 5,215,703	$ (3,464,430)	$ 1,751,575
Options granted to consultants and professionals			172,831		172,831
Options granted to employees and directors			71,667		71,667
	14,135	14	299,986		300,000

Conversion of debenture to Common Stock					
Issuance of Common Stock to employees and directors	1,835	2	54,856		54,858
Issuance of common stock to consultants	4,449	4	139,668		139,672
Net loss				(6,197,744)	(6,197,744)
Balance at October 31, 2006	321,906	$ 322	5,954,710	(9,662,173)	(3,707,141)
Common Stock issued	473,826	474	9,380,428		9,380,902
Offering Expenses			(2,243,535)		(2,243,535)
Options granted to consultants and professionals			268,577		268,577
Options granted to employees and directors			222,501		222,501
Conversion of debenture to Common Stock	55,793	56	999,944		1,000,000
Issuance of Common Stock to employees and directors	3,331	3	73,797		73,800
Issuance of common stock to consultants	8,800	9	221,769		221,778
Warrants issued on conjunction with issuance of common stock			1,505,550		1,505,550
Net loss				(2,454,453)	(2,454,453)
Balance at October 31, 2007	863,656	$ 864	$ 16,383,741	$ (12,116,626)	$ 4,267,979
Common Stock Penalty Shares	1,694	2	31,776		31,778
Offering Expenses			(78,013)		(78,013)
Options granted to consultants and professionals			(42,306)		(42,306)
Options granted to employees and directors			257,854		257,854
Issuance of Common Stock to employees and	7,966	8	85,993		86,001

directors							
Issuance of common stock to consultants		1,230	1		14,615		14,616
Warrants issued to consultant					39,198		39,198
Net loss						(5,416,418)	(5,416,418)
Balance at October 31, 2008		874,546	$ 875		$ 16,692,858	$ (17,533,044)	$ (839,311)
Common stock issued upon exercise of warrants		26,400	26		(26)		0
Warrants classified as a liability					(12,785,695)		(12,785,695)
Issuance of common Stock Warrants					(3,587,625)		(3,587,625)
Options granted to professionals and consultants					12,596		12,596
Options granted to employees and directors			0		467,304		467,304
Issuance of common stock to employees and directors		3,382	3		18,177		18,180
Issuance of common stock to consultants		20,768	21		51,958		51,979
Net Income						929,244	929,244
Balance at October 31, 2009		925,096	$ 925		$ 869,547	$ (16,603,800)	$ (15,733,328)
Preferred Stock issued	789				6,828,293		6,828,293
Common stock issued upon exercise of warrants		498,120	498	(10,659,710)	18,709,289		8,050,077
Options granted to employees and					455,166		455,166

directors							
Common stock issued upon conversion of Bridge Notes		123,312	123		3,321,968		3,322,091
Common stock issued to Numoda		28,000	28		594,972		595,000
Common stock issued to University of Pennsylvania		3,111	3		69,997		70,000
Common stock issued to employees and directors		6,000	6		115,494		115,500
Common stock issued to former employees		1,157	1		(1)		
Issuance of common stock warrants					(7,693,230)		(7,693,230)
Net Loss						(10,812,200)	(10,812,200)
Balance at October 31, 2010	789	1,584,796	$ 1,584	$ (10,659,710)	$ 23,271,495	$ (27,416,000)	$ (14,802,631)
Preferred Stock issued	177				1,676,554		1,676,554
Preferred Stock redeemed	(226)			3,051,000	(3,141,003)		(90,003)
Common stock issued upon exercise of warrants		183,889	184	(2,389,500)	5,805,313		3,415,997
Options granted to employees and directors					717,029		717,029
Options granted to consultants					28,197		28,197
Common stock issued upon conversion of Bridge Notes		76,106	76		1,818,641		1,818,717
Common stock issued upon exchange of warrants		46,725	47		1,533,918		1,533,965
		101,177	101		2,263,082		2,263,183

Common stock issued upon conversion of May 2011 Notes							
Common stock issued to former employee		6,017	6		81,525		81,531
Common stock issued to consultants		2,667	3		49,997		50,000
Reclassification of warrant liability to equity					36,982		36,982
Reclassification of Embedded Derivative Liability to Beneficial Conversion Feature					132,488		132,488
Interest on Optimus Notes Receivable					202,856		202,856
Reclassification of interest receivable to-date on Optimus notes				(285,300)			(285,300)
Issuance of common stock warrants					(1,228,838)		(1,228,838)
Net Loss						(8,115,740)	(8,115,740)
Balance at October 31, 2011	740	2,001,377	$ 2,001	(10,283,510)	33,248,236	(35,531,740)	(12,565,013)
Stock compensation to employees, directors and consultants					1,146,843		1,146,843
Issuance of shares upon conversion of convertible promissory notes		243,433	243		5,288,306		5,288,549

Fair value of equity warrants issued in connection with Rodman May 2012 Financing				279,807	279,807
Common stock issued upon exercise of warrants	21,961	22		411,742	411,765
Common stock issued upon exchange of warrants	12,777	13		223,583	223,596
Common stock issued upon conversion of JMJ Notes	66,607	67		665,974	666,041
Common stock issued to directors as earned stock compensation	7,997	8		32,550	32,558
Common stock issued to consultants	3,321	3		39,854	39,857
Issuance of shares to employees under ESPP Plan	1,656	2		18,299	18,301
Issuance of shares to investors as part of the May 2012 Debt for Equity Exchange	422,209	422		6,048,995	6,049,397
Interest on Optimus Notes Receivable			(200,512)	200,512	
Issuance of shares under	120,000	120		1,379,880	1,380,000

Numoda Stock Purchase Agreement							
Issuance of shares under JMJ Settlement Agreement		64,615	65		1,069,935		1,070,000
Exchange of Platinum Bridge Note					260,705		260,705
Issuance of shares to Socius		192,466	192		1,804,368		1,804,559
Net Loss						(12,069,687)	(12,069,687)
Balance at October 31, 2012	740	3,158,419	$ 3,158	$ (10,484,022)	$ 52,119,567	$ (47,601,427)	$ (5,962,724)
Stock compensation to employees, directors and consultants					2,855,183		2,855,183
Issuance of shares upon conversion of convertible promissory notes		1,285,706	1,286		5,763,660		5,764,946
Common stock issued upon exercise of warrants		493,675	494		2,308,006		2,308,500
Common stock issued to consultants		393,459	393		1,690,809		1,691,202
Issuance of shares to employees under ESPP Plan		6,334	6		28,034		28,040
Issuance of shares to investors under stock purchase agreements		36,888	37		127,214		127,251
				(149,562)	149,562		

Interest on Optimus Notes Receivable							
Fractional shares cashed out		(1,604)	(2)		2		-
Issuance of shares under Hanover Equity Line		387,224	387		3,120,902		3,121,290
Issuance of shares under Ironridge Settlement		267,117	267		934,643		934,910
To record Beneficial Conversion Feature on convertible promissory notes					118,190		118,190
Notice of Redemption and Settlement Agreement with Optimus	(740)	33,750	34	10,633,584	(7,756,048)	(2,877,570)	-
Issuance of shares to Socius		4,981	5		24,902		24,907
Brio Settlement		21,742	22		232,348		232,370
Issuance of earned but not issued shares to former employees		70,554	71		(71)		-
Partial conversion of Moore Notes		40,783	41		150,449		150,490
Issuance of shares under exchange agreement with Redwood		125,000	125		699.875		700,000
Issuance of shares under conversion agreement		783,333	783		2,803,549		2,804,332

with JMJ							
Advaxis Public Offering		6,612,500	6,613		23,083,469		23,090,081
Net Loss						(19,986,826)	(19,986,826)
Balance at October 31, 2013	-	13,719,861	$ 13,720	$ -	$ 88,454,245	$ (70,465,823)	$ 18,002,142

The accompanying notes should be read in conjunction with the financial statements.

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ADVAXIS, INC.
(A Development Stage Company)
Statement of Cash Flows

	Year ended October 31, 2013		Year ended October 31, 2012		Period from March 1 2002 (Inception) to October 31, 2013	
OPERATING ACTIVITIES						
Net Loss	$	(19,986,826)	$	(12,069,687)	$	(67,544,369)
Adjustments to reconcile net loss to net cash used in operating activities:						
Non-cash charges to consultants and employees for options and stock		4,545,992		1,146,843		9,526,038
Amortization of deferred financing costs		85,943		78,824		424,767
Amortization of discount on convertible promissory notes		18,392		1,553,984		2,728,769
Impairment of intangible assets		-		-		26,087
Non-cash interest expense		845,200		2,844,456		12,339,212
(Gain) Loss on change in value of warrants and embedded derivative		1,504,465		(6,630,610)		(19,537,831)
Warrant expense		123,744		150		888,104
Settlement expense		764,335		265,000		1,029,335
Employee Stock Purchase Plan expense		28,055		18,301		46,356
Value of penalty shares issued		-		-		149,276
Depreciation expense		19,299		13,776		228,747
Amortization expense of intangibles		159,337		148,002		901,979
Write off of intangible assets		-		-		33,211
Interest Income		-		-		267
Loss on note retirement		3,455,327		2,187,787		4,448,269
Change in operating assets and liabilities :						
(Increase) decrease in prepaid expenses		(18,387)		11,676		(44,184)
(Increase) in other current assets		-		(5,961)		(8,182)
(Increase) in other assets		-		-		(132,271)
Decrease in deferred expenses		855,252		177,801		160,680
Increase (Decrease) in accounts payable and accrued expenses		(1,140,901)		5,719,172		11,363,359
Increase in interest payable		31,631		29,779		24,333
(Decrease) in deferred rent		(4,803)		(57,637)		-
Net cash used in operating activities		(8,713,945)		(4,568,344)		(42,948,048)
INVESTING ACTIVITIES						
Cash paid on acquisition of Great Expectations						(44,940)
Proceeds from sale of property and equipment		3,000				3,000
Purchase of property and equipment		(24,616)		(91,844)		(266,553)
Cost of intangible assets		(274,133)		(304,905)		(3,494,778)
Net cash used in Investing Activities		(295,749)		(396,749)		(3,803,271)
FINANCING ACTIVITIES						
Proceeds from convertible notes		2,968,500		3,282,463		20,827,900

Repayment of convertible notes		(690,799)		(52,941)		(2,339,829)
(Increase) decrease in deferred offering expenses		-		(62,000)		(114,000)
Cash paid for deferred financing costs		(66,919)		-		(651,412)
Proceeds from notes payable		-		250,000		250,000
Proceeds from Officer Loan		11,200		74,500		1,455,685
Repayment of Officer Loan		(193,833)		(35,000)		(1,323,833)
Net proceeds of issuance of Preferred Stock		-		-		8,610,499
Payment on cancellation of Warrants		-		-		(600,000)
Proceeds from the exercise of warrants		94,444		411,765		1,761,210
Net proceeds of issuance of Common Stock		27,438,931				39,427,161
Net cash provided by Financing Activities		29,561,524		3,868,787		67,303,381
Net increase (decrease) in cash		20,551,830		(1,096,306)		20,552,062
Cash at beginning of period		232		1,096,538		-
Cash at end of period	$	20,552,062	$	232	$	20,552,062

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Supplemental Disclosures of Cash Flow Information

	Year Ended October 31, 2013	2012	Period from March 1, 2002 (Inception) to October 31, 2013
Cash paid for Interest	$ 125,988	$ 53,027	$ 914,005

Supplemental Schedule of Noncash Investing and Financing Activities

	Year Ended October 31, 2013	2012	Period from March 1, 2002 (Inception) to October 31, 2012
Equipment acquired under notes payable	$ -	$ -	$ 45,580
Common stock issued to Founders	$ -	$ -	$ 40
Notes payable and accrued interest converted to Preferred Stock	$ -	$ -	$ 15,969
Stock dividend on Preferred Stock	$ -	$ -	$ 43,884
Accounts Payable from vendors settled in Common Stock	$ -	$ 3,249,990	$ 3,249,990
Accounts Payable from consultants settled with Common Stock	$ 776,302	$ 62,275	$ 890,555
Notes payable and embedded derivative liabilities converted to Common Stock	$ 4,646,148	$ 9,324,971	$ 19,806,369
Intangible assets acquired with notes payable	$ -	$ -	$ 360,000
Intangible assets acquired with common stock	$ -	$ -	$ 70,000
Debt discount in connection with recording the original value of the embedded derivative liability	$ -	$ 306,568	$ 6,473,385
Allocation of the original secured convertible debentures to warrants	$ -	$ -	$ 214,950
Allocation of the warrants on convertible notes as debt discount	$ -	$ 571,207	$ 3,001,806
Cancellation of Note Receivable in connection with Preferred Stock Redemption	$ (10,633,584)	$ -	$ (13,684,584)
Note receivable in connection with exercise of warrants	$ -	$ -	$ 9,998,210
Common stock issued in exchange for warrants	$ 2,308,500	$ 134,796	$ 2,443,296
Warrants Issued in connection with issuance of Common Stock	$ -	$ 517,797	$ 2,023,347
Warrants Issued in connection with issuance of Preferred Stock	$ -	$ -	$ 3,587,625

The accompanying notes should be read in conjunction with the financial statements.

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ADVAXIS, INC.
(a development stage company)
NOTES TO FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Advaxis Inc. (the "Company") is a clinical development stage biotechnology company with the intent to develop safe and effective immunotherapies for cancer and infectious diseases. These immunotherapies are based on a platform technology under exclusive license from the University of Pennsylvania ("Penn") that utilizes live attenuated *Lm* bioengineered to secrete antigen/adjuvant fusion proteins. These *Lm* strains use a fragment of the protein listeriolysin ("LLO"), fused to a tumor associated antigen ("TAA"), or other antigen of interest. The Company refers to these as *Lm* -LLO immunotherapies. The Company believes these *Lm-* LLO agents redirect the potent immune response to *Lm* that is inherent in humans, to the TAA or antigen of interest. *Lm* -LLO based immunotherapies stimulate the immune system to induce antigen-specific anti-tumor immune responses involving both innate and adaptive arms of the immune system. In addition, this technology facilitates the immune response by altering the microenvironment of tumors to make them more susceptible to immune attack.

The Company's lead construct, ADXS-HPV, is being evaluated in four ongoing clinical trials for human papilloma virus ("HPV")-associated diseases as follows: recurrent/refractory cervical cancer (India), locally advanced cervical cancer (with the Gynecologic Oncology Group ("GOG"), largely underwritten by the National Cancer Institute ("NCI");head and neck cancer (with the Cancer Research, United Kingdom ("CRUK"), (U.K) and anal cancer (Brown University, Oncology Group ("BrUOG"), U.S.). In addition, the Company has developed immunotherapies for prostate cancer and HER2 overexpressing cancers (such as breast, gastric and other cancers in humans and osteosarcoma in canines). Over fifteen distinct constructs are in various stages of development, developed directly by the Company and through strategic collaborations with recognized centers of excellence.

Since inception in 2002, the Company has focused its development efforts on understanding its technology and establishing a drug development pipeline that incorporates this technology into therapeutic immunotherapies, currently those targeting HPV-associated diseases (cervical cancer, head and neck cancer and anal cancer), prostate cancer, and HER2 overexpressing cancers. Although no immunotherapies have been commercialized to date, research and development and investment continues to be placed behind the pipeline and the advancement of this technology. Pipeline development and the further exploration of the technology for advancement entail risk and expense. The Company anticipates that its ongoing operational costs will increase significantly as it continues conducting its clinical development program.

Liquidity and Financial Condition

The Company's products are being developed and have not generated significant revenues. As a result, the Company has suffered recurring losses. These losses are expected to continue for an extended period of time. The Company has successfully completed a public offering of its common stock in October 2013, resulting in approximately $24 million in net proceeds. The Company believes its current cash position is sufficient to fund its business plan for the next eighteen months. Subsequent to October 31, 2013, the Company plans to continue to raise additional funds through the sales of debt and/or equity securities.

The Company recognizes it will need to raise additional capital over and above the amount raised during October 2013 in order to continue to execute its business plan. There is no assurance that additional financing will be available when needed or that management will be able to obtain financing on terms acceptable to the Company or whether the Company will become profitable and generate positive operating cash flow. If the Company is unable to raise sufficient additional funds, it will have to scale back its business plan, extend payables and reduce overhead until sufficient additional capital is raised to support further operations. There can be no assurance that such a plan will be successful.

Public Offering

On October 22, 2013, the Company closed its public offering of 6,612,500 shares of common stock, and warrants to purchase up to an aggregate of 3,306,250 shares of its common stock, including 862,500 shares and warrants to purchase 431,250 shares that were offered and sold by the Company pursuant to the full exercise of the underwriters' over-allotment option, at a price to the public of $4.00 per share and $0.001 per warrant. The warrants have a per share exercise price of $5.00, 125% of the public offering price of the common stock, are exercisable immediately, and expire five years from the date of issuance. Aegis, as the representative, received warrants to purchase 198,375 shares of the Compay's common stock (equal to 3% of total shares offered), which warrants are exercisable at $5.00 per share and shall expire five years from the date of issuance. Total gross proceeds from the offering were approximately $26,500,000, before deducting underwriting discounts and commissions and other offering expenses payable by the Company of approximately $3,416,500. Net proceeds were approximately $23,083,500.

