APAC CUSTOMER SERVICES, INC
Form 10-Q
May 12, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 3, 2011

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: 0-26786

APAC Customer Services, Inc.

(Exact name of registrant as specified in its charter)

Illinois	**36-2777140**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Bannockburn Lake Office, 2201 Waukegan Road, Suite 300, Bannockburn, Illinois 60015

(Address of Principal Executive Offices, Zip Code)

Registrant s telephone number, including area code: **(847) 374-4980**

Indicate by check mark whether 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 periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer* o	Smaller reporting company o

(*Do not check if a smaller reporting company)

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

There were 51,218,419 common shares, $0.01 par value per share, outstanding as of May 6, 2011.

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Forward-Looking Statements and Factors That May Affect Future Results

In passing the Private Securities Litigation Reform Act of 1995 (the Reform Act), Congress encouraged public companies to make forward-looking statements by creating a safe harbor to protect companies from securities law liability in connection with forward-looking statements. We intend to qualify our written and oral forward-looking statements for protection under the Reform Act and any other similar safe harbor provisions. Unless the context indicates otherwise, the words Company, we, our, and us when used in this Quarterly Report on Form 10-Q r collectively to APAC Customer Services, Inc. and its wholly-owned subsidiaries.

Generally, forward-looking statements include expressed expectations, estimates and projections of future events and financial performance and the assumptions on which these expressed expectations, estimates and projections are based. Statements that are not historical facts, including statements about our beliefs and expectations and those of our management, are forward-looking statements. Sometimes these statements will contain words such as believes, expects, anticipates, intends, estimates, goals, would, could, should, plans, and other si forward-looking statements are inherently uncertain as they are based on various expectations and assumptions about future events, and they are subject to known and unknown risks and uncertainties that can cause actual events and results to differ materially from historic results and those projected.

Due to such uncertainties, the investment community is cautioned not to place undue reliance on our written or oral forward-looking statements, which speak only as of the date on which they were made. If no date is provided, such statements speak only as of the date of this Quarterly Report on Form 10-Q. We expressly undertake no obligation to publicly update or revise any forward-looking statements as a result of changed assumptions, new information, future events or otherwise.

Forward-looking statements are contained in this Quarterly Report on Form 10-Q, primarily in Items 2 and 3. Moreover, through our senior management, we may from time to time make forward-looking statements about matters described herein or about other matters concerning us.

There are numerous factors that could prevent us from achieving our goals and cause future results to differ materially from historic results or those expressed or implied by forward-looking statements including, but not limited to, the following:

- A large portion of our revenue is generated from a limited number of clients and the loss of one or more of them, or a reduction in their demand for our services, could materially and adversely affect our financial results.

- Our operating results and financial condition may be affected by the performance of our clients and unfavorable general economic conditions.

- The failure to effectively manage our production capacity and our workforce could negatively impact our financial results.

- Our success is subject to the terms of our client contracts and if we are unable to continue operating under existing client contracts or renew existing client contracts with terms favorable to us, our results of operations and financial condition may be adversely affected by the loss of clients or by the less favorable terms.

- Our business may be affected by our cash flows from operations and our ability to comply with our debt covenants and funding requirements under our credit facility.

- Our financial results may be affected by risks associated with international operations and expansion, including, but not limited to foreign currency fluctuations, tax obligations and changes to laws in other countries.

- Our principal shareholder can exercise significant control over us and, as a result of such control may be able to exert considerable influence over our future direction and operations.

Our success depends on our ability to recruit and retain a sufficient number of qualified key personnel and the loss of the services of key personnel without adequate replacement or the inability to attract new qualified personnel could have a material adverse effect on us.

We operate in a highly competitive industry and our financial results may suffer if we are unable to adequately address potential downward pricing pressures and other competitive factors.

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Circumstances outside our control such as typhoons, hurricanes, earthquakes, floods and other acts of God, political instability, equipment malfunction, telephone or data service interruptions, changes in the telecommunications market, war and terrorism could seriously harm our domestic or international business operations.

