

APAC CUSTOMER SERVICES, INC

Form DEF 14A

April 22, 2011

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A**

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

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

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

APAC CUSTOMER SERVICES, INC.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

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

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

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

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

---

**Table of Contents**

**2201 Waukegan Road, Suite 300  
Bannockburn, Illinois 60015  
(800) 776-2722**

**Notice of Annual Meeting of Shareholders  
To Be Held On June 7, 2011**

To the Shareholders of APAC Customer Services, Inc.:

The Annual Meeting of Shareholders of APAC Customer Services, Inc. will be held at the Westin Chicago North Shore, 601 N. Milwaukee Avenue, Wheeling, IL 60090 on Tuesday, June 7, 2011, at 9:30 a.m. Central Daylight Time for the following purposes:

1. To elect six directors.
2. To ratify the appointment of Ernst & Young LLP as the independent registered public accounting firm;
3. To consider an advisory vote on the compensation of the Named Executive Officers;
4. To consider an advisory vote on the frequency of the advisory vote on executive compensation and
5. To consider and transact such other business as may properly come before the Annual Meeting or any adjournment thereof.

Information with respect to the above matters is set forth in the Proxy Statement which accompanies this Notice.

Shareholders of record at the close of business on April 14, 2011 are entitled to notice of, and to vote at, the Annual Meeting.

Even if you plan to attend the meeting in person, please read these proxy materials and date, sign and mail the enclosed proxy in the envelope provided, which requires no postage for mailing in the United States. A prompt response is helpful, and your cooperation will be appreciated. Shareholders who are present at the Annual Meeting may withdraw their proxies and vote in person if they so desire.

By Order of the Board of Directors

Robert B. Nachwalter

*Senior Vice President, General Counsel and Corporate Secretary*

Dated: April 22, 2011

---

**Table of Contents**

**APAC Customer Services, Inc.  
2201 Waukegan Road, Suite 300  
Bannockburn, Illinois 60015  
(800) 776-2722**

**Proxy Statement**

**Annual Meeting of Shareholders to be Held June 7, 2011**

This Proxy Statement and the accompanying proxy card are being mailed to shareholders of APAC Customer Services, Inc. (the Company or our ) on or about April 29, 2011, in connection with the solicitation of proxies by the Board of Directors for the Annual Meeting of Shareholders to be held on June 7, 2011. The purpose of the Annual Meeting is to consider and act upon the matters specified in the Notice of Annual Meeting of Shareholders accompanying this Proxy Statement.

Each shareholder is entitled to one vote for each Common Share (as defined in the Company's Amended and Restated Articles of Incorporation, dated August 8, 1995, as subsequently amended) held as of the record date. A majority of the outstanding Common Shares entitled to vote at this meeting and represented in person or by proxy will constitute a quorum. As of the close of business on April 14, 2011, the record date for determining shareholders entitled to vote at the Annual Meeting, 53,417,300 Common Shares were outstanding.

If the form of Proxy that accompanies this Proxy Statement is executed and returned, it will be voted in accordance with the indicated direction. A Proxy may be revoked at any time prior to the voting thereof by written notice to our Corporate Secretary, by executing and delivering a subsequently dated proxy card or by voting in person at the Annual Meeting. Shareholders whose Common Shares are held in the name of a bank, broker or other holder of record will receive voting instructions from the holder of record.

The affirmative vote of the holders of a majority of the Common Shares entitled to vote and represented in person or by proxy at the Annual Meeting is required for the election of directors and for any other proposal submitted to a vote. Shareholders are not entitled to cumulate their votes. Shares represented by proxies which are marked withhold or to deny discretionary authority on any matter will be treated as shares present and entitled to vote, which will have the same effect as a vote against any such matter. Broker non-votes and the shares as to which shareholders abstain are included for purposes of determining whether a quorum of shares is present at a meeting, except as to matters for which a non-vote is indicated on the broker's proxy. If a non-vote is indicated on the broker's proxy with respect to a particular matter, the shares will not be treated as represented at the meeting for the purposes of determining a quorum for such matter. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner. Votes will be tabulated by representatives of BNY Mellon Shareowner Services, our transfer agent and inspector of elections for the Annual Meeting. We will bear all expenses incurred in the solicitation of proxies.

**Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting To Be Held on June 7, 2011**

**A copy of this proxy statement and of our annual report to stockholders is available at:**  
*<http://ir.apaccustomerservices.com/proxy11.cfm>.*

The 2011 Annual Meeting will be held on June 7, 2011, at 9:30 a.m., Central Daylight Time, at the Westin Chicago North Shore, 601 N. Milwaukee Avenue, Wheeling, IL 60090.

**Table of Contents**

At the Annual Meeting, you will be asked to consider and vote:

To elect six directors;

To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm;

To consider an advisory vote on the compensation of our Named Executive Officers;

To consider an advisory vote on the frequency of the advisory vote on executive compensation.; and

To consider and transact such other business as may properly come before the Annual Meeting or any adjournment thereof.

For the reasons set forth in more detail elsewhere in this proxy statement, our Board of Directors recommends a vote FOR the approval of each of the proposals set forth above.

The materials available at the <http://ir.apaccustomerservices.com/proxy11.cfm> website include a copy of this proxy statement, a copy of our annual report to stockholders and a copy of the form of proxy.

You may contact the Corporate Secretary, at 1-800-776-2722 if you would like to obtain directions to be able to attend the annual meeting and vote in person.

**TABLE OF CONTENTS**

COMMON SHARES BENEFICIALLY OWNED BY PRINCIPAL SHAREHOLDERS AND  
MANAGEMENT

PROPOSAL 1

EXECUTIVE OFFICERS

EXECUTIVE COMPENSATION

COMPENSATION COMMITTEE REPORT

PROPOSAL 2

REPORT OF THE AUDIT COMMITTEE

PROPOSAL 3

PROPOSAL 4

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

ANNUAL REPORT ON FORM 10-K

MULTIPLE SHAREHOLDERS SHARING AN ADDRESS

PROPOSALS OF SHAREHOLDERS FOR 2012 ANNUAL MEETING

OTHER MATTERS TO COME BEFORE THE MEETING

---

**Table of Contents****COMMON SHARES BENEFICIALLY OWNED BY  
PRINCIPAL SHAREHOLDERS AND MANAGEMENT**

The following table sets forth certain information, as of April 1, 2011, regarding the beneficial ownership of Common Shares by (i) each person known by us to own beneficially more than 5% of our outstanding Common Shares, (ii) each director and nominee, (iii) each Named Executive Officer (as defined in Compensation Discussion and Analysis Overview of Compensation Process appearing in the Executive Compensation section of this Proxy Statement) and (iv) all directors, director nominees and executive officers as a group. Except as otherwise indicated, we believe that each beneficial owner of Common Shares listed below, based on information provided by such owner, has sole investment and voting power with respect to such Common Shares. Unless otherwise indicated, the address of each of the shareholders named below is c/o APAC Customer Services, Inc., 2201 Waukegan Road, Suite 300, Bannockburn, Illinois 60015.

<b>Name</b>	<b>Common Shares Beneficially Owned</b>	
	<b>Number</b>	<b>Percent (1)</b>
Theodore G. Schwartz	15,034,429(2)(3)	28.4%
Wellington Management Company, LLP	5,316,947(4)	10.0%
Ronald L. Chez	3,650,569(5)	6.9%
Trust Four Hundred Thirty U/A/D 4/2/94	2,040,000(6)	3.9%
Trust Seven Hundred Thirty U/A/D 4/2/94	2,040,000(6)	3.9%
Trust 3080	500,000(6)	*
Trust 3081	379,000(6)	*
Katherine Andreasen	6,976(3)	*
Kevin T. Keleghan	301,976(3)	*
John J. Park	252,841(3)	*
Samuel K. Skinner	74,402(3)	*
John L. Workman	102,100(3)	*
Arthur D. DiBari	220,000(3)	*
Mark E. McDermott	287,816(3)	*
Robert B. Nachwalter	60,000(3)	*
Andrew B. Szafran	570,000(3)	1.1%
All directors, nominees and executive officers as a group (10 persons)	16,910,540(3)	31.9%