Estimates

The preparation of financial statements in accordance with U.S. Generally Accepted Accounting Principles (GAAP) involves the use of estimates and assumptions that affect the recorded amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ substantially from these estimates. Significant estimates include the fair value and recoverability of the carrying value of intangible assets (patents and licenses), the fair value of options, the fair value of embedded conversion features, warrants and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, based on historical experience and on various other assumptions that it believes to be reasonable under the circumstances. Actual results may differ from estimates.

Reverse Stock Split

At the Annual Meeting of Shareholders held on June 14, 2013, the Company's shareholders approved the filing of a Certificate of Amendment to effect a reverse stock split of its issued and outstanding common stock, and the filing of a Certificate of Amendment to decrease the total number of its authorized shares of common stock. On July 11, 2013, the Company's Board of Directors authorized a reverse stock split at a ratio of 1-for-125 and approved the implementation of the authorized share capital decrease after the effectiveness of the reverse stock split. Accordingly, the Company amended its Amended and Restated Certificate of Incorporation by the filing of two Certificates of Amendment with the Delaware Secretary of State as follows:(a) on July 11, 2013, to effect a 1-for-125 reverse stock split of its outstanding common stock, par value $0.001 per share, to take effect on July 12, 2013 at 4:30 p.m. EDT, and (b) on July 12, 2013, to decrease the total number of authorized shares of common stock on a post-reverse stock split basis, so that the total number of shares that the Company has the authority to issue is 30,000,000 shares, of which 25,000,000 shares are common stock and 5,000,000 shares are ''blank check'' preferred stock. The reverse stock split was effective at approximately 4:30 p.m. EDT on July 12, 2013, and the share capital decrease took effect thereafter upon filing with the Delaware Secretary of State. All references in this Report to number of shares, price per share and weighted average number of shares of common stock outstanding prior to this reverse stock split have been adjusted to reflect the reverse stock split on a retroactive basis, unless otherwise noted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

Revenue from license fees and grants is recognized when the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) services have been rendered, (iii) the contract price is fixed or determinable, and (iv) collection is reasonably assured. In licensing arrangements, delivery does not occur for revenue recognition purposes until the license term begins. Nonrefundable upfront fees received in exchange for products delivered or services performed that do not represent the culmination of a separate earnings process will be deferred and recognized over the term of the agreement using the straight line method or another method if it better represents the timing and pattern of performance. Since its inception, all of the Company’s revenues have been from multiple research grants. For the twelve months ended October 31, 2013 and 2012, the Company did not receive any revenue from such grants.

For revenue contracts that contain multiple elements, revenue arrangements with multiple deliverables are divided into separate units of accounting if the delivered item has value to the customer on a standalone basis and there is objective and reliable evidence of the fair value of the undelivered item.

Cash

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. As of October 31, 2013 and October 31, 2012, the Company did not have any cash equivalents.

Concentration of Credit Risk

The Company maintains its cash in bank deposit accounts (checking) that at times exceed federally insured limits. Approximately $20 million is subject to credit risk at October 31, 2013. However, these cash balances are maintained at creditworthy financial institutions. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Property and Equipment

Property and equipment consists of laboratory equipment and is stated at cost. Depreciation and amortization is provided for on the straight-line basis over the estimated useful lives of the respective asset ranging from 3 to 5 years. Expenditures for maintenance and repairs that do not materially extend the useful lives of the respective assets are charged to expense as incurred. The cost and accumulated depreciation of assets retired or sold are removed from the respective accounts and any gain or loss is recognized in operations.

Intangible Assets

Intangible assets primarily consist of legal and filing costs associated with obtaining patents and licenses and are amortized on a straight-line basis over their remaining useful lives which are estimated to be twenty years from the effective dates of the University of Pennsylvania (Penn) License Agreements, beginning in July 1, 2002. These legal and filing costs are invoiced to the Company through Penn and its patent attorneys.

Management has reviewed its long-lived assets for impairment whenever events and circumstances indicate that the carrying value of an asset might not be recoverable and its carrying amount exceeds its fair value, which is based upon estimated undiscounted future cash flows. Net assets are recorded on the balance sheet for patents and licenses related to ADXS-HPV, ADXS-PSA and ADXS-HER2 and other products that are in development. However, if a competitor were to gain FDA approval for a treatment before us or if future clinical trials fail to meet the targeted endpoints, the Company would likely record an impairment related to these assets. In addition, if an application is rejected or fails to be issued the Company would record an impairment of its estimated book value.

Deferred financing costs

The Company has recorded deferred financing costs as a result of fees incurred by the Company in conjunction with its debt financing activities. These costs are amortized using the straight-line method over the shorter of (a) the term of the related debt or (b) the expected conversion date of the debt into equity instruments, which approximates the effective interest method. The amortization of deferred financing costs is included in interest expense as a component of other expenses in the accompanying statements of operations. At October 31, 2013, deferred financing costs were full amortized and at October 31, 2012, accumulated amortization was not material.

Net Loss per Share

Basic net income or loss per common share is computed by dividing net income or loss available to common shareholders by the weighted average number of common shares outstanding during the periods. Diluted earnings per share give effect to dilutive options, warrants, convertible debt and other potential common stock equivalents outstanding during the period. Therefore, in the case of a net loss the impact of the potential common stock equivalents resulting from warrants, outstanding stock options and convertible debt are not included in the computation of diluted loss per share, as the effect would be anti-dilutive. In the case of net income the impact of the potential common stock resulting from these instruments that have intrinsic value are included in the diluted earnings per share. The table sets forth the number of potential shares of common stock that have been excluded from diluted net loss per share. For 2013 and 2012, approximately 203,000 and 440,000 warrants, respectively (excluding 764,800 warrants, held by an affiliate of Optimus in 2012) include anti-dilutive provisions to adjust the number and price of warrants based on certain types of equity transactions.

	As of October 31,	
	2013	2012
Warrants	4,265,262	802,580
Stock Options	467,923	358,459
Convertible Debt (using the if-converted method)	3,354	271,354
Total	4,736,539	1,432,393

Research and Development Expenses

Research and development costs are expensed as incurred and include but are not limited to clinical trial and related manufacturing costs, payroll and personnel expenses, lab expenses, facilities and related overhead costs.

Stock Based Compensation

The Company has an equity plan which allows for the granting of stock options to its employees, directors and consultants for a fixed number of shares with an exercise price equal to the fair value of the shares at date of grant. The Company measures the cost of services received in exchange for an award of equity instruments based on the fair value of the award. For employees and directors, the fair value of the award is measured on the grant date and for non-employees, the fair value of the award is generally re-measured on interim financial reporting dates until the service period is complete. The fair value amount is then recognized over the period during which services are required to be provided in exchange for the award, usually the vesting period.

Stock-based compensation for directors is reflected in general and administrative expenses in the statements of operations. Stock-based compensation for employees and consultants could be reflected in research and development expenses or general and administrative expenses in the statements of operations depending on the nature of the services provided by the employees or consultants.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, including cash, accounts payable and accrued expenses approximated fair value as of the balance sheet date presented, because of the relatively short maturity dates on these instruments. The carrying amounts of the financing arrangements issued approximate fair value as of the balance sheet date presented, because interest rates on these instruments approximate market interest rates after consideration of stated interest rates, anti-dilution protection and associated warrants.

Derivative Financial Instruments

The Company does not use derivative instruments to hedge exposures to cash flow, market or foreign currency risks. The Company evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the statements of operations. For stock-based derivative financial instruments, the Company used the Black Scholes valuation model which approximated the binomial lattice options pricing model to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the instrument could be required within 12 months of the balance sheet date.

Hybrid Financial Instruments

For certain hybrid financial instruments, the Company elected to apply the fair value option to account for these instruments. The Company made an irrevocable election to measure such hybrid financial instruments at fair value in their entirety, with changes in fair value recognized in earnings at each balance sheet date. The election may be made on an instrument by instrument basis.

Debt Discount and Amortization of Debt Discount

Debt discount represents the fair value of embedded conversion options of various convertible debt instruments and attached convertible equity instruments issued in connection with debt instruments. The debt discount is amortized over the earlier of (i) the term of the debt or (ii) conversion of the debt, using the straight-line method which approximates the interest method. The amortization of debt discount is included as interest expense as a component of other expenses in the accompanying statements of operations.

Recent Accounting Pronouncements

In July 2012, the FASB issued ASU 2012-02, “Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment." This ASU simplifies how entities test indefinite-lived intangible assets for impairment which improve consistency in impairment testing requirements among long-lived asset categories. These amended standards permit an assessment of qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. For assets in which this assessment concludes it is more likely than not that the fair value is more than its carrying value, these amended standards eliminate the requirement to perform quantitative impairment testing as outlined in the previously issued standards. The guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, early adoption is permitted. The adoption of this standard did not have a material impact on the Company’s financial position, results of operations or cash flows.

In February 2013, the FASB issued ASU No. 2013-02, "Reporting of Amounts Reclassified Out of Other Comprehensive Income." ASU 2013-02 finalized the reporting for reclassifications out of accumulated other comprehensive income, which was previously deferred, as discussed below. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, they do require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. An entity is also required to present on the face of the financials where net income is reported or in the footnotes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. Other amounts need only be cross-referenced to other disclosures required that provide additional detail of these amounts. The amendments in this update are effective for reporting periods beginning after December 15, 2012. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company’s financial position, results of operations or cash flows .

In July 2013, the FASB issued ASU 2013-11, “ Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.” Under this new guidance, companies must present this unrecognized tax benefit in the financial statements as a reduction to deferred tax assets created by net operating losses or other tax credits from prior periods that occur in the same taxing jurisdiction. If the unrecognized tax benefit exceeds such credits it should be presented in the financial statements as a liability. This update is effective for annual and interim reporting periods for fiscal years beginning after December 15, 2013. The adoption of this standard is not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

Management does not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material impact on the accompanying consolidated financial statements.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes in accordance with ASC Topic 740, “Income Taxes.” Under this method, income tax expense is recognized for the amount of: (i) taxes payable or refundable for the current year and (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity’s financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is provided to reduce the deferred tax assets reported if based on the weight of the available positive and negative evidence, it is more likely than not some portion or all of the deferred tax assets will not be realized.

ASC Topic 740-10-30 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740-10-40 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company will classify as income tax expense any interest and penalties. The Company has no material uncertain tax positions for any of the reporting periods presented. The Company files tax returns in U.S. federal and state jurisdictions, including New Jersey, and is subject to audit by tax authorities beginning with the year ended October 31, 2010.

3. SHARE-BASED COMPENSATION EXPENSE

The Company adopted ASC 718 and used the modified prospective transition method, which requires the application of the accounting standard as of November 1, 2005, the first day of the Company’s fiscal year 2006. In accordance with the modified prospective transition method, the Company’s Financial Statements for prior periods were not restated to reflect, and do not include the impact of ASC 718. The Company began recognizing expense in an amount equal to the fair value of share-based payments (stock option awards) on their date of grant, over the requisite service period of the awards (usually the vesting period). Under the modified prospective method, compensation expense for the Company is recognized for all share based payments granted and vested on or after November 1, 2005 and all awards granted to employees prior to November 1, 2005 that were unvested on that date but vested in the period over the requisite service periods in the Company’s Statement of Operations. Prior to the adoption of the fair value method, the Company accounted for stock-based compensation to employees under the intrinsic value method of accounting set forth in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Therefore, compensation expense related to employee stock options was not reflected in operating expenses in any period prior to the fiscal year of 2006 and prior period results have not been restated. Since the date of inception to October 31, 2005 had the Company adopted the fair value based method of accounting for stock-based employee compensation under the provisions of ASC 718, Stock Compensation expense would have totaled $328,176

and the effect on the Company's net loss would have been as follows for the period March 1, 2002 (date of inception) to October 31, 2013:

		March 1, 2002 (date of inception) to October 31, 2013
Net Loss as reported	$	(67,544,369)
Add: Stock based option expense included in recorded net loss		89,217
Deduct stock option compensation expense determined under fair value based method		(328,176)
Adjusted Net Loss	$	(67,783,328)

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	October 31, 2013		October 31, 2012	
Laboratory Equipment	$	309,132	$	287,518
Accumulated Depreciation		(228,747)		(209,450)
Net Property and Equipment	$	80,385	$	78,068

Depreciation expense for the years ended October 31, 2013 and 2012 and the period from March 1, 2002 (inception) to October 31, 2013 was $19,229, $13,776 and $228,747, respectively.

5. INTANGIBLE ASSETS

Under the Penn license agreements we are billed actual patent expenses as they are passed through from Penn and or billed directly from our patent attorney. The following is a summary of intangible assets as of the end of the following fiscal periods:

	October 31, 2013		October 31, 2012	
License	$	651,992	$	651,992
Patents		2,696,543		2,422,409
Total intangibles		3,348,535		3,074,401
Accumulated Amortization		(819,984)		(660,646)
Intangible Assets	$	2,528,551	$	2,413,755

The expirations of the existing patents range from 2014 to 2023 but the expirations can be extended based on market approval if granted and/or based on existing laws and regulations. Capitalized costs associated with patent applications that are abandoned without future value are charged to expense when the determination is made not to pursue the application. No patent applications having a future value were abandoned or expired and charged to expense for either of the years ended October 31, 2013 or 2012. Amortization expense for licensed technology and capitalized patent cost is included in general and administrative expenses and aggregated $159,338, $148,002 and $901,980 for the years ended October 31, 2013 and 2012 and for the period from March 1, 2002 (inception) to October 31, 2013, respectively.

Estimated amortization expense for the next five years is as follows:

Year ended October 31,	
2014	$ 167,500
2015	$ 167,500
2016	$ 167,500
2017	$ 167,500
2018	$ 167,500

6. ACCRUED EXPENSES:

The following table represents the major components of accrued expenses:

	October 31, 2013		October 31, 2012	
Salaries and other compensation	$	752,248	$	774,001
Clinical Trial		-		56,468
Vendors		-		77,512
Consultants		2,000		32,200
Financing costs		-		174,970
Legal		15,000		214,902
Interest Payable		-		28,859
Share Purchase		100,012		
Other		-		8,500
	$	869,260	$	1,367,412

7. CONVERTIBLE NOTES & FAIR VALUE OF EMBEDDED DERIVATIVE

Convertible Notes payable consist of the following:

	October 31, 2013		October 31, 2012	
October 2011 Note Financing				58,824
December 2011 Note Financing				131,928
May 2012 Note Financing				588,313
Bridge Notes				185,758
JMJ Financial		62,882		73,590
Hanover Holdings Note				362,791
Magna				333,086
Chris French				25,950
Asher				150,687
Yvonne Paterson				103,804
James Patton				78,909
Total Convertible Notes		62,882		2,093,640
Unamortized discount				(4,541)
		62,882		2,089,099
Current Portion of Convertible Notes		62,882		2,089,099
Long-term Convertible Notes less current portion	$		$	

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October 2011 Note Financing

On October 28, 2011, we entered into a Note Purchase Agreement, which we refer to as the October 2011 Notes, with certain accredited investors, including Thomas A. Moore, our former Chief Executive Officer, and Mark J. Rosenblum, our Chief Financial Officer, (Mr. Rosenblum acquired a note in the principal amount of approximately $59,000 for an aggregate purchase price of $50,000) whereby the investors acquired approximately $2.3 million of our convertible promissory notes, which we refer to as the Notes, for an aggregate purchase price of approximately $2.0 million in a private placement, which we refer to as the October 2011 offering. The Notes were issued with an original issue discount of 15%. Each investor paid $0.85 for each $1.00 of principal amount of Notes purchased at the closing of the October 2011 offering, which took place on October 31, 2011. The Notes are convertible into shares of our common stock, at a per share conversion price equal to $18.75. The Notes matured on October 31, 2012. Additionally, each investor received a warrant, which we refer to as the Warrants, to purchase such number of shares of our common stock equal to 50% of such number of shares of our common stock issuable upon conversion of the Note at an exercise price of $18.75 per share. The Warrants are exercisable at any time on or before October 31, 2015. The Warrants may be exercised on a cashless basis under certain circumstances. The Notes purchased in the October 2011 offering were paid for in cash or, with respect to Notes acquired by Mr. Moore, in exchange for the cancellation of $400,000 of outstanding indebtedness owed by us to Mr. Moore.

During the year ended October 31, 2012, the Company converted approximately $1.2 million in principal into 436,445 shares of the Company's common stock at a conversion price of $18.75, recording non-cash expense of approximately $ 296,000. In addition, the Company entered into exchange agreements with certain holders of an aggregate of approximately $1.0 million in outstanding principal on the October 2011 Notes, pursuant to which such holders received an aggregate of approximately 96,800 shares of Common Stock and warrants to purchase an aggregate of approximately 10,400 shares of Common Stock in exchange for surrendering or converting the Existing October 2011 Notes and surrendering warrants to purchase an aggregate of approximately 48,000 shares of Common Stock originally issued in the Prior Offerings. The Company recorded non-cash expense of approximately $530,000 resulting from this exchange. At October 31, 2012, there was one remaining October 2011 Note with an outstanding principal balance of $58,824.