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

Our business and our clients businesses are subject to federal and state regulation and industry standards and the costs of compliance with, or liability for violation of, existing or future regulations or standards could significantly increase our costs of doing business.

The costs and management time and attention associated with litigation could result in a negative impact to our financial results.

Our business is subject to rapid changes in technology and if our technology is rendered obsolete or we are unable to compete effectively, our operating results and financial condition could be materially and adversely affected.

Volatility in our stock price may result in loss of investment for shareholders, potential litigation and substantial cost associated with litigation, as well as diversion of management s attention.

See our filings with the Securities and Exchange Commission (SEC) for further discussion of the risks and uncertainties associated with our business, in particular, the discussion in Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended January 2, 2011, and in Item 1A of Part II of this Quarterly Report on Form 10-Q.

In various places throughout this Quarterly Report on Form 10-Q we use certain non-GAAP financial measures when describing our performance. A non-GAAP financial measure is defined as a numerical measure of a company s financial performance that excludes or includes amounts so as to be different than the most directly comparable measure calculated and presented in accordance with GAAP in the statements of operations, balance sheets or statements of cash flows of a company. We believe that non-GAAP financial measures provide meaningful supplemental information and are useful in understanding our results of operations and analyzing of trends because they exclude certain charges such as interest, taxes and depreciation and amortization expenses that are not part of our ordinary business operations. We also believe that non-GAAP financial measures are useful to investors and analysts in allowing for greater transparency with respect to the supplemental information used by us in our financial and operational decision-making. In addition, we believe investors, analysts and lenders benefit from referring to non-GAAP measures when assessing our performance and expectations of our future performance. However, this information should not be used as a substitute for our GAAP financial information; rather it should be used in conjunction with financial statement information contained in our unaudited condensed consolidated financial statements prepared in accordance with GAAP. We discuss non-GAAP financial measures in Item 2 of this Quarterly Report on Form 10-Q under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Financial Measures. Pursuant to the requirements of Regulation G, we have provided a reconciliation of all non-GAAP financial measures to the most directly comparable GAAP financial measure in Item 2 of this Quarterly Report on Form 10-Q.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

APAC CUSTOMER SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	April 3, 2011 (Unaudited)	January 2, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 51,268	$ 41,399
Accounts receivable, net	46,772	52,483
Deferred tax assets, current	7,606	11,051
Other current assets	8,288	8,204
Total current assets	113,934	113,137
Property and equipment, net	28,065	28,030
Goodwill and intangible assets, net	13,783	13,763
Deferred tax assets, non-current	5,387	5,387
Other assets	2,761	2,848
Total assets	$ 163,930	$ 163,165
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Capital leases current portion	$ 617	$ 696
Accounts payable	3,719	4,964
Income taxes payable	401	93
Accrued payroll and related items	22,477	22,205
Accrued liabilities	8,324	9,200
Total current liabilities	35,538	37,158
Other non-current liabilities	4,510	4,536
Commitments and contingencies		
Shareholders equity:		
Common shares, $0.01 per share; authorized 200,000,000 shares; 53,417,300 shares issued and 51,625,975, shares outstanding at April 3, 2011, and 53,359,090 shares issued and 52,488,457 shares outstanding at January 2, 2011	534	533
Additional paid-in capital	113,145	112,668
Accumulated earnings	18,187	11,166
Accumulated other comprehensive income	2,323	1,980
Treasury shares: 1,791,325 and 870,633 shares at cost at April 3, 2011 and January 2, 2011, respectively	(10,307)	(4,876)
Total shareholders equity	123,882	121,471

Total liabilities and shareholders equity	$	163,930	$	163,165

See Notes to Condensed Consolidated Financial Statements.