**Table of Contents**

***Notes to Common Shares Beneficially Owned Table***

\* Indicates less than 1%

- (1) Beneficial ownership is shown on this table in accordance with the rules of the Securities and Exchange Commission ( SEC ). Under those rules, if a person holds options to purchase Common Shares that are exercisable or will be exercisable within 60 days after April 1, 2011, those shares are included in that person's reported holdings and in calculating the percentages of Common Shares beneficially owned. The percentages of Common Shares beneficially owned are based on 52,946,773 Common Shares, which includes 51,625,975 Common Shares outstanding as of April 1, 2011, plus 1,320,798 Common Shares subject to options that will be exercisable within 60 days of April 1, 2011, as detailed in Note 3 below.
- (2) Includes 5,011,218 Common Shares as to which Mr. Schwartz has sole voting and investment power, and 9,858,000 Common Shares held by a limited partnership, as to which Mr. Schwartz disclaims beneficial ownership except to the extent of his pecuniary interest therein. Mr. Schwartz's address is 1 North Wacker Drive, Suite 4775, Chicago, Illinois 60606.
- (3) Includes Common Shares which may be acquired pursuant to options exercisable as of April 1, 2011, or within 60 days thereafter, as follows: Mr. Schwartz (165,211 shares); Ms. Andreasen (6,976 shares); Mr. Keleghan (6,976 shares); Mr. Park (219,395 shares); Mr. Skinner (47,100 shares); Mr. Workman (47,100 shares); Mr. DiBari (220,000 shares); Mr. McDermott (278,040 shares); Mr. Nachwalter (60,000 shares); Mr. Szafran (270,000 shares); and all directors, nominees and executive officers (as of April 1, 2011) as a group (1,320,798).
- (4) Based solely upon information provided in the Schedule 13G/A filed on February 10, 2011 by Wellington Management Company, LLP. Wellington Management Company, LLP has no sole voting power over Common Shares, shared voting power over 4,995,147 Common Shares and dispositive power over 5,316,947 Common Shares. The address of Wellington Management Company, LLP is 280 Congress Street, Boston, Massachusetts 02210.
- (5) Based solely upon information provided in the Schedule 13D/A filed on February 24, 2009 by Ronald L. Chez, Mr. Chez has sole voting and dispositive power over 3,650,569 Common Shares. The address of Mr. Chez is c/o Howard Friedman, Attorney At Law, 6745 N. Kilpatrick Avenue, Lincolnwood, Illinois 60712.
- (6) Tracy D. Schwartz and Scott Mordell serve as general trustees of Trust Four Hundred Thirty U/A/D 4/2/94 and Trust 3080, and Todd G. Schwartz and Scott Mordell serve as general trustees of Trust Seven Hundred Thirty U/A/D 4/2/94 and Trust 3081 (collectively, the Trusts ). All decisions regarding the voting and disposition of Common Shares held by the Trusts must be made by a majority of the general trustees and, as a result, each of the general trustees disclaims beneficial ownership. M. Christine Schwartz, who is married to Mr. Theodore G. Schwartz, serves as a special trustee of the Trusts and has limited powers to designate successors to the general trustees at the conclusion of their terms, but has no responsibilities or powers regarding the voting or disposition of the Common Shares owned by the Trusts and accordingly disclaims beneficial ownership of such shares. The address of each of the Trusts is: 1 North Wacker Drive, Suite 4775, Chicago, Illinois 60606.

Table of Contents**PROPOSAL 1**  
**THE ELECTION OF DIRECTORS**

At the Annual Meeting, six directors are to be elected to serve until the next Annual Meeting of Shareholders.

It is intended that the executed and returned proxy cards (except proxy cards marked to the contrary) will be voted for the nominees listed below. Proxies cannot be voted for a greater number of persons than the number of nominees listed below. It is expected that the nominees will serve, but if any nominee declines or is unable to serve for any unforeseen cause, the proxies will be voted to fill any vacancy so arising in accordance with the discretionary authority of the persons named in the proxies.

The Board of Directors recommends a vote **FOR** the election of each of the following nominees:

**Nominees for Election**

<b>Name</b>	<b>Age</b>	<b>Position</b>
Katherine Andreasen	45	<p>Ms. Andreasen became a director in November 2009. In October 2010 Ms. Andreasen was appointed Chief People Officer of AOL, Inc., an American global internet services and media company. From December 2009 to October 2010, Ms. Andreasen was Chief Human Resources Officer for Orchard Brands, a portfolio company of Golden Gate Capital and a leading multi-channel marketer of apparel and home products. From May 2008 to June 2009, she was the senior executive for Human Resources at Bill Me Later, Inc., one of the fastest growing divisions of eBay/PayPal. Prior to that, from August 2006 to May 2008 she served as the Chief Human Resources Officer for Orbitz Worldwide, managing global human resources, real estate and facilities management organizations. Before joining Orbitz, from May 2002 to August 2006, she was Senior Vice President, Human Resources, Cendant Corporation.</p> <p>Ms. Andreasen is a senior human resources professional who brings considerable human resources and talent management experience to APAC. She has substantial experience in the services industry and has been responsible for large non-exempt workforces similar to APAC which allows her to provide insight and guidance on critical employment issues. She has also designed and managed complex compensation plans and programs for private and public companies.</p>
Kevin T. Keleghan	53	<p>Mr. Keleghan became a director of the Company in November 2009. He was appointed President and Chief Executive Office of our Company in September 2010. Prior to joining our Company as President and Chief Executive Officer, Mr. Keleghan was President and Chief Executive Officer of Axiant, LLC a leading provider of financial services and recovery management solutions for issuers and investors in debt products. Axiant, LLC filed for protection under Chapter 11 of the U.S. Bankruptcy Code which was converted to a Chapter 7 liquidation in December 2009. Prior to joining Axiant, he was President and Chief Executive Officer at Outsourcing Solutions, Inc. ( OSI ) one of the largest providers of outsourced services in the accounts receivable management industry from 2002 to 2008. OSI filed for protection under Chapter 11 of the U.S. Bankruptcy Code in December 2002 and emerged from Chapter 11 protection in May 2003. From 1996 to 2002, he served at Sears Holdings Corporation in various roles, including President of Credit Card Services, Vice President of Marketing Credit Card Products and Vice President of Operations for Sears Credit Services.</p>

Mr. Keleghan is a seasoned professional with considerable industry knowledge in the area of outsourcing specifically in the area of financial services. As a result of his expertise, Mr. Keleghan is able to lead APAC in the development of new services, center operations and client management. He previously had leadership responsibility for large non-exempt workforces which are similar to APAC's workforce.

**Table of Contents**

<b>Name</b>	<b>Age</b>	<b>Position</b>
John J. Park	49	<p>John J. Park became a director in August 2004. Mr. Park is Chief Financial Officer for Meritas, LLC, which operates a worldwide network of college preparatory schools. Prior to joining Meritas in August 2010, Mr. Park was the Chief Financial Officer at Hewitt Associates, a global human resources outsourcing and consulting firm, from November 2005 to January 2010. Prior to joining Hewitt, Mr. Park served as Chief Financial Officer of Orbitz, Inc., an online travel company, from October 2000 until February 2005, and as acting President from November 2004 until February 2005. Prior to joining Orbitz, Mr. Park held various executive positions with Sears, Roebuck and Co., including Vice President, Finance for its services and credit card businesses.</p> <p>Mr. Park has served in the role of chief financial officer for public companies which results in him bringing substantial finance experience to APAC specifically the Audit Committee. Based in part on his considerable finance experience, Mr. Park qualifies as an audit committee financial expert which is important to the Company. As a senior finance professional he can provide guidance and oversight on finance issues facing public companies. Additionally, Mr. Park served as a senior officer of one of the world's leading HR consulting and outsourcing companies. As a result, he has knowledge with outsourcing as well the field of human resources which allows him to advise on issues APAC similarly confronts.</p>
Theodore G. Schwartz	57	<p>Theodore G. Schwartz is Chairman of the Board of Directors. Mr. Schwartz is the founder of the Company and has served as Chairman since its formation in May 1973. He served as the Company's Chief Executive Officer until January 2000, and again from May 2001 until March 2004.</p> <p>Mr. Schwartz is an award-winning pioneer in the call center and outsourcing industry. Over his many years in the industry, Mr. Schwartz created a number of innovative approaches and systems for call centers. As the current Chairman of the Board and the former President and Chief Executive Officer, he led APAC to becoming a leader in global outsourced services and solutions. His insight and institutional knowledge is of considerable value to APAC.</p>