During the twelve months ended October 31, 2013, pursuant to the terms of an Assignment Agreement, the Company delivered a convertible note, which we refer to as the Second Magna Exchange Note, to Magna Group, LLC, an affiliate of Hanover, which we refer to as Magna, in an aggregate principal amount of $58,824, convertible into shares of common stock, which bears interest at a rate of 6% per annum, which interest accrues, but does not become payable until maturity. During the twelve months ended October 31, 2013, the Company converted the $58,824 in principal into 18,224 shares of our common stock at conversion prices ranging from $3.16 to $3.25, recording non-cash expense of approximately $70,000 to the loss on retirement account, on the statement of operations, for the difference between the amount of the principal converted and the fair value of the shares issued as a result of the conversion.

Accretion of the discount was $0 and $984,733 for the years ended October 31, 2013 and 2012, respectively.

At October 31, 2013, there were no remaining October 2011 Notes outstanding.

December 2011 Note Financing

On December 29, 2011, we entered into a Note Purchase Agreement, which we refer to as the December 2011 Notes, with certain accredited investors, whereby the investors acquired approximately $1.2 million of our convertible promissory notes for an aggregate purchase price of approximately $1.0 million in a private placement, which we refer to as the December 2011 offering. The December 2011 Notes were issued with an original issue discount of 15%. Each investor paid $0.85 for each $1.00 of principal amount of Notes purchased at the closing of the December 2011 offering. The Notes are convertible into shares of our common stock, at a per share conversion price equal to $18.75.

The Notes matured on January 9, 2013. Additionally, each investor received a warrant, which we refer to as the Warrants, to purchase such number of shares of our common stock equal to 50% of such number of shares of our common stock issuable upon conversion of the Note at an exercise price of $18.75 per share. The Warrants are exercisable at any time on or before January 9, 2016. The Warrants may be exercised on a cashless basis under certain circumstances.

During the year ended October 31, 2012, the Company converted approximately $828,000 in principal into 44,134 shares of the Company's common stock at a conversion price of $18.75, recording non-cash expense of approximately $ 205,000. In addition, the Company entered into exchange agreements with certain holders of an aggregate of approximately $215,000 in outstanding principal on the December 2011 Notes, pursuant to which such holders received an aggregate of approximately 20,000 shares of Common Stock and warrants to purchase an aggregate of approximately 10,400 shares of Common Stock in exchange for surrendering or converting the Existing December 2011 Notes and surrendering warrants to purchase an aggregate of approximately 23,200 shares of Common Stock originally issued in the Prior Offerings. The Company recorded non-cash expense of approximately $100,000 resulting from this exchange. In October 2012, $31,284 of principal was assigned pursuant to the terms of an assignment agreement with Magna Group, LLC. At October 31, 2012, the outstanding principal balance was $158,824. On the balance sheet, the December 2011 Notes were recorded at $131,928 ($158,824 net of debt discount of $28,896).

During the twelve months ended October 31, 2013, pursuant to the terms of an Assignment Agreement, we delivered a convertible note to Magna in an aggregate principal amount of $170,589 (including the above $158,824 and a junior subordinated convertible promissory note in the amount of $11,765), convertible into shares of common stock, which bears interest at a rate of 6% per annum, which interest accrues, but does not become payable until maturity. Accretion of the discount was $28,896 for the twelve months ended October 31, 2011, resulting in the December 2011 Note being recorded at its principal value of $158,824, on the balance sheet, prior to its assignment. During the twelve months ended October 31, 2013, the Company converted the $170,589 in principal into 48,888 shares of our common stock at a conversion price of $3.49, recording non-cash expense of approximately $104,000 to the loss on retirement account, on the statement of operations, for the difference between the amount of principal converted and the fair value of the shares issued as a result of the conversion.

Accretion of the discount was $26,896 and $559,480 for the years ended October 31, 2013 and 2012, respectively.

At October 31, 2013, there were no remaining December 2011 Notes outstanding.

May 2012 Note Financing

Effective May 14, 2012, we entered into a Note Purchase Agreement with certain accredited investors, whereby the investors acquired $953,333 of our convertible promissory notes for an aggregate purchase price of approximately $715,000 in cash which represented an original issue discount of 25%. The May 2012 Notes are convertible into shares of our common stock at $18.75 per share. Additionally, each investor received a warrant to purchase such number of shares of our common stock equal to 50% of such number of shares of our common stock issuable upon conversion of the May 2012 Notes at an exercise price of $18.75 per share. The Notes and Warrants also provide that on December 1, 2012, solely to the extent the conversion price of the Notes or the exercise price of the Warrants, as applicable, is more than the "Market Price" (as defined in the Notes or the Warrants, as applicable), such conversion price or exercise price, as applicable, shall be reduced to such Market Price. The May 2012 Notes mature on May 18, 2013. We may redeem the May 2012 Notes under certain circumstances. The May 2012 Warrants are exercisable at any time on or before May 18, 2017. The May 2012 Warrants may be exercised on a cashless basis under certain circumstances and expire on May 18, 2017.

The Company elected to apply the fair-value option to account for the May 2012 notes and have recorded the May 2012 Notes at a fair value of $454,680 upon issuance. Unrealized losses on the mark-to-market of the notes which amounted to $133,634 for the period from the date of issuance or May, 14, 2012 through October 31, 2012 were recognized as a noncash expense. As of October 31, 2012, the May 2012 Notes were recorded at their fair value of $588,314.

At October 31, 2013, there were no remaining May 2012 Notes outstanding.

In addition, as a result of the reset provisions discussed above, the warrants which have been recorded at a fair value of $291,400 on May 14, 2012 are being reflected as a warrant liability as of the date of issuance. As of October 31, 2012, the warrant liability amounted to $112,487 which resulted in a noncash income of approximately $178,913 for the year ended October 31, 2012. As of October 31, 2013, the warrant liability amounted to $27,711, resulting in noncash expense of approximately $17,000 for the twelve months ended October 31, 2013

For the twelve months ended October 31, 2013, the Company recorded unrealized losses on the mark-to-market of the notes which amounted to $206,147. During the twelve months ended October 31, 2013, the Company converted $953,333 in convertible promissory notes into approximately 301,611 shares at a conversion price of $3.16.

Junior Subordinated Convertible Promissory Notes

We refer to all Junior Subordinated Convertible Promissory Notes as "Bridge Notes".

The Bridge Notes are convertible into shares of the Company's common stock at a fixed exercise price. For every dollar invested in our Bridge Notes, each Investor received warrant coverage ranging from approximately 23% to 75%, subject to adjustments upon the occurrence of certain events as more particularly described below and in the form of Warrant. As of October 31, 2012, substantially all of the Bridge Warrants have an exercise price of $18.75 per share. The Bridge Notes may be prepaid in whole or in part at the option of the Company without penalty at any time prior to the Maturity Date. The warrants may be exercised on a cashless basis under certain circumstances.

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During the year ended October 31, 2012, the Company entered into an exchange agreement with an accredited investor in which the investor exchanged a convertible promissory note in the aggregate principal amount of $300,000 for (i) a convertible promissory note in the aggregate principal amount $352,941 and in substantially the same form as the existing note except with a maturity date of June 30, 2012 and (ii) a warrant to purchase up to 18,824 shares of common stock at an exercise price of $18.75 per share. The warrants expire in February 2015. The Company recorded noncash expense of approximately $247,000 to the loss on note retirement account resulting from this exchange for the year ended October 31, 2012. In October 2012, this note was assigned to Magna (see Magna Note disclosure in this footnote).

During the year ended October 31, 2012, the Company paid approximately $53,000 in principal on its Bridge Notes. In addition, the Company converted approximately $169,000 of principal on these Bridge Notes into 9,014 shares of the Company's common stock at a conversion price of $18.75 per share. The Company recorded noncash expense of approximately $27,000 to the gain on note retirement account resulting from these conversions. As of October 31, 2012, the Company had approximately $186,000 in principal outstanding on its junior subordinated convertible promissory notes with maturity dates ranging from October 19, 2011 to May 12, 2012.

During the twelve months ended October 31, 2013, pursuant to the terms of various Assignment Agreements, the Company delivered convertible notes to Magna in aggregate principal amounts of $170,589 (including $11,765 of junior subordinated convertible promissory notes plus the above December 2011 Note in the principal amount of $158,824) and $111,111(consisting of one junior subordinated convertible promissory note), convertible into shares of common stock, which bears interest at a rate of 6% per annum, which interest accrues, but does not become payable until maturity. The Company converted the exchange note, which it refers to as the Third Magna Exchange Note, in the principal amount of $111,111 into 34,241 shares of its common stock at a conversion price of $3.25 per share, recording non-cash expense of approximately $106,000 to the loss on retirement account, on the statement of operations, for the difference between the amount of the principal converted and the fair value of the shares issued as a result of the conversion. As of October 31, 2013, approximately $63,000 in principal remained outstanding on the junior unsubordinated convertible promissory notes, with maturity dates ranging to October 22, 2011. These notes are currently in default and are recorded as current liabilities on the balance sheet at October 31, 2013. The Company anticipates paying off or converting these notes in full during the first or second quarter of fiscal year 2014.

JMJ Financial

On August 27, 2012, in a private placement pursuant to a Note Purchase Agreement, the Company issued JMJ Financial a convertible promissory note in the aggregate principal amount of $100,000 for a purchase price of $100,000, which it refers to as the JMJ August 2012 Note. As of October 31, 2012, the JMJ August 2012 Note remained outstanding. Due to the conversion feature into a variable number of shares, the JMJ August 2012 Note is valued at fair value at each reporting period. As of October 31, 2012, the fair value of the JMJ August 2012 Note was $73,590.

During the twelve months ended October 31, 2013, the Company converted the JMJ August 2012 Note totaling $100,000 into 24,744 shares of its common stock. The Company recorded non-cash income of approximately $70,114 upon conversion. This non-cash income was recorded to the gain on retirement account, on the statement of operations, representing the difference between the fair value of the JMJ August 2012 Note, as reported on the balance sheet, and the fair value of the shares issued as a result of the conversion.

On December 28, 2012, in a private placement pursuant to a note purchase agreement, the Company issued JMJ Financial a one month convertible promissory note, which it refers to as the JMJ December 2012 Note, in the aggregate principal amount of $100,000 for a purchase price of $100,000. If repaid before January 31, 2013, the principal amount of the JMJ December 2012 Note would be $125,000. If the JMJ December 2012 Note was to be rolled into a future financing, the principal amount would be $115,000.

On April 26, 2013, in a private placement, the Company issued JMJ Financial a convertible promissory note ("JMJ April 2013 Note"). The face amount of the note reflects an aggregate principal amount of $800,000 for total consideration of $720,000 (or a 10% original issue discount). As of April 26, 2013, the Company had only borrowed $425,000 from JMJ Financial under this convertible promissory note. JMJ Financial paid $300,000 in cash and exchanged the JMJ December 2012 Note with an aggregate principal amount of $125,000 as consideration for the note. The exchange was analyzed and management concluded that the exchange qualifies for modification accounting. On June 27, 2013, the Company borrowed an additional $100,000 under the convertible promissory note. JMJ Financial has no obligation to lend the Company the remaining $195,000 of available principal amount under the note and may never do so. The Company has no obligation to pay JMJ Financial any amounts on the unfunded portion of the note. The Company may not prepay any portion of the note without JMJ Financial's consent.

The convertible promissory note matures April 26, 2014 and, in addition to the 10% original issue discount, provides for payment of a one-time interest charge of 5% on funded amounts. The convertible promissory note is convertible at any time, in whole or in part, at JMJ Financial's option into shares of the Company's common stock at the lesser of $8.75 or 70% of the average of the lowest two closing prices in the 20-day pricing period preceding a conversion. However, at no time will JMJ Financial be entitled to convert any portion of the note to the extent that after such conversion, JMJ Financial (together with its affiliates) would beneficially own more than 4.99% of the Company's outstanding shares of common stock as of such date. The Company agreed to reserve at least 160,000 shares of its common stock for conversion of the note. The note also provides for penalties and rescission rights if the Company does not deliver shares of its common stock upon conversion within the required timeframes.

The convertible promissory note includes customary event of default provisions, and provides for a default rate of the lesser of 18% or the maximum permitted by law. Upon the occurrence of an event of default, the lender may require the Company to pay in cash the "Mandatory Default Amount" which is defined in the note to mean the greater of (i) the outstanding principal amount of the note plus all interest, liquidated damages and other amounts owing under the note, divided by the conversion price on the date payment of such amount is demanded or paid in full, whichever is lower, multiplied by the volume-weighted-average price, or VWAP, on the date payment of such amount is demanded or paid in full, whichever has a higher VWAP, or (ii) 150% of the outstanding principal amount of the note plus 100% of all interest, liquidated damages and other amounts owing under the note.

The Company also granted JMJ Financial the right, at its election, to participate in the next public offering of its securities by exchanging, in whole or in part, the funded portion of this note for a subscription to such public offering in an amount equal to 125% of the sum of the funded portion of the principal amount being exchanged plus all accrued and unpaid interest, liquidated damages, fees, and other amounts due on such exchanged principal amount. However, the note was subsequently amended in September 2013 to remove this right. If the Company completes a public offering of $10,000,000 or more, JMJ Financial has the right, at its election, to require repayment of the note, in whole or in part, in amount equal to 125% of the sum of the funded principal amount being repaid plus all accrued and unpaid interest liquidated damages, fees, and other amounts due on such principal amount. In September 2013, this note was amended to lower this threshold to $5,000,000 in connection with the sale of the new convertible promissory note to JMJ Financial.

On August 14, 2013, the Company borrowed an additional $100,000 under the JMJ April 2013 convertible promissory note. At this date, the Company has borrowed $625,000 under the JMJ April 2013 Note. JMJ Financial has no obligation to lend the Company the remaining $95,000 of available principal amount under the note and may never do so. The Company has no obligation to pay JMJ Financial any amounts on the unfunded portion of the note and may not prepay any portion of the note without JMJ Financial's consent. During August and September 2013, JMJ Financial converted $145,833 in principal and interest on its April 2013 Note into 71,438 shares of common stock at conversion rates ranging from $1.89 to $2.20. After these conversions, $583,333 in principal and interest remained outstanding under the JMJ April 2013 Note,

On September 4, 2013, in a private placement, we issued JMJ Financial a convertible promissory note ("JMJ September 2013 Note"). The face amount of the note reflects an aggregate principal amount of $800,000 for total consideration of $720,000 (or a 10% original issue discount). However, JMJ Financial has only paid us $500,000 in cash as consideration for the note to date. We also issued JMJ Financial 19,231 restricted shares of our common stock as a $50,000 origination fee for this convertible promissory note. JMJ Financial has no obligation to lend us the remaining $220,000 of available consideration under the note and may never do so. The convertible promissory note matures September 4, 2014 and, in addition to the 10% original issue discount, provides for payment of a one-time interest charge of 5% on funded amounts. The convertible promissory note is convertible at any time, in whole or in part, at JMJ Financial's option into shares of our common stock at the lesser of $2.65 or 70% of the average of the lowest two closing prices in the 20-day pricing period preceding a conversion. However, at no time will JMJ Financial be entitled to convert any portion of the note to the extent that after such conversion, JMJ Financial (together with its

affiliates) would beneficially own more than 4.99% of our outstanding shares common stock as of such date. We agreed to reserve at least 2,000,000 shares of our common stock for conversion of the note. $583,333 in principal and interest remained outstanding under the JMJ September 2013 Note.

As of October 16, 2013, the Company owed JMJ Financial approximately $1,167,000 in principal and interest under its convertible promissory notes with JMJ Financial. On October 16, 2013, we entered into an Accelerated Conversion and Note Termination Agreement with JMJ Financial whereby it agreed to exchange all of its outstanding convertible promissory notes (which had an aggregate principal amount of approximately $1,167,000), plus fees of approximately $400,000 (recorded as non-cash interest expense), for accelerated conversion, note termination and a lock-up, for an aggregate of 783,333 restricted shares of our common stock at an effective conversion price of $2.00. The Company recorded non-cash expense of approximately $922,000 upon conversion. This non-cash expense was recorded to the loss on retirement account, on the statement of operations representing the difference between the fair value of the JMT April and September Notes and the fair value of the shares issued as a result of the conversion. JMJ Financial also agreed to certain lock-up restrictions with respect to such shares. Accordingly, JMJ Financial agreed not to sell any of such shares until 60 days after the date of the agreement, following which, until 90 days after the date of the agreement, it agreed to limit the number of such shares it sells on any day to 10% of the trading volume on such day. JMJ Financial also agreed not to engage in any short sales of our common stock at any time.

At October 31, 2013, there were no remaining convertible promissory notes outstanding with JMJ Financial.