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APAC CUSTOMER SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share data)
(Unaudited)

	Thirteen Weeks Ended April 3, 2011	Thirteen Weeks Ended April 4, 2010
Net revenue	$ 88,043	$ 85,254
Cost of services	68,544	64,808
Gross profit	19,499	20,446
Operating expenses:		
Selling, general and administrative expenses	8,301	8,146
Legal settlement	2	2,400
Severance and other charges	425	1
Total operating expenses	8,728	10,547
Operating income	10,771	9,899
Other (income) expense, net	20	(109)
Interest (income) expense, net	32	(8)
Income before income taxes	10,719	10,016
Income tax expense	3,698	3,456
Net income	$ 7,021	$ 6,560
Net income per share:		
Basic	$ 0.14	$ 0.13
Diluted	$ 0.13	$ 0.12
Weighted average number of shares outstanding:		
Basic	51,797	52,309
Diluted	53,528	54,630

See Notes to Condensed Consolidated Financial Statements.

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APAC CUSTOMER SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Thirteen Weeks Ended April 3, 2011	Thirteen Weeks Ended April 4, 2010
Operating activities:		
Net income	$ 7,021	$ 6,560
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,921	3,112
Deferred income taxes	3,445	138
Stock compensation expense	372	500
Amortized gain on sale leaseback	(40)	(23)
Loss (gain) on sale of property and equipment	8	(1)
Income taxes payable	309	3,296
Change in operating assets and liabilitie	3,650	8,661
Net cash provided by operating activities	17,686	22,243
Investing activities:		
Purchases of property and equipment, net	(2,408)	(2,231)
Net proceeds from sale of property and equipment		1
Net cash used in investing activities	(2,408)	(2,230)
Financing activities:		
Payment of capital lease obligations	(285)	(124)
Stock option transactions	106	11
Purchase of treasury stock	(5,431)	
Net cash used in financing activities	(5,610)	(113)
Effect of exchange rate change on cash	201	209
Net increase in cash and cash equivalents	9,869	20,109
Cash and cash equivalents:		
Beginning balance	41,399	20,557
Ending balance	$ 51,268	$ 40,666

See Notes to Condensed Consolidated Financial Statements.

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APAC CUSTOMER SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share data)

1. Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements of APAC Customer Services, Inc. and its subsidiaries (collectively, the Company) have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of a normal recurring nature) considered necessary for a fair presentation have been included. Interim consolidated financial statements are not necessarily indicative of the financial position or operating results for an entire year.

The Company s international customer care centers use their local currency, the Philippine peso and the Dominican peso, as their functional currency. Assets and liabilities of international customer care centers have been translated at period-end rates, and income and expenses have been translated using average exchange rates for the respective periods. All inter-company transactions and balances have been eliminated. The balance sheet at April 3, 2011 has been derived from the unaudited financial statements at that date and includes all of the information and notes required by GAAP for interim financial statements. These interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in Item 8 of Part II of the Company s Annual Report on Form 10-K for the fiscal year ended January 2, 2011. Copies of the Company s filings are available on a web site maintained by the SEC at http://www.sec.gov.

The Company operates on a thirteen week fiscal quarter that ends on the Sunday closest to March 31. The Company operates on a 52/53 week fiscal year that ends on the Sunday closest to December 31.

2. New Accounting Pronouncements

Revenue Recognition

In October 2009, the Financial Accounting Standards Board (FASB) issued guidance on Accounting Standards Codification (ASC) Topic 605 *Revenue Recognition* related to revenue arrangements with multiple deliverables, which revises the criteria for separating, measuring, and allocating arrangement consideration to each deliverable in a multiple element arrangement. The guidance requires companies to allocate revenue using the relative selling price of each deliverable, which must be estimated if the company does not have a history of selling the deliverable on a stand-alone basis or third-party evidence of selling price. This guidance is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The adoption of this guidance effective January 3, 2011, the beginning of the Company s current fiscal year, did not have any material impact on the Company s unaudited condensed consolidated financial statements.