**Table of Contents**

<b>Name</b>	<b>Age</b>	<b>Position</b>
Samuel K. Skinner	72	<p>Samuel K. Skinner previously served on the Board of Directors from July 2003 to June 2005. He rejoined the Board in June 2008. Mr. Skinner is of counsel to the law firm Greenberg Traurig, LLP where he concentrates on corporate, governmental and regulatory matters. From 2000 to 2003, Mr. Skinner was president and Chief Executive Officer of USF Corporation, and chairman from January 1, 2000 through May 2003. Mr. Skinner previously served as president of Commonwealth Edison Company and its holding company, Unicom Corporation (Exelon Corporation). He also was formerly White House chief of staff to President George H.W. Bush and, prior to that, served as U.S. Secretary of Transportation from February 1989 to December 1991. Mr. Skinner previously was United States Attorney for the Northern District of Illinois from 1975 to 1977, having served in that office for eight years. Mr. Skinner also serves on the board of directors of Express Scripts, Inc., Navigant Consulting, Inc., Echo Global Logistics, Inc., Chicago Board of Options Exchange and MedAssets, Inc. He previously served on the boards of Diamond Management and Technology Consultants and Dade Behring.</p> <p>Mr. Skinner has had a distinguished career with both the government and in the private sector. As a lawyer with more than 40 years of experience, he counsels APAC in a variety of areas including advising on litigation, regulatory and governmental matters and corporate governance. Additionally, Mr. Skinner's impressive leadership positions both with the government and private corporations bring valuable management experience and knowledge to the Board. He brings insights into corporate governance and legal matters that face the board, developed through his long professional experience with such matters as an attorney and member of numerous other boards.</p>
John L. Workman	59	<p>John L. Workman has served as a Director since June 2008. Mr. Workman is currently President and Chief Financial Officer of Omnicare, Inc. a position that he was appointed to in February 2011. Prior to being appointed President, he served as Executive Vice President and Chief Financial Officer of Omnicare from November 2009 to February 2011. From September 2004 to October 2009, Mr. Workman was Executive Vice President and Chief Financial Officer of HealthSouth Corporation. From 1998 to 2004, Mr. Workman served in various management and executive capacities with U.S. Can Corporation, including serving as its Chief Financial Officer from 1998 to 2002, as its Chief Operating Officer from 2002 to 2003, and its Chief Executive Officer from 2003 to 2004. Prior to joining U.S. Can Corporation, Mr. Workman was employed by Montgomery Ward &amp; Company, Inc. for 14 years, where he held several management and executive positions, including General Auditor, Chief Financial Officer, and Chief Restructuring Officer. Mr. Workman previously served on the boards of Halozyme Therapeutics, Inc., U.S. Can Corporation and ValueVision International, Inc. Mr. Workman began his career in public accounting, and was a partner with the public accounting firm KPMG.</p>

Mr. Workman has served in the role of chief financial officer for public companies which results in him bringing substantial finance experience to APAC specifically the Audit Committee. Based in part on his considerable finance experience, Mr. Workman qualifies as an audit committee financial expert which is important to the Company. Additionally, Mr. Workman has held senior positions overseeing the area of information technology and, therefore, can share his experience and advise APAC on issues in this area. Finally, as a partner in public accounting, Mr. Workman can advise APAC on accounting/audit issues that face public companies.

## **Table of Contents**

### **Meetings of the Company's Board of Directors and Corporate Governance**

Our Board of Directors met 18 times during fiscal year 2010 and periodically took action by unanimous written consent. All incumbent directors attended at least 75% of the aggregate of such meetings and meetings of Board committees on which they served in fiscal year 2010 during the periods that such directors served.

We have a commitment to good corporate governance practices. These practices provide a framework within which our Board of Directors and management can pursue our strategic objectives and ensure the Company's long-term vitality for the benefit of stockholders. The foundation of our practices is an independent and qualified Board of Directors. All directors are elected annually by a majority of votes cast by stockholders. Our Board of Directors has determined that, other than Messrs. Marrow (who served during part of 2010 but resigned as of September 12, 2010), Keleghan and Schwartz, all current Board members all nominees for election as directors, and all individuals who served as Board members during fiscal year 2010, are or were independent as defined by the NASDAQ listing standards. All Board committees are composed entirely of independent directors. Our independent directors hold executive sessions periodically throughout the year.

The Board carefully evaluates each incoming director candidate based on selection criteria and overall priorities for Board composition that are periodically re-examined by the corporate governance committee with input from the rest of the directors. As our directors' commitments change, the Board revisits their situations to ensure that they can continue to serve the best interests of the Company and its stockholders. We also demand high standards of ethics from our directors and management as described in the Code of Business Conduct and Ethics.

### **Director Independence**

The Board of Directors has determined that the following four of our six current directors are independent as defined by applicable law and NASDAQ listing standards: Ms. Andreasen, and Messrs. Park, Skinner and Workman. Each of our Audit, Compensation and Nominating and Corporate Governance committees is composed only of independent directors, as identified below under the heading Board Committees.

Based on such standards, Mr. Schwartz is not independent because of his significant ownership interest in the Company which exceeds 10%. Mr. Keleghan is not independent because he is an executive officer of the Company.

### **Board Leadership Structure**

The Bylaws provide that the Chairman of the Board of Directors shall be appointed by the Board of Directors. The Board is free to choose its Chairman in any way that the Board deems to be in the best interest of the Company and its shareholders. The Chairman of the Board has general authority over the Company's business and affairs, subject to the Board of Directors, and is responsible for ensuring that the Board's directives are carried out. The Chairman may also serve as the Chief Executive Officer of the Company. The Board determines whether the role of the Chairman and the Chief Executive Officer should be separated or combined based on its judgment as to the structure that best serves the interests of the Company. The Board does not have a firm policy as to whether the position of the Chairman and the position of the Chief Executive Officer should be separate and intends to preserve the freedom to decide what is in the best interest of the Company at any point in time.

We currently separate the positions of Chief Executive Officer and Chairman of the Board of Directors. Separating the positions of Chief Executive Officer and Chairman of the Board of Directors allows our Chief Executive Officer to focus on our day-to-day business, while allowing the Chairman of the Board of Directors to lead the Board of Directors in its fundamental role of providing advice to and oversight of management.

Mr. Schwartz, our current Chairman, is also our founder and our largest shareholder. Although Mr. Schwartz is not considered an independent director, the Board of Directors believes that having Mr. Schwartz serve as a separate Chairman of the Board of Directors is the appropriate leadership structure for the Company, given his wealth of industry experience, his considerable business contacts in the area of outsourcing, and extensive knowledge of the Company and his history of innovative and strategic thinking. Furthermore, based in part on past history, the Board of Directors believes that it is best for our Chief Executive Officer to functionally operate the business and the Chairman to manage the Board of Directors and critically review management's performance. The Board of Directors believes that performance is optimized with the separation of these roles. With the separation, the Board of Directors can speak more candidly and critically on the performance of the management and operations of Company. We believe that such separation helps provide proper checks and balances.



**Table of Contents****Board's Role in Risk Oversight**

Risk is an integral part of Board and committee deliberations throughout the year. The Company's Board of Directors administers its risk oversight function directly and through both its Audit Committee and Compensation Committee. The Audit Committee has oversight responsibility with respect to the Company's financial risk assessment and financial risk management. The Audit Committee meets regularly with management to review the Company's risk exposures, the potential financial impact those risks may have on the Company, the steps management takes to address those risks, and how management monitors emerging risks. With respect to the Company's compensation plans and programs, the Compensation Committee structures such plans and programs to balance risk and reward, while mitigating the incentive for excessive risk taking by our officers and employees. The full Board of Directors has oversight responsibility of enterprise risk management and periodically requests management to review the Company's major enterprise risk exposures, the potential financial or other impact on the Company, and the process for managing such risks.

***Board Committees***

Our Board of Directors has established three standing committees and has adopted written charters for each committee: the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee each comprised of independent directors. Our Board of Directors appoints the members of each committee. While our Board's committees are constituted as described below and vote on matters as described below, other members of our Board, including directors not determined by our Board to qualify as independent, are frequent participants (although not voting participants) in committee meetings and proceedings.

Each committee's charter and our Corporate Governance Guidelines are available on our website at [www.apaccustomerservices.com](http://www.apaccustomerservices.com). A copy of each charter is also available in print to shareholders upon request, addressed to our Corporate Secretary c/o APAC Customer Services, Inc., 2201 Waukegan Road, Suite 300, Bannockburn, Illinois 60015.