Hanover Holdings Notes

On September 19, 2012, in a private placement pursuant to a note purchase agreement, we issued Hanover a convertible promissory note in the aggregate principal amount of $132,500, for a purchase price of $132,500, which we refer to as the Initial Hanover PIPE Note. On October 19, 2012, in a private placement pursuant to a note purchase agreement, we issued Hanover a convertible promissory note in the aggregate principal amount of $132,500, for a purchase price of $132,500, which we refer to as the Second Hanover PIPE Note, which, together with the Initial Hanover PIPE Note we refer to as the Hanover PIPE Notes. The Hanover PIPE Notes bear interest at a rate of 12%, which interest accrues, but does not become payable until maturity or acceleration of the principal of such Hanover PIPE Notes. The Hanover PIPE Notes are convertible into shares of our Common Stock at a conversion price equal to 65% of the arithmetic average of the five lowest closing trading prices for the Common Stock during the 10 trading day period ending on the latest complete trading day prior to the applicable conversion date. The Hanover PIPE Notes mature eight months from their respective issuance dates. To the extent Hanover does not elect to convert the Hanover PIPE Notes as described above, the principal amount and interest of such Hanover PIPE Notes shall be payable in cash at maturity. The Hanover PIPE Notes may be converted at any time by Hanover, at its option, in whole or in part. The Hanover PIPE Notes include a limitation on conversion, which provides that at no time will Hanover be entitled to convert any portion of the Hanover PIPE Notes, to the extent that after such conversion, Hanover (together with its affiliates) would beneficially own more than 4.99% of the outstanding shares of the Common Stock as of such date.

Unrealized losses on the mark-to-market of the notes which amounted to $97,791, for the period from the dates of issuance (September 19 and October 19, 2012) through October 31, 2013 were recorded as non-cash expense. The Hanover PIPE Notes were recorded on the balance sheet, at fair value, of approximately $363,000.

On December 6, 2012, in a private placement pursuant to a note purchase agreement, the Company issued Hanover a convertible promissory note in the aggregate principal amount of $100,000 for a purchase price of $100,000, which the Company refers to as the Hanover December 2012 Note. The Hanover December 2012 Note bears interest at a rate of 12% per annum, which interest accrues, but does not become payable until maturity or acceleration of the principal of such Hanover December 2012 Note. The Hanover December 2012 Note is convertible into shares of the Company's common stock at a conversion price of $3.75 per share. On December 5, Hanover exchanged the Initial Hanover PIPE Notes for convertible notes in the form of the Hanover December 2012 Note in all material respects (other than date of issuance, exchange date, the maturity date of May 19, 2013 solely with respect to the exchanged Hanover PIPE Note issued in exchange for the Initial Hanover PIPE Note and the maturity date of June 19, 2013 solely with respect to the exchanged Hanover PIPE Note issued in exchange for the Second Hanover PIPE Note) that also are convertible into shares of its common stock at a conversion price of $3.75 per share, which the Company refers to as the Exchanged Hanover PIPE Notes. In addition, on December 6, 2012, the Company issued Hanover a convertible promissory note in the aggregate principal amount of $100,000, which the Company refers to as the Hanover December 2012 Note. Each of the Hanover December 2012 Note and the Exchanged Hanover PIPE Notes are subject to limitations on conversion if after giving effect to such conversion Hanover would beneficially own more than 4.99% of the Company's common stock.

Due to the fixed conversion price of $3.75, the Company reversed fair value adjustments taken in the period ended October 31, 2012 resulting in the Hanover PIPE Notes being recorded on the balance sheet at principal value. Then, the Company recorded beneficial conversion features in the aggregate principal amount of $122,092 as a discount to these notes. Accretion of the discounts amounted to $122,092 and $0 for the years ended October 31, 2013 and 2012, respectively.

During the twelve months ended October 31, 2013, the note-holder converted principal of $365,000 into 97,333 shares of the Company's common stock at a conversion rate of $3.75 per share. During the twelve months ended October 31 2013, the Company recognized interest expense of approximately $72,000 in order to accrete the unamortized debt discount back to the notes' principal through the dates of conversion.

As of October 31, 2013, there were no remaining Hanover PIPE Notes.

Magna Note

In October 2012, pursuant to the terms of various Assignment Agreements, which we refer to as the Assignment Agreements, Magna Group, LLC, an affiliate of Hanover, which we refer to as Magna, acquired $400,076 in aggregate principal amount of our outstanding convertible notes from certain third parties and entered into agreements to acquire an additional $340,523 in aggregate principal amount of our outstanding convertible notes from other third parties. Pursuant to the terms of such Assignment Agreements, we delivered two convertible notes to Magna in an aggregate principal amount of $740,599, in anticipation of the closing of all of the transactions contemplated by such Assignment Agreements. On October 25, 2012, the convertible note in the aggregate principal amount of $617,723 previously delivered to Magna was exchanged for a new convertible note in the aggregate principal amount of $400,076, convertible into shares of Common Stock, which we refer to as the Magna Exchange Note, to reflect such portion of the convertible notes actually issued as of October 25, 2012 pursuant to the Assignment Agreements, and the remaining convertible note in the aggregate principal amount of $122,876 previously delivered to Magna was returned to us and cancelled. The Magna Exchange Note bears interest at a rate of 6%, which interest accrues, but does not become payable until maturity or acceleration of the principal of the Magna Exchange Note. The Magna Exchange Note is convertible into shares of our Common Stock at a conversion price equal to 73% of the arithmetic average of the five lowest closing trading prices for the Common Stock during the 10 trading day period ending on the lowest complete trading day prior to the applicable conversion date. The Magna Exchange Note matures on October 17, 2013. To the extent Magna does not elect to convert the Magna Exchange Note as described above, the principal amount and interest of the Magna Exchange Note shall be payable in cash at maturity. Upon the closing of the remaining transactions contemplated by such applicable Assignment Agreements, we are obligated to issue additional convertible notes in the form of the Magna Exchange Note with respect to the outstanding $340,523 in aggregate principal amount of convertible notes held by the third party signatories to the other Assignment Agreements.

The Magna Exchange Note may be converted at any time by Magna, at its option, in whole or in part. The Magna Exchange Note includes a limitation on conversion, which provides that at no time will Magna be entitled to convert any portion of the Magna Exchange Note, to the extent that after such conversion, Magna (together with its affiliates) would beneficially own more than 4.99% of the outstanding shares of the Common Stock as of such date.

As of October 31, 2012, Magna had converted approximately $0.1 million in principal into 20,177 shares of our common stock at prices ranging from $4.45-$5.15, which resulted in non-cash expense of approximately $13,500 for the period ended October 31, 2012. Unrealized losses on the mark-to-market of the note which amounted to $33,011, for the period from the date of issuance (October 17, 2012) were recorded as non-cash expense for the period ended October 31, 2012.

As of October 31, 2012, the Magna Exchange Note was recorded at a fair value of $333,086 on the balance sheet.

During the twelve months ended October 31, 2013, Magna converted the remaining approximately $300,000 in principal into 80,992 shares of the Company's common stock at prices ranging from $3.21 to $4.14, resulting in non-cash expense for the period of approximately $44,000 resulting from the difference between the amount of principal converted and the fair value of the shares issued as a result of the conversion. In addition, Magna converted another approximately $341,000 in principal into 182,344 shares of the Company's common stock at prices ranging from $3.16 to $3.49, resulting in non-cash expense of approximately $281,000 resulting from the difference between the amount of principal converted and the fair value of the shares issued as a result of these conversions.

As of October 31, 2013, the Magna Exchange Note had been converted in full and no longer remained outstanding.

Chris French

On September 27, 2012, in a private placement pursuant to a note purchase agreement, we issued our employee Christine French a convertible promissory note in the aggregate principal amount of $25,000, for a purchase price of $25,000, which we refer to as the French Note. The French Note bears interest at a rate of 12%, compounded annually. The French Note is convertible into shares of our Common Stock at a conversion price equal to the arithmetic average of the five lowest closing trading prices for the Common Stock during the 10 trading day period ending on the latest complete trading day prior to the applicable conversion date. The French Note matures one month from its issuance date. Additionally, Ms. French will receive a warrant, which we refer to as the French Warrant, to purchase such number of shares of our Common Stock equal to 50% of such number of shares of our Common Stock issuable upon conversion of the French Note at an exercise price equal to the conversion price then in effect. These warrants have not yet been issued. The French Warrant may be exercised on a cashless basis under certain circumstances. The French Note and the French Warrant each include a limitation on conversion or exercise, as applicable, which provides that at no time will Ms. French be entitled to convert any portion of the French Note or French Warrant, to the extent that after such conversion or exercise, as applicable, Ms. French (together with her affiliates) would beneficially own more than 4.99% of the outstanding shares of the Common Stock as of such date.

The warrants to be issued upon future conversion of the note were recorded as a warrant liability, at October 31, 2012, at a fair value of $4,565 at the date of issuance. Unrealized losses on the mark-to-market of the note which amounted to $5,515, for the period from the date of issuance (September 27, 2012) were recorded as non-cash expense for the period ended October 31, 2012.

As of October 31, 2012, the French Note was recorded at its fair value of $25,950 on the balance sheet.

During the twelve months ended October 31, 2013, the Company converted principal of $25,000 of a note issued to Chris French plus accrued interest of approximately $633, into 4,527 shares of its common stock at a conversion price of $5.625 per share. In addition, the Company issued a warrant to acquire 2,263 shares, which expires on October 26,

2015 and revalued the warrant liability, at October 31, 2013, with an exercise price of $5.625, resulting in non-cash expense of approximately $21,000 resulting from the difference between the fair value of the note as shown on the balance sheet plus accrued interest to-date and the fair value of the shares issued as a result of the conversion.

As of October 31, 2013, the French Note no longer remained outstanding.

Asher

On September 11, 2012, in a private placement pursuant to a note purchase agreement, we issued Asher Enterprises, Inc, which we refer to as Asher, a convertible promissory note in the aggregate principal amount of $103,500, for a purchase price of $100,000, which we refer to as the Asher Note. The Asher Note bears interest at a rate of 8%, which interest accrues, but does not become payable until maturity or acceleration of the principal of the Asher Note. The Asher Note is convertible into shares of our Common Stock at a conversion price equal to 61% of the arithmetic average of the five lowest closing trading prices for the Common Stock during the 10 trading day period ending on the latest complete trading day prior to the applicable conversion date. The Asher Note matures on June 13, 2013, nine months from its issuance date. The Asher Note may be converted by Asher, at its option, in whole or in part. The Asher Note includes a limitation on conversion, which provides that at no time will Asher be entitled to convert any portion of the Asher Note, to the extent that after such conversion, Asher (together with its affiliates) would beneficially own more than 4.99% of the outstanding shares of the Common Stock as of such date.

Unrealized losses on the mark-to-market of the note which amounted to $47,187, for the period from the date of issuance (September 11, 2012) were recorded as non-cash expense for the period ended October 31, 2012.

As of October 31, 2012, the Asher Note was recorded at its fair value of $150,687 on the balance sheet.

During the twelve months ended October 31, 2013, Asher converted the above principal of $103,500 and accrued interest into approximately 16,439 shares of the Company's common stock at a conversion rate of approximately $6.50/share.

On November 12, 2012, in a private placement pursuant to a note purchase agreement, the Company issued Asher a convertible promissory note in the aggregate principal amount of $153,500, for a purchase price of $153,500, which it refers to as the Second Asher Note. The Second Asher Note bears interest at a rate of 8%, which interest accrues, but does not become payable until maturity or acceleration of the principal of the Second Asher Note. The Second Asher Note is convertible into shares of the Company's common stock at a conversion price equal to 65% of the arithmetic average of the five lowest closing trading prices for the common stock during the 10 trading day period ending on the latest complete trading day prior to the applicable conversion date. The Second Asher Note matured on August 14, 2013, nine months from its issuance date. The Second Asher Note may be converted by Asher, at its option, in whole or in part and included a limitation on conversion, which provides that at no time would Asher be entitled to convert any portion of the Second Asher Note, to the extent that after such conversion, Asher (together with its affiliates) would beneficially own more than 4.99% of the outstanding shares of the common stock of the Company as of such date.

During the year ended October 31, 2013, Asher converted the above principal of $153,500 and accrued interest of $6,140 into approximately 44,161 shares of the Company's common stock at a conversion prices ranging from $3.43/share to $3.90/share.

On May 1, 2013, in a private placement pursuant to a note purchase agreement, the Company issued Asher a convertible promissory note in the aggregate principal amount of $203,500, for a purchase price of $200,000, which it refers to as the Third Asher Note. The Third Asher Note bears interest at a rate of 8%, which interest accrues, but does not become payable until maturity or acceleration of the principal of the Third Asher Note. The Third Asher Note is convertible into shares of the Company's common stock at a conversion price equal to 65% of the arithmetic average of the five lowest closing trading prices for the common stock during the 10 trading day period ending on the latest complete trading day prior to the applicable conversion date. The Third Asher Note matures on February 3, 2014, nine months from its issuance date. The Third Asher Note may be converted by Asher, at its option, in whole or in part and included a limitation on conversion, which provides that at no time would Asher be entitled to convert any portion of the Third Asher Note, to the extent that after such conversion, Asher (together with its affiliates) would beneficially

own more than 4.99% of the outstanding shares of the common stock of the Company as of such date.

The Company recorded interest expense of $77,737 resulting from the prepayment penalty associated with the Third Asher Note. During the twelve months ended October 31, 2013, the Company paid off the Third Asher Note in the amount of $281,237.

As of October 31, 2013, the Third Asher Note no longer remained outstanding.

On July 12, 2013, in a private placement pursuant to a note purchase agreement, the Company issued Asher a convertible promissory note in the aggregate principal amount of $103,500, for a purchase price of $100,000, which it refers to as the Fourth Asher Note. The Fourth Asher Note bears interest at a rate of 8%, which interest accrues, but does not become payable until maturity or accelerations of the principal of the Fourth Asher Note. The Fourth Asher Note is convertible into shares of the Company's common stock at a conversion price equal to 65% of the arithmetic average of the five lowest closing trading prices for the common stock during the 10 trading day period ending on the latest complete trading day prior to the applicable conversion date. The Fourth Asher Note matures on April 16, 2014, nine months from its issuance date. The Fourth Asher Note may be converted by Asher, at its option, in whole or in part and included a limitation on conversion, which provides that at no time will Asher be entitled to convert any portion of the Fourth Asher Note, to the extent that after such conversion, Asher (together with its affiliates) would beneficially own more than 4.99% of the outstanding shares of the common stock of the Company as of such date.

The Company recorded interest expense of $27,917 resulting from the prepayment penalty associated with the Fourth Asher Note. During the twelve months ended October 31, 2013, the Company paid off the Fourth Asher Note in the amount of $131,417.

As of October 31, 2013, the Fourth Asher Note no longer remained outstanding.

Yvonne Paterson

On September 25, 2012, in a private placement pursuant to a note purchase agreement, we issued our affiliate Dr. Yvonne Paterson a convertible promissory note in the aggregate principal amount of $100,000, for a purchase price of $100,000, which we refer to as the Paterson Note. The Paterson Note bears interest at a rate of 12%, compounded annually. The Paterson Note is convertible into shares of our Common Stock at a conversion price equal to the arithmetic average of the five lowest closing trading prices for the Common Stock during the 10 trading day period ending on the latest complete trading day prior to the applicable conversion date. The Paterson Note matures one month from its issuance date. Additionally, Dr. Paterson will receive a warrant, which we refer to as the Paterson Warrant, to purchase such number of shares of our Common Stock equal to 50% of such number of shares of our Common Stock issuable upon conversion of the Patterson Note at an exercise price equal to the conversion price then in effect. These warrants have not yet been issued. The Paterson Warrant may be exercised on a cashless basis under certain circumstances. The Paterson Note and the Paterson Warrant each include a limitation on conversion or exercise, as applicable, which provides that at no time will Dr. Paterson be entitled to convert any portion of the Paterson Note or Paterson Warrant, to the extent that after such conversion or exercise, as applicable, Dr. Paterson (together with her affiliates) would beneficially own more than 4.99% of the outstanding shares of the Common Stock as of such date.

The warrants to be issued upon future conversion of the note were recorded as a warrant liability, at October 31, 2012, at a fair value of $18,258 at the date of issuance. Unrealized losses on the mark-to-market of the note which amounted to $22,062, for the period from the date of issuance (September 27, 2012) were recorded as non-cash expense for the period ended October 31, 2012.

As of October 31, 2012, the Paterson Note was recorded at its fair value of $103,804 on the balance sheet.

During the twelve months ended October31, 2013, the Company converted principal of $100,000 of a note issued to Yvonne Paterson plus accrued interest of approximately $2,532, into 18,107 shares of its common stock at a conversion price of $5.625 per share. In addition, the Company issued a warrant to acquire 9,054 shares, which expires on October 26, 2015 and revalued the warrant liability, at October 31, 2013, with an exercise price of $5.625, resulting in non-cash expense of $32,000 resulting from the difference between the fair value of the note as shown on the balance sheet plus accrued interest to-date and the fair value of the shares issued as a result of the conversion.

As of October 31, 2013, the Paterson Note no longer remained outstanding .