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APAC CUSTOMER SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share data)

3. Accrued Liabilities

The components of other current accrued liabilities included in the unaudited condensed consolidated balance sheets are as follows:

	April 3, 2011	January 2, 2011
Non-qualified retirement plan obligation	$ 2,260	$ 2,375
Accrued capital expenditures	967	1,901
Accrued severance	732	536
Accrued professional fees	703	654
Deferred rent	582	473
Accrued telecom	432	424
Accrued workers compensation	412	431
Other accrued liabilities	2,236	2,406
Total	$ 8,324	$ 9,200

4. Accounting for Stock-Based Compensation

The Company has a share-based incentive compensation plan for employees and non-employee directors, which authorizes the granting of various equity-based incentive awards, including stock options and non-vested common shares. The total number of common shares authorized for issuance under the plan is 11.8 million, of which 1.2 million shares are available for future grants at April 3, 2011.

Total stock-based compensation expense was $0.4 million and $0.5 million for the thirteen weeks ended April 3, 2011 and April 4, 2010, respectively. As of April 3, 2011, there was $5.3 million of unrecognized compensation cost related to unvested awards that is expected to be recognized over a weighted-average period of approximately 3.2 years.

A summary of the Company s non-vested common share grant activity during the thirteen weeks ended April 3, 2011 is presented below:

	Number of Shares
Outstanding on January 2, 2011	250,000
Granted	
Issued	
Cancelled	
Outstanding on April 3, 2011	250,000

The Company did not award non-vested common shares during the thirteen weeks ended April 3, 2011 and April 4, 2010.

APAC CUSTOMER SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share data)

A summary of the Company s stock option grant activity during the thirteen weeks ended April 3, 2011 is presented below:

	Number of Options	Grant Price Range Per Share				Weighted Average Exercise Price Per Share		Aggregate Intrinsic Value	
Outstanding on January 2, 2011	5,644,478	$	0.79	$	6.43	$	3.09		
Granted	119,875		5.86		6.12		5.90		
Exercised	(58,210)		1.10		5.13		1.81		
Forfeited	(186,000)		1.49		5.86		5.26		
Expired	(4,250)		2.81		5.31		3.75		
Outstanding on April 3, 2011	5,515,893	$	0.79	$	6.43	$	3.09	$	16,065
Exercisable on April 3, 2011	2,745,621	$	0.79	$	6.05	$	2.31	$	10,128

Substantially all of the options become exercisable between one to five years after the grant date and generally expire ten years from the grant date.

5. Comprehensive Income

Comprehensive income for the thirteen weeks ended April 3, 2011 and April 4, 2010 is as follows:

	Thirteen Weeks Ended			
	April 3, 2011		April 4, 2010	
Net income	$	7,021	$	6,560
Foreign currency translation adjustment		262		190
Unrealized gain on derivative contracts		81		270
Total comprehensive income	$	7,364	$	7,020

6. Legal Proceedings

The Company is subject to other lawsuits, claims and governmental investigations arising out of the normal conduct of its business. Management does not believe that the outcome of any pending proceedings will have a material adverse effect on the Company s business, results of operations, liquidity, or financial condition. Although management does not believe that any such proceeding will result in a material adverse effect, no assurance to that effect can be given.

On May 27, 2009, a purported collective/class action complaint captioned *Tiffany Sharpe, et al. v. APAC Customer Services, Inc.* was filed in the United States District Court for the Western District of Wisconsin. On behalf of the named plaintiff, a non-exempt call center employee, and other similarly situated individuals, the complaint asserted violations under the Federal Fair Labor Standards Act (FLSA) related to overtime compensation and wage records. The complaint also asserted violations under Wisconsin Wage Payment and Overtime Compensation Laws based upon the same alleged facts. The complaint purported to allege claims as a nationwide collective action under federal law, as well as a class action under Wisconsin state law. The complaint sought various forms of relief, including injunctive relief, unpaid overtime wages, liquidated damages, interest, and attorneys fees and costs. On January 8, 2010, the court entered an order which conditionally certified the case as a collective action under the FLSA.