***Audit Committee***

Our Audit Committee consists of Messrs. Workman (Chairperson), Park and Skinner. Mr. Keleghan also served as a member of the Audit Committee during fiscal 2010. Mr. Keleghan resigned from the Audit Committee prior to his appointment as our President and Chief Executive Officer. Our Audit Committee has direct responsibility for appointing our independent registered public accounting firm, reviewing the proposed scope of the annual audit, overseeing the adequacy and effectiveness of accounting and financial controls, and reviewing the annual and quarterly financial statements with management and the independent registered public accounting firm. Our Audit Committee met five times in fiscal year 2010 and periodically took action by unanimous written consent. All members of our Audit Committee are independent directors (or were at the applicable time) as defined for audit committee members by the listing standards of NASDAQ. Our Board of Directors has determined that each member of our Audit Committee is financially literate in accordance with the listing standards of NASDAQ and that Messrs. Park and Workman are each an audit committee financial expert, as defined by the SEC. For details regarding Mr. Park's and Mr. Workman's qualifications as an audit committee financial expert, see "Nominees for Election" appearing in Proposal 1. The Election of Directors section of this Proxy Statement.

***Compensation Committee***

Our Compensation Committee consists of Ms. Andreasen (Chairperson) and Messrs. Park and Workman. Cindy Andreotti also served as a member, and Chairperson, of the Compensation Committee during fiscal 2010. John C. Kraft and Kevin T. Keleghan also served as members of the Compensation Committee during fiscal 2010. Ms. Andreotti and Mr. Kraft were not re-nominated to serve as directors at the 2010 Annual Meeting of Shareholders and, therefore, ceased serving as directors on June 15, 2010. Mr. Keleghan resigned from the Compensation Committee prior to his appointment as the Company's President and Chief Executive Officer. Our Compensation Committee is directly responsible for approving senior management compensation and overseeing our equity compensation plans. For a more detailed description of the responsibilities and authority of the Compensation Committee, see "Compensation Discussion and Analysis - Overview of Compensation Process" appearing in the Executive Compensation section of this Proxy Statement. Our Compensation Committee met nine times in fiscal year 2010 and periodically took action by unanimous written consent. All members of the Compensation Committee are

independent (or were at the applicable time) directors as defined by the listing standards of NASDAQ.

**Table of Contents**

*Nominating and Corporate Governance Committee*

Our Nominating and Corporate Governance Committee consists of Mr. Skinner (Chairperson), Ms. Andreasen, and Mr. Park. Ms. Andreotti, Mr. Kraft and Mr. Keleghan also served as members of the Nominating and Corporate Governance Committee in fiscal 2010. Ms. Andreotti and Mr. Kraft were not re-nominated to serve as directors at the 2010 Annual Meeting of Shareholders and, therefore, ceased serving as directors on June 15, 2010. Mr. Keleghan resigned from the Nominating and Corporate Governance Committee prior to his appointment as the Company's President and Chief Executive Officer. The Nominating and Corporate Governance Committee is directly responsible for identifying and recommending to our Board of Directors individuals qualified to serve as directors, recommending directors to serve on committees of our Board of Directors, advising our Board of Directors with respect to matters of Board composition and procedures, developing and recommending to our Board of Directors corporate governance principles applicable to us, overseeing corporate governance matters generally, and reviewing on an annual basis director compensation. The Nominating and Corporate Governance Committee met five times during fiscal year 2010 and periodically took action by unanimous written consent. All members of our Nominating and Corporate Governance Committee are independent directors (or were at the applicable time) as defined by the listing standards of NASDAQ.

The Nominating and Corporate Governance Committee assists the Board in identifying qualified persons to serve as directors of the Company. The Committee evaluates all proposed director nominees, evaluates incumbent directors before recommending re-nomination, and recommends all approved candidates to the Board for appointment or nomination.

Our Nominating and Corporate Governance Committee believes that the minimum qualifications for serving as a director are the ability to apply good and independent judgment in a business situation and the ability to represent the interests of all shareholders. Our directors play a critical role in guiding the Company's strategic direction and oversee the management of the Company. A director also must be free from any conflicts of interest that would interfere with his or her loyalty to us or our shareholders. Candidates considered by our Nominating and Corporate Governance Committee for election or re-election to our Board of Directors should possess the following qualifications: the highest level of personal and professional ethics, integrity and values; an inquiring and independent mind; practical wisdom and mature judgment; broad training and experience at the policy-making level in business, finance and accounting, government, education or technology; expertise that is useful to us and complementary to the background and experience of other Board members, so that an optimal balance of Board members can be achieved and maintained; willingness to devote sufficient time and attention to carrying out the duties and responsibilities of Board membership; commitment to serve on the Board for several years to develop knowledge about our business; willingness to represent the best interests of all shareholders and objectively appraise management performance; and involvement only in activities or interests that do not conflict with the director's responsibilities to us and our shareholders.

Our Nominating and Corporate Governance Committee considers diversity in its nomination of directors to the Board, and in its assessment of the effectiveness of the Board and its committees. In considering diversity, the Nominating and Corporate Governance Committee looks at a range of different personal factors in light of the business, customers, suppliers and employees of the Company. The range of factors includes diversity of personal and business backgrounds and prior board service, financial expertise, international experience, industry experience, leadership skills, including prior management experience, and a variety of subjective factors. In addition to diversity of experience and backgrounds, racial, ethnic and gender diversity are also considered in the director selection process, but there is no specific policy regarding Board diversity. The Nominating and Corporate Governance Committee regularly reports to the full Board on its assessment of the composition and functioning of the Board.

Once a person has been identified by our Nominating and Corporate Governance Committee as a potential candidate, the committee may collect and review publicly available information regarding the person to assess whether the person should be considered further. If our Nominating and Corporate Governance Committee determines that the candidate warrants further consideration, our Chairperson or another member of the committee or of our Board of Directors, including directors who have not been designated as independent, contacts the person. Generally, if the person expresses a willingness to be considered and to serve on our Board, our Nominating and Corporate

Governance Committee requests information from the candidate, reviews the person's accomplishments and qualifications, in light of any other candidates that the committee might be considering, and conducts one or more interviews with the candidate. Other members of our Board, including Messrs. Schwartz and Keleghan, will also interview the candidate. In certain instances, committee members may contact one or more references provided by the candidate or may contact other members of the business community or other persons that may have greater firsthand knowledge of the candidate's accomplishments. The committee's evaluation process does not vary based on whether or not a candidate is recommended by a shareholder, although, as stated above, our Board may take into consideration the number of shares held by the recommending shareholder and the length of time that such shares have been held.

**Table of Contents**

Our Nominating and Corporate Governance Committee will consider director candidates recommended by shareholders. In considering candidates submitted by shareholders, our Nominating and Corporate Governance Committee will take into consideration the needs of our Board of Directors and the qualifications of the candidate. Our Nominating and Corporate Governance Committee may also take into consideration the number of shares held by the recommending shareholder and the length of time that such shares have been held. To have a candidate considered by our Nominating and Corporate Governance Committee, a shareholder must submit the recommendation in writing and must include the following information: the name of the shareholder and evidence of the person's ownership of Common Shares, including the number of shares owned and the length of time of ownership; the name of the candidate; the candidate's resume or a listing of his or her qualifications to be a director; and the candidate's consent to be named as director if selected by our Nominating and Corporate Governance Committee and nominated by our Board.

The shareholder recommendation and information described above must be sent to our Corporate Secretary c/o APAC Customer Services, Inc., 2201 Waukegan Road, Suite 300, Bannockburn, Illinois 60015 and must be received by our Corporate Secretary not later than the close of business on the 90<sup>th</sup> day, nor earlier than the close of business on the 120<sup>th</sup> day prior to the anniversary date of our most recent annual meeting of shareholders.

**Table of Contents**

*Transition Oversight/Business Operations Committee*

The Company previously had a Transition Oversight Committee which consisted of Messrs. Schwartz, Marrow and Ms. Andreotti. This committee was formed to provide the Board an opportunity to provide input to management with respect to various operational matters. This Committee was formally dissolved on February 17, 2010.

***Compensation Committee Interlocks and Insider Participation***

During fiscal year 2010, members of our Compensation Committee included Ms. Andreasen (Chairperson), Ms. Andreotti (former Chairperson) and Messrs. Keleghan, Kraft, Park and Workman. None of the current members of the Compensation Committee serve as, or formerly served as, officers of the Company. Mr. Keleghan resigned from the Compensation Committee prior to his appointment as the Company's President and Chief Executive Officer.

During fiscal year 2010, none of our executive officers served on the board of directors or compensation committee of any other corporation where any member of our Compensation Committee or our Board of Directors was engaged as an executive officer. None of the current members of our Compensation Committee have ever been employed by us.