James Patton

On August 2, 2012, in a private placement pursuant to a note purchase agreement, we issued Dr. James Patton, a member of our board of directors, a convertible promissory note, which we refer to as the Patton Note, in the principal amount of $66,667 for a purchase price of $50,000. The Patton Note was issued with an original issue discount of 25%. Dr. Patton paid $0.75 for each $1.00 of principal amount of the Patton Note purchased. The Patton Note is convertible into shares of our Common Stock at a per share conversion price equal to $0.15. Additionally, Dr. Patton received a warrant, which we refer to as the Patton Warrant, to purchase such number of shares of our Common Stock equal to 50% of such number of shares of our Common Stock issuable upon conversion of the Patton Note at an exercise price of $0.15 per share. The Patton Note and Patton Warrant also provide that on December 1, 2012, solely to the extent the conversion price of the Patton Note or the exercise price of the Patton Warrant, as applicable, is less than the Market Price (as defined in the Patton Note or the Patton Warrant, as applicable), such conversion price or exercise price, as applicable, shall be reduced to such Market Price. The Patton Note matures on August 2, 2013. We may redeem the Patton Note under certain circumstances. The Patton Warrant is exercisable at any time on or before August 2, 2017. The Patton Warrant may be exercised on a cashless basis under certain circumstances. The Patton Note and the Patton Warrant each include a limitation on conversion or exercise, as applicable, which provides that at no time will Dr. Patton be entitled to convert any portion of the Patton Note or Patton Warrant, to the extent that after such conversion or exercise, as applicable, Dr. Patton (together with his affiliates) would beneficially own more than 4.99% of the outstanding shares of the Common Stock as of such date.

The warrants issued were recorded as a warrant liability, at the date of issuance, at a fair value of $13,311 at the date of issuance. The company recorded non-cash income from a decline in the fair value of the warrant liability, at October 31, 2012, of $5,200, Unrealized losses on the mark-to-market of the note which amounted to $38,944, for the period from the date of issuance (August 2, 2012) were recorded as non-cash expense for the period ended October 31, 2012. Accretion of the discount amounted to $3,277, for the period ended October 31, 2012.

As of October 31, 2012, the Patton Note was recorded at its fair value of $78,909 on the balance sheet.

During the twelve months ended October 31, 2013, the Company converted the principal amount of the Patton Note, of $66,667, into 21,092 shares at a conversion price of $3.16. The Company recorded non-cash income of approximately $94,000 for the twelve months ended October 31, 2013, respectively. Accretion of the discount amounted to $3,355, for the twelve months ended October 31, 2013. The Patton Warrants, in the amount of 1,778, remained outstanding at October 31, 2013 and were revalued as part of the warrant liability at October 31, 2013.

As of October 31, 2013, the Patton Note no longer remained outstanding.

Redwood Management LLc

On June 21, 2013, the Company entered into a bridge financing arrangement with Redwood Management, LLC (“Redwood”), an accredited investor, for which Aegis Capital Corp. acted as placement agent and received an 8% fee based on the consideration paid to to the Company. Accordingly, on June 21, 2013, the Company entered into a Securities Purchase Agreement with Redwood Management LLC, which it refers to as Redwood, and in a private placement thereunder issued Redwood a convertible promissory note in the aggregate principal amount of $277,777, for a purchase price of $250,000 (or a 10% original issue discount), which it refers to as the Redwood Note. The Redwood Note bears interest at a rate of 5%, which interest accrues, but does not become payable until maturity or acceleration of the principal of the Redwood Note. The Redwood Note is convertible into shares of the Company’s common stock at a conversion price equal to the lesser of (i) $6.25, or (ii) 70% of the ten day average value weighted average price (“VWAP”) for the ten trading days immediately preceding the conversion date. The Redwood Note matures on December 30, 2013, six months from its issuance date. The Redwood Note may be converted by Redwood, at its option, in whole or in part. The Redwood Note includes a limitation on conversion, which provides

that at no time will Redwood be entitled to convert any portion of the Redwood Note, to the extent that after such conversion, Redwood (together with its affiliates) would beneficially own more than 4.99% of the outstanding shares of the common stock as of such date.

The Company agreed to reserve at least 2.5 times the number of shares of its common stock actually issuable upon full conversion of the Redwood Note, and not to take certain actions without Redwood's consent and granted Redwood the right, at its election, to participate in future financings subject to certain limited exceptions. So long as the Company is not in default, and provided it has given 20 days prior written notice, it may prepay the Redwood Note in full at any time at a premium of 110% of the amount owed (which multiple increases 4 months after the issuance date). In addition, if the Company completes a financing of $7,000,000 or more, Redwood has the right, at its election, to require the Company to repay the Redwood Note in full on the closing date of such financing on the same payment terms as noted in the preceding sentence. The Redwood Note includes customary event of default provisions, and provide for a default rate of 14%.

During the twelve months ended October 31, 2013, the Company converted the Redwood Note, with a principal amount of $277,777 and accrued interest of approximately $4,300 into 125,000 shares of our common stock, at an conversion price of $2.33 per share.

As of October 31, 2013, the Redwood Note no longer remained outstanding.

Issuance of Notes Collateralized by NOLs and R&D Tax Credits

On August 20, 2013, in a private placement pursuant to a note purchase agreement, we issued an accredited investor a secured convertible promissory note in the aggregate principal amount of $108,000, for a purchase price of $100,000. On September 18, 2013, we borrowed an additional $150,000 from this accredited investor and amended and restated the terms of the August note and issued this investor 12,000 shares of our common stock. As amended and restated, this note has an aggregate principal amount of $258,000, bears interest at a rate of 20% per annum and is due February 21, 2014, nine months after its original issuance date. To secure prompt payment under the note, we granted the holder a continuing security interest in all net proceeds we receive up to the aggregate amount of $258,000 plus accrued interest from the sale of our net operating loss and or research and development tax credits through the New Jersey Economic Development Program. In October 2013, the Company paid approximately $278,000 (principal and accrued interest) in full satisfaction of its obligation under this note.

As of October 31, 2013, this note no longer remained outstanding.

8. NOTES PAYABLE- FORMER OFFICER:

Moore Notes

The Company has agreed to sell senior promissory notes, which it refers to as the Moore Notes, to Mr. Moore, a Director of the Company and its former chief executive officer, from time to time, under an agreement which we refer to as the Moore Agreement. The Moore Notes bear interest at the rate of 12% per annum. Currently, under the terms of the amended and restated Moore Notes, the maturity date was the earlier of (i) the date of consummation of an equity financing in an amount of $6.0 million or more or (ii) the occurrence of any event of default as defined in the Moore Notes. As of October 31, 2012, the Company owed Mr. Moore approximately $477,000 in principal and interest under the Moore Notes.

On September 26, 2013, we entered into a debt conversion and repayment agreement with Thomas A Moore, a Director of our company and our former Chief Executive Officer, with respect to the repayment and partial conversion of amounts owed to Mr. Moore under outstanding promissory notes issued pursuant to that certain Note Purchase Agreement dated September 22, 2008, as amended from time to time. We refer to these outstanding notes as the Moore Notes. As provided in the agreement, following the closing of our October 22, 2013 public offering: (a) we paid Mr. Moore $100,000 in cash as partial repayment of the Moore Notes, (b) we converted one-half of the remaining balance (approximately $163,132) using the same terms as securities being offered and sold in the October 22, 2013 offering and issued Mr. Moore 40,783 shares of our common stock and a five year warrant to purchase 20,392 shares of our common stock at an exercise price of $5.00 on October 31, 2013 and (c) within three months of the closing of the offering, we will pay Mr. Moore in cash the then remaining outstanding balance under the Moore Notes (after taking into account the $100,000 payment and automatic conversion into our securities). Following the cash payments and partial conversion into our securities, there will no longer be any outstanding balances under the Moore Notes and we will no longer have any obligations under the Moore Notes. Securities received by Mr. Moore upon conversion will be restricted securities and subject to customary lock-up restrictions.

For the twelve months ended October 31, 2013, Mr. Moore loaned the Company $11,200 under the Moore Notes. The Company paid Mr. Moore $193,833 principal on the Moore Notes for the twelve months ended October 31, 2013. For the twelve months ended October 31, 2013 and 2012 as well as the period from inception, the Company recorded interest expense of $31,633, 29,695 and $331,654 respectively. As of October 31, 2013 and October 31, 2012, respectively, the Company was not in default under the terms of the Moore Agreement.

As of October 31, 2013, the Company owed $163,132 in principal and accrued interest on the Moore Notes. The Company intends to repay this amount to Mr. Moore during the first quarter of fiscal year 2014, fully satisfying its remaining obligation under the Moore Notes.

9. NOTES PAYABLE-OTHER:

JLSI, LLC

On July 21, 2012, the Company received $250,000 from JLSI, LLC in return for issuing a promissory note in the principal amount of $250,000, which bears interest at 33% per annum, compounded annually and which matured on December 31, 2012 (“July 2012 Note”). The Company has recorded approximately $37,000 in interest related to this promissory note, through December 31, 2012.

On March 10, 2013 the Company entered into an Exchange Agreement with JLSI, LLC to exchange the July 2012 Note in the principal amount of $250,000 plus interest of approximately $37,000 for common stock, par value $.001 per share . On December 31, 2012 the parties agreed to prepare the Exchange Agreement with a fixed conversion

price of $3.75 per share, the market closing price of the Company’s common stock on December 31, 2012. The Company issued 76,491 shares during the second fiscal quarter of 2013 to settle the note and interest.

As of October 31, 2013, this note no longer remained outstanding.

10. LONG-TERM CONVERTIBLE NOTE

Tonaquint Note

On December 13, 2012, the Company entered into a securities purchase agreement with Tonaquint, Inc., the Tonaquint Purchase Agreement, whereby the Company issued Tonaquint a convertible promissory note for the initial principal sum of $890,000. The Company refers to this note as the Tonaquint Note. The Tonaquint Note bears interest at a rate of 8% and is due 26 months after its issue date. The Tonaquint Note can currently be converted at any time, from time to time, at the option of the holder, in whole or in part, a fixed price of $20.00 per share but is subject to adjustment if and whenever on or after six months from the issue date the Company issues shares of its common stock or other securities convertible into or exchangeable for shares of its common stock below the current conversion price of $20.00.

On the closing date, Tonaquint (i) funded $400,000 in cash, (ii) issued a secured mortgage note in the principal amount of $200,000, which is referred to as Mortgage Note 1, and (iii) issued an additional secured mortgage note in the principal amount of $200,000, which is referred to as Mortgage Note 2. Mortgage Note 1 bore interest at a rate of 5% and was due on the earlier of (i) 60 days following the maturity date under the Tonaquint Note, and (ii) the later of (A) eight months after the closing date under the Tonaquint Purchase Agreement and (B) satisfaction of certain payment conditions. Mortgage Note 2 bore interest at a rate of 5% and was due on the earlier of (i) 60 days following the maturity date under the Tonaquint Note, and (ii) the later of (A) 10 months after the closing date under the Tonaquint Purchase Agreement and (B) satisfaction of certain payment conditions.

Beginning in June 2013, the Company began making monthly installment payments on the Tonaquint Note as required by the terms of the note, which contemplates 18 installment payments equal to approximately $50,000. These installment payments may be made at the Company’s option in cash or in stock although they must be made in cash if certain conditions are not met. If it chooses to make installment payments in stock, then such stock will be issued at a price per share equal to 80% of the average of the 5 lowest daily closing bid prices for the common stock during the 20 consecutive trading days prior to the installment date (which is adjusted to 70% if the average of the 3 lowest volume weighted average prices during such 20-day period is less than $1.25 per share). Tonaquint has the right to receive additional shares or the Company’s common stock if the market price of the common stock is lower than the price per share on the installment date.

During the twelve months ended October 31, 2013, the Company issued 86,517 shares of its common stock, in lieu of cash installment payments, to satisfy $148,332 of principal and $60,102 in accrued interest. These principal payments were converted into shares of our common stock at conversion prices ranging from $2.14 to $3.57. In addition, Tonaquint converted $345,000 in principal into 156,166 shares of our common stock at conversion prices ranging from $2.14 to $2.52, recording non-cash expense of approximately $680,000 as a result of the difference between the amount of note principal converted and the fair value of the shares issued in these partial conversions.

On December 13, 2012, the Company also issued Tonaquint a warrant to purchase the number of shares equal to 75% of the principal sum of $890,000 under the Tonaquint Note divided by market price as of the issue date as defined in the warrant agreement. This warrant expires 5-years from the issue date and provides for a variable exercise price per share as defined in the warrant agreement. On March 14, 2013, the Company issued 170,624 shares of its common stock resulting from the partial cashless exercise of the warrant issued to Tonaquint in December 2012.

On October 10, 2013, we entered into an exchange and settlement agreement with Iliad regarding the warrant issued to Tonaquint in December 2012 and subsequently transferred to Iliad. Under the agreement, we agreed to issue Iliad an aggregate of 314,252 shares of our common stock in exchange for the warrant, which we cancelled. At or prior to closing (which must occur no later than October 15, 2013), we will issue 86,283 of these shares to Iliad and instruct our transfer agent to reserve the remaining shares for issuance to Iliad, which shares will be issued at such time as

Iliad would not be considered the beneficial owner of more than 4.99% of our outstanding shares of common stock. Iliad agreed that it would not sell any of such shares beginning from the date of effectiveness of the registration statement for a public offering of the sale of our common stock for gross proceeds of at least $15,000,000 until three months thereafter. In addition, so long as we close such financing by October 31, 2013, Iliad agreed to limit its sales of such shares, including shares received upon conversion of the last outstanding principal amount under the convertible promissory notes we issued to Tonaquint in December 2012, to no more than the higher of (i) 10% of our daily trading volume in any specific trading day, or (ii) 5% of our weekly trading volume in any given week. In addition, as of the date hereof, all of the outstanding principal amount under the convertible promissory notes we issued to Tonaquint in December 2012 have been converted into shares of our common stock. Accordingly, such notes are no longer issued and outstanding.

In October 2013, Tonaquint converted the remaining principal on the Tonaquint Note, in the amount of $394,594, into 184,735 shares of our common stock at a conversion price of $2.14. The Company recorded non-cash expense of approximately $658,000 resulting from the difference between the note principal converted and the fair value of the shares issued as a result of said conversion.

As of October 31, 2013, the Tonaquint Note no longer remained outstanding.

11. COMMON STOCK WARRANT LIABILITY

Warrants

As of October 31, 2013, there were outstanding warrants to purchase 4,066,887 shares of the Company's common stock with exercise prices ranging from $2.76 to $21.25 per share. Information on the outstanding warrants is as follows:

Type	Exercise Price		Amount	Expiration Date	Type of Financing
Exchange Warrants - Nonexercisable	$	18.75	278,329	October 2014	July 2012 Exchanges
Common Stock Purchase Warrant	$	18.75	28,632	May 2015	May 2011 Convertible Debt Financing
Common Stock Purchase Warrant	$	18.75	11,628	October 2014 - October 2015	Oct 2011 Convertible Debt Financing
Common Stock Purchase Warrant	$	18.75	17,706	May 2015 - January 2016	December 2011 Convertible Debt Financing
Common Stock Purchase Warrant	$	18.75	13,333	May 2017	May 2012 Convertible Debt Financing
Common Stock Purchase Warrant	$	9.24-21.25	293,115	December 2013-April 2015	Bridge Notes
Common Stock Purchase Warrant	$	4.375	1,333	December 2015	Stock Purchase Agreement
Common Stock Purchase Warrant	$	18.75	376	N/A	Vendor & Other
Common Stock Purchase Warrant	$	10.625-18.75	29,883	May 2014 May 2017	Placement Agent Convertible Debt Financing
Common Stock Purchase Warrant	$	5.00	20,392	October 2018	Former Officer
Common Stock Purchase Warrant	$	4.90	30,154		Consultant
Common Stock Purchase Warrant	$	2.76	22,661	August 2016	Stock Purchase Agreement
Common Stock Purchase Warrant		5.625-10.625	13,095	October 2015-August 2017	August September 2012 Convertible Promissory Notes
Common Stock Purchase Warrant		5.00	3,306,250	October 2018	Advaxis Public Offering
Common Stock Purchase Warrant		5.00	198,375	October 2018	Representative Advaxis Public Offering
		Grand Total	4,265,262		

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As of October 31, 2012, there were outstanding warrants to purchase 802,580 shares of the Company's common stock with exercise prices ranging from $6.625 to $21.25 per share. Information on the outstanding warrants is as follows:

Type	Exercise Price		Amount	Expiration Date	Type of Financing
Exchange Warrants-Nonexercisable	$	18.75	278,329	October 2014	July 2012 Warrant Exchanges
Common Stock Purchase Warrant	$	18.75	28,632	May 2015	May 2011 Convertible Debt Financing
Common Stock Purchase Warrant	$	18.75	11,628	October 2014-October 2015	October 2011 Convertible Debt Financing
Common Stock Purchase Warrant	$	18.75	17,706	January 2015-January 2016	December 2011 Convertible Debt Financing
Common Stock Purchase Warrant	$	18.75	22,222	May 2017	May 2012 Convertible Debt Financing
Common Stock Purchase Warrant	$	14.95-21.25	198,036	January 2013-April 2015	Bridge Notes
Common Stock Purchase Warrant	$	18.75	376	N/A	Vendor & Other
Common Stock Purchase Warrant	$	18.75	29,883	May 2014 May 2017	Placement Agent Convertible Debt Financing
Common Stock Purchase Warrant		6.625-18.75	11,288	October 2015-August 2017	August September 2012 Convertible Promissory Notes
		Subtotal:	598,100		
Common Stock Purchase Warrant		TBD (1)	204,480	April 2014	Preferred Stock Agreement (4/04/2011)
		Grand Total	802,580		

(1) During December 2011, the Company unreserved for issuance shares related to the preferred stock warrants. If exercisable, exercise price means an amount per warrant share equal to the closing sale price of a share of common stock on the applicable tranche notice date.