APAC CUSTOMER SERVICES, INC. AND SUBSIDIARIES
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(Unaudited)
(Dollars in thousands, except per share data)

In March 2010, the Company entered into an agreement to resolve the collective action. On June 16, 2010, the Court entered an order approving the resolution of all claims under the FLSA collective action. Under the terms of the agreement, the Company agreed to pay a maximum amount of $4.0 million to resolve claims by eligible class members, including payments to class members and payments for plaintiff attorneys fees. As a result, the Company recorded a liability of $2.4 million for the thirteen weeks ended April 4, 2010 which represented its estimate at the time of the costs to be incurred for attorneys fees and claims, based on expected opt-in rates for claimants in similar actions. Based on the court s final order approving the agreement, (including setting the amount of plaintiffs attorneys fees) and a revised estimated rate of participation from eligible class members, the Company reduced the previously recorded liability by $0.5 million during the thirteen weeks ended October 3, 2010 to an adjusted recorded liability of $1.8 million which reflected its revised expectation of the final amount which would ultimately be paid.

On December 21, 2010, a final order of dismissal was entered by the Court triggering the Company s payment obligations under the agreement to resolve the collective action. The final amount paid to class members who participated in the action and to plaintiff s attorney was approximately $1.8 million.

The Company denied and continues to deny the allegations in the complaint and contends that its policies and practices regarding compensation were proper and in compliance with the law at all times. The Company denies all liability and wrongdoing in this case, but decided to settle this lawsuit in order to avoid the distraction and additional legal expenses that would otherwise be incurred.

7. Debt

As of April 3, 2011, there were no outstanding borrowings under the Revolving Loan Agreement and the Company had cash and cash equivalents of $51.3 million.

As of January 3, 2011, the Company was party to a Revolving Credit and Security Agreement, as amended, (Revolving Loan Agreement) with PNC Bank National Association (PNC), as agent, and the financial institutions from time to time parties thereto as lenders. The Revolving Loan Agreement provides the Company with a $40.0 million revolving loan facility which expires in May 2011. On April 27, 2011, the Company entered into the Second Amendment to Revolving Credit and Security Agreement (Second Amendment) which amends the Revolving Credit and Security Agreement (Credit Agreement) among the Company, Agent and Lenders dated May 5, 2008. The Second Amendment extends the term of the Credit Agreement to September 30, 2011. The Company is evaluating various financing alternatives and intends to obtain a replacement facility prior to the expiration of the extended term. The Company anticipates favorable terms for a new facility; however, there can be no assurance that the Company will enter into such an arrangement.

The Company s ability to borrow under the Revolving Loan Agreement depends on the amount of eligible accounts receivable from its clients. The Revolving Loan Agreement contains certain financial covenants including limits on the amount of capital expenditures and maintenance of a minimum fixed charge coverage ratio. Other covenants in the Revolving Loan Agreement prohibit (with limited exceptions) the Company from incurring additional indebtedness, repurchasing outstanding common shares, permitting liens, acquiring, selling or disposing of certain assets, engaging in certain mergers and acquisitions, paying dividends or making certain restricted payments. The Company obtained a waiver from PNC permitting it to repurchase common shares under the program approved by the Company s Board of Directors.

Borrowings under the Revolving Loan Agreement incur a floating interest rate based on the LIBOR index rate or an alternate base rate which approximates the prime rate defined in the Revolving Loan Agreement subjecting the Company to interest rate risk and requires a $5.0 million interest rate hedge.

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The Revolving Loan Agreement is secured principally by a grant of a first priority security interest in all of the Company s personal property, including its accounts receivable. In addition, the Company pays a commitment fee on the unused portion of the Revolving Loan Agreement as well as fees on outstanding letters of credit.

The Company was in compliance with its financial covenants as of April 3, 2011. At April 3, 2011, the Company had approximately $36.9 million in undrawn borrowing capacity under its Revolving Loan Agreement, based upon borrowing base calculations.