**Table of Contents**

***Shareholder Communications with our Board of Directors***

Our Board of Directors has established a process to receive communications from shareholders. Shareholders may contact any member (or all members) of our Board by mail. To communicate with our Board of Directors, any individual director or any group or committee of directors, correspondence should be addressed to our Board of Directors or any such individual director, or group or committee of directors, by either name or title. All such correspondence should be sent c/o Corporate Secretary to APAC Customer Services, Inc., 2201 Waukegan Road, Suite 300, Bannockburn, Illinois 60015.

All communications received as set forth in the preceding paragraph will be opened by the office of the Corporate Secretary for the sole purpose of determining the nature of the communications. Communications that constitute advertising, promotions of a product or service, or patently offensive material will not be forwarded to the directors. Other communications will be forwarded promptly to the addressee or addressees.

***Policy Regarding Director Attendance at Annual Meetings***

We consider attendance and participation at the annual meeting of shareholders to be important to effectively fulfill the responsibilities of our directors. Accordingly, it is our policy to encourage each of our directors to attend the annual meeting. All of the directors then serving on the Board were in attendance at the 2010 Annual Meeting.

***Director Compensation***

Our Nominating and Corporate Governance Committee reviews and approves the compensation paid to each member of our Board on an annual basis. Each director who is not employed by us is compensated for his or her services as a director with: (i) an annual cash retainer of \$22,000; (ii) a cash payment of \$1,500 for each board meeting attended in person and a cash payment of \$750 for each board meeting attended by telephone; and (iii) quarterly grants of options to purchase Common Shares. The total number of options to be granted annually to each director is calculated as of the date of our annual meeting of shareholders and is calculated by dividing \$90,000 by the average fair market value of a common share over the preceding twelve (12) month period. Options are granted to directors in four equal installments as of the first trading day of each calendar quarter. Options have an exercise price equal to the fair market value of a Common Share on the date of grant. Additionally, Mr. Schwartz receives an annual cash fee of \$15,000 for his services as Chairman of the Board.

For Board committee service: (i) the Audit Committee Chairperson receives an annual fee of \$10,000; (ii) each of the other committee chairperson receives an annual cash fee of \$5,000; and (iii) each committee member, including the committee chairperson, receives a cash payment of \$1,500 for each committee meeting attended in person and a cash payment of \$750 for each committee meeting attended by telephone.

Directors who are requested to perform services beyond regular attendance at board and committee meetings are compensated and receive cash payments ranging from \$250 to \$1,500 per day depending on the circumstances. Directors are also reimbursed for certain expenses in connection with attendance at Board and committee meetings as well as approved education programs and other required travel.

**Table of Contents****2010 Director Compensation**

The following table sets forth the information with respect to all compensation paid or earned for services rendered to us by each member of our Board of Directors (other than Mr. Marrow (our former President and Chief Executive Officer), during fiscal year 2010. During that portion of fiscal year 2010, when Mr. Keleghan and Mr. Marrow were employees of the Company they did not receive any additional compensation for their services as directors.

<b>Name</b>	<b>Fees Earned (\$)(1)</b>	<b>Option Awards (\$)(2)</b>	<b>All Other Compensation (\$)</b>	<b>Total (\$)</b>
Katherine Andreasen	62,220	96,839		159,059
Cindy K. Andreotti (4)	30,000	72,944		102,944
Kevin T. Keleghan (3)	41,220	85,092		126,312
John C. Kraft (4)	29,250	72,944		102,194
John J. Park	69,561	96,839		166,400
Theodore G. Schwartz	54,250	96,839		151,089
Samuel K. Skinner	54,245	96,839		151,084
John L. Workman	55,250	96,839		152,089

**Notes to 2010 Director Compensation Table**

- (1) The amounts shown in the table represent the actual amount of all fees earned for services rendered as a director during fiscal year 2010, regardless as to whether such fees were actually paid in fiscal year 2010.
- (2) Represents the grant date fair value of stock options determined in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718 granted to each of our directors during fiscal year 2010. For a description of all assumptions included in the calculation, see *Accounting For Stock-Based Compensation* in Note 3 of the *Notes to Consolidated Financial Statements* in our Form 10-K filed with the SEC on February 18, 2011. As of January 2, 2011, each non-employee director owned options to purchase an aggregate number of Common Shares as follows: Ms. Andreasen (28,800 shares), Mr. Park (271,829 shares); Mr. Schwartz (217,645 shares); Mr. Skinner (99,534 shares) and Mr. Workman (99,534 shares) Mr. Keleghan owned options to purchase an aggregate number of Common Shares specific to his time as a non-employee director (24,905 shares) These options vest ratably over three years, have a term of ten years, and fully vest upon the death or retirement of the director or upon a change of control of our Company.
- (3) Mr. Keleghan became President and Chief Executive Officer on September 13, 2010. The amount in the table represents amounts earned by Mr. Keleghan as a director prior to becoming President and Chief Executive Officer. See 2010 Summary Compensation Table of his compensation as President and Chief Executive Officer.
- (4) Ms. Andreotti and Mr. Kraft retired from the Board effective June 15, 2010 and, therefore, both were not re-nominated to serve as directors.



**Table of Contents****EXECUTIVE OFFICERS**

Set forth below is certain information concerning the current executive officers of the Company, which officers serve at the discretion of the Board of Directors.

<b>Name</b>	<b>Age</b>	<b>Position and Business Experience</b>
Kevin T. Keleghan	53	Mr. Keleghan became a director of the Company in November 2009. He was appointed President and Chief Executive Office of the Company in September 2010. Prior to joining the Company as President and Chief Executive Officer, Mr. Keleghan was President and Chief Executive Officer of Axiant, LLC a leading provider of financial services and recovery management solutions for issuers and investors in debt products. Axiant, LLC filed for protection under Chapter 11 of the U.S. Bankruptcy Code which was converted to a Chapter 7 liquidation in December 2009. Prior to joining Axiant, he was President and Chief Executive Officer at Outsourcing Solutions, Inc. ( OSI ) one of the largest providers of outsourced services in the accounts receivable management industry from 2002 to 2008. OSI filed for protection under Chapter 11 of the U.S. Bankruptcy Code in December 2002 and emerged from Chapter 11 protection in May 2003. From 1996 to 2002, he served at Sears Holdings Corporation in various roles, including President of Credit Card Services, Vice President of Marketing Credit Card Products and Vice President of Operations for Sears Credit Services.
Andrew B. Szafran	44	Andrew B. Szafran has served as Senior Vice President and Chief Financial Officer of APAC since May 2008. Mr. Szafran was previously Vice President and Chief Financial Officer of Communications Supply Corp. ( CSC ), a nationwide distributor of low voltage infrastructure products and industrial wire and cable with \$700 million in annual revenues. Serving in that capacity since 2002, he was responsible for managing the finance and human resources functions as well as for legal affairs. Mr. Szafran was a key member of the management team that diversified CSC's business and significantly increased its revenue and profitability. In addition to his operations finance and accounting experience, Mr. Szafran has extensive experience in the areas of financial planning and analysis, corporate finance, mergers and acquisitions, risk management and taxation. Prior to joining CSC, Mr. Szafran held various financial positions of increasing responsibility with Alliant Exchange, Inc. and its affiliate, Alliant Foodservice, Inc., for seven years. He served most recently as Senior Vice President, Finance.
Christopher H. Crowley	40	Mr. Crowley joined APAC as Senior Vice President, Sales in March 2009. Mr. Crowley was most recently at Cybernet Software Systems where he served as Senior Vice President of Sales focusing on IT Solutions for technology companies. Prior to that, he worked in the business process outsourcing industry in the role of Senior Vice President of Sales for Teletech Holdings, Inc., and earlier, Senior Vice President of Sales with Sutherland Global Services. Mr. Crowley also has several years of operations and service delivery experience having worked as Director of Operations for North American Service Delivery when he first started with Sutherland in 1997. He began his career as a Business Development Manager responsible for field sales at MCI Communications.

Arthur Di Bari

54 Mr. DiBari joined us as Senior Vice President, Operations in March 2008. On August 5, 2010, he was promoted to the position of Senior Vice President and Chief Operating Officer. From 2005 to 2008 Mr. DiBari was Regional Vice President, Emerging Markets for the Americas for ACS, a leading provider of business process outsourcing and information technology solutions. Mr. Di Bari joined ACS in 2004. Prior to that, Mr. Di Bari spent over six years with Aegis Communications Group, a Texas-based customer care organization, where he held numerous operational roles of increasing responsibility, including Senior Vice President of Operations.