At October 31, 2013, the Company had approximately3.7 million of its total 4.3 million outstanding warrants classified as equity (equity warrants). At October 31, 2012, the Company had approximately121,000 of its total 803,000 outstanding warrants classified as equity (equity warrants). At issuance, equity warrants are recorded at their relative fair values, using the Relative Fair Value Method, in the shareholders equity section of the balance sheet. Our equity warrants can only be settled through the issuance of shares and are not subject to anti-dilution provisions.

At October 31, 2013, the Company had approximately 0.6 million of its total 4.3 million outstanding warrants classified as liability warrants (common stock warrant liability). The fair value of the warrant liability, as of October 31, 2013, was approximately $0.6 million. At October 31, 2012, the Company had approximately 682,000 of its 803,000 outstanding warrants classified as liability warrants (common stock warrant liability). The fair value of the warrant liability, as of October 31, 2012 was approximately $.4 million. In fair valuing the warrant liability, at October 31, 2013 and October 31, 2012, the Company used the following inputs in its BSM Model:

	10/31/2013			10/31/2012		
Exercise Price:	$	2.76-21.25		$	6.625-21.25	
Stock Price	$	3.74		$	5.625	
Expected term:		61-1371 days			81-1736 days	
Volatility %		98.89%-186.24	%		66.51%-146.78	%
Risk Free Rate:		..035%-.94	%		0.09-0.56	%

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Warrant Liability/Embedded Derivative Liability

Warrant Liability

As of October 31, 2013, the Company had approximately 565,000 of its total approximately 4.3 million total warrants classified as liabilities (liability warrants). Of these 565,000 liability warrants, approximately 287,000 warrants are outstanding and 278,000 warrants are exchange warrants nonexercisable. The Company utilizes the BSM Model to calculate the fair value of these warrants at issuance and at each subsequent reporting date. For those warrants with exercise price reset features (anti-dilution provisions), the Company computes multiple valuations, each quarter, using an adjusted BSM model, to account for the various possibilities that could occur due to changes in the inputs to the BSM model as a result of contractually-obligated changes (for example, changes in strike price to account for down-round provisions). The Company effectively weights each calculation based on the likelihood of occurrence to determine the value of the warrants at the reporting date. At October 31, 2013, approximately 203,000 of our 565,000 liability warrants are subject to anti-dilution provisions. A certain number of liability warrants contain a cash settlement provision in the event of a fundamental transaction (as defined in the common stock purchase warrant). Any changes in the fair value of the warrant liability (i.e. - the total fair value of all outstanding liability warrants at the balance sheet date) between reporting periods will be reported on the statement of operations.

As of October 31, 2012, the Company had approximately 682,000 of its total approximately 803,000 total warrants classified as liabilities (liability warrants). Of these 682,000 liability warrants, approximately 404,000 warrants are outstanding and 278,000 warrants are exchange warrants nonexercisable. The Company utilizes the BSM Model to calculate the fair value of these warrants at issuance and at each subsequent reporting date. For those warrants with exercise price reset features (anti-dilution provisions), the Company computes multiple valuations, each quarter, using an adjusted BSM model, to account for the various possibilities that could occur due to changes in the inputs to the BSM model as a result of contractually-obligated changes (for example, changes in strike price to account for down-round provisions). The Company effectively weights each calculation based on the likelihood of occurrence to determine the value of the warrants at the reporting date. At October 31, 2012, approximately 104,000 of our 803,000 million liability warrants were subject to anti-dilution provisions. A certain number of liability warrants contain a cash settlement provision in the event of a fundamental transaction (as defined in the common stock purchase warrant). Any changes in the fair value of the warrant liability (i.e. - the total fair value of all outstanding liability warrants at the balance sheet date) between reporting periods will be reported on the statement of operations.

At October 31, 2013 and 2012, the fair value of the warrant liability was approximately $647,000 and $434,000, respectively. For the twelve months ended October 31, 2013 and October 31, 2012, the Company reported a loss of approximately $1.2 million and income of approximately $6.4 million, respectively, due to changes in the fair value of the warrant liability.

Exercise of Warrants

During the twelve months ended October 31, 2013, an accredited investor exercised 8,889 warrants at an exercise price of $10.625, resulting in net proceeds to the Company of $94,444. During the twelve months ended October 31, 2013, the Company issued 484,876 shares to Tonaquint as a result of cashless exercises of 189,415 warrants per the terms of the December 2012 promissory note in addition to the settlement agreement entered into in October 2013.

During the twelve months ended October 31, 2012, investors in the Company exercised 21,961 warrants at a price of $18.75 per share, resulting in total proceeds to the Company of approximately $412,000.

2011 Warrant Exchange

In addition, in an effort to reduce the number of the warrants outstanding from the October 17, 2007 private placement by the Company, the Company has entered into exchange agreements with certain of the holders of such warrants pursuant to which such holders received shares of the Company's common stock, par value $0.001 per share (the " Common Stock "), and/or warrants to purchase shares of Common Stock in amounts that were determined in such negotiations.

During the twelve months ended October 31, 2012, the Company exchanged October 2007 warrants to purchase 38,331 shares of Common Stock for new warrants to purchase 51,108 shares of Common Stock. The new warrants issued pursuant to the exchanges are identical to the October 2007 warrants, except that such warrants do not contain any economic anti-dilution adjustment. The Company recorded noncash expense of approximately $25,000 to the changes in fair value account resulting from this exchange. Subsequently, the Company exchanged these new warrants, in the amount of 51,108 for shares of our common stock in the amount of 12,777. The Company recorded noncash income of approximately $54,000 due to the changes in fair value at the date of exchange and a noncash expense of approximately $89,000 resulting from this exchange of warrants for shares of our common stock during the twelve months ended October 31, 2012.

July 2012 Warrant Exchange

On June 8, 2012, Thomas A. Moore, our former Chief Executive Officer, waived our obligation to keep reserved from our authorized and available shares of common stock, such number of shares of our common stock necessary to effect the exercise or conversion, as applicable, in full, of (i) warrants to purchase an aggregate of 88,517 shares of our common stock and (ii) promissory notes convertible into 6,400 shares of our common stock. This waiver expired on August 16, 2012, the date that we filed an amendment to our certificate of incorporation with the Secretary of State of the State of Delaware to effect an increase to our authorized shares of common stock.

On July 5, 2012, in consideration for the waiver described above, we entered into an exchange agreement with Mr. Moore, with an effective date of June 8, 2012, pursuant to which Mr. Moore surrendered warrants to purchase an aggregate of approximately 88,517 shares of our common stock to us in exchange for receiving warrants to purchase an aggregate of approximately 88,517 shares of our common stock that were not exercisable and for which no shares of our common stock were reserved until we filed an amendment to our certificate of incorporation with the Secretary of State of the State of Delaware to effect an increase to our authorized shares of common stock. Mr. Moore also agreed pursuant to the exchange agreement not to convert the promissory notes convertible into 6,400 shares of our common stock until the Company filed on amendment to its certificate of incorporation with the Secretary of State of the State of Delaware to effect an increase to its authorized shares of common stock. In addition, the warrants to be issued in the exchange have an extended expiration date of two years following issuance.

In July 2012, we entered into exchange agreements with certain additional holders of an additional 189,812 warrants to purchase shares of our common stock. Similar to Mr. Moore, these holders have surrendered warrants to purchase an aggregate of approximately 189,812 shares of our common stock to us in exchange for receiving warrants to purchase the same aggregate amount of our common stock .These warrant shares were not exercisable and no shares of our common stock were reserved until we filed an amendment to our certificate of incorporation with the Secretary of State of the State of Delaware to effect an increase to our authorized shares of common stock. In addition, warrants to be issued in the exchange have an extended expiration date of two years following issuance.

The Company recorded noncash income of approximately $408,000 as a result of these exchanges.

The Company has included the above exchanged warrants, aggregating to 278,329, in its total warrants of 4,066,887 as of October 31, 2013. These new warrants are expected to be issued by early 2014.

Expiration of Warrants

During the twelve months ended October 31, 2013, the Company had 500 warrants with no anti-dilution provisions, expire unexercised.

During the twelve months ended October 31, 2012, the Company had 126,957 warrants (“October 2007 warrants”), with anti-dilution provisions, and 3,200 warrants, with no such anti-dilution provisions, expire unexercised.

Warrants with anti-dilution provisions

Some of the Company’s warrants (approximately 203,000) contain anti-dilution provisions originally set at $25.00 with a term of five years. As of October 31, 2013, these warrants had an exercise price of approximately $9.24. As of October 31, 2012, these warrants had an exercise price of approximately $18.70. If the Company issues any common stock , except for exempt issuances as defined in the warrant for consideration less than the exercise price then the exercise price and the amount of warrant shares available would be adjusted to a new price and amount of shares per the “ weighted average” formula included in the warrant. For the twelve months ended October 31, 2013, this anti-dilution provision required the Company to issue approximately 99,000 additional warrant shares; and the exercise price to be lowered to a significant amount ($9.24). Any future financial offering or instrument issuance below the current exercise price of $9.24 will cause further anti-dilution and re-pricing provisions in approximately 203,000 of its total outstanding warrants.

For those warrants with exercise price reset features (anti-dilution provisions), the Company computes multiple valuations, each quarter, using an adjusted BSM model, to account for the various possibilities that could occur due to changes in the inputs to the BSM model as a result of contractually-obligated changes (for example, changes in strike price to account for down-round provisions). The Company utilized different exercise prices of $9.24 and $7.50, weighting the possibility of warrants being exercised at $9.24 between 40% and 50% and warrants being exercised at

$7.50 between 60% and 50%.

As of October 31, 2013, there were outstanding warrants to purchase 3,788,558 shares of the Company's common stock and exchange warrants - nonexercisable to purchase 278,329 shares of the Company's common stock with exercise prices ranging from $2.76 to $21.25 per share

Embedded Derivative Liability

The Company has convertible features (Embedded Derivatives) in its outstanding convertible promissory notes. The Embedded Derivatives are recorded as liabilities at issuance. These Embedded Derivatives are valued using the Black-Scholes Model (BSM Model) and are subject to revaluation at each reporting date. Any change in fair value between reporting periods will be reported on the statement of operations.

At October 31, 2013 and October 31, 2012, the fair value of the Embedded Derivative Liability was $0 as the related notes were paid off, converted or reached maturity. For the twelve months ended October 31, 2013 and October 31, 2012, the Company reported income of approximately $0 and $400,000, respectively, due to changes in the fair value of the Embedded Derivative Liability partially resulting from debt to equity exchanges during the period.

The fair value of the Warrants and Embedded Derivatives are estimated using an adjusted BSM model. The Company computes multiple valuations, each quarter, using the BSM model for each derivative instrument to account for the various possibilities that could occur due to changes in the inputs to the BSM model as a result of contractually-obligated changes (for example, changes in strike price to account for down-round provisions). The Company effectively weights each calculation based on the likelihood of occurrence to determine the value of the derivative at the reporting date. As of October 31, 2013, the fair value of the Warrants and Embedded Derivatives was determined to be approximately $647,000 and $0, respectively. As of October 31, 2012, the fair value of the Warrants and Embedded Derivatives was determined to be approximately $1.9 million and $0, respectively. We increased loss approximately $1.5 million for net changes in the fair value of the common stock warrant liability for the year ended October 31, 2013. We increased income approximately $6.0 million for net changes in the fair value of the common stock warrant liability and embedded derivative liability for year ended October 31, 2012.

12. STOCK OPTIONS:

The Company has one active stock and cash-based incentive plan, the 2011 Omnibus Incentive Plan (the “Plan”), pursuant to which the Company has granted stock options to executive officers, directors, employees and consultants. The Incentive Plan was adopted on August 22, 2011 and approved by the shareholders on September 27, 2011. An aggregate of 20,000,000 shares of our common stock (subject to adjustment by the compensation committee) are reserved and available for delivery under the 2011 Plan. On August 13, 2012, at our annual meeting, shareholders by ratified and approved an amendment to our 2011 Plan to increase the aggregate number of shares of common stock authorized for issuance under such plan by 45,000,000. At October 31, 2012, the Company had granted 140,320 options to employees and consultants, at an exercise price, of approximately $18.75.

The 2011 Plan supersedes all of the Company’s previous stock option plans, which include the 2004 Stock Option Plan, the 2005 Stock Option Plan and the 2009 Stock Option plan under which the Company had options to purchase 10,676, 42,952 and 271,560 shares of common stock. The terms and conditions of the options outstanding under these plans remain unchanged. As of October 31, 2013, the Company had outstanding options of 467,923.

Total compensation cost for our stock plans recognized in the statement of operations for the year ended October 31, 2013 was approximately $3.53 million, of which approximately $1.19 million was included in research and development expenses and approximately $2.34 million was included in general and administrative expenses..

The fair value of options granted for the years ended October 31, 2013 and 2012 amounted to $1,215,875 and $2,539,792, respectively.

As of October 31, 2013, there was approximately $1,204,000 of unrecognized compensation cost related to non-vested stock option awards, which is expected to be recognized over a remaining average vesting period of 1.12 years.
A summary of the grants, cancellations and expirations (none were exercised) of the Company’s outstanding options for the periods starting with October 31, 2011 through October 31, 2013 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life In Years	Aggregate Intrinsic Value
Outstanding as of October 31, 2011	218,539	20.00	7.1	-
Granted	140,320	18.75	8.0	-
Cancelled or Expired	(400)	12.50	5.75	-
	358,459	20.00	8.0	-

Outstanding as of October 31, 2012						
Granted	134,600		9.38	9.5		-
Cancelled or Expired	(25,136)		12.50	3.8		-
Outstanding as of October 31, 2013	467,923	$	15.86			-
Vested & Exercisable at October 31, 2013	384,737	$	16.22	4.75	$	-

The fair value of each option granted from the Company's stock option plans during the years ended October 31, 2013 and 2012 was estimated on the date of grant using the Black-Scholes option-pricing model. Using this model, fair value is calculated based on assumptions with respect to (i) expected volatility of the Company's Common Stock price, (ii) the periods of time over which employees and Board Directors are expected to hold their options prior to exercise (expected lives), (iii) expected dividend yield on the Company's Common Stock, and (iv) risk-free interest rates, which are based on quoted U.S. Treasury rates for securities with maturities approximating the options' expected lives. The Company used their own historical volatility in determining the volatility to be used. Expected lives are based on contractual terms given the early stage of the business and lack of intrinsic value. The expected dividend yield is zero as the Company has never paid dividends to common shareholders and does not currently anticipate paying any in the foreseeable future.

	Year Ended October 31, 2013		Year Ended October 31, 2012	
Expected volatility	138.05	%	143.00	%
Expected Life	10		10	
Dividend yield	0		0	
Risk-free interest rate	2.04	%	2.10	%
Forfeiture Rate	4.4	%	4.4	%

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2011 Employee Stock Purchase Plan

Our board of directors adopted the Advaxis, Inc. 2011 Employee Stock Purchase Plan, which we refer to as the ESPP, on August 22, 2011, and our shareholders approved the ESPP on September 27, 2011. The ESPP allows employees to purchase common stock of the Company at an 15% discount to the market price on designated exercise dates. Employees were eligible to participate in the ESPP beginning December 30, 2011. 5,000,000 shares of our common stock are reserved for issuance under the ESPP.

During the twelve months ended October 31, 2013, $22,575 was withheld from employees, on an after-tax basis, in order to purchase 5,291 shares of our common stock. During the twelve months ended October 31, 2012 approximately $18,300 was withheld from employees, on an after-tax basis, in order to purchase an aggregate of 1,656 shares of our common stock.

13. COMMITMENTS AND CONTINGENCIES :

Employment Agreements

On December 19, 2013, the Company and each of Daniel J. O’Connor, Chief Executive Officer and President, Gregory T. Mayes, Executive Vice President and Chief Operating Officer, Mark J. Rosenblum, Senior Vice President, Chief Financial Officer and Secretary, Robert G. Petit, Executive Vice President and Chief Scientific Officer, and Chris L. French, Vice President and Executive Director, Medical Affairs, of the Company (each, an “Executive”), voluntarily entered into an amendment (each, an “Amendment” and collectively, the “Amendments”) to their respective employment agreements (each, an “Employment Agreement”).