8. Severance and Other Charges

The Company recorded $0.4 million in severance and other charges for the thirteen weeks ended April 3, 2011 related to the elimination of certain management and administrative positions. Cash payments of $0.1 million for these severance and other charges have been made through April 3, 2011 and remaining cash payments of $0.3 million are payable through August 2011.

Cash payments of $0.2 million for severance and other charges related to the September 2010 resignation of Michael Marrow, the Company s former President and Chief Executive Officer and other positions in 2010 have been made through April 3, 2011 and remaining cash payments of $0.7 million are payable through December 2012.

9. Income Taxes

The Company accounts for income taxes using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is recorded when management believes it is more likely than not that some portion or all of the deferred tax assets will not be realized in the future. The Company records a reserve for tax contingencies unless it believes it is more likely than not that the deductions giving rise to these contingencies will be sustained if challenged by taxing authorities. Tax contingencies are not material to the financial statements.

Income tax expense for the thirteen weeks ended April 3, 2011 was $3.7 million. This results in a 34.5% effective income tax rate for the thirteen weeks ended April 3, 2011, which is lower than the statutory rate due to the generation of tax credits. Income tax expense for the thirteen weeks ended April 4, 2010 was $3.5 million, which results in a 34.5% effective income tax rate for the thirteen weeks ended April 4, 2010.

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APAC CUSTOMER SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share data)

10. Earnings Per Share

Basic earnings per share are computed by dividing the Company s net income by the weighted average number of common shares outstanding. Diluted earnings per share are computed by dividing the Company s net income by the weighted average number of shares plus the effect of dilutive potential common shares outstanding and non-vested common shares using the treasury stock method. The following table sets forth the computation of basic and diluted earnings per share for the thirteen weeks ended April 3, 2011 and April 4, 2010**:**

	Thirteen Weeks Ended	
	April 3, 2011	**April 4, 2010**
Net income	$ 7,021	$ 6,560
Shares used in basic per share calculation	51,797	52,309
Effects of dilutive securities:		
Stock options	1,695	2,312
Non-vested stock	36	9
Shares used in diluted per share calculation	53,528	54,630
Net income per share:		
Basic	$ 0.14	$ 0.13
Diluted	$ 0.13	$ 0.12

For the thirteen weeks ended April 3, 2011, options to purchase 1.8 million shares of common stock were outstanding, but not included in the computation of diluted net income per share because the effect would have been anti-dilutive. For the thirteen weeks ended April 4, 2010, options to purchase 0.9 million shares of common stock were outstanding, but not included in the computation of diluted net income per share because the effect would have been anti-dilutive.

11. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The accounting standards establish a fair value hierarchy, which prioritizes the inputs used in measuring fair value into three broad levels as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly.

Level 3 Unobservable inputs based on the Company s own assumptions.

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APAC CUSTOMER SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share data)

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of April 3, 2011:

	Fair Value Measurements as of April 3, 2011		
	Level 1	Level 2	Level 3
Assets:			
Cash equivalents(1)	$ 51,073	$	$
Non-qualified retirement plan(2)	2,260		
Foreign currency contracts(3)		1,234	
Non-current investments(4)	1,199		
Liabilities:			
Non-qualified retirement plan obligation(2)	$ 2,260	$	$

(1) Cash equivalents: The carrying amount of these items approximates fair value at period end.

(2) Non-qualified retirement plan: The Company maintains a non-qualified retirement plan (Select Plan) for highly compensated employees who are limited in the amount of contributions that they can make in the Company s 401K plan. As of April 3, 2011, the fair value of investments in the Select Plan totaled $2.3 million and is reflected on the Company s balance sheet in other current assets. The offsetting obligation to employees participating in the Select Plan, which will always equal the fair value of the investments, are recorded on the Company s balance sheet in other current liabilities.

(3) Foreign currency contracts: The carrying amount of these items is based on the market valuation approach which is provided by the counter-party institutions and uses the closing or mid-market rate and forward points obtained from external sources on the date of valuation. There are no guaranteed selling prices for these forward currency contracts.

(4) Non-current invest