**Table of Contents**

<b>Name</b>	<b>Age</b>	<b>Position and Business Experience</b>
Joseph R. Doolan	47	Mr. Doolan has served as the Company's Vice President and Controller since February 2006. Prior to joining APAC, from 2004 to 2006 Mr. Doolan was Vice President and Controller for CNH Capital, a broad-based financial services company and a subsidiary of CNH Global N.V., where he managed the North American and International finance teams. Prior to joining CNH Capital from 2002 to 2003, Mr. Doolan was Controller at GE Healthcare Financial Services. From 1995 to 2002, Mr. Doolan worked for Heller Financial Inc. where he held various positions of increasing responsibility in finance and accounting.
Michael V. Hoehne	47	Mr. Hoehne has served as Vice President, Human Resources since August 2006. Prior to joining APAC, from 2005 to 2006, Mr. Hoehne served as Vice President of Human Resources for Wickes Furniture Co. From 1995 to 2005, Mr. Hoehne held several Human Resources leadership roles with Sears, Roebuck and Co.
Mark E. McDermott	50	Mr. McDermott serves as Vice President and Chief Information Officer, a position he has had since April 2004. Previously, Mr. McDermott served as our Vice President, Solutions. He has been employed by us in various positions since March 1996. From April 2004 until June 2007, Mr. McDermott was our Senior Vice President and Chief Information Officer. From June 2007 until March 2008, Mr. McDermott was our Senior Vice President, Operations and Chief Information Officer.
Robert B. Nachwalter	40	Mr. Nachwalter has served as our Senior Vice President and General Counsel since November 2008. Prior to joining APAC, Mr. Nachwalter was Senior Vice President and General Counsel for Whitehall Jewelers Holdings, Inc. ( Whitehall ), a publicly-traded national retailer of fine jewelry with approximately 375 stores in 39 states. Whitehall filed for protection under Chapter 11 of the U.S. Bankruptcy Code in June 2008. Before Whitehall, Mr. Nachwalter was senior legal counsel with Ryder System, Inc., a Fortune 500 transportation and logistics company.

**EXECUTIVE COMPENSATION****Employment Arrangements with Kevin T. Keleghan, President and Chief Executive Officer**

Effective September 13, 2010, Mr. Keleghan was appointed our President and Chief Executive Officer. He continues to serve as a member of the Board of Directors.

**Compensation**

We entered into an Executive Employment Agreement with Mr. Keleghan, dated September 13, 2010 (the Employment Agreement ). The Employment Agreement provides that Mr. Keleghan will be paid an initial annual base salary of \$500,000 and will be eligible to participate in and earn an annual bonus pursuant to the Company's Management Incentive Plan ( MIP ) with a target bonus equal to one hundred percent (100%) of his base salary and a maximum annual bonus equal to two hundred percent (200%) of his base salary. In addition, in connection with his appointment as President and Chief Executive Officer, he was granted options to purchase 750,000 common shares of the Company which vest over a five year period pro rata. The options to acquire 750,000 shares have an exercise price of \$5.23 per share. At the same time, we also granted him 250,000 restricted common shares which will vest over a five year period on a pro rata basis. The vesting for the restricted shares may be accelerated on the second and third anniversary of the grant based on the Company's meeting the specific performance goals set forth in his Restricted Share Agreement.

Under Mr. Keleghan's Executive Employment Agreement, he is entitled to compensation in the event of a termination of employment. The Employment Agreement provides for Mr. Keleghan to receive severance payments equal to eighteen (18) months of base salary in the event he is terminated without cause to be paid over a twenty-four (24) month period. Mr. Keleghan will also receive a pro rata annual bonus for the year of termination based on actual performance under the MIP. Additionally, following a termination without cause, for a period of eighteen (18) months after the date of his termination Mr. Keleghan shall be required to pay only the premium amount charged to active employees for such healthcare coverage and the Company shall pay the balance of such COBRA premiums.

**Table of Contents**

In connection his employment, Mr. Keleghan also executed an Agreement Protecting Company Interests. Subject to the terms of this Agreement which contains certain exceptions, Mr. Keleghan has agreed that, during his employment with the Company and for a period of two (2) years after his termination of employment, he will not be employed by or own, operate, manage or control any competitive call-center outsourced business services business, solicit or induce or attempt to induce the Company's clients over which he had direct contact, direct supervisory responsibility or access to confidential information, to stop doing business with the Company, or do business with another company providing materially similar services, or induce or attempt to induce any employee to terminate employment with the Company. In March 2011, the Compensation Committee approved an annual management incentive program pursuant to our MIP (the 2011 MIP ) for Mr. Keleghan and all other executive officers of the Company. Under the terms of our 2011 MIP, Mr. Keleghan is eligible to receive a cash bonus for fiscal year 2011 based on our achieving certain financial performance goals established by the Compensation Committee. For a more detailed discussion see the Compensation Discussion and Analysis 2011 MIP. Mr. Keleghan's 2011 MIP will be based 40% on our achieving the threshold or maximum revenue amounts established by our Compensation Committee and 60% on our achieving the threshold or maximum adjusted PTP amounts established by our Compensation Committee. PTP is defined as pre-tax profit or income before income taxes. For additional discussion on 2011 MIP, see Compensation Discussion and Analysis Annual Cash Incentive.

***Potential Payments Upon Termination or Change of Control***

The nature and amount of payments and benefits Mr. Keleghan is entitled to in the event of a termination of employment as a result of retirement, death or disability, involuntary termination (not for cause), voluntary termination, termination for cause, and termination in connection with a change of control, as well as in the event of a change of control without termination of employment are described in greater detail under Potential Payments Upon Termination or Change of Control appearing elsewhere in the Executive Compensation section of this Proxy Statement.

**Table of Contents**

**Employment Arrangements with Messrs. Szafran, DiBari, McDermott and Nachwalter**

***Compensation***

We entered into an employment agreement with Mr. Szafran on May 12, 2008 which provides that he will be paid an annual base salary of \$300,000 and will be eligible to participate in and earn an annual bonus pursuant to our MIP. No annual cash bonus is guaranteed, but Mr. Szafran is eligible for a target bonus equal to 50% of his base salary and a maximum bonus equal to 100% of his base salary. In addition to the above, when Mr. Szafran joined us, we granted him an option to purchase 450,000 Common Shares. The option vests in five equal annual installments beginning on May 14, 2009 and has an exercise price of \$1.10 per share.

Mr. Szafran participates in the 2011 MIP described in detail in the *Compensation Discussion and Analysis* section of this Proxy Statement. For information on Potential Payments Upon Change of Control, Retirement, Death or Disability, Involuntary Termination (Not for Cause), Voluntary Termination and Termination for Cause with respect to Mr. Szafran see discussion under *Payments Made Upon Termination or Change in Control*.

We entered into an Employment Agreement with Mr. DiBari on March 11, 2008 which provides that he will be paid an annual base salary of \$285,000 and will be eligible to participate in and earn an annual bonus pursuant to our MIP. No annual cash bonus is guaranteed, but Mr. DiBari is eligible for a target bonus equal to 50% of his base salary and a maximum bonus equal to 150% of his base salary. In addition to the above, when Mr. DiBari joined us, we agreed to pay him a sign-on bonus of \$45,000 and we granted him an option to purchase 300,000 Common Shares. The option vests in five equal annual installments beginning on March 24, 2009 and has an exercise price of \$.79 per share.

On October 1, 2010 we executed an amendment (the *DiBari Amendment*) to his March 11, 2008 employment agreement. The *DiBari Amendment* modified and supplemented the employment agreement to reflect the following: (1) the promotion of Mr. DiBari to the position of Senior Vice President and Chief Operating Officer; (2) the increase of Mr. DiBari's annual base salary to \$325,000; (3) the increase of Mr. DiBari's eligible severance payments for a termination without cause or with good reason; and (4) the payment to Mr. DiBari of a one-time lump sum spot bonus in the amount of \$25,000 in connection with his service as Interim Chief Executive Officer. All other terms of the employment agreement remain in full force and effect.

Mr. DiBari participates in the 2011 MIP described in detail in the *Compensation Discussion and Analysis* section of this Proxy Statement. For information on Potential Payments Upon Change of Control, Retirement, Death or Disability, Involuntary Termination (Not for Cause), Voluntary Termination and Termination for Cause with respect to Mr. DiBari see discussion under *Payments Made Upon Termination or Change in Control*.