Under the terms of each Amendment, all of the Executives voluntarily agreed to utilize a percentage of their base salary for stock compensation. Common stock of the Company (“Common Stock”) will be acquired by each Executive based on the fair market value of the Common Stock on the date of acquisition. The allocation between the cash and equity components of each Executive’s base salary is as follows:

Executive	% of base salary in cash	% of base salary in stock
Daniel J. O’Connor	75.0	25.0
Gregory T. Mayes, III	92.5	7.5
Mark J. Rosenblum	92.5	7.5
Robert G. Petit	91.5	8.5
Chris L. French	95.0	5.0

The stock compensation will be acquired by the Executives on the last business day of each fiscal quarter of the Company in accordance with the terms and provisions of the Company's 2011 Omnibus Incentive Plan.

The Amendments also clarify that Severance Payments (as such term is defined in the respective Employment Agreements) and benefits, if any, payable to each Executive in accordance with their respective Employment Agreements are intended to be exempt from or comply with the requirements of Section 409A of the Internal Revenue Code.

The Amendments entered into by and between the Company and Mr. O’Connor, Mr. Rosenblum, Mr. Petit and Ms. French also clarify that each such Executive’s permission to purchase discounted Common Stock in any capital raise conducted by the Company shall only be to the extent permitted by, and on terms consistent with, the Company's 2011 Omnibus Incentive Plan, applicable law and the rules and regulations of NASDAQ (or such other applicable exchange).

Pursuant to the terms of the Amendment entered into by and between the Company and Mr. O'Connor, Mr. O'Connor's base salary compensation is increased to (i) $325,000.00, effective from the date of Mr. O'Connor's appointment as CEO of the Company through December 31, 2014, (ii) $350,000.00 on January 1, 2015 through December 31, 2015, and (iii) $375,000.00 on January 1, 2016 through the remainder of the Initial Term (as such term is defined in Mr. O'Connor's Employment Agreement) and, to the extent the Initial Term of his Employment Agreement is extended in accordance with the provisions thereof, through December 31, 2016, subject to adjustment.

Legal Proceedings

On March 22, 2013, the Company was notified that Brio Capital L.P. which we refer to as Brio, had filed a lawsuit against Advaxis, in the Supreme Court of the State of New York, County of New York, titled Brio Capital L.P. v. Advaxis Inc., Case No. 651029/2013, which we refer to as the Action. The complaint in the Action alleges, among other things, that Advaxis breached the terms of certain warrants to purchase shares of our common stock that we originally issued to Brio on October 17, 2007 and on June 18, 2009, , and that Brio has suffered damages as a result thereof. Brio's complaint seeks (i) a preliminary and permanent injunction directing us to issue to Brio 21,742 shares of our common stock, along with the necessary corporate resolutions and legal opinions to enable Brio to sell such common stock publicly without restriction; and (ii) damages of at least $500,000 (in an amount to be determined at trial), along with interest, costs and attorneys' fees related to the Action. On April 15, 2013, in partial resolution of the Brio lawsuit, we issued 21,742 shares of common stock and provided certain corporate resolutions and legal opinions necessary to enable Brio to sell such common stock publicly without restriction. On October 29, 2013, we entered into a settlement agreement with Brio to settle the remaining claims under the Action, which agreement was to become binding only when approved by the court at a fairness hearing. The parties later agreed to amend the settlement by the Company paying Brio $205,000 in full settlement of all claims related to this lawsuit in exchange for a release of claims and cancellation of the warrants. The matter is now finally settled and the Action dismissed with prejudice.

On August 19, 2013, we entered into an agreement with Maxim Group LLC, or Maxim to terminate a July 2012 engagement agreement between the parties, pursuant to which Maxim asserted claims for unpaid fees related to the introduction of investors to us and services provided. As consideration for terminating the agreement, we agreed to pay Maxim approximately $589,000 in monthly installment payments in either cash or shares of our common stock, and a warrant to purchase 30,154 shares of our common stock at an exercise price of $4.90 per share. Additionally, in order to move the settlement forward, we reluctantly agreed to pay Maxim an additional $150,000 upon the completion of a contemplated public offering of securities. On September 17, 2013, we issued 25,582 shares of our common stock as an installment payment under this agreement and also issued the warrant to acquire 30,154 shares of our common stock at $4.90 per share, and on September 27, 2013, we issued 158,385 shares of our common stock to satisfy the remaining amount owed under this agreement. Maxim rejected the delivery of these 158,385 shares and claimed that we may not prepay our obligations under the agreement notwithstanding any language to the contrary in the agreement. Upon receipt of the rejected shares, Advaxis cancelled the issuance of such shares. Upon the completion of our public offering in October, 2013 we paid the aforementioned $150,000 and commenced final settlement of the disputed amounts owed. On or about November 14, 2013 Maxim initiated a a proceeding by confession of judgment in New York State Court to recover monies it believes Advaxis owes it under the Termination Agreement in the amount of $484,709.50. On November 15, 2013 the New York County Clerk's office entered a judgment in favor of Maxim. On or about November 22, 2015 Maxim mailed a Notice of Entry To Advaxis and the parties decided to settle the dispute without any admission of liability or wrongdoing and on December 23, 2013 the parties executed a Settlement Agreement and Releases On December 27, 2013 we paid Maxim $285,000 in final settlement of all matters related to their claim.

We are from time to time involved in legal proceedings in the ordinary course of our business. We do not believe that any of these claims and proceedings against us is likely to have, individually or in the aggregate, a material adverse effect on our financial condition or results of operations.

University of Pennsylvania

On May 10, 2010, the Company entered into a second amendment to the Penn license agreement pursuant to which it acquired exclusive licenses for an additional 27 patent applications related to its proprietary *Listeria* vaccine technology. As part of this amendment the Company exercised its option for the rights to seven additional patent dockets, including 23 additional patent applications, at an option exercise fee payable in the form of $35,000 in cash and $70,000 in its common stock (approximately 3,111 shares of its common stock based on a price of $22.50 per

share) and agreed to pay historical patent costs incurred by Penn at a cost of approximately $462,000. As of October 31, 2013, Pennowned 28,468 shares of our common stock. As of October 31, 2013, the Company owed Penn approximately $325,000 under all licensing agreements.

In November and December 2013, the Company paid Penn approximately $116,000 (approximately $107,000 was related to the licensing costs of $325,000 recorded in Accounts Payable as of October 31, 2013; approximately $9,000 paid for licensing costs incurred in November and December 2013).

Numoda

On June 19, 2009 the Company entered into a Master Agreement and on July 8, 2009, it entered into a Project Agreement with Numoda Corporation, which it refers to as Numoda, a leading clinical trial and logistics management company, to oversee Phase II clinical activity with ADXS11-001 for the treatment of invasive cervical cancer and CIN. Numoda is responsible globally for integrating oversight and logistical functions with the clinical research organizations, contract laboratories, academic laboratories and statistical groups involved. The scope of this agreement covers over three years and is estimated to cost approximately $12.2 million for both trials. Pursuant to the Master Agreement, the Company is permitted to pay a portion of outstanding charges to Numoda in the form of the Company's common stock and during May 2010, the Company issued 28,000 shares of its common stock to an affiliate of Numoda in satisfaction of $350,000 in services rendered by Numoda to the Company under the Master Agreement. The Company has recorded deferred expenses on the balance sheet for this amount and amortizes this amount to expense over the life of the agreement. As the Company is billed by Numoda on a monthly basis, these costs are capitalized to deferred expenses. As the clinical trials progress in terms of patient enrollment and time, the Company reduces the deferred expense balance and recognizes clinical trials expense on the statement of operations. From inception through October 31, 2013, the Company has paid Numoda approximately $8.8 million.

As of October 31, 2013, the Company owed Numoda approximately $300,000, which is recorded in Accounts Payable.

Numoda- Socius Stock Issuance

On July 24, 2012, the Circuit Court of the 11th Judicial Circuit in and for Miami-Dade County, Florida entered an Order Approving Stipulation for Settlement of Claim, which the Company refers to as the Order, in the matter titled Socius CG II, Ltd. v. Advaxis, Inc. The Order, together with the Stipulation for Settlement Claim, which the Company refers to as the Stipulation, provide for the full and final settlement of Socius's $2,888,860 claim against the Company ($1.8 million claim from Numoda plus approximately $1 million in transaction related costs) in connection with past due invoices relating to clinical trial services, which the Company refers to as the Claim. Socius purchased approximately $1.8 million of the Claim against the Company from Numoda Corporation.

Pursuant to the terms of the Order and the Stipulation, the Company issued and delivered to Socius an aggregate of 197,449 shares of its common stock for the entire Claim in the period from July to November 2012, which were subject to adjustment as described in the Stipulation. During the twelve months ended October 31, 2013, the Company delivered an additional 33,750 shares of our common stock and recorded non-cash income of approximately $615,000 related to the issuance of stock to Socius in settlement of the Claim.

Separation Agreement

On March 6, 2013, the Company announced the departure of Dr. John Rothman, the Company's former Executive Vice President of Clinical and Scientific Operations, effective March 1, 2013. On March 20, 2013, the Company entered into a Separation Agreement and General Release with Dr. Rothman, pursuant to which Dr. Rothman released the Company from all claims and agreed to continue to assist the Company as a consultant until February 28, 2014 in exchange for (i) being compensated on an hourly basis for certain project assignments as requested by the Company, (ii) receiving an aggregate of approximately $275,000, paid in installments over the course of the one year consulting period, and (iii) all of the options to purchase shares of the Company's common stock held by Dr. Rothman being fully vested with the exercise period of such options being extended until March 1, 2015.

Consulting Agreement; Debt Conversion/Repayment

On August 19, 2013, the Company entered into a consulting agreement with Mr. Moore, pursuant to Mr. Moore will continue to assist the Company with the development of its veterinary program in exchange for (i) receiving an aggregate of approximately $350,000, paid in installments over the course of the one year consulting period, and (ii) reimbursement by the Company for any costs associated with or incurred by Mr. Moore for participation in a group health plan and (iii) a grant of 37,500 restricted stock units (RSU's) that will vest quarterly over three years. The term for this consulting agreement is one year.

On September 26, 2013, we entered into a debt conversion and repayment agreement with Thomas A Moore, a Director of our company and our former Chief Executive Officer, with respect to the repayment and partial conversion of amounts owed to Mr. Moore under outstanding promissory notes issued pursuant to that certain Note Purchase Agreement dated September 22, 2008, as amended from time to time. We refer to these outstanding notes as the Moore Notes. As provided in the agreement, following the closing of our October 22, 2013 public offering: (a) we paid Mr. Moore $100,000 in cash as partial repayment of the Moore Notes, (b) we converted one-half of the remaining balance (approximately $162,132) using the same terms as securities being offered and sold in the October 22, 2013 offering and issued Mr. Moore 40,783 shares of our common stock and a five-year warrant to purchase 20,392 shares of our common stock at an exercise price of $5 per share on October 31, 2013 and (c) within three months of the closing of the offering, we will pay Mr. Moore in cash the then remaining outstanding balance under the Moore Notes (approximately $163,132). The Company intends to repay this amount during the first quarter of fiscal year

2014, fully satisfying its remaining obligations under the Moore Notes.

Office & Laboratory Lease

In April 2011, the Company entered into a Sublease Agreement and relocated the current offices and laboratory to an approximately 10,000 square foot leased facility in Princeton, NJ which approximates $21,000 per month plus utilities. Utility costs are estimated to be approximately $7,200 per month and are capped at approximately $10,700 per month. The Company made an initial payment of approximately $54,000 prior to entering the new facility. Approximately $38,000 of the initial $54,000 payment was for the security deposit and was recorded on the balance sheet as a long-term asset. The Sublease Agreement has a termination date of November 29, 2015. The Company expects its annual lease costs to approximate $337,000 per year (approximately $1.02 million in the aggregate) until the termination of this agreement in November 2015.

On March 13, 2013, the Company entered into a modification of the Sublease Agreement whereby all unpaid accrued lease amounts and future lease amounts through June 30, 2013, which the Company estimated to be approximately $450,000, would be satisfied by a payment in total of $200,000, with $100,000 paid on March 13, 2013 and $100,000 payable upon the consummation of a future capital raising transaction by the Company. In addition, lease payments for the period July 1, 2013 through November 30, 2015 will be reduced to a total of $20,000 per month.

Other

Pursuant to a Clinical Research Service Agreement, executed in April 2005, the Company is obligated to pay Pharm Olam International for service fees related to a Phase I clinical trial. As of October 31, 2013, the Company has no outstanding balance of on this agreement. During the twelve months ended October 31, 2013, the Company settled an aged payable balance in the amount of $223,620 for a payment of $75,000, recording non-cash income of approximately $148,000 on this transaction.

Sale of Net Operating Losses (NOLs)

The Company may be eligible, from time to time, to receive cash from the sale of its Net Operating Losses under the State of New Jersey NOL Transfer Program. In December 2012, the Company received notification that it will receive a net cash amount of approximately $725,000 from the sale of its state NOLs and research and development tax credits for the periods ended October 31, 2010 and 2011. These proceeds were received in January 2013.

14. INCOME TAXES:

The income tax provision (benefit) consists of the following:

	October 31, 2013	October 31, 2012
Federal		
Current	$ -	$ -
Deferred	(3,725,144)	(9,974,596)
State and Local		
Current	(725,190)	(346,787)
Deferred	(202,712)	(1,826,038)
Change in valuation allowance	3,927,856	11,800,634
Income tax provision (benefit)	$ (725,190)	$ (346,787)

The Company has U.S. federal net operating loss carryovers (NOLs) of approximately $58,446,529 and $50,057,488 at October 31, 2013 and 2012, respectively, available to offset taxable income through the fiscal year ended October 31, 2033. If not used, these NOLs may be subject to limitation under Internal Revenue Code Section 382 should there be a greater than 50% ownership change as determined under the regulations. The Company plans on undertaking a detailed analysis of any historical and/or current Section 382 ownership changes that may limit the utilization of the net operating loss carryovers. The Company also has New Jersey State Net Operating Loss carry overs of $17,562,615 and $9,173,574, as of October 31, 2013 and October 31, 2012, respectively, available to offset future taxable income through 2033.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon future generation for taxable income during the periods in which temporary differences representing net future deductible amounts become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. After consideration of all the information available, Management believes that significant uncertainty exists with respect to future realization of the deferred tax assets and has therefore established a full valuation allowance. For the year ended October 31, 2013 and 2012, the change in the valuation allowance was approximately $3,927,856 and $11,800,634.

The company evaluated the provisions of ASC 740 related to the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements. ASC 740 prescribes a comprehensive model for how a company should recognize, present, and disclose uncertain positions that the company has taken or expects to take in its tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. Differences between tax positions taken or expected to be taken in a tax return and the net benefit recognized and measured pursuant to the interpretation are referred to as “unrecognized benefits.” A liability is recognized (or amount of net operating loss carry forward or amount of tax refundable is reduced) for unrecognized tax benefit because it represents an enterprise’s potential future obligation to the taxing authority for a tax position that was not recognized as a result of applying the provisions of ASC 740.

If applicable, interest costs related to the unrecognized tax benefits are required to be calculated and would be classified as “Other expenses Interest” in the statement of operations. Penalties would be recognized as a component of “General and administrative.”

No interest or penalties on unpaid tax were recorded during the years ended October 31, 2013 and October 31, 2012, respectively. As of October 31, 2013 and October 31, 2012, no liability for unrecognized tax benefits was required to be reported. The Company does not expect any significant changes in its unrecognized tax benefits in the next year.

The Company files tax returns in the U.S. federal and state jurisdictions and is subject to examination by tax authorities beginning with the year ended October 31, 2010.

The Company's deferred tax assets (liabilities) consisted of the effects of temporary differences attributable to the following:

	Years Ended October 31, 2013		October 31, 2012	
Deferred Tax Assets				
Net operating loss carryovers	$	21,994,270	$	21,162,237
Stock-based compensation		3,772,857		1,907,607
Other deferred tax assets		1,603,056		957,982
Total deferred tax assets	$	27,370,183	$	24,027,826
Valuation allowance		(26,342,495)		(22,414,639)
Deferred tax asset, net of valuation allowance	$	1,027,688	$	1,613,187
Deferred Tax Liabilities				
Other deferred tax liabilities		(1,027,688)		(1,613,187)
Total deferred tax liabilities	$	(1,027,688)	$	(1,613,187)
Net deferred tax asset (liability)	$	-	$	-

The expected tax (expense) benefit based on the statutory rate is reconciled with actual tax expense benefit as follows:

	Years Ended October 31, 2013		October 31, 2012	
US Federal statutory rate	34.00	%	34.00	
State income tax, net of federal benefit	5.9		5.9	
Debt discount	(1.4)		-	
Fair value of common stock warrant liability	(2.9)		15.0	
Deferred tax true-up - permanent differences	(9.8)		-	
Non-deductible loss on note retirement	(9.4)		-	
Deferred tax adjustment	(0.7)		39.3	
Change in valuation allowance	(19.0)		(97.8)	
Income tax benefit from sale of New Jersey NOL carryovers	3.5		2.9	
Other permanent differences	3.3		3.6	
Income tax (provision) benefit	3.50	%	2.90	%

15. SHAREHOLDERS' EQUITY :

Public Offering

On October 22, 2013, the Company closed its public offering of 6,612,500 shares of common stock, and warrants to purchase up to an aggregate of 3,306,250 shares of its common stock, including 862,500 shares and warrants to purchase 431,250 shares that were offered and sold by the Company pursuant to the full exercise of the underwriters' over-allotment option, at a price to the public of $4.00 per share and $0.001 per warrant. The warrants have a per share exercise price of $5.00, 125% of the public offering price of the common stock, are exercisable immediately, and expire five years from the date of issuance. Aegis, as the representative, received warrants to purchase 198,375 shares of the Company's common stock (equal to 3% of total shares offered), which warrants are exercisable at $5.00 pershare and expire five years from the date of issuance. Total gross proceeds from the offering were approximately $26,500,000, before deducting underwriting discounts and commissions and other offering expenses paid by the Company of approximately $2,200,000.

Equity Enhancement Program

On October 26, 2012, the Company entered into a Common Stock Purchase Agreement, which it refers to as the Hanover Purchase Agreement, with Hanover, which requires Hanover to purchase up to $10.0 million of shares of its common stock over the 24-month term following the effectiveness of the resale registration statement. The purchase price for such shares of common stock will be the higher of (i) the minimum price, which the Company refers to as the Floor Price, set forth in its notice electing to effect such issuance, and (ii) 90% of the arithmetic average of the five lowest closing sale prices of the common stock during the applicable ten trading day pricing period (or, if less, the arithmetic average of all trading days with closing sale prices in excess of the Floor Price), subject to adjustment. Each trading day with a closing sale price less than the Floor Price is excluded from the calculation of the purchase price and automatically reduces the number of trading days in the applicable pricing period.

In consideration for Hanover's execution and delivery of the Hanover Purchase Agreement, in connection with the execution and delivery of the Hanover Purchase Agreement, the Company issued Hanover 28,000 Commitment Fee Shares in November 2012. The Company recognized non-cash expense of approximately $157,000 related to the issuance of the Commitment Fee Shares in the twelve months ended October 31, 2013. The Company has also agreed to issue Hanover additional Maintenance Fee Shares of its common stock in the event that no shares of common stock have been purchased or sold pursuant to the Hanover Purchase Agreement during any calendar quarter during the 24 month term per the terms of the Hanover Purchase Agreement.

The Hanover Purchase Agreement provides for indemnification of Hanover and its affiliates in the event that the Company breaches any of its representations and warranties under the Hanover Purchase Agreement.

In connection with the Hanover Purchase Agreement, on October 26, 2012, the Company entered into a registration rights agreement, which it refers to as the Hanover Registration Rights Agreement, with Hanover, and granted to Hanover certain registration rights related to the Commitment Fee Shares, the Maintenance Fee Shares, and the shares issuable under the Hanover Purchase Agreement. Under the Hanover Registration Rights Agreement, the Company filed with the SEC a registration statement for the purpose of registering the resale of the common stock issued to Hanover.

During the twelve months ended October 31, 2013, the Company sold 359,224 shares of its common stock under the Equity Enhancement Program for proceeds totaling $2,964,140.

Stock Purchase Agreements

During the twelve months ended October 31, 2013, the Company sold 62,981 shares of its common stock, to accredited investors, for proceeds totaling approximately $177,250. The Company recorded a liability on its balance sheet for approximately $100,000 (included in proceeds of $177,250) for approximately 45,000 shares (included in the above 62,981 shares), that were not yet delivered to an accredited investor as of October 31, 2013.

Ironridge Settlement

On December 20, 2012, the Superior Court of the State of California for the County of Los Angeles Central District entered an Order for Approval of Stipulation for Settlement of Claims, which the Company refers to as the Order, in the matter titled Ironridge Global IV, Ltd. vs. Advaxis, Inc . The Order, together with the Stipulation for Settlement of Claims, which the Company refers to as the Stipulation, dated December 19, 2012, between the Company and Ironridge Global IV, Ltd., which it refers to as Ironridge, provides for full and final settlement of Ironridge's $692,761 claim against the Company in connection with past due invoices relating to attorney fees, which Ironridge purchased pursuant to a Receivable Purchase Agreement, dated December 14, 2012, which the Company refers to as the Claim. Pursuant to the terms of the Order and the Stipulation, the Company was obligated to issue 267,117 shares of its common stock to settle the $692,761 owed. On December 21, 2012, the Company issued and delivered to Ironridge 360,000 shares of its common stock, par value $0.001 per share. Accordingly, Ironridge returned 92,883 shares of its common stock on January 30, 2013.

Series B Preferred Stock Financing

On July 19, 2010, the Company entered into a Series B Preferred Stock Purchase Agreement with Optimus (the "Series B Purchase Agreement"), pursuant to which Optimus agreed to purchase, upon the terms and subject to the conditions set forth therein and described below, up to $7.5 million of the Company's newly authorized, non-convertible, redeemable Series B preferred stock ("Series B Preferred Stock") at a price of $10,000 per share. Under the terms of the Series B Purchase Agreement, subject to the Company's ability to maintain an effective registration statement for the Warrant Shares (as defined below), the Company may from time to time until July 19, 2013, present Optimus with a notice to purchase a specified amount of Series B Preferred Stock. Subject to satisfaction of certain closing conditions, Optimus is obligated to purchase such shares of Series B Preferred Stock on the 10th trading day after the date of the notice.

There were no sales of Series B Preferred Stock during the years ended October 31, 2012 and 2013.

The Company also recorded $149,562 and $485,812 in accrued interest on the promissory notes through the twelve months ended October 31, 2013 and the twelve months ended October 31, 2012, respectively. The value of the Promissory Note and Interest Receivable was $0 and $10,484,022 as of October 31, 2013 and October 31, 2012, respectively. The promissory bears interest at 2 % per annum which is credited directly to capital.

Holders of Series B preferred stock will be entitled to receive dividends, which will accrue in shares of Series B preferred stock on an annual basis at a rate equal to 10% per annum from the issuance date. Accrued dividends will be payable upon redemption of the Series B preferred stock or upon the liquidation, dissolution or winding up of our Company. In the event the Company redeems all or a portion of any shares of the Series B Preferred Stock then held by Optimus, Optimus shall apply, and the Company may offset, the proceeds of any such redemption to pay down the accrued interest and outstanding principal of the Promissory Note from Optimus.

As of October 31, 2013, the Series B preferred stock had a liquidation preference of $0 due to its redemption as described below. At October 31, 2012 the Series B preferred stock had a liquidation preference of $9,722,570 comprised of $10,000 per share plus the total of the cumulative accrued dividends in the amount of $2,322,570. During the twelve months ended October 31, 2013 and 2012 and the period from March 1, 2002 (date of inception) to October 31, 2013, the Company accrued dividends of $555,000, $740,000 and $2,877,570 respectively.

Series B Preferred Redemption

On September 26, 2013, we entered into a Notice of Redemption and Settlement Agreement with Optimus Capital Partners, LLC, a Delaware limited liability company, dba Optimus Life Sciences Capital Partners, LLC, Optimus CG II, Ltd., a Cayman Islands exempted Company and Socius CG II, Ltd., a Bermuda exempted Company, pursuant to which we agreed to redeem our outstanding shares of Series B Preferred Stock. Pursuant to the agreement, we agreed to cancel an outstanding receivable in the amount of $10,633,584 as of the date of the agreement as payment in full of the redemption payment due under the terms of the Series B Preferred Stock and agreed to issue 33,750 shares of our common stock having a fair value of $221,400 to settle a disagreement regarding the calculation of the settlement amount under a July 2012 Order and Stipulation. In connection with the redemption, we agreed to cancel the outstanding warrant held by Optimus. The Company recorded a charge to Retained Earnings for the accrued dividends payable to date, of $2,877,570 were canceled as part of the redemption transaction. The difference between the accrued dividends payable to-date and the outstanding receivable were written off to Additional Paid-In Capital. The loss on the aforementioned transaction was not material. Accordingly, following such redemption, there are no longer any shares of our Series B Preferred Stock issued and outstanding.

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16. FAIR VALUE

The authoritative guidance for fair value measurements defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or the most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Market participants are buyers and sellers in the principal market that are (i) independent, (ii)knowledgeable, (iii) able to transact, and (iv) willing to transact. The guidance describes a fair value hierarchy based on the levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

· Level 1 Quoted prices in active markets for identical assets or liabilities

· Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or corroborated by observable market data or substantially the full term of the assets or liabilities

· Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the value of the assets or liabilities

The following table provides the liabilities carried at fair value measured on a recurring basis as of October 31, 2012:

October 31, 2013	Level 1	Level 2	Level 3	Total
Common stock warrant liability, warrants exercisable at $2.76 - $21.25 from through August 2017	$ -	$	$ 646,734	$ 646,734

October 31, 2012	Level 1	Level 2	Level 3	Total
Common stock warrant liability, warrants exercisable at $6.63 - $21.25 from October 2012 through August 2017	$ -	$	$ 434,136	$ 434,136
Embedded Derivative Liability				-

October 31, 2012				
Short term Convertible Notes Payable				
May 2012 Notes	$ -	$	$ 588,313	$ 588,313
Hanover PIPE Notes September & October 2012			$ 362,791	362,791
Magna Exchange Note			$ 333,086	333,086
Asher Note			$ 150,687	150,687
French, Patton & Paterson Notes			$ 208,664	$ 208,664
Short-term convertible Notes and FV of Embedded Derivative				$ 1,643,541

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The following table summarizes the changes in fair value of the Company's Level 3 financial instruments for the twelve months ended October 31, 2013 and October 31, 2012.

Common stock warrant liability:

	October 31, 2013	
Beginning balance: October 31, 2012	$	434,136
Issuance of common stock warrants		1,460,867
Reclassification of warrant liability to equity		-
Exercises and exchanges of warrants		(1,026,131)
Issuance of additional warrants due to anti-dilution provisions		123,744
Change in fair value		(345,882)
Balance at October 31, 2013	$	646,734

	October 31, 2012	
Beginning balance: October 31, 2011	$	6,391,071
Issuance of common stock warrants		327,534
Reclassification of warrant liability to equity		-
Exercises and exchanges of warrants		(487,475)
Issuance of additional warrants due to anti-dilution provisions		150
Change in fair value		(5,797,144)
Balance at October 31, 2012	$	434,136

Convertible notes at fair value:

	October 31, 2013	
Beginning balance October 31, 2012		1,643,541
Issuance of notes		1,984,110
Transfer-out		(3,727,845)
Change in Fair Value of notes		100,194
Ending balance October 31, 2013	$	-

May 2012 Notes	October 31, 2012	
Issuance of notes		687,000
Issuance of C/S warrants		(291,400)
Changes in fair value		192,713
	$	588,313

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Hanover PIPE Notes	October 31, 2012	
Issuance of notes		265,000
Changes in fair value		97,791
	$	362,791

Magna Exchange Note	October 31, 2012	
Issuance of notes		400,075
Conversions to common stock		(100,000)
Changes in fair value		33,011
	$	333,086

Asher Note		
Issuance of notes		103,500
Changes in fair value		47,187
	$	150,687

French, Patton & Paterson Notes	October 31, 2012	
Issuance of notes		175,000
Issuance of warrants		(36,134)
Changes in fair value		69,798
	$	208,664

17. SUBSEQUENT EVENTS

Biocon Limited

On January 20, 2104 the Company and Biocon Limited, a company incorporated under the laws of India entered into a Distribution and Supply Agreement.

Pursuant to the Agreement, Advaxis granted Biocon an exclusive license (with a right to sublicense) to (i) use Advaxis' data from clinical development activities, regulatory filings, technical, manufacturing and other information and know-how to enable Biocon to submit regulatory filings for ADXS-HPV incertain territories ("Territory") and (ii) import, promote, market, distribute and sell pharmaceutical products containing ADXS-HPV.

Under the Agreement, Biocon has agreed to use its commercially reasonable efforts to obtain regulatory approvals for ADXS-HPV in India. In the event Phase II or Phase III clinical trials are required, Advaxis shall conduct such trials at its cost, provided that if Advaxis is unable to commence such clinical trials, Biocon may conduct such clinical trials, subject to reimbursement of costs by Advaxis. Biocon has agreed to commence commercial distribution of ADXS-HPV no later than 9 months following receipt of regulatory approvals in a country in the Territory. Biocon will be responsible for the costs of obtaining and maintaining regulatory approvals in the Territory.

Advaxis will have the exclusive right to supply ADXS-HPV to Biocon and Biocon will be required to purchase its requirements of ADXS-HPV exclusively from Advaxis at the specified contract price, as such price may be adjusted from time to time. In addition, Advaxis will be entitled to a six-figure milestone payment if net sales of ADXS-HPV for the contract year following the initiation of clinical trials in India exceed certain specified thresholds.

Biocon will also have a right of first refusal relating to the licensing of any new products in the Territory that Advaxis may develop during the term of the Agreement.

The term of the Agreement will be the later of twenty years or the last to expire patent or patent application. In addition, the Agreement may be terminated by either party upon thirty days' written notice (i) in the event of a material breach by the other party of its obligations under the Agreement, (ii) if the other party becomes bankrupt or insolvent or (iii) if the other party undergoes a change in control (see also Item 1- Collaborations, Partnerships and Agreements).

Licensing Agreement

The Company entered into an exclusive licensing agreement for the development and commercialization of ADXS-HPV with Global BioPharma, Inc. (GBP), a Taiwanese based biotech company funded by a group of investors led by Taiwan Biotech Co., Ltd (TBC). TBC is one of the top five pharmaceutical companies in Taiwan and formed GBP solely to focus on the development and commercialization of ADXS-HPV for the treatment of human papillomavirus (HPV)-associated diseases. The GBP territory covers over 4 billion people with over 200,000 annual diagnoses of cervical cancer, accounting for roughly 40% of the world's cases, according to WHO statistics.

GBP plans to conduct registration trials with ADXS-HPV for the treatment of advanced cervical cancer and will explore the use of Advaxis' lead product candidate in several other indications including lung, head and neck, and anal cancer.

GBP will pay Advaxis event-based financial milestones, an annual development fee, and annual net sales royalty payments in the high single to double digits. In addition, as an upfront payment, GBP will make an investment in Advaxis by purchasing from the Company shares of its common stock at market price. GBP will also have an option to purchase additional shares of Advaxis stock from the Company at a 150% premium to the stock price on the

effective date of the agreement.

GBP will be responsible for all clinical development and commercialization costs in the GBP territory. In collaboration with Advaxis, GBP will also identify and pay the clinical trial costs for up to 150 patients with cervical cancer for enrollment in Advaxis' U.S. and GBP's Asia registrational programs for cervical cancer. GBP is committed to establishing manufacturing capabilities for its own territory and to serving as a secondary manufacturing source for Advaxis in the future. Under the terms of the agreement, Advaxis will exclusively license the rights to ADXS-HPV to GBP for the Asia, Africa, and former USSR territory, exclusive of India and certain other countries, for all HPV-associated indications. Advaxis will retain exclusive rights to ADXS-HPV for the rest of the world.

Icahn School of Medicine at Mount Sinai

On December 5, 2013, we entered into a clinical trial agreement with the Icahn School of Medicine at Mount Sinai to evaluate the safety, effectiveness and immunogenicity of ADXS-HPV in 25 patients with head and neck cancer. This clinical trial will be the first study to evaluate the effects of ADXS-HPV in patients when they are initially diagnosed with HPV-associated head and neck cancer, prior to receiving any standard of care (surgery, chemotherapy, radiation or a combination thereof) to remove and/or treat their tumors. This study will be an important first step toward understanding ADXS-HPV's potential to treat this type of cancer before chemotherapy and/or radiation and its potential to reduce the need for these treatments.

Consulting Services

During the first quarter of fiscal 2014, the Company issued various consultants, or their designees, an aggregate of 154,133 shares of common stock for services rendered during that period.

Director Compensation

During November 2013, the Company issued its non-employee directors an aggregate of 51,546 shares of our common stock as part of their FY 2014 director compensation.

Executive Compensation

In January 2014, the Company issued an aggregate of 85,338 shares of its common stock under the 2011 Omnibus Incentive Plan as part of the Company's equity compensation. In addition, the Company issued 17,908 shares of our common stock, on an after tax basis, to an executive pursuant to his employment agreement.

Financial Advisor

On December 18, 2013, the Company cancelled 158,385 shares of its common stock, which were previously issued to a financial advisor under a settlement agreement and paid the financial advisor $285,000 in final settlement of all matters related to their claim.

2011 Employee Stock Purchase Plan

During November 2013, the Company issued 1,781 shares to employees who had $5,371 withheld, on an after-tax basis, in order to purchase these shares.

New Jersey Economic Development Authority

On December 20, 2013 the Company received notice from the New Jersey Economic Development Authority that it had been preliminarily approved to transfer and sell its available Net Operating Losses ("NOL") and R&D tax credits for the years ended October 31, 2009, 2010 and 2011. On January 17, 2014 the Company received $625,563 from the

transfer and sale of these NOL's and R&D tax credits.