We entered into an Employment Agreement with Mr. McDermott on April 12, 2004 which provides that he will be paid an annual base salary of \$225,000 and will be eligible to participate in and earn an annual bonus pursuant to our MIP. No annual cash bonus is guaranteed, but Mr. McDermott is eligible for a target bonus equal to 40% of his base salary and a maximum bonus equal to 80% of his base salary. In addition to the above, when Mr. McDermott entered into this Employment Agreement, we granted him an option to purchase 25,000 Common Shares. The option vested in four equal annual installments beginning on April 15, 2005 and has an exercise price of \$2.955 per share.

Mr. McDermott participates in the 2011 MIP described in detail in the *Compensation Discussion and Analysis* section of this Proxy Statement. For information on Potential Payments Upon Change of Control, Retirement, Death or Disability, Involuntary Termination (Not for Cause), Voluntary Termination and Termination for Cause with respect to Mr. McDermott see discussion under *Payments Made Upon Termination or Change in Control*.

We entered into an Employment Agreement with Mr. Nachwalter on November 17, 2008 which provides that he will be paid an annual base salary of \$250,000 and will be eligible to participate in and earn an annual bonus pursuant to our MIP. No annual cash bonus is guaranteed, but Mr. Nachwalter is eligible for a target bonus equal to 50% of his base salary and a maximum bonus equal to 100% of his base salary. In addition to the above, when Mr. Nachwalter joined us, we granted him an option to purchase 150,000 Common Shares. The option vests in five equal annual installments beginning on November 21, 2009 and has an exercise price of \$1.18 per share.

Mr. Nachwalter participates in the 2011 MIP described in detail in the *Compensation Discussion and Analysis* section of this Proxy Statement. For information on Potential Payments Upon Change of Control, Retirement, Death or Disability, Involuntary Termination (Not for Cause), Voluntary Termination and Termination for Cause with respect to Mr. Nachwalter see discussion under *Payments Made Upon Termination or Change in Control*.



**Table of Contents**

***Separation Arrangement Pursuant to Letter Amendment with Mr. Marrow, Former President and Chief Executive Officer.***

In connection with Mr. Marrow's resignation, the Company and Mr. Marrow entered into a letter agreement (including a waiver and release agreement) which serves as an amendment to Mr. Marrow's Employment Agreement dated February 25, 2008 (the "Marrow Amendment").

Under the terms of the Marrow Amendment, Mr. Marrow will receive severance in the form of continued payments of his current base salary through December 31, 2012 payable in equal installments in accordance with the Company's current payroll practices. He will also receive continuation coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"), monthly for a period of eighteen (18) months following his termination of employment for which he will pay only the premium amount charged to active employees for such healthcare coverage. Mr. Marrow also received a lump sum cash payment of \$86,000 for conversion of current Company-sponsored life insurance. Mr. Marrow additionally received a payment on October 22, 2010 in the amount \$231,000 in payment of his annual target bonus for the 2010 fiscal year under the MIP.

Pursuant to the Marrow Amendment, the unvested portion (options on 540,000 shares) of the stock options previously granted to Mr. Marrow under his February 25, 2008 Stock Option Agreement accelerated and immediately became vested on his termination date (in addition to the options for 360,000 shares, of the total such options of 900,000 shares, that previously had vested). The Company purchased all 900,000 of the vested stock options related to the stock options granted under the February 25, 2008 Stock Option Agreement for a net price of \$3.54 per share, after taking into account the exercise price under such grant but prior to applicable tax withholding. The gross amount of the payment for his stock options was \$3,186,000, which payment was made on October 22, 2010.

**Table of Contents****2010 Summary Compensation Table**

The following table sets forth information with respect to all compensation paid or earned for services rendered to us by the Named Executive Officers during fiscal years 2010, 2009 and 2008.

Name and Principal Position	Year	Salary (\$)	Bonus \$(1)	Non-Equity Incentive			All Other Compensation \$(4)(6)	Total (\$)
				Plan Awards \$(2)	Option Awards \$(3)	Stock Awards \$(3)		
<b>Kevin T. Keleghan (5)</b> President, Chief Executive Officer and Director	2010	144,231		43,672	1,392,592	2,183,475	41,720	3,805,690
<b>Andrew B. Szafran (7)</b> SVP and Chief Financial Officer	2010	307,096		44,131	87,339		13,233	451,799
	2009	311,538		228,641			17,683	557,862
	2008	176,538		150,000	241,605		4,047	572,190
<b>Arthur D. DiBari (7)</b> SVP and Chief Operating Officer	2010	310,385	25,000	90,199	291,130		6,251	722,965
	2009	295,962		211,648	483,705		6,061	997,376
	2008	208,269	177,508	177,800	110,310		4,352	678,239
<b>Mark E. McDermott</b> VP and Chief Information Officer	2010	250,718		28,760			65,538	345,016
	2009	257,538		148,800			16,160	422,498
	2008	276,000		111,333			(1,541)	385,792
<b>Robert B. Nachwalter (7)</b> SVP, General Counsel and Corporate Secretary	2010	254,928	5,000	36,597	29,113		8,667	334,305
	2009	259,615		187,500			2,026	449,141
	2008	19,231		30,303	95,670		29	145,233
<b>Michael P. Marrow (6)</b> Former President, Chief Executive Officer and Director	2010	305,108		231,000			3,398,919	3,935,027
	2009	363,462		266,747	477,975		18,882	1,127,066
	2008	282,692	100,000	300,000	506,790		3,416	1,192,898
<b>Robert J. Keller (8)</b> Former President, Chief Executive Officer and Director	2010						142,769	142,769
	2009						481,846	481,846
	2008	199,514		99,462			306,250	605,227

**Notes to 2010 Summary Compensation Table**

- (1) Amounts for 2010 represent a bonus granted to Mr. DiBari (\$25,000) in connection with his service as Interim Chief Executive Officer as further described in the DiBari Amendment and a performance bonus granted to Mr. Nachwalter (\$5,000). Amounts for 2008 represent signing bonuses granted to Mr. Marrow (\$100,000) and Mr. DiBari (\$45,000), and a performance excellence plan award to Mr. DiBari (\$132,508).
- (2) Amounts for 2010 represent non-equity incentive plan awards earned in 2010 under the 2010 MIP and paid in March 2011. Amounts for 2009 represent non-equity incentive plan awards earned in 2009 under the 2009 MIP and paid in March 2010. Amounts for 2008 represent non-equity incentive plan awards earned in 2008 under the 2008 MIP and paid in March 2009.
- (3) Represents the grant date fair value of stock awards and stock options determined in accordance with FASB ASC Topic 718 for fiscal years 2010, 2009 and 2008. For a description of all assumptions included in the calculation, see *Accounting For Stock-Based Compensation* in Note 3 of the Notes to our Consolidated Financial Statements in our Form 10-K for the fiscal year ended January 2, 2011 filed with the SEC on February 18, 2011.

**Table of Contents**

- (4) Represents compensation from us from the following sources: (i) our contributions for excess employee life insurance coverage policy premiums, (ii) our match of the Named Executive Officer's contributions to (a) our 401(k) plan, and (b) our supplemental 401(k) restoration plan (as described herein) for highly compensated employees, (iii) earnings on our match of the Named Executive Officer's contributions to (a) our 401(k) plan, and (b) our supplemental 401(k) restoration plan for highly compensated employees, (iv) our contributions for short-term disability insurance coverage policy premiums, (v) our match to employee contributions in our HSA insurance plan, and (v) a housing allowance for Mr. Marrow in 2010 (\$12,952), 2009 (\$18,426) and 2008 (\$3,074) to maintain a residence near our corporate headquarters. This amount also includes severance payments for Mr. Keller for 2010 (\$142,769), 2009 (\$481,846) and 2008 (\$287,692), and a \$500 adjustment to 2009 to include our match to employee contributions in our HSA insurance plan for Mr. Szafran and Mr. Nachwalter.
- (5) Mr. Keleghan began employment on September 13, 2010. Prior to that time he was a member of our Board of Directors. The fair value of options and awards granted to Mr. Keleghan includes the fair value of those options granted while Mr. Keleghan was a member of the Company's Board of Directors (\$85,092). All other compensation includes fees earned by Mr. Keleghan for services rendered as a member of the Company's Board of Directors (\$41,220). See Director Compensation Table.
- (6) Mr. Marrow began employment on February 25, 2008. Mr. Marrow's employment was terminated on September 12, 2010. Pursuant to the terms of the Marrow Amendment, Mr. Marrow will receive salary continuation through December 31, 2012. In 2010, all other compensation for Mr. Marrow includes payment for the option repurchases, (\$3,186,000), severance payments (\$199,625) and payment for conversion of Company sponsored life insurance (\$86,000), each as further described in the Marrow Amendment.
- (7) Mr. Szafran began employment on May 14, 2008. Mr. DiBari began employment on March 24, 2008. Mr. Nachwalter began employment on November 21, 2008.
- (8) Mr. Keller retired as President and Chief Executive Officer effective as of February 18, 2008. Pursuant to the terms of Mr. Keller's amended employment agreement, Mr. Keller received salary continuation for a period of two years.

**Table of Contents****2010 Grants of Plan-Based Awards**

The following table sets forth the number of restricted Common Shares and stock options, if any, granted to the Named Executive Officers during fiscal year 2010 and details concerning each Named Executive Officer's annual non-equity incentive plan award opportunity under the 2010 MIP. For further information see Compensation Discussion and Analysis Long-Term Equity Incentives 2010 Equity Grants to Named Executive Officers appearing elsewhere in the Executive Compensation section of this Proxy Statement.

Name and Principal Position	Compensation Committee Action	Grant Date	Estimated Payouts Under Non-Equity Incentive Plan Awards (1)			All Other Stock Awards: Number of Shares of Stock or Units	All Exercise or Base Grant Date Fair Value of Stock and Option Awards	Option Awards Value of Option Awards (\$)(2)	
			Threshold (\$)	Target (\$)	Maximum (\$)	Number of Shares of Stock or Units (#)	Number of Option Awards Underlying Options (\$/Sh)		
<b>Kevin T. Keleghan (3)</b> President, Chief Executive Officer and Director	6/22/2009	1/4/2010	76,923	153,846	307,692		10,465	5.96	37,616
	6/22/2009	4/5/2010					10,465	5.75	35,328
	6/22/2009	7/6/2010					3,975	5.49	12,148
	9/8/2010	9/14/2010				250,000			1,307,500
	9/8/2010	9/14/2010					750,000	5.23	2,183,475
<b>Andrew B. Szafran (4)</b> SVP and Chief Financial Officer	9/8/2010	9/14/2010	77,250	154,500	309,000		30,000	5.23	87,339
<b>Arthur D. DiBari (4)</b> SVP and Chief Operating Officer	9/8/2010	9/14/2010	81,250	162,500	487,500		50,000	5.23	145,565
	9/8/2010	9/14/2010					50,000	5.23	145,565
<b>Mark E. McDermott</b> VP and Chief Information Officer			50,344	100,688	201,376				
<b>Robert B. Nachwalter (4)</b>			64,063	128,125	256,250				

SVP, General Counsel and Corporate Secretary	9/8/2010	9/14/2010	10,000	5.23	29,113
---	----------	-----------	--------	------	--------

**Michael P.****Marrow**

Former President,  
Chief  
Executive Officer  
and Director

**Robert J. Keller**

Former President,  
Chief Executive  
Officer and  
Director

***Notes to 2010 Grants of Plan-Based Awards Table***

- (1) The amounts shown in the table represent the annual cash incentive compensation amounts that potentially could have been earned during 2010 based on the achievement of performance goals under our 2010 MIP. For further information about our 2010 MIP, see Compensation Discussion and Analysis Annual Cash Incentive 2010 MIP appearing elsewhere in the Executive Compensation section of this Proxy Statement.
- (2) The amount shown in the table reflects the fair value of the entire grant on the grant date, and was determined in accordance with FASB ASC Topic 718. For a description of all assumptions included in the calculation, see Accounting For Stock-Based Compensation in Note 3 of the Notes to Consolidated Financial Statements in our Form 10-K filed with the SEC on February 18, 2011.
- (3) Mr. Keleghan's potential annual cash incentive compensation amounts are prorated based on his employment date of September 13, 2010. Mr. Keleghan received 750,000 stock options and 250,000 shares of restricted stock in connection with his appointment as President and Chief Executive Officer pursuant to his Employment Agreement. Options granted to Mr. Keleghan prior to September 14, 2010 represent option grants provided while Mr. Keleghan was a member of the Company's Board of Directors. See Director Compensation Table.
- (4) Mr. DiBari received two equity grants in 2010. He was granted 50,000 stock options in connection with his 2009 annual performance review. Mr. DiBari also received another 50,000 stock options in connection with his promotion to Chief Operating Officer in 2010 and in recognition of his service as Interim Chief Executive Officer during the Company's Chief Executive Officer transition. Certain other Named Executive Officers were granted stock options in connection with their respective annual performance reviews as follows: Mr. Nachwalter was granted 10,000 stock options and Mr. Szafran was granted 30,000 stock options.

**Table of Contents****Outstanding Equity Awards on January 2, 2011**

The following table sets forth information regarding the outstanding equity awards held by the Named Executive Officers as of January 2, 2011. The vesting dates for any equity awards not vested on January 2, 2011 are set forth in the applicable footnotes. Some of the equity awards set forth in this table have vested since the January 2, 2011 effective date of this table as noted in the footnotes.

Name and Principal Position	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Awards; Number of Securities Underlying Unexercised Options (#)	Equity Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Unearned Shares or Units That Have Not Vested (#)	Equity Incentive Plan Awards: Number of Payout of Value of Unearned Shares, or Other Rights That Have Not Vested (\$)
<b>Kevin T. Keleghan</b> President, Chief Executive Officer and Director		10,465(1)		5.96	1/4/2020				
		10,465		5.75	4/5/2020				
		3,975		5.49	7/6/2020				
		750,000		5.23	9/14/2020	250,000	1,307,500		
<b>Andrew B. Szafran</b> SVP and Chief Financial Officer	180,000	270,000(2)		1.10	5/14/2018				
		30,000		5.23	9/14/2020				
<b>Arthur D. DiBari</b> SVP and Chief Operating Officer	120,000	180,000(3)		0.79	3/24/2018				
	10,000	40,000		5.53	5/8/2019				
	20,000	80,000		5.43	8/18/2019				
		50,000		5.23	9/14/2020				
		50,000		5.23	9/14/2020				
<b>Mark E. McDermott</b>	6,500		(4)	2.90	1/24/2012				
	271,540			1.62	2/8/2015				

VP and Chief  
Information Officer

<b>Robert B. Nachwalter</b>	60,000	90,000(5)	1.18	11/21/2018
SVP, General Counsel and Corporate Secretary		10,000	5.23	9/14/2020

**Michael P. Marrow** (6)  
Former President, Chief  
Executive Officer and  
Director

**Robert J. Keller** (7)  
Former President, Chief  
Executive Officer and  
Director

**Table of Contents*****Notes to Outstanding Equity Awards on January 2, 2011 Table***

- (1) Mr. Keleghan's outstanding options include the following grants, grant dates and vesting dates for options granted while he was on the Board of Directors but not yet an employee (January 4, 2010, April 5, 2010 and July 6, 2010) and options granted as an employee (September 14, 2010):

<b>Grant Date</b>	<b>Number of Common Shares Underlying Options</b>	<b>Vesting Date &amp; Number of Common Shares Vesting on Such Date</b>	
January 4, 2010	10,465	January 4, 2011	3,488 (Vested)
		January 4, 2012	3,488
		January 4, 2013	3,489
April 5, 2010	10,465	April 5, 2011	3,488 (Vested)
		April 5, 2012	3,488
		April 5, 2013	3,489
July 6, 2010	3,975	July 6, 2011	1,325
		July 6, 2012	1,325
		July 6, 2013	1,325
September 14, 2010	750,000	September 14, 2011	150,000
		September 14, 2012	150,000
		September 14, 2013	150,000
		September 14, 2014	150,000
		September 14, 2015	150,000

- (2) Mr. Szafran's outstanding options include the following grants, grant dates and vesting dates:

<b>Grant Date</b>	<b>Number of Common Shares Underlying Options</b>	<b>Vesting Date &amp; Number of Common Shares Vesting on Such Date</b>	
May 14, 2008	450,000	May 14, 2009	90,000 (Vested)
		May 14, 2010	90,000 (Vested)
		May 14, 2011	90,000
		May 14, 2012	90,000
		May 14, 2013	90,000
September 14, 2010	30,000	September 14, 2011	6,000
		September 14, 2012	6,000
		September 14, 2013	6,000
		September 14, 2014	6,000
		September 14, 2015	6,000

**Table of Contents**

(3) Mr. DiBari's outstanding options include the following grants, grant dates and vesting dates: