

APAC CUSTOMER SERVICE INC

Form DEF 14A

April 21, 2009

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**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:

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- 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:

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**2333 Waukegan Road, Suite 100
Bannockburn, Illinois 60015
(847) 374-4980**

**Notice of Annual Meeting of Shareholders
To Be Held On June 3, 2009**

To the Shareholders of APAC Customer Services, Inc.:

The Annual Meeting of Shareholders of APAC Customer Services, Inc. will be held at the Marriott Lincolnshire Resort, 10 Marriott Drive, Lincolnshire, Illinois 60069 on Wednesday, June 3, 2009, at 10:00 a.m. Central Daylight Time for the following purposes:

1. To elect seven directors.
2. 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 8, 2009 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
Secretary

Dated: April 21, 2009

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**APAC Customer Services, Inc.
2333 Waukegan Road, Suite 100
Bannockburn, Illinois 60015
(847) 374-4980**

**Proxy Statement
Annual Meeting of Shareholders to be Held June 3, 2009**

This Proxy Statement and the accompanying proxy card are being mailed to shareholders of APAC Customer Services, Inc. (Company) on or about May 1, 2009, in connection with the solicitation of proxies by the Board of Directors for the Annual Meeting of Shareholders to be held on June 3, 2009. 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 8, 2009, the record date for determining shareholders entitled to vote at the Annual Meeting, 51,051,183 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 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 3, 2009

A copy of this proxy statement and of our annual report to stockholders is available at:
<http://ir.apaccustomerservices.com/investors/proxy09.cfm>.

The 2009 annual meeting will be held on June 3, 2009, at 10:00 a.m., Central Daylight Time, at the Marriott Lincolnshire Resort, 10 Marriott Drive, Lincolnshire, Illinois 60069.

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At the annual meeting, you will be asked to consider and vote on:

To elect seven directors; 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/investors/proxy09.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 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.

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PRINCIPAL SHAREHOLDERS AND MANAGEMENT**

The following table sets forth certain information, as of March 31, 2009, 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., 2333 Waukegan Road, Suite 100, Bannockburn, Illinois 60015.

Name	Common Shares Beneficially Owned	
	Number	Percent(1)
Theodore G. Schwartz	19,798,594(2)(3)	37.8%
Wells Fargo & Company	4,310,128(4)	8.2%
Ronald L. Chez	3,650,569(5)	7.0%
Trust Four Hundred Thirty U/A/D 4/2/94	2,115,000(6)	4.0%
Trust Seven Hundred Thirty U/A/D 4/2/94	2,115,000(6)	4.0%
Trust 3080	500,000(6)	*
Trust 3081	500,000(6)	*
Cindy K. Andreotti	197,203(3)	*
John C. Kraft	128,640(3)	*
Michael P. Marrow	207,025(3)	*
Bhaskar Menon	25,000(3)	*
John J. Park	167,006(3)	*
Samuel K. Skinner	77,302(3)	*
John L. Workman	55,000(3)	*
Arthur D. DiBari	60,000(3)	*
David J. LaBonte	297,737(3)	*
Mark E. McDermott	384,320(3)	*

Andrew B. Szafran	390,000(3)	*
Robert J. Keller	258,775(7)	*
George H. Hepburn III	189,000(7)	*
James M. McClenahan	59,100(7)	*
Pamela R. Schneider	215,500(7)	*
All directors, nominees and executive officers as a group (12 persons)	21,787,827(3)(8)	41.5%

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

* Indicates less than 1%.

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(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 March 31, 2009, 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 52,446,308 Common Shares, which includes 51,051,183 Common Shares outstanding as of March 31, 2009, plus 1,395,125 Common Shares subject to options that will be exercisable within 60 days of March 31, 2009, as detailed in Note 3 below.

(2) Includes
9,858,000
Common Shares
as to which
Mr. Schwartz has
sole voting and
investment power,
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, and 3,218
Common Shares
held by
Mr. Schwartz's
spouse, as to
which
Mr. Schwartz
disclaims
beneficial
ownership.
Mr. Schwartz's
address is 19955
NE Porto Vita
Way #2903,
Aventura, FL
33180.

(3) Includes Common
Shares which may
be acquired
pursuant to
options
exercisable as of
March 31, 2009,
or within 60 days
thereafter, as
follows:
Mr. Schwartz
(79,376 shares);
Ms. Andreotti
(108,903 shares);
Mr. Kraft (94,140

shares);
Mr. Marrow
(180,000 shares);
Mr. Park (133,560
shares);
Mr. Skinner
(7,302 shares);
Mr. DiBari
(60,000 shares);
Mr. LaBonte
(276,300 shares);
Mr. McDermott
(365,544 shares);
Mr. Szafran
(90,000 shares);
and all directors,
nominees and
executive officers
(as of March 31,
2009) as a group
(1,395,125
shares).

Messrs. Menon
and Workman do
not have options
exercisable as of
March 31, 2009,
or within 60 days
thereafter.

- (4) Based solely upon
information
provided in the
Schedule 13G/A
filed jointly on
January 23, 2009
by Wells Fargo &
Company as a
parent holding
company (Wells
Fargo), on its own
behalf, and on
behalf of its
subsidiaries Wells
Capital
Management
Incorporated,
Wells Fargo
Funds
Management LLC
and Wells Fargo

Bank, National Association, Wells Fargo (or one or more of its subsidiaries) has sole voting power over 4,295,828 Common Shares and sole dispositive power over 4,310,128 Common Shares. The address of Wells Fargo is 420 Montgomery Street, San Francisco, California 94014.

- (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) Robert H. Wicklein, John J. Abens and Scott Mordell serve as general trustees of Trust Four Hundred Thirty U/A/D 4/2/94, Trust Seven Hundred Thirty

U/A/D 4/2/94,
Trust 3080 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. 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 650
Dundee Road,
Suite 450,
Northbrook,

Illinois 60062.

- (7) Mr. Keller retired as our Chief Executive Officer on April 19, 2008.

Mr. Keller's address is c/o ACCO Brands Corporation, 300 Tower Parkway, Lincolnshire, IL 60069.

Mr. Hepburn resigned as our Chief Financial Officer on May 31, 2008.

Mr. Hepburn's address is c/o APAC Customer Services, Inc., 2333 Waukegan Road, Suite 100, Bannockburn, IL 60015.

Mr. McClenahan resigned as our Senior Vice President, Sales and Marketing on March 28, 2008.

Mr. McClenahan's address is c/o APAC Customer Services, Inc., 2333 Waukegan Road, Suite 100, Bannockburn, IL 60015.

Ms. Schneider resigned as our Senior Vice President, General Counsel and Secretary on September 30, 2008.

Ms. Schneider's address is c/o Movie Gallery

Inc., 9275 SW
Peyton Lane,
Wilsonville, OR
97070.

- (8) Messrs. Keller,
Hepburn and
McClenahan and
Ms. Schneider
were no longer
employed by us as
of December 28,
2008.

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At the Annual Meeting, seven 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

Name	Age	Position
Cindy K. Andreotti	53	Cindy K. Andreotti became a director of the Company in April 2005. Currently, Ms. Andreotti is President and Chief Executive Officer of The Andreotti Group LLC, a strategic business advisory firm servicing domestic/global enterprise clients, private equity and institutional firms and international investment groups. Prior to the launch of The Andreotti Group, Ms. Andreotti was President, Enterprise Markets for MCI, Inc., which filed for protection under Chapter 11 of the U.S. Bankruptcy Code in July 2002 and emerged from Chapter 11 protection in April 2004. Enterprise Markets consisted of the Global Accounts Segment, Government Markets, the Conferencing Business Unit, and MCI Solutions, the managed services arm of MCI. Previous assignments at MCI included President of Business Markets and President of Global Accounts and Strategic Ventures and Alliances. Before joining MCI in 1990, Ms. Andreotti was with AT&T Corporation. Ms. Andreotti is also Vice Chairman of the Japan American Society, a cabinet member of the Los Angeles Music Center, a member of the Executive Committee for the Red Cross, a member of the Accenture Women's Leadership Forum and a member of the board of directors for Rivermine Solutions, Inc., a leading provider of enterprise Telecommunications Expense Management solutions.
John C. Kraft	67	John C. Kraft became a director of the Company in October 2005. Mr. Kraft was Vice Chairman and Chief Operating Officer at Leo Burnett where he oversaw the operations of the company's 50 offices located in 43 countries. He also served on the company's Board of Directors. After taking early retirement from Leo Burnett, Mr. Kraft was the Executive Vice President and Chief Administrative Officer and a Director of Young and Rubicam for two years. Mr. Kraft is a Director of Chicago Central Area Committee.
Michael P. Marrow	51	Michael P. Marrow became a director in February 2008 when he joined us as President and Chief Executive Officer. From January 2003 to February 2008, Mr. Marrow was employed by Affiliated Computer Services, Inc. (ACS), a leader in business process outsourcing and information technology solutions. From June 2007 through February 2008, he served as Managing Director of Emerging markets and was responsible for service delivery centers in India, Mexico, Malaysia, Fiji, China, Ghana, Guatemala, Jamaica, Dominican Republic, Poland,

Brazil and the Philippines with approximately 15,000 employees. From January 2003 through June 2007, Mr. Marrow was the Managing Director of ACS's Contact Center Practice and managed 31 ACS contact centers with over 16,000 employees located in the U.S., Mexico, Argentina, India and the Philippines.

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Name	Age	Position
John J. Park	47	John J. Park became a director in August 2004. Mr. Park has been the Chief Financial Officer at Hewitt Associates, a global human resources outsourcing and consulting firm, since November 2005. 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.
Theodore G. Schwartz	55	Theodore G. Schwartz is Chairman of the Board of Directors of the Company. Mr. Schwartz is the founder of the Company and has served as the Company's 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.
Samuel K. Skinner	70	Samuel K. Skinner previously served on our Board of Directors from July 2003 to June 2005. He rejoined the Board in June 2008. Mr. Skinner is the retired Chairman and Chief Executive Officer of U.S. Freightways Corporation, a transportation and logistics business. He served as an Adjunct Professor of Management and Strategy at the Kellogg School of Management at Northwestern University from 2004 to 2008. He is also Of Counsel to the law firm of Greenberg & Traurig, LLP. He formerly served as Co-Chairman of Hopkins & Sutter, a law firm based in Chicago. Mr. Skinner retired as President of Commonwealth Edison Company and its holding company, Unicom Corporation (now known as Exelon Corporation). Prior to joining Commonwealth Edison, he served as Chief of Staff to former President George H. W. Bush. Prior to his White House service, Mr. Skinner served in the President's cabinet for nearly three years as Secretary of Transportation. From 1977 to 1989, Mr. Skinner practiced law as a partner in the Chicago law firm of Sidley & Austin (now Sidley Austin LLP). He is currently a member of the boards of directors of Navigant Consulting, Inc., Express Scripts and Diamond Management & Technology Consultants, Inc.
John L. Workman	57	John L. Workman has served as a Director since June 2008. Mr. Workman is currently Executive Vice President and Chief Financial Officer of HealthSouth Corporation, a position to which he was appointed in September 2004. From 1998 to 2004, Mr. Workman served in various management and executive capacities with U.S. Can Company, 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 Company, Mr. Workman was employed by Montgomery Ward & 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 began his career in public accounting, and was a partner with the public accounting firm KPMG.

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Meetings of our Board of Directors and Corporate Governance

Our Board of Directors met 18 times during fiscal year 2008 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 2008.

Our Board of Directors has adopted Corporate Governance Guidelines which set forth the role and functions of our Board of Directors, director qualifications and guidelines with respect to Board of Director meetings and committees of the Board, among other things. Our Board of Directors has determined that, other than Messrs. Marrow and Schwartz, all current Board members, all nominees for election as Directors, and all individuals who served as Board members during the fiscal year 2008, are or were independent as defined by the NASDAQ listing standards. Our independent directors hold executive sessions periodically throughout the year.

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. 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 the Company's Corporate Governance Guidelines are available on our website at www.apaccustomerservices.com. A copy of each charter is also available in print to shareholders upon request, addressed to our Secretary c/o APAC Customer Services, Inc., 2333 Waukegan Road, Suite 100, Bannockburn, Illinois 60015.

Audit Committee

Our Audit Committee consists of Messrs. Workman (Chairman), Park, Skinner and Ms. Andreotti. 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 eight times in fiscal year 2008 and periodically took action by unanimous written consent. All members of our Audit Committee are independent 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 both 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 the Proposal Regarding the Election of Directors section of this Proxy Statement.

Compensation Committee

Our Compensation Committee consists of Messrs. Park (Chairman), Kraft and Menon. 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 thirteen times in fiscal year 2008 and periodically took action by unanimous written consent. All members of our Compensation Committee are independent directors as defined by the listing standards of NASDAQ.

Nominating and Corporate Governance Committee

Our Nominating and Corporate Governance Committee consists of Messrs. Kraft (Chairman), Skinner and Ms. Andreotti. 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 six times during fiscal year 2008.

and periodically took action by unanimous written consent. All members of our Nominating and Corporate Governance Committee are independent directors as defined by the listing standards of NASDAQ.

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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 Secretary c/o APAC Customer Services, Inc., 2333 Waukegan Road, Suite 100, Bannockburn, Illinois 60015 and must be received by our Secretary not less than 90 nor more than 120 days prior to the anniversary date of our most recent annual meeting of shareholders.

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. 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 reelection 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.

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 Chairman 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, including 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 Marrow, 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.

Search Committee

Our Search Committee consists of Messrs. Kraft, Park, Schwartz and Ms. Andreotti. In connection with the search for a replacement for Mr. Keller, our former Chief Executive Officer, this committee was formed to expedite changes in management and was involved with the evaluation of potential candidates for the office of Chief Executive Officer as well as to assist with the negotiation of mutually agreeable transition plans in the office of the Chief Executive Officer. This Committee no longer regularly meets.

Strategic Alternatives Committee

Our Strategic Alternatives Committee consists of Mr. Park. This Committee was formed to find and to evaluate alternate debt financing sources for the Company. This Committee no longer regularly meets.

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Transition Oversight/Business Operations Committee

Our Transition Oversight Committee consists 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.

Special Committee

On January 29, 2009, we received a proposal from Tresar Holdings LLC, an affiliate of Theodore G. Schwartz, our Company's chairman and principal shareholder (Tresar), to acquire all of the outstanding shares of common stock of our Company other than those shares held by Theodore G. Schwartz and certain related holders (the Tresar Proposal). In response to the receipt of the Tresar Proposal, our Board of Directors formed a special committee of independent directors to review the proposal. The Special Committee consists of Ms. Andreotti, Messrs. Kraft, Menon, Park and Workman. On March 9, 2009, we announced that the Special Committee and Tresar had jointly agreed not to further pursue the Tresar Proposal, and that Tresar had withdrawn its proposal.

Compensation Committee Interlocks and Insider Participation

During fiscal year 2008, members of our Compensation Committee included Messrs. Park (Chairman), Kraft and Menon. None of the members of the Compensation Committee serve as, or formerly served as, officers of the Company.

During fiscal year 2008, 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 members of our Compensation Committee has ever been employed by us.

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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 directors or any group or committee of directors, correspondence should be addressed to our Board of Directors or any such individual directors, or group or committee of directors, by either name or title. All such correspondence should be sent c/o Secretary to APAC Customer Services, Inc., 2333 Waukegan Road, Suite 100, Bannockburn, Illinois 60015.

All communications received as set forth in the preceding paragraph will be opened by the office of the 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 2008 Annual Meeting, other than Mr. Refer and Mr. Gerdelman, who retired effective on the date of the 2008 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 determined by dividing \$90,000 by the average fair market value of a Common Share over the preceding calendar year. 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 fee of \$15,000 for his services as Chairman of the Board.

For Board committee service: (i) the Audit Committee chairman receives an annual fee of \$10,000; (ii) each of the other committee chairmen receives an annual fee of \$5,000; and (iii) each committee member, including the committee chairmen, 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**2008 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 Chief Executive Officer) during fiscal year 2008. During fiscal year 2008, Mr. Marrow was an employee of ours and did not receive any additional compensation for his services as a director.

Name	Fees Earned or Paid in Cash (\$)(1)	Option Awards (\$)(2)	All Other Compensation (\$)(3)	Total (\$)
Cindy K. Andreotti	106,000	43,710		149,710
John W. Gerdelman (4)	37,000	78,100		115,100
John C. Kraft	70,500	42,601		113,101
Bhaskar Menon (5)	26,750	2,719		29,469
John J. Park	73,000	44,198		117,198
Lynn E. Refer (6)	20,000		36,000	56,000
Theodore G. Schwartz	63,250	41,403		104,653
Samuel K. Skinner	26,750	2,719		29,469
John L. Workman	29,500	2,719		32,219

Notes to 2008**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 2008, regardless as to whether such fees were actually paid in fiscal year 2008.

(2)

Represents the accounting expense to us for stock options recognized in fiscal year 2008, but excludes any estimate of forfeitures related to service-based vesting conditions.

These amounts were determined in accordance with FAS 123(R), and may include amounts from options granted prior to fiscal year 2008.

The grant date fair value of stock options determined in accordance with FAS 123(R) granted to each of our directors during fiscal year 2008 was as follows:

Ms. Andreotti
and

Messrs. Kraft,
Park and
Schwartz
(\$30,516);

Messrs. Menon,
Skinner and
Workman
(\$23,925), and

Messrs. Refer
and Gerdelman
(\$6,592). 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
March 13, 2009.
As of
December 28,
2008, each
non-employee
director owned
options to
purchase an
aggregate
number of
Common Shares
as follows:
Ms. Andreotti
(172,500
shares);
Mr. Gerdelman
(266,730
shares);
Mr. Kraft
(157,737
shares);
Mr. Menon
(24,862 shares);
Mr. Park
(197,157
shares);
Mr. Schwartz
(142,973
shares);
Mr. Skinner
(32,164 shares)
and
Mr. Workman
(24,862 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) Represents executive consulting services provided by Mr. Refer during December 2007 and January 2008.
- (4) Mr. Gerdelman's retirement on June 6, 2008 triggered the immediate vesting of his unvested options, which had the effect of increasing the total option expense for directors recognized in fiscal year 2008.
- (5) Mr. Menon was not re-nominated to serve as a director.
- (6) Mr. Refer resigned as a director on June 6, 2008. Expense for stock options recognized in fiscal year 2008 is excluded from the above table, as Mr. Refer's stock options were forfeited during the current fiscal year due to

failure to satisfy
service-based
vesting
conditions.

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.

Name	Age	Position and Business Experience
Michael P. Marrow	51	Michael P. Marrow became a director in February 2008 when he joined us as President and Chief Executive Officer. From January 2003 to February 2008, Mr. Marrow was employed by ACS, a leader in business process outsourcing and information technology solutions. From June 2007 through February 2008, he served as Managing Director of Emerging markets and was responsible for service delivery centers in India, Mexico, Malaysia, Fiji, China, Ghana, Guatemala, Jamaica, Dominican Republic, Poland, Brazil and the Philippines with approximately 15,000 employees. From January 2003 through June 2007, Mr. Marrow was the Managing Director of ACS's Contact Center Practice and managed 31 ACS contact centers with over 16,000 employees located in the U.S., Mexico, Argentina, India and the Philippines.
Andrew B. Szafran	42	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	38	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, 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	52	Mr. Di Bari joined us as Senior Vice President, Operations in March 2008. 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.

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Name	Age	Position and Business Experience
Joseph R. Doolan	45	Mr. Doolan has served as 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	45	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	48	Mr. McDermott is a Vice President of our company and serves as our 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	38	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., a publicly-traded national retailer of fine jewelry with approximately 375 stores in 39 states. Before Whitehall, Mr. Nachwalter was senior legal counsel with Ryder System, Inc., a Fortune 500 transportation and logistics company.

EXECUTIVE COMPENSATION**Employment Arrangements with Michael P. Marrow, President and Chief Executive Officer**

Effective February 25, 2008, Mr. Michael P. Marrow was appointed our Chief Executive Officer and joined our Board of Directors.

Compensation

We entered into an Executive Employment Agreement with Mr. Marrow which provides that he will be paid an annual base salary of \$350,000 and will be eligible to participate in and earn an annual bonus pursuant to the terms of the APAC Customer Services, Inc. Management Incentive Plan, as amended and restated effective August 2, 2007 (the Management Incentive Plan). No annual cash bonus is guaranteed, but Mr. Marrow 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, we agreed to pay Mr. Marrow a sign-on bonus of \$100,000 and granted him an option to purchase 900,000 Common Shares. The option vests in five equal annual installments beginning on February 25, 2009 and has an exercise price of \$1.21 per share. We also agreed to reimburse Mr. Marrow up to \$3,000 per month for actual and reasonable expenses incurred by him in connection with his maintenance of a residence near our headquarters facility.

On October 23, 2008, the Compensation Committee approved an annual management incentive program pursuant to our MIP (the 2009 MIP) for Mr. Marrow and all other executive officers of the Company. Under the terms of our 2009 MIP, Mr. Marrow is eligible to receive a cash bonus for fiscal year 2009 based on our achieving certain financial performance goals established by the Compensation Committee. Mr. Marrow's 2009 MIP will be based 50% on our achieving the threshold or maximum revenue amounts established by our Compensation Committee and 50% on our achieving the threshold or maximum adjusted PTP amounts established by our Compensation Committee. PTP is defined as pre-tax profit or net income before income taxes . Mr. Marrow is also eligible for a payment under the 2009 Performance Plus Bonus. For additional discussion on 2009 MIP and 2009 Performance Plus Bonus see Compensation Discussion and Analysis Annual Cash Incentive.

In determining Mr. Marrow's compensation package, our objective was to change the mix of compensation provided to our Chief Executive Officer and place more weight on the long-term equity component. As a result, Mr. Marrow's annual base salary and annual incentive opportunity are less than those provided to Mr. Keller, our former Chief Executive Officer; however, the number of stock options granted to him is more than double the amount provided to Mr. Keller when he became our Chief Executive Officer in March 2004.

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

Mr. Marrow's Executive Employment Agreement requires us to provide compensation to him in the event of a termination of employment. Mr. Marrow also has an Employment Security Agreement which provides for certain payments in the event of a change of control of our company. In addition, to the extent not contemplated by his Executive Employment Agreement or the Employment Security Agreement, Mr. Marrow's stock option agreement provides for the acceleration of vesting in the event of a change of control and upon termination under certain circumstances. Our Compensation Committee retains discretion to determine the amount, if any, of any additional payments and benefits which may be paid to Mr. Marrow upon termination of his employment. In making such a determination, our Compensation Committee may consider a number of factors including the reasons for the termination, his tenure and performance, his personal circumstances and the amount of payments and benefits, if any, generally offered to executive officers at other companies in similar positions.

Mr. Marrow has signed an Agreement Protecting Company Interests which provides that during the term of his employment with us and for a period of two years after his termination, he will not solicit our clients or employees and will refrain from working for or consulting with any of our competitors. In the event Mr. Marrow violates his Agreement Protecting Company Interests, we may be entitled to recover some or all of the payments and benefits that were paid by us upon termination of employment.

The nature and amount of payments and benefits Mr. Marrow 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 identical to the payments and benefits for the Named Executive Officers (other than Mr. Keller, our former Chief Executive Officer) described under *Potential Payments Upon Termination or Change of Control* appearing elsewhere in the *Executive Compensation* section of this Proxy Statement, with the exception of the following:

In the event of involuntary termination not for cause Mr. Marrow will be entitled to severance payments in an amount equal to his base salary for a period of 12 months payable in equal installments over a period of 24 months.

We will reimburse Mr. Marrow for payments by him to exercise his rights under COBRA for a period of 12 months.

In the event Mr. Marrow voluntarily terminates his employment with us for any reason prior to a change of control, or in the event Mr. Marrow is terminated for cause (as defined in his Executive Employment Agreement), he is not entitled to receive any payments or benefits other than accrued obligations earned by Mr. Marrow prior to the date of his termination. Such accrued obligations generally consist of his then-current base salary through the termination date to the extent not theretofore paid, and any accrued but unused vacation days as of his termination date.

As used in Mr. Marrow's Executive Employment Agreement, cause shall mean (i) the commission by him of an act of malfeasance, dishonesty, fraud, or breach of trust against the company or any of its employees, clients, or suppliers, (ii) the breach by him of any fiduciary or common law duty to the company, or any obligations under his Executive Employment Agreement, or any other agreement between him and the company, (iii) his willful failure to comply with the company's material written policies, (iv) his failure, neglect, or refusal to perform his duties under his Executive Employment Agreement, or to follow the lawful written directions of the company (including, without limitation, from the our Board of Directors), which failure is not cured (if curable) within ten (10) days after written notice has been given by the company to him, (v) his conviction of, or plea of guilty or no contest to, any felony, or (vi) any act or omission by him that is, or is reasonably likely to be, materially injurious to our financial condition, business reputation or business relationships, or that otherwise is materially injurious to the our employees, clients, customers or suppliers.

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Employment Arrangements with Messrs. Szafran, DiBari, LaBonte and McDermott

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 80% 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 2009 MIP and 2009 Performance Plus Bonus described in detail in the Compensation Discussion and Analysis. 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.

Mr. DiBari participates in the 2009 MIP and 2009 Performance Plus Bonus described in detail in the Compensation Discussion and Analysis. 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. LaBonte on December 27, 1999 which provides that he will be paid an annual base salary of \$221,400 and will be eligible to participate in and earn an annual bonus pursuant to our MIP. No annual cash bonus is guaranteed, but Mr. LaBonte is eligible for a target bonus equal to 40% of his base salary and a maximum bonus equal to 60% of his base salary. In addition to the above, when Mr. LaBonte entered into this Employment Agreement, we granted him an option to purchase 15,000 Common Shares. The option vests in five equal annual installments beginning on January 10, 2001 and has an exercise price of \$11.625 per share.

Mr. LaBonte participates in the 2009 MIP and 2009 Performance Plus Bonus described in detail in the Compensation Discussion and Analysis. 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. LaBonte 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 60% 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 vests 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 2009 MIP and 2009 Performance Plus Bonus described in detail in the Compensation Discussion and Analysis. 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.

Table of Contents**2008 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 2008, 2007 and 2006. The amounts shown in the table reflect the expense to us for stock awards or stock options expenses, as the case may be, recognized in fiscal years 2008, 2007 and 2006. These amounts were determined in accordance with FAS 123(R), and may include amounts from awards granted prior to years 2008, 2007 and 2006. 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 March 13, 2009.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)(1)	Stock Awards (\$)(2)	Option Awards (\$)(3)	All Other Compensation (\$)(4)	Total (\$)
Michael P. Marrow President, Chief Executive Officer and Director	2008	282,692	400,000		85,158	3,416	771,267
Andrew B. Szafran (5) SVP, Chief Financial Officer	2008	176,538	150,000		30,168	4,047	360,753
Arthur D. DiBari (6) SVP, Operations	2008	208,269	355,308		16,855	4,352	584,784
David J. LaBonte (7) VP and General Manager, UPS	2008	250,000	100,000	2,975	26,768	(5,166)	374,576
	2007	262,788		27,764	29,322	4,126	324,000
	2006	280,760	35,000	24,942	48,348	11,378	400,428
Mark E. McDermott VP and CIO	2008	276,000	111,333	2,975	56,741	(1,541)	445,508
	2007	291,346		27,764	74,163	12,861	406,134
	2006	264,231	50,000	24,942	77,646	10,063	426,882
Robert J. Keller (8) Former President, Chief Executive Officer and Director	2008	199,514	99,462	42,729	52,424	290,558	684,687
	2007	440,000		253,107	311,887	5,477	1,010,471
	2006	428,462	107,732	55,904	311,887	16,634	920,619
George H. Hepburn III (8) Former SVP, Chief Financial Officer	2008	165,375		2,975	(7,816)	188,588	349,121
	2007	315,000		27,764	27,892	5,709	376,365
	2006	306,924	35,000	24,942	27,892	9,347	404,105
James M. McClenahan (8) Former SVP, Sales and Marketing	2008	128,143		2,975	(5,397)	225,976	351,697
	2007	315,000		27,764	71,240	4,845	418,849
	2006	310,673	35,000	24,942	71,240	7,082	448,937
	2008	236,604	71,000	2,975	12,491	47,230	370,300

**Pamela R. Schneider
(8)**

Former SVP, General

Counsel and	2007	270,000		27,764	27,390	10,458	335,612
Secretary	2006	267,115	35,000	24,942	27,390	10,050	364,497

Notes to 2008**Summary****Compensation Table**

(1) Represents bonuses earned in 2008 under the 2008 MIP and paid in March 2009 to Mr. Marrow (\$300,000); Mr. Szafran (\$150,000); Mr. DiBari (\$177,800); Mr. LaBonte (\$50,000), Mr. McDermott (\$111,333) and Mr. Keller (\$99,462). In addition, the amounts noted also include a signing bonus granted to Mr. Marrow (\$100,000) and Mr. DiBari (\$45,000), and a performance excellence plan award to Mr. DiBari (\$132,508) and Mr. LaBonte (\$50,000). Ms. Schneider's 2008 MIP bonus of \$71,000 was paid to her in October 2008.

(2)

Represents the accounting expense to us for stock awards recognized in fiscal years 2008, 2007 and 2006, but excludes any estimate of forfeitures related to service-based vesting conditions.

These amounts were determined in accordance with FAS123(R), and may include amounts from awards granted prior to fiscal year 2006. 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 December 28, 2008 filed with the SEC on March 13, 2009.

The amounts shown in the table include a reduction for Mr. Keller (\$32,953) of previously reported expense for stock awards forfeited during

the current
fiscal year due
to failure to
satisfy
service-based
vesting
conditions.

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- (3) Represents the accounting expense to us for stock options recognized in fiscal years 2008, 2007 and 2006, but excludes any estimate of forfeitures related to service-based vesting conditions. These amounts were determined in accordance with FAS123(R), and may include amounts from options granted prior to fiscal year 2006. 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 December 28, 2008 filed with the SEC on March 13, 2009. The amounts shown in the table include reductions for Mr. Keller (\$25,039), Mr. Hepburn (\$19,540), Mr. McClenahan (\$22,815) and Ms. Schneider

(\$8,202) of previously reported expense for stock options forfeited during the current fiscal year due to failure to satisfy service-based vesting conditions.

- (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 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 and (v) a housing allowance for Mr. Marrow to maintain a residence near our corporate headquarters. This amount also includes severance payments for Mr. Keller (\$287,692), Mr. Hepburn (\$187,284), Mr. McClenahan (\$225,000) and Ms. Schneider (\$51,923).

- (5) Mr. LaBonte's responsibilities and role changed in 2007. Previously, he was Senior Vice President, Operations and currently he is Vice President and General Manager, UPS.
- (6) Mr. Szafran began employment on May 14, 2008.
- (7) Mr. DiBari began employment on March 24, 2008.
- (8) Mr. Keller retired as President and Chief Executive Officer effective as of

February 18,
2008.

Mr. Hepburn
resigned as
Senior Vice
President and
Chief Financial
Officer effective
May 31, 2008.

Mr. McClenahan
resigned as
Senior Vice
President, Sales
and Marketing on
March 28, 2008.

Ms. Schneider
resigned as
Senior Vice
President,
General Counsel
and Secretary
effective
September 30,
2008.

Table of Contents**2008 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 2008 and details concerning each Named Executive Officer's annual bonus opportunity under the 2008 MIP. For further information see Compensation Discussion and Analysis Long-Term Equity Incentives 2008 Equity Grants to Named Executive Officers appearing elsewhere in the Executive Compensation section of this Proxy Statement.

Name and Principal Position	Grant Date	Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)	Units (#)	Underlying Awards (\$/Sh)	Awards (\$/Sh)	Awards (#)	Grant Date	Fair Value of	All	All
														Other Awards:	Other Awards:
		Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Future Payouts Under Equity Incentive Plan Awards			Number of Shares of Stock or	Number of Securities of	Base Price of	Stock and Option				
		Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)	Estimated Future Payouts Under Equity Incentive Plan Awards	Estimated Future Payouts Under Equity Incentive Plan Awards	Number of Shares of Stock or	Number of Securities of	Base Price of	Stock and Option	Number of Securities of	Base Price of	Stock and Option				
Michael P. Marrow President, Chief Executive Officer and Director	2/25/2008	175,000	175,000	350,000											
									900,000	1.21	506,790				
Andrew B. Szafran SVP, Chief Financial Officer	5/14/2008	150,000	150,000	240,000											
									450,000	1.10	241,605				
Arthur D. DiBari SVP, Operations	3/24/2008	142,500	142,500	427,500											
									300,000	0.79	110,310				
David J. LaBonte VP and General Manager, UPS		100,000	100,000	150,000											
Mark E. McDermott VP and CIO		99,200	99,200	148,800											
Robert J. Keller		330,000	330,000	660,000											

Former President,
Chief
Executive Officer
and Director

George H. 157,500 157,500 252,000

Hepburn III

Former SVP, Chief
Financial Officer

James M. 157,500 157,500 472,500

McClenahan

Former SVP, Sales
and Marketing

Pamela R. 108,000 108,000 162,000

Schneider

Former SVP,
General Counsel
and Secretary

Notes to 2008

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 2008 based on the achievement of performance goals under our 2008 MIP. For further information about our 2008 MIP, see Compensation Discussion and Analysis Annual Cash Incentive 2008 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 FAS 123(R). Only a portion of this amount was expensed by us in 2008. 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 March 13, 2009.

Table of Contents**Outstanding Equity Awards on December 28, 2008**

The following table sets forth information regarding the outstanding equity awards held by the Named Executive Officers as of December 28, 2008. The vesting dates for any equity awards not vested on December 28, 2008 are set forth in the applicable footnotes. Some of the equity awards set forth in this table have vested since the December 28, 2008 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 (#)	Equity Incentive Plan Awards; Number of Securities Underlying Unexercised Options (#)	Exercise Price (\$)	Option Expiration Date	Market Value of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Number of or Payout Value of Shares, Units or Other Rights That Have Not Vested (\$)
Michael P. Marrow President, Chief Executive Officer and Director		900,000(1)		1.21	2/25/2018				
Andrew B. Szafran SVP, Chief Financial Officer		450,000(2)		1.10	5/14/2018				
Arthur D. DiBari SVP, Operations		300,000(3)		0.79	3/24/2018				
David J. LaBonte VP and General Manager, UPS	68,850 30,000 15,000 16,000 8,125 13,500 24,825 40,000 60,000	(4)		2.98 2.34 11.63 2.89 2.90 3.57 2.81 2.31 0.86	8/3/2009 8/31/2009 1/10/2010 12/2/2011 1/24/2012 8/1/2012 2/10/2013 3/9/2013 7/1/2015				

Mark E. McDermott	22,504	(5)	2.98	8/3/2009
VP and CIO	25,000		5.88	12/1/2009
	6,500		2.90	1/24/2012
	7,500		3.57	8/1/2012
	14,040		2.81	2/10/2013
	25,000		2.86	3/7/2014
	25,000		2.96	4/14/2014
	180,000	120,000	1.62	2/8/2015

Robert J. Keller (6)
Former President,
Chief Executive
Officer and Director

George H. Hepburn III (7)
Former SVP, Chief
Financial Officer

James M. McClenahan (8)
Former SVP, Sales
and Marketing

Pamela R. Schneider (9)
Former SVP,
General Counsel and
Secretary

Table of Contents***Notes to
Outstanding Equity
Awards on
December 28, 2008
Table***

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

Grant Date	Number of Common Shares Underlying Options	Vesting Date & Number of Common Shares Vesting on Such Date		
		February 25, 2008	900,000	February 25, 2009
		February 25, 2010	180,000	
		February 25, 2011	180,000	
		February 25, 2012	180,000	
		February 25, 2013	180,000	

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

Grant Date	Number of Common Shares Underlying Options	Vesting Date & Number of Common Shares Vesting on Such Date	
		May 14, 2008	450,000
		May 14, 2010	90,000
		May 14, 2011	90,000
		May 14, 2012	90,000
		May 14, 2013	90,000

- (3) Mr. DiBari's outstanding options include the following

grants, grant
dates and
vesting dates:

Grant Date	Number of Common Shares Underlying Options	Vesting Date & Number of Common Shares		
		Vesting on Such Date		
March 24, 2008	300,000	March 24, 2009	60,000	(Vested)
		March 24, 2010	60,000	
		March 24, 2011	60,000	
		March 24, 2012	60,000	
		March 24, 2013	60,000	

(4) Mr. LaBonte's outstanding options include the following grants, grant dates and vesting dates. All of Mr. LaBonte's remaining options are fully vested.

Grant Date	Number of Common Shares Underlying Options	Vesting Date & Number of Common Shares		
		Vesting on Such Date		
July 1, 2005	180,000	July 1, 2008	60,000	(Vested)
		July 1, 2009	60,000	
		July 1, 2010	60,000	

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- (5) Mr. McDermott's outstanding options include the following grants, grant dates and vesting dates. All of Mr. McDermott's remaining options are fully vested.

Grant Date	Number of Common Shares Underlying Options	Vesting Date & Number of Common Shares Vesting on Such Date		
		February 8, 2005	300,000	February 8, 2006
		February 8, 2007	60,000 (Vested)	
		February 8, 2008	60,000 (Vested)	
		February 8, 2009	60,000 (Vested)	
		February 8, 2010	60,000	

- (6) Mr. Keller's employment terminated on April 19, 2008, at which time 300,000 unvested options and 50,000 unvested awards immediately expired. Mr. Keller had 450,000 vested options which expired on July 18, 2008 and 300,000 vested options which expired on October 19, 2008.

- (7) Mr. Hepburn's employment terminated on May 31, 2008, at

which time
180,000 unvested
options
immediately
expired.
Mr. Hepburn
exercised all
vested options
(120,000) within
90 days of May
31, 2008.

(8) Mr. McClenahan's
employment
terminated on
March 28, 2008,
at which time
138,750 unvested
options
immediately
expired.
Mr. McClenahan
had 236,250
vested options
which expired on
June 26, 2008.

(9) Ms. Schneider's
employment
terminated on
September 30,
2008, at which
time 120,000
unvested options
immediately
expired.
Ms. Schneider
exercised all
vested options
(180,000) within
90 days of
September 30,
2008.

Table of Contents**2008 Options Exercised and Stock Vested**

The following table sets forth information regarding the stock options exercised and restricted Common Shares vested for each of the Named Executive Officers during fiscal year 2008:

Name and Principal Position	Option Awards		Stock Awards	
	Number of shares acquired upon exercise (#)	Value realized on exercise (\$)	Number of shares acquired on vesting (#)	Value realized on vesting (\$)
Michael P. Marrow President, Chief Executive Officer and Director				
Andrew B. Szafran SVP, Chief Financial Officer				
Arthur D. DiBari SVP, Operations				
David J. LaBonte VP and General Manager, UPS			29,000	29,000
Mark E. McDermott VP and CIO			29,000	29,000
Robert J. Keller Former President, Chief Executive Officer and Director			115,000	121,000
George H. Hepburn III Former SVP, Chief Financial Officer	120,000	65,680	29,000	29,000
James M. McClenahan Former SVP, Sales and Marketing			29,000	29,000
Pamela R. Schneider Former SVP, General Counsel and Secretary	180,000	50,518	29,000	29,000

Additional Compensation Tables

All other tables have been omitted because they are not applicable to us in fiscal year 2008.

Compensation Discussion and Analysis**Overview of Compensation Process**

The Compensation Committee of our Board of Directors is responsible for establishing, implementing and monitoring adherence with our compensation philosophy. The committee establishes total compensation for our President and Chief Executive Officer and, with input from our Chief Executive Officer, establishes compensation for our other Named Executive Officers. Our Compensation Committee does not delegate any of its authority in this regard. Mr. Marrow was our principal executive officer beginning in February 2008. Mr. Keller retired as our Chief Executive Officer on February 18, 2008. Our principal executive officer, our principal financial officer, our three most highly compensated executive officers (other than our principal executive officer and principal financial officer) who were serving as executive officers at the end of fiscal year 2008, and Mr. Keller, our former Chief Executive Officer,

Mr. Hepburn, our former Senior Vice President and Chief Financial Officer, and Ms. Schneider, our former Senior Vice President, General Counsel and Secretary, are our Named Executive Officers for 2008.

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Our Compensation Committee is composed of three independent directors. From time to time, we retain independent compensation consultants to provide objective and expert advice on various compensation plan design issues, although in fiscal year 2008 we did not retain any such firm. In December 2004, we engaged the services of Hewitt Associates to conduct an executive pay study and assist us in developing our annual cash incentive and long-term equity incentive programs for our executive officers (including the Named Executive Officers) as well as certain other employees. From time to time, we also use additional compensation data which we obtain from established executive compensation survey sources.

In addition to Mr. Marrow, the following executive officers participated in the preparation, development and review of various executive compensation presentations made to our Compensation Committee and our Board of Directors during fiscal year 2008: Mr. Andrew B. Szafran, our Senior Vice President and Chief Financial Officer and Mr. Michael V. Hoehne, our Vice President, Human Resources.

Compensation Objectives

We design our executive compensation policies with the objective of attracting, motivating and retaining the highest quality executives. Our goal is to compete in the market for high caliber individuals who possess the talent and capabilities we believe necessary to our success. We believe the most effective executive compensation program is one that is designed to reward the achievement of specific annual, long-term and strategic goals and which aligns executives' interests with those of our shareholders by rewarding performance which ultimately improves shareholder value.

Compensation Philosophy

We desire to attract and retain superior executive talent by offering a total compensation package that is competitive with the compensation practices of those companies with which we compete for executive talent. Such companies include both publicly-traded and private (i) companies in our industry, (ii) companies having annual revenue comparable to ours (i.e., under \$500 million), and (iii) Chicago-area based Fortune 500 companies. We believe that total compensation packages for our executive officers should reward individual performance, put a significant portion of the executive's compensation at risk of achieving pre-established objectives, and align the interests of our executive officers with those of our shareholders. To that end, our compensation packages contain both cash and stock-based compensation as well as short-term and long-term incentives.

The market for suitable executive leadership is very competitive and we contend with many larger companies for top executive-level talent. As a result, our practice is to target total compensation levels for our executive officers at above-median levels. Accordingly, our Compensation Committee determined that the total compensation packages for our executive officers should be between the 50th percentile and the 75th percentile of the packages of executive officers at companies with which we compete for executive talent. Variations to this objective may occur as dictated by the performance and/or experience level of an individual and other market factors.

Elements of Compensation

To achieve our objectives, our executive compensation program includes the following components:

Base Salary: An annual base salary, subject to discretionary annual merit increases based on the executive's overall performance during the previous year;

Annual Cash Incentive: A potential annual cash bonus under our management incentive plan based on our attaining certain specified financial performance measures;

Long-Term Equity Incentives: Long-term incentives consisting of stock options and performance-based restricted share grants under our incentive stock plan; and

Other Employee Benefits: Other employee benefits including the right to participate in company-sponsored benefit and welfare plans such as health, dental and prescription drug insurance, the premiums of which are partly paid for by us, company-sponsored flexible spending accounts for certain qualified medical, dental and childcare expenses, matching contributions to our 401(k) plan and supplemental 401(k) restoration plan for highly compensated employees, and company-subsidized supplemental life insurance.

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The Summary Compensation Table sets forth the amounts for these components that we paid each of the Named Executive Officers in fiscal year 2008. See 2008 Summary Compensation Table appearing elsewhere in the Executive Compensation section of this Proxy Statement. For fiscal year 2008, we did not make any material changes to the weighting or amount of any components of the compensation paid to our Named Executive Officers.

In addition, to provide for executive stability, we offer our currently employed Named Executive Officers payments and benefits (i) in the event an executive officer is involuntarily terminated other than for cause or resigns for good reason and (ii) in the event we experience a change of control. See Potential Payments Upon Termination or Change of Control appearing elsewhere in the Executive Compensation section of this Proxy Statement.

We compensate our currently employed Named Executive Officers (and other executive officers) primarily by using a combination of short-term compensation (salary and annual cash incentive compensation) and long-term compensation (stock options and restricted common shares). We have historically determined the mix of short-term and long-term compensation and the mix of base and incentive compensation by using market compensation information provided by an outside consultant or by reference to established executive compensation surveys. We believe it is important that a portion of our executive officers' incentive compensation is dependent upon our stock price, and a substantial portion of their overall compensation opportunity consists of equity compensation. However, since the price of our Common Shares is subject to some factors outside our control and the control of our executive officers, we also believe it is important that a portion of an executive officer's incentive compensation be tied to the performance of goals relating to the operations of our company. Accordingly, we tie our executive officers' annual cash incentive compensation to the achievement of financial performance goals that we believe help to drive our business and create value for our shareholders. On a total dollar value basis, other benefits compensation is smaller when compared to cash and equity compensation portions of our total executive compensation package.

Conversely, there are certain types of compensation that we have elected to omit from our executive compensation packages, as we believe they are of limited value in attracting, retaining and motivating the type of executive officers we seek. Examples of the types of executive compensation that we deemed to be unnecessary include: (i) a defined benefit (pension) plan; (ii) a stipend or expenses for a company car; and (iii) country club memberships. We believe that we are not negatively affected by our failure to offer these types of benefits and perquisites to our executive officers.

Base Salary

Annual base salary is a major component of overall cash compensation each year. Generally, we determine base salaries for each Named Executive Officer by evaluating his or her experience, performance, and any changes in the executive's duties during the year. We also consider the competitive market for executive talent, and compare salaries we pay our executive officers to those paid to executive officers in comparable positions at companies with which we compete for such talent. See Compensation Philosophy.

Salary levels are typically considered annually as part of our performance review process as well as upon a promotion or other change in job responsibility. Merit increases in annual base salary (if any) are discretionary, and are awarded depending upon the executive officer's overall performance during the prior year.

The following table sets forth the annualized 2008 base salaries for each of the currently employed Named Executive Officers. All of the currently employed Named Executive Officers base salaries will remain at the 2008 level for 2009.

Named Executive Officer	2008 Base Salary
Michael P. Marrow (1)	\$ 350,000
Arthur D. DiBari (2)	\$ 285,000
David J. LaBonte	\$ 250,000
Mark E. McDermott	\$ 248,000
Andrew B. Szafran (3)	\$ 300,000

***Notes to 2008 Base
Salary Table***

- (1) Mr. Marrow
was hired on
February 25,
2008.
- (2) Mr. DiBari was
hired on
March 24, 2008.
- (3) Mr. Szafran was
hired on
May 14, 2008.

Table of Contents***Annual Cash Incentive***

No annual cash bonus is guaranteed, but our Named Executive Officers are eligible for annual bonuses under our MIP, which was approved by our shareholders on June 3, 2005. The MIP gives the Compensation Committee the latitude to design cash and stock-based short-term and long-term incentive compensation programs to promote exceptional performance and achievement of corporate goals by key employees. Under the MIP, cash incentive opportunities are designed annually around a strategic mix of corporate and individual performance objectives. All performance targets for the Named Executive Officers are directly linked to the achievement of our annual financial plan. Any annual bonuses earned by the Named Executive Officers are payable in cash.

2008 MIP

For fiscal year 2008, the Named Executive Officers were eligible to receive incentives under the MIP based on our achieving certain threshold, target and maximum adjusted EBITDA and revenue during fiscal year 2008. In addition, no payments under the MIP would have been made to any participant unless the adjusted EBITDA threshold was met, and no payment would have been made on any individual financial measures unless the threshold for that financial measure was met.

We selected adjusted EBITDA and revenue as financial measures for the 2008 MIP to reward our executive officers for achieving important business objectives top line revenue growth and earnings growth both of which we believe are important drivers of our long-term financial success. The 2008 annual incentive bonus opportunity was based 50% on our achieving threshold, target or maximum adjusted EBITDA for fiscal year 2008 and 50% on our achieving threshold, target or maximum revenue for fiscal year 2008. In each case, the thresholds, targets and maximums for each of the financial measures were based on our 2008 Plan. We define adjusted EBITDA as net income (loss) plus the provision (benefit) for income taxes, depreciation and amortization, and interest expense, calculated from the information contained in our quarterly and annual audited financial statements, and excludes the effects of charges which would be split out from normal operating expenses (e.g. restructuring, asset impairment and other charges or gains).

**2008 Management Incentive Plan
Financial Measures**

	Percentage of Target
ADJUSTED EBITDA	
Maximum	200%
Target	100%
Threshold	100%
REVENUE	
Maximum	200%
Target	100%
Threshold	100%

The range of potential annual incentive payments for the Named Executive Officers during fiscal year 2008 was determined by our Compensation Committee. The fiscal year 2008 annual bonus opportunity for Mr. Marrow at threshold, target and maximum levels was 50%, 50% and 100% of his base salary. The annual bonus opportunity for the other Named Executive Officers at threshold, target and maximum levels was 50%, 50% and 150% of base salary for DiBari, 50%, 50% and 80% of base salary for Szafran and 40%, 40% and 60% of base salary for Messrs. LaBonte and McDermott. The structure of the fiscal year 2008 annual bonus ensured that a significant portion of each Named Executive Officer's total cash compensation was dependant on our results for the year.

For fiscal year 2008, the annual bonus opportunity for Mr. Keller, our former Chief Executive Officer, at threshold, target and maximum levels was 75%, 75% and 150% of his base salary, based solely on our performance against annual financial measures established by the Compensation Committee.

Management Incentive Plan bonuses awarded in 2009 for performance in fiscal year 2008 are included in the 2008 Summary Compensation Table appearing elsewhere in the Executive Compensation section of this Proxy Statement.

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2009 MIP

Under the terms of the 2009 MIP, Messrs. Marrow and Szafran and all other executive officers, including Named Executive Officers, are eligible to receive annual cash bonus payments on either an annual or a quarterly basis based on us achieving certain financial performance goals established by the Compensation Committee. No annual cash bonus is guaranteed, but each executive officer is eligible for a MIP ranging from 0% to 150% of his or her base salary. For all executive officers, other than our Senior Vice President, Sales, the 2009 MIP will be based 50% on us achieving the threshold or maximum revenue amounts established by the Compensation Committee and 50% on us achieving the threshold or maximum PTP amounts established by the Compensation Committee. The threshold and maximum financial performance goals established by the Compensation Committee for the 2009 MIP are based on our 2009 financial plan approved by our Board of Directors. Revenue is defined as net revenue, as reported in our quarterly and annual audited financial statements. The total incentive payout under the 2009 MIP for any overachievement of financial performance goals beyond the threshold amounts established by the Compensation Committee shall not exceed 50% of the incremental adjusted EBITDA achieved by the Company.

On April 6, 2009 the Compensation Committee approved an additional potential performance bonus (2009 Performance Plus Bonus) under the 2009 MIP for the executive officers, including Named Executive Officers for the 2009 fiscal year in lieu of salary increases. The 2009 Performance Plus Bonus increases the maximum payout for each participant in the 2009 MIP, by an additional 10% subject to our meeting certain pre-determined targets. In order for the 2009 Performance Plus Bonus to be paid, we must achieve: (1) a minimum revenue target; (2) a PTP target; and (3) certain sales goals.

Table of Contents***Long-Term Equity Incentives***

We believe that equity compensation is an important component of our currently employed Named Executive Officers overall compensation package. We believe that shareholder value is best enhanced if our executive officers are encouraged to strategically manage our company for long-term success. We grant long-term incentive compensation in the form of stock options and restricted Common Shares under our Amended and Restated 2005 Incentive Stock Plan (Incentive Stock Plan). We do not consider outstanding options or restricted Common Shares held by a Named Executive Officer when making an award.

While we believe that both forms of equity grants can be used to appropriately link the creation of shareholder value to long-term executive officer incentive compensation, we have until quite recently used only stock options for this purpose. Generally, we believe that stock options provide a more leveraged upside incentive for our executive officers especially when the price of our Common Shares is low and we are not profitable. Additionally, full-value restricted Common Shares would have little retention value given the generally low price of our Common Shares. We also prefer awarding executive officers stock options as incentives rather than restricted Common Shares, because the only time the currently employed Named Executive Officer receives value from an option is when the price of our Common Shares increases after the grant date. Restricted shares provide currently employed Named Executive Officers compensation if our Common Shares maintain their value, and provide increased compensation if the value of our Common Shares increases.

We structure our equity awards to promote the retention of our currently employed Named Executive Officers over longer periods of time. Equity awards to currently employed Named Executive Officers typically vest over time. Stock option grants to the currently employed Named Executive Officers vest in equal increments over four or five years after their grant date and have ten year terms. The exercise price for stock options is the fair market value of our Common Shares on the grant date. Until April 4, 2007, the fair market value of such Common Shares as determined under the Incentive Stock Plan was the average of the high and low selling prices of such Common Shares on the NASDAQ on the relevant valuation date, or, if there were no sales on the valuation date, on the next preceding date on which such selling prices were recorded. Effective April 4, 2007, the Incentive Stock Plan was amended to provide that the fair market value would be the closing price of the Common Shares on the NASDAQ on the valuation date. Grants of restricted Common Shares typically vest two years from the date of grant, and vesting is sometimes conditioned on the achievement of specified financial performance objectives established by the Compensation Committee.

2008 Equity Grants to Named Executive Officers

During fiscal year 2008, equity grants were issued the form of stock options to Mr. Marrow (900,000 shares), Mr. DiBari (300,000 shares) and Mr. Szafran (450,000 shares) in connection with the commencement of employment with us.

Stock Option Grant Guidelines and Procedures

In October 2006, the Compensation Committee adopted standard policies and procedures regarding the granting of stock options to employees, including executive officers. Stock option grants are generally not timed to benefit the recipients, and are typically only approved during regularly scheduled quarterly meetings of the Compensation Committee, except in limited circumstances. For grants approved during the regularly scheduled Compensation Committee meetings, the issue date of such grants is set to be the third trading day after the next subsequent quarterly earnings announcement by us. We have not engaged in back-dating of options and do not grant options with an exercise price below the fair market value of our Common Shares as defined under our Incentive Stock Plan.

In May 2007, the Compensation Committee updated its guidelines for the granting of stock options for fiscal years 2007 and beyond. Options granted pursuant to these guidelines vest annually over a five-year period, as determined by the Compensation Committee, with partial acceleration of vesting upon a change of control if the employee is then employed by us and full vesting upon a termination of employment on or after a change of control in certain circumstances.

Employment Agreements

We entered into employment agreements with Mr. Marrow, our current President, Chief Executive Officer and Director, and with Messrs. Crowley, DiBari, Hoehne, LaBonte, McDermott, Nachwalter and Szafran. Additionally,

we entered into employment agreements with certain former executives, Mr. Keller, our former Chief Executive Officer as well as Messrs. Hepburn, our former Senior Vice President and Chief Financial Officer and McClenahan, our former Senior Vice President, Sales and Marketing and Ms. Schneider, our former Senior Vice President, General Counsel and Secretary under which we are continuing to make severance payments. Other than the aforementioned parties, we have not entered into any agreements or understandings with another executive officer which guarantee continued employment or guarantee any level of compensation, including incentive or bonus payments other than as described in Potential Payments Upon Termination or Change of Control appearing elsewhere in the Executive Compensation section of this Proxy Statement. We do not have a written policy regarding employment agreements.

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Other Employee Benefits

We structure our compensation to provide competitive benefit packages to our currently employed Named Executive Officers. These include company-sponsored benefit and welfare plans such as health, dental and prescription drug insurance, the premiums of which are partly paid for by us, company-sponsored flexible spending accounts for certain qualified medical, dental and childcare expenses, matching contributions to our 401(k) plan, and company-subsidized supplemental life insurance. In addition, we offer a supplemental 401(k) restoration plan to our highly compensated employees (as such term is defined by the applicable regulations under the Internal Revenue Code), whose contributions to our 401(k) plan are limited by the Internal Revenue Code, to make up for the limitations so imposed. This restoration plan is available to all highly compensated employees, including all of our currently employed Named Executive Officers. We also make matching contributions on behalf of these highly compensated employees to the restoration plan (including any currently employed Named Executive Officer who elects to participate). We believe the maintenance of our 401(k) restoration plan (and our matching contributions to it) are necessary to maintain a competitive benefits package for our executive officers, and so that they have the opportunity to defer the same percentage of their income, and receive similar matching contributions, as our other employees.

Severance and Change in Control Agreements

We provide severance agreements to our currently employed Named Executive Officers as a retention incentive and to ensure that in a potential change of control situation that could benefit our shareholders, members of our management team retain their objectivity regarding the outcome of any transaction. Each of our currently employed Named Executive Officers has a severance agreement that provides that if the executive's employment is terminated without cause, or, in the case of Messrs. LaBonte and Szafran, he voluntarily resigns for good reason or agreed reason, the executive will receive specified payments and benefits. Our stock option and restricted stock award agreements also provide for the acceleration of vesting in the event of termination and/or a change of control. See Potential Payments Upon Termination or Change of Control appearing elsewhere in the Executive Compensation section of this Proxy Statement.

Perquisites and Other Personal Benefits

Generally, we do not provide any perquisites or other personal benefits to our executive officers (including the currently employed Named Executive Officers). Mr. Marrow's employment agreement provides that we will reimburse him up to \$3,000 per month for reasonable, actual expenses incurred by him for the purpose of his maintaining a residence near our corporate headquarters.

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Tax Considerations

Deductibility of Executive Compensation

As part of its role, the Compensation Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code (Section 162(m)), which generally provides that we may not deduct compensation of more than \$1,000,000 that is paid to certain individuals, including the currently employed Named Executive Officers. Qualifying performance-based compensation is specifically exempt from the deduction limit. We believe that the compensation paid under the MIP is generally fully deductible for federal income tax purposes as it is based on objective performance standards that are established by the Compensation Committee in accordance with Section 162(m). However, in certain situations, the Compensation Committee may approve compensation that does not meet the exemption requirements of Section 162(m) in order to ensure competitive levels of total compensation for our executive officers.

Accounting for Stock-Based Compensation

Beginning on January 2, 2006, we began accounting for stock-based payments including stock options and restricted Common Shares in accordance with the requirements of FAS Statement No. 123(R) Share-Based Payment . 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 March 13, 2009.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis contained herein with management. Based on this review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

Respectfully submitted,

COMPENSATION COMMITTEE

John J. Park, Chairman
John C. Kraft
Bhaskar Menon

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

We have certain agreements that require us to provide compensation to our currently employed Named Executive Officers in the event of a termination of employment or a change of control of our company. The payment and benefits due upon a currently employed Named Executive Officer's termination of employment (other than in connection with a change of control) are set forth in individual agreements between us and each of the currently employed Named Executive Officers. Each of our currently employed Named Executive Officers also has an Employment Security Agreement which provides for certain payments in the event of a change of control. In addition, to the extent not contemplated by the employment agreements or the Employment Security Agreements, our stock option agreements and restricted stock award agreements provide for the acceleration of vesting in the event of a change of control and upon termination under certain circumstances. The Compensation Committee retains discretion to determine the amount, if any, of any additional payments and benefits which may be paid to a currently employed Named Executive Officer upon termination of his or her employment. In making such a determination, the Compensation Committee may consider a number of factors including the reasons for the termination, the currently employed Named Executive Officer's tenure and performance, the currently employed Named Executive Officer's personal circumstances and the amount of payments and benefits, if any, generally offered to executive officers at other companies in similar positions.

Each of the currently employed Named Executive Officers has signed an Agreement Protecting Company Interests which provides that during the term of his employment with us and for a specified period after his termination, he will not solicit our clients or employees and will refrain from working for or consulting with any of our competitors. The term of the non-solicitation and non-compete agreements is two years for Messrs. Marrow and LaBonte, and one year for Messrs. DiBari, McDermott and Szafran. In the event any of the currently employed Named Executive Officers violates his or her Agreement Protecting Company Interests, we may be entitled to recover some or all of the payments and benefits that were paid by us upon termination of employment.

The following narrative describes the nature and amount of payments and benefits to each of our currently employed Named Executive Officers 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.

Payments Made Upon Retirement

Each of the currently employed Named Executive Officers is eligible to elect normal retirement when he has completed at least ten years of continuous employment and the sum of his age and continuous service with us is equal to or greater than seventy. Upon normal retirement, some or all of the outstanding stock options that are not vested at the time of his retirement will accelerate and become exercisable. Generally, the vesting will be accelerated such that the options which would otherwise vest on the next anniversary of the grant date vest on the date of retirement; provided that the shares issuable upon exercise of such accelerated options are subject to certain restrictions on transfer for a period of two years after termination.

Payments Made Upon Death or Disability**In the event of the death or disability of a Named Executive Officer:**

The currently employed Name Executive Officer, or his beneficiary or estate, will be entitled to receive payment of any and all base salary earned through the date of his termination;
Some or all of the outstanding stock options that are not vested at the time of his death or disability will accelerate and become immediately exercisable as described above under *Payments Made Upon Retirement*;
All then unvested restricted Common Shares will immediately vest; and
For Messrs. LaBonte and McDermott, his beneficiary or estate, will be entitled to receive a pro rata payment of any MIP incentive award at a target level for the then current performance period.

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Payments Made Upon Involuntary Termination (Not for Cause)

In the event of involuntary termination of a currently employed Named Executive Officer not for cause :

Mr. Marrow will be entitled to severance payments in an amount equal to 12 months of his then-current base salary payable over a period of two years from the termination date. Messrs. LaBonte and McDermott will be entitled to severance payments in an amount equal to twelve months of their base salaries. Mr. Szafran will be entitled to severance payments in an amount equal to nine months of his base salary payable over a period over 12 months and Mr. DiBari will be entitled to severance payments in an amount equal to six months of his base salary payable over a period of 12 months.

We will reimburse Mr. Marrow for payments by him to exercise his rights under COBRA for a period of 12 months.

Payments Made Upon Voluntary Termination and Termination for Cause

In the event Mr. Marrow voluntarily terminates his employment with us for any reason prior to a change of control, or in the event Mr. Marrow is terminated for cause (as defined in his employment agreement), he is not entitled to receive any payments or benefits other than accrued obligations earned by Mr. Marrow prior to his date of termination. Such accrued obligations generally consist of unpaid base salary, pay for unused vacation time, expense reimbursements, and any vested benefits Mr. Marrow may have in our company retirement plans.

For each of the other currently employed Named Executive Officers, if he voluntarily terminates his employment with us, or if he is terminated for cause (as defined in his employment agreement), the currently employed Named Executive Officer is not entitled to receive any payments or benefits other than accrued obligations earned prior to the dated of his termination, unless, in the case of Messrs. LaBonte or Szafran, he resigns for Good Reason or Agreed Reason as that term is defined in his employment agreement.

In the event any of Messrs. LaBonte or Szafran voluntarily resigns for Good Reason, or Agreed Reason each of them is entitled to receive the same payments and benefits described above under Payments Made Upon Involuntary Termination (Not For Cause) . Agreed Reason is defined in Mr. Szafran s employment agreement as a termination prior to a change of control, if after notice and a period to cure, (i) we materially reduce or diminish his duties, responsibilities or authority as an executive officer, (ii) he no longer reports to our Chief Executive Officer, (iii) his base salary is reduced and not in accordance with a compensation reduction applicable to all executive officers, or (iv) any other material breach of the terms of his agreement or his employment in general. For Mr. Labonte Good Reason is defined as (a) a material alteration in title, duties and responsibilities, (b) relocation of his office by more than 20 miles from both current residence and Deerfield, Illinois or (c) reduction in base salary or Incentive Bonus participation.

As used in the employment agreements of all of the currently employed Named Executive Officers, cause is defined as (i) gross misconduct or gross negligence in the performance of his duties as set forth in employment agreement, (ii) willful disobedience of the lawful directions of the Board of Directors or of our company s policies, or (iii) commission of a crime involving fraud or moral turpitude that can reasonably be expected to adversely affect the business of our company.

Payments Made Upon Change of Control

In the event we experience a change of control:

Some or all of the currently employed Named Executive Officers outstanding stock options that are not vested at the time of the change of control will accelerate and become immediately exercisable. Generally, the vesting will be accelerated such that fifty percent (50%) of the previously unexercisable portion of such options shall become exercisable immediately following the change of control; and All then unvested restricted Common Shares will immediately vest.

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Payments Made Upon Termination in Connection with a Change of Control

Each of our currently employed Named Executive Officers has an Employment Security Agreement which establishes a double trigger severance plan that provides certain payments and benefits if the executive officer's employment is terminated within one year after the change of control either by us, or by the executive for good reason as defined in the Employment Security Agreement (other than termination by us for cause or a termination by reason of death or disability). In the event a currently employed Named Executive Officer is terminated (other than termination by us for cause or a termination by reason of death or disability) within one year after the change of control or if he resigns for good reason :

The currently employed Named Executive Officer is entitled to a lump sum severance payment in an amount equal to his base salary for 18 months;

The currently employed Named Executive Officer is entitled to receive, an amount equal to one and one-half times any such annual MIP incentive award;

Any stock options which remain unvested at the time of his termination shall become immediately exercisable; and

We will reimburse each of the currently employed Named Executive Officers for payments by him to exercise his rights under COBRA for a period of 18 months.

Generally, a change of control under the Employment Security Agreements and the relevant stock option and restricted stock award agreements is deemed to occur if:

A tender offer is made and consummated for the ownership of more than 50% of our outstanding voting securities;

We merge or consolidate with another corporation and as a result of such merger or consolidation less than 50% of the outstanding voting securities of the surviving or resulting corporation are owned in the aggregate by our shareholders as they existed immediately prior to such merger of consolidation;

We sell all or substantially all of our assets to another company;

The persons who were our directors cease to constitute a majority of our Board of Directors under specific circumstances; or

A person (as defined under the federal securities laws) shall acquire more than 50% of our outstanding voting securities.

Notwithstanding the foregoing, a change of control will not be deemed to occur merely due to the death of Mr. Theodore G. Schwartz, our Chairman and a principal stockholder, or as a result of an acquisition of our outstanding voting securities by Mr. Schwartz and one or more of his affiliates in a going private transaction, except in certain limited circumstance where the ownership interests of Mr. Schwartz and his affiliates falls below certain levels specified in the agreements. See the Common Shares Beneficially Owned by Principal Shareholders and Management section of this Proxy Statement.

As defined in the Employment Security Agreements and the relevant stock option and restricted stock award agreements, good reason for any Named Executive Officer to voluntarily terminate his employment with us shall exist if, after notice and an opportunity to cure:

The currently employed Named Executive Officer's principal place of work is moved more than fifty (50) miles;

The currently employed Named Executive Officer's duties and responsibilities are materially reduced or diminished; provided that such reduction is not, in the case of the currently employed Named Executive Officers other than Mr. Marrow, solely as a result of our acquisition and existence as a subsidiary of another entity;

The currently employed Named Executive Officer's base salary is reduced;

The currently employed Named Executive Officer determines in good faith that, as a result of the change of control, he is unable to carry out his or her job responsibilities;

There is a material violation of his employment agreement; or

We consummate a liquidation, dissolution or merger or transfer all or substantially all of our assets and his employment agreement is not assumed by the surviving entity.

Table of Contents**Estimated Payments on Termination or Change of Control**

The following table sets forth the estimated payments to each of the currently employed Named Executive Officers under the circumstances outlined above. The amounts shown assume that such termination and/or change of control was effective as of December 28, 2008, and thus includes amounts earned through such time and are estimates of the amounts which would be paid out to the currently employed Named Executive Officers upon their termination and/or in the event of a change of control. The actual amounts to be paid out can only be determined at the time of such currently employed Named Executive Officer's separation from us and/or at the time of a change of control.

Pursuant to each currently employed Named Executive Officer's Employment Security Agreement, the amounts payable upon termination following a change of control may be reduced under certain circumstances in the event any such payments are considered excess parachute payments under Section 280G of the Internal Revenue Code. In addition, the currently employed Named Executive Officers have provisions in their employment agreements that would delay the payments thereunder in order to avoid any negative impact to such executive officer under Section 409A of the Internal Revenue Code. The calculations presented do not give effect to any such provisions which would have the effect of reducing the amounts paid by us to the Named Executive Officers.

Event	M. Marrow	A. Szafran	A. DiBari (in dollars)	D. LaBonte	M. McDermott
Retirement					
Acceleration of stock options(1)	\$	\$	\$ 13,800	\$ 5,760	\$
Death or Disability					
Prorated annual incentive(2)				100,000	99,200
Acceleration of stock options(1)			13,800	5,760	
Acceleration of restricted Common Shares(1)					
Total			13,800	105,760	99,200
Involuntary Termination (Not for Cause)					
Cash severance payment(2)	350,000	225,000	142,500	250,000	248,000
Continued health benefits	4,536	n/a	n/a	n/a	n/a
Total	354,536	225,000	142,500	250,000	248,000
Voluntary Termination (For Good Reason)					
Cash severance payment(2)	n/a	225,000	n/a	250,000	n/a
Change of Control					
Acceleration of stock options(1)			34,500	9,600	
Acceleration of restricted Common Shares(1)					
Total			34,500	9,600	

Change of Control with Termination

Cash severance payment(2)	525,000	450,000	427,500	375,000	372,000
Prorated annual incentive(2)	262,500	225,000	213,750	150,000	148,800
Continued health benefits	6,804	11,250	6,804	11,250	9,018
Acceleration of stock options(1)			69,000	19,200	
Acceleration of restricted Common Shares(1)					
Total	794,304	686,250	717,054	555,450	529,818

Notes to Estimated Payments on Termination or Change of Control Table

- (1) The value of accelerated stock options and restricted Common Shares is based on the closing price for our Common Shares on the NASDAQ as of December 28, 2008 (\$1.02 per Common Share).

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(2) Cash severance payments and annual incentive bonus calculations are based on the following assumptions: The Named Executive Officer's base pay is equal to his base salary effective December 28, 2008. Target annual bonus payments are equal to 50% of such base salary for Messrs. Marrow, DiBari and Szafran and 40% of such base salary for Messrs. LaBonte and McDermott. Generally, severance payments and health care reimbursements would be paid over a period of time on regular pay dates, except upon termination following a change in control where the Named Executive Officer is entitled to a lump sum payment. All other cash payments are paid in a lump sum.

Retirement Arrangements with Mr. Keller

In January 17, 2008, we announced that Mr. Keller, our former Chief Executive Officer, would retire in 2008. In connection with his retirement, we entered into an agreement with Mr. Keller pursuant to which he agreed to remain as Chief Executive Officer of the Company while the Board of Directors completed a search for his successor and to facilitate an orderly transition to the new Chief Executive Officer. In exchange for this commitment, we agreed to (i) treat Mr. Keller's departure as a termination without cause under the terms of his Amended and Restated Executive Employment Agreement, dated August 6, 2007, and (ii) guarantee the vesting of certain stock options and restricted common shares that were scheduled to vest in February and March 2008 regardless of the actual date of Mr. Keller's termination of employment.

Mr. Keller retired as our Chief Executive Officer and resigned from our Board of Directors on February 18, 2008. Mr. Keller's employment with us terminated on April 19, 2008. Pursuant to the terms of Mr. Keller's Amended Employment Agreement, Mr. Keller will receive salary continuation for a period of two years and a pro rata portion of any incentive actually earned in fiscal year 2008, as well as continuation of medical benefits and life and long-term disability insurance benefits for a period of two years at our expense. See Potential Payments Upon Termination or Change of Control Payments Made Upon Involuntary Termination appearing elsewhere in the Executive Compensation section of this Proxy Statement.

At the time of his termination, Mr. Keller had (i) vested options to purchase 400,000 Common Shares at an exercise price of \$2.90 per share which may be exercised on or prior to October 19, 2008 and (ii) vested options to purchase 450,000 Common Shares at an exercise price of \$1.62 per share which may be exercised on or prior to July 18, 2008. Mr. Keller's remaining unvested stock options and unvested restricted Common Shares expired upon his termination of employment with us. Under certain limited circumstances, Mr. Keller may be entitled to certain additional payments and benefits in the event of a change of control of the Company. See Potential Payments Upon Termination or Change of Control Payments Made Upon Termination in Connection with a Change of Control appearing elsewhere in the Executive Compensation section of this Proxy Statement.

Severance Arrangements with Mr. McClenahan

Mr. McClenahan, our former Senior Vice President, Sales and Marketing resigned on March 28, 2008. Pursuant to the terms of our employment agreement with Mr. McClenahan, he received salary continuation until March 28, 2009. Mr. McClenahan agreed to relinquish his right to receive reimbursement for COBRA medical benefits costs in excess of the amounts paid by employees for approximately \$2,400. See Potential Payments Upon Termination or Change of Control.

Severance Arrangement with Mr. Hepburn

Mr. Hepburn, our former Chief Financial Officer resigned on May 31, 2008. Pursuant to the terms of our employment agreement with Mr. Hepburn, will receive salary continuation until May 31, 2009. Mr. Hepburn was eligible to receive approximately \$600 per month for COBRA medical benefits costs in excess of the amounts paid by employees for a period of up to twelve months which he received for two months for a total of \$1200.

Severance Arrangements with Ms. Schneider

Ms. Schneider, our former Senior Vice President, General Counsel and Secretary resigned on September 30, 2008. Pursuant to the terms of our employment agreement with Ms. Schneider, she will receive salary continuation until September 30, 2009.

Table of Contents**RELATIONSHIP WITH INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

During fiscal years 2008 and 2007, the Company retained Ernst & Young LLP (E&Y) to audit the Company's consolidated financial statements for 2008 and 2007, among other things. Fees billed to us by E&Y, for fiscal years 2008 and 2007, for audit and other professional services rendered were as follows:

	2008	2007
Audit Fees	\$ 643,519	\$ 612,500
Audit-Related Fees	45,000	68,000
Tax Fees	69,562	139,025
All Other Fees		
Total	\$ 758,081	\$ 819,525

Audit Fees include fees associated with the annual audit, the reviews of our quarterly reports on Form 10-Q, fees associated with the services normally provided by the independent registered public accounting firm in connection with statutory and regulatory filings or engagements, and fees associated with Section 404 attestation services.

Audit-Related Fees include fees for information systems audits.

Tax Fees include tax compliance and assistance with tax audits.

Mr. Workman, one of our nominees for director, became the Chief Financial Officer of HealthSouth Corporation in September 2004. HealthSouth Corporation has filed a legal action against E&Y alleging that from 1996 through 2002, when E&Y served as HealthSouth Corporation's independent auditors, E&Y acted recklessly and with gross negligence in performing its duties, and specifically that E&Y failed to perform reviews and audits of HealthSouth Corporation's financial statements with due professional care as required by law and by its contractual agreements with HealthSouth Corporation.

Policy Regarding the Pre-Approval of Audit and Non-Audit Services Provided by the Independent Registered Public Accounting Firm

Our Audit Committee is responsible for appointing our independent registered public accounting firm and approving the terms of the auditing and non-audit services provided by our independent registered public accounting firm. Our Audit Committee has established a policy governing services performed by our independent registered public accounting firm, which requires Audit Committee pre-approval of all audit and non-audit services to be provided by our independent registered public accounting firm, sets forth non-audit services which may not be performed by our independent registered public accounting firm and provides for regular review by the Audit Committee of the services performed by our independent registered public accounting firm and their fees. Our Audit Committee approved 100% of the fees for audit, audit related, tax and other services provided E&Y in fiscal year 2008.

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REPORT OF THE AUDIT COMMITTEE

The following report of the Audit Committee shall not be deemed to be soliciting material or to be filed with the SEC or incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933, as amended, or under the Securities and Exchange Act of 1934, as amended, except to the extent that we specifically request that the information be treated as soliciting material or that we specifically incorporate this information by reference, and shall not otherwise be deemed filed under such Acts.

The Board of Directors has appointed the Audit Committee, consisting of four directors, Messrs. Workman (Chairman), Park and Skinner and Ms. Andreotti. Each member of the Audit Committee is independent as such term is defined under the rules of the NASDAQ listing standards. The Board of Directors has adopted a written charter with respect to the responsibilities of the Audit Committee, which includes, among other things, reviewing the proposed scope of the internal audit, overseeing the adequacy and effectiveness of accounting and financial controls, and reviewing our annual and quarterly financial statements with management and the independent registered public accounting firm.

In fulfilling its responsibilities, the Audit Committee met and held discussions with management, our internal auditor and E&Y, our independent registered public accounting firm for fiscal year 2008, regarding the annual audit and our audited consolidated financial statements. Management represented to the Audit Committee that our financial statements were prepared in accordance with generally accepted accounting principles, and the Audit Committee has reviewed and discussed with management and E&Y the audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 28, 2008. The Audit Committee discussed with E&Y the matters required to be discussed by Statement on Auditing Standards No. 61, *Communications with Audit Committees*, as amended and adopted by the Public Company Accounting Oversight Board in Rule 3200T.

E&Y also provided to the Audit Committee the written disclosures and the letter required by the PCAOB Ethics and Independence Rule 3526, *Communication with Audit Committees Concerning Independence*. The Audit Committee has discussed the independence of E&Y with members of the firm.

Management is responsible for maintaining internal controls over our financial reporting process and assessing the effectiveness of our internal control over our financial process. The independent registered public accounting firm is responsible for performing an independent audit of our consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and issuing a report thereon, and to express an opinion on our management's assessment and an opinion of effectiveness of our internal control over financial reporting based on their audit. As provided in its charter, the Audit Committee's responsibilities include the monitoring and oversight of these processes.

In its oversight role for these matters, the Audit Committee relies on the information and representations made by management and the independent registered public accounting firm. Accordingly, the Audit Committee's oversight does not provide an independent basis to certify that the audit of our financial statements has been carried out in accordance with generally accepted accounting principles or that our independent registered public accounting firm is in fact independent.

Based upon and in reliance upon the review and discussion referred to above and the review of E&Y's report to the Audit Committee, the Audit Committee recommended to our Board of Directors that the audited consolidated financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 28, 2008, for filing with the SEC.

Respectfully submitted,

AUDIT COMMITTEE

John L. Workman, Chairman
Cindy K. Andreotti
John J. Park
Samuel K. Skinner

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INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

E&Y served as our independent registered public accounting firm for fiscal year 2008. The Audit Committee has retained E&Y to serve as our independent registered public accounting firm for fiscal year 2009. Representatives of E&Y are expected to be present at the Annual Meeting, where they will be available to make a statement and respond to appropriate questions.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Our Corporate Governance Guidelines outline our policies and procedures for the review, approval or ratification of related party transactions and conflicts of interest. Our policy is that a director must avoid any conflict of interest with our company. If a director develops an actual, potential or apparent conflict of interest with us or is unsure whether a potential situation might develop into a conflict of interest, he or she must report the conflict immediately to our Chairman and the Chairman of our Nominating and Corporate Governance Committee. The conflict must be resolved to the satisfaction of the Nominating and Corporate Governance Committee or the director must resign. Further, if a director (or any member of his or her immediate family) has a personal interest in a matter before our Board of Directors, he or she must disclose to the full Board the material facts as to his or her relationship and interest. In addition to the approval processes described above, our Code of Business Ethics and Conduct prohibits any director or employee from engaging in any activity or association that conflicts with, or appears to conflict with, his or her ability to exercise independent judgment in our best interest and dictates that such individuals must avoid any situation that may create, or seem to create, a conflict between his or her personal interests and our company's interests.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires that our executive officers, directors, and persons who own more than ten percent of our outstanding Common Shares report their beneficial ownership and changes in their beneficial ownership of our equity securities by filing reports with the SEC. During fiscal year 2008, to our knowledge, our officers, directors, and greater than ten percent beneficial owners filed the reports required by Section 16(a) on a timely basis during such year except for Directors Park and Schwartz who each filed a late Form 4.

ANNUAL REPORT ON FORM 10-K

A copy of our most recent Annual Report on Form 10-K filed with the SEC accompanies this Proxy Statement. **Additional copies of the Annual Report on Form 10-K may be obtained from our website at <http://ir.apaccustomerservices.com/investors/proxy09.cfm>, or by writing to APAC Customer Services, Inc., 2333 Waukegan Road, Suite 100, Bannockburn, Illinois 60015, Attention: Robert B. Nachwalter, Senior Vice President, General Counsel and Secretary.**

MULTIPLE SHAREHOLDERS SHARING AN ADDRESS

The rules of the SEC permit companies to provide a single copy of an annual report and proxy statement to households in which more than one shareholder resides. This process is known as householding. Shareholders who share an address and who have been previously notified that their broker, bank or other intermediary will be householding their proxy materials will receive only one copy of our Proxy Statement and Annual Report to Shareholders unless they have affirmatively objected to the householding notice.

Shareholders sharing an address who received only one set of these materials may request a separate copy which will be sent promptly at no cost by writing our Investor Relations department at: Investor Relations, APAC Customer Services, Inc., 2333 Waukegan Road, Suite 100, Bannockburn, Illinois 60015. For future annual meetings, a shareholder may request separate annual reports or proxy statements, or may request the householding of such materials, by contacting us as noted above.

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PROPOSALS OF SHAREHOLDERS FOR 2010 ANNUAL MEETING

A shareholder who intends to present a proposal at the 2010 Annual Meeting and who wishes to have the proposal included in our proxy statement for that meeting must deliver the proposal to the Secretary. All proposals must be received by the Secretary at our principal executive office located at 2333 Waukegan Road, Suite 100, Bannockburn, Illinois 60015, no later than December 31, 2009, and must satisfy the applicable rules and regulations of the SEC to be eligible for inclusion in the proxy statement for that meeting.

A shareholder who intends to nominate a candidate for director or to present a proposal that is a proper subject for consideration at the 2010 Annual Meeting, even if the proposal is not submitted by the deadline for inclusion in the proxy statement, must provide written timely notice to the Secretary in accordance with our Bylaws. To be timely, such notice must be delivered to the Secretary at our principal executive offices between February 2, 2010 and March 4, 2010. However, if the date of our 2010 Annual Meeting is before May 3, 2010, or after August 2, 2010, the notice must be delivered to the Secretary at our principal executive office not more than 120 days prior to the 2010 Annual Meeting and not less than the later of 90 days prior to the 2010 Annual Meeting or 10 days following the day on which we first publicly announce the date of the 2010 Annual Meeting. The notice must describe certain information regarding the nominee and the shareholder giving the notice, including information such as name, address, occupation and shares held.

OTHER MATTERS TO COME BEFORE THE MEETING

The Board of Directors knows of no other business that may come before the Annual Meeting. However, if any other matters are properly presented to the Annual Meeting, the persons named in the proxies will vote upon them in accordance with their best judgment.

WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE SIGN THE PROXY CARD AND RETURN IT IN THE ENCLOSED STAMPED ENVELOPE.

By Order of the Board of Directors

Robert B. Nachwalter
Secretary

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THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS.

Mark Here for
Address Change or
Comments
**PLEASE SEE
REVERSE SIDE**

1. Election of Directors:

The Board of Directors Recommends a Vote FOR the following nominees.

	FOR ALL	WITHHOLD FOR ALL	FOR ALL EXCEPT
01 Cindy K. Andreotti	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
02 John C. Kraft			
03 Michael P. Marrow			
04 John J. Park			
05 Theodore G. Schwartz			
06 Samuel K. Skinner			
07 John L. Workman			

Nominee(s) Excepted

Signature

Signature

Date

Please sign exactly as your name(s) appears hereon. Joint owners should each sign personally. If signing in fiduciary or representative capacity, give full title as such. If a corporation, please sign in full corporate name by president or other authorized officer. If a partnership, please sign in partnership name by authorized person.

**Ù FOLD AND DETACH HERE Ù
YOUR VOTE IS IMPORTANT!**

**PLEASE VOTE, SIGN, DATE AND RETURN THIS PROXY CARD PROMPTLY
USING THE ENCLOSED ENVELOPE.**

**Important notice regarding the Internet availability of
Proxy materials for the Annual Meeting of shareholders**

The Proxy Statement and the 2008 Annual Report to
Stockholders are available at:

<http://ir.apaccustomerservices.com/investors/proxy09.cfm>

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**APAC Customer Services, Inc.
Proxy is Solicited on Behalf of the Board of Directors
For the Annual Meeting of Shareholders on June 3, 2009**

The undersigned hereby appoints Michael P. Marrow, Robert B. Nachwalter and Andrew B. Szafran, and each of them, as proxies, each with full power of substitution and revocation, to represent and to vote, as designated on the reverse side hereof, all of the Common Shares of APAC Customer Services, Inc. which the undersigned has the power to vote, with all powers which the undersigned would possess if personally present, at the Annual Meeting of Shareholders of APAC Customer Services, Inc. to be held on June 3, 2009, or at any adjournment or postponement thereof.

**Unless otherwise marked, this proxy will be voted FOR the election
of the nominees named on the reverse side.**

**PLEASE VOTE, SIGN, DATE AND RETURN THIS PROXY CARD PROMPTLY USING THE ENCLOSED
ENVELOPE.**

(Continued and to be signed on reverse side)

Address Change/Comments (Mark the corresponding box on the reverse side)

Û FOLD AND DETACH HERE Û

You can now access your BNY Mellon Shareowner Services account online.

Access your BNY Mellon Shareowner Services shareholder/stockholder account online via Investor ServiceDirect® (ISD).

The transfer agent for APAC Customer Services, Inc., now makes it easy and convenient to get current information on your shareholder account.

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View certificate history	Obtain a duplicate 1099 tax form
View book-entry information	Establish/change your PIN

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NT-SIZE: 10pt"> (Unaudited) 949 42,129 (15,113) 20,000 12,296 185,133 – 245,394

Balances at 1 January 2012

949 42,129 (17,187) 20,000 10,282 196,541 10,142 262,856

Profit for the period

– – – – – 31,869 – 31,869

Other comprehensive loss,

net of tax
- - 280 - (622) - - (342)
Total comprehensive income
- - 280 - (622) 31,869 - 31,527
2011 final dividend
- - - - - (49) (10,142) (10,191)
Equity-settled share option expenses
- - - - 33 - - 33
Balances at 30 June 2012

(Unaudited)

949 42,129 (16,907) 20,000 9,693 228,361 - 284,225

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

(All amounts expressed in millions of Renminbi)

	Six months ended 30	
	June	June
	2012	2011
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	36,240	50,534
Net cash used in investing activities	(51,845)	(56,360)
Net cash generated from financing activities	5,707	1,791
Net decrease in cash and cash equivalents	(9,898)	(4,035)
Cash and cash equivalents at beginning of period	23,678	27,287
Effect of foreign exchange rate changes, net	21	(230)
Cash and cash equivalents at end of period	13,801	23,022

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2012

(All amounts expressed in millions of Renminbi, except number of shares and unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES

CNOOC Limited (the “Company”) was incorporated in the Hong Kong Special Administrative Region (“Hong Kong”) of the People’s Republic of China (the “PRC”) on 20 August 1999 to hold the interests in certain entities whereby creating a group comprising the Company and its subsidiaries (hereinafter collectively referred to as the “Group”). During the six months ended 30 June 2012, the Group was principally engaged in the exploration, development, production and sales of crude oil, natural gas and other petroleum products.

The registered office address of the Company is 65/F, Bank of China Tower, 1 Garden Road, Hong Kong.

In the opinion of directors of the Company (the “Directors”), the parent and the ultimate holding company of the Company is China National Offshore Oil Corporation (“CNOOC”), a company established in the PRC.

As at 30 June 2012, the Company had direct or indirect interests in the following principal subsidiaries, joint venture and associates:

Name of entity	Place and date of establishment	Nominal value of ordinary shares issued and paid-up/ registered capital	Percentage of equity attributable to the Group	Principal activities
Directly held subsidiaries:				
CNOOC China Limited	Tianjin, PRC 15 September 1999	RMB20 billion	100%	Offshore petroleum exploration, development, production and sales in the PRC
China Offshore Oil (Singapore) International Pte Ltd	Singapore 14 May 1993	SG\$3 million	100%	Sales and marketing of petroleum products outside the PRC
CNOOC International Limited	British Virgin Islands 23 August 1999	US\$20,000,000,002	100%	Investment holding
OOGC America, Inc.	State of Delaware, United States of America 28 August 1997	US\$1,000	100%	Investment holding
CNOOC Finance (2002) Limited**	British Virgin Islands 24 January 2002	US\$1,000	100%	Bond issuance
CNOOC Finance (2003) Limited	British Virgin Islands 2 April 2003	US\$1,000	100%	Bond issuance

Name of entity	Place and date of establishment	Nominal value of ordinary shares issued and paid-up/ registered capital	Percentage of equity attributable to the Group	Principal activities
Directly held subsidiaries (continued):				
CNOOC Finance (2011) Limited	British Virgin Islands 31 December 2010	US\$1,000	100%	Bond issuance
CNOOC Finance (2012) Limited***	British Virgin Islands 10 April 2012	US\$1,000	100%	Bond issuance
Indirectly held subsidiaries*:				
CNOOC Deepwater Development Limited	Zhuhai, PRC 1 March 2010	RMB 1 billion	100%	Deepwater and low-grade oil and gas fields exploration, development, and oil and gas production, sales in the PRC
CNOOC Southeast Asia Limited	Bermuda 16 May 1997	US\$12,000	100%	Investment holding
CNOOC SES Ltd.	Labuan, F.T., Malaysia 27 March 2002	US\$1	100%	Petroleum exploration, development and production in Indonesia
CNOOC Muturi Limited	Isle of Man 8 February 1996	US\$7,780,770	100%	Petroleum exploration, development and production in Indonesia
CNOOC NWS Private Limited	Singapore 8 October 2002	SG\$2	100%	Offshore petroleum exploration, development and production in Australia
CNOOC Exploration & Production Nigeria Limited	Nigeria 6 January 2006	Naira 10 million	100%	Petroleum exploration, development and production in Africa
CNOOC Iraq Limited	British Virgin Islands 15 October 2010	US\$1	100%	Providing services of petroleum exploration and development in oilfield of the Republic of Iraq

Name of entity	Place and date of establishment	Nominal value of ordinary shares issued and paid-up/ registered capital	Percentage of equity attributable to the Group	Principal activities
Indirectly held subsidiaries* (continued):				
CNOOC Canada Inc.	Canada 15 January 1999	281,749,526 common shares without a par value	100%	Oil sands exploration, development and production in Canada
CNOOC Uganda Ltd (note 3)	Uganda 11 May 2010	1,000,000 Uganda Shilling	100%	Petroleum exploration, development and production in Africa
Joint venture:				
Bridas Corporation	British Virgin Islands 15 September 1993	US\$102,325,582	50%	Investment holding
Associates:				
Shanghai Petroleum Corporation Limited	Shanghai, PRC 7 September 1992	RMB900 million	30%	Offshore petroleum exploration, development, production and sales in the PRC
CNOOC Finance Corporation Limited	Beijing, PRC 14 June 2002	RMB1,415 million	31.8%	Provision of deposit, transfer, settlement, loan, discounting and other financing services to CNOOC and its member entities
Northern Cross (Yukon) Limited	Yukon, Canada 19 September 1994	22,691,705 common shares without a par value	60%	Petroleum exploration, development and production in Canada

* All subsidiaries are indirectly held through CNOOC International Limited, except CNOOC Deepwater Development Limited which is indirectly held through CNOOC China Limited.

**

The guarantee notes issued by CNOOC Finance (2002) Limited were repaid in March 2012 (note 15), and CNOOC Finance (2002) Limited was subsequently dissolved on 27 July 2012.

*** CNOOC Finance (2012) Limited was incorporated on 10 April 2012, for issuing guaranteed notes (note 15).

The above table lists the subsidiaries, joint venture and associates of the Company which, in the opinion of the Directors, principally affected the results for the period or formed a substantial portion of the total assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2012 have been prepared in accordance with International Accounting Standards 34 (“IAS 34”) and Hong Kong Accounting Standards 34 (“HKAS 34”) Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2011.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2011. The adoption of new standards and interpretations as of 1 January 2012 does not have any material impact on the accounting policy, interim financial position or performance of the Group.

Improvements to IFRSs/HKFRSs

The IASB/HKICPA has issued improvements to IFRSs/HKFRSs which set out amendments to a number of IFRSs/HKFRSs primarily with a view to remove inconsistencies and clarify wording. The adoption of those amendments upon their effective dates did not have any material impact on the accounting policies, interim financial position or performance of the Group.

3. ACQUISITIONS AND OTHER VENTURE

On 29 March 2011, CNOOC Uganda Ltd, a wholly-owned subsidiary of CNOOC International Limited, entered into a sales and purchase agreement with Tullow Uganda Limited and Tullow Uganda Operations Pty Ltd., wholly-owned subsidiaries of Tullow Oil Plc., to acquire a one-third working interest in Uganda Exploration Areas 1, 2 and 3A (the “Uganda Assets”) for an initial cash consideration of US\$1.467 billion. The acquisition of the Uganda Assets was completed on 21 February 2012. Together with the related price adjustment, the cash consideration mentioned above has been recorded as acquisition costs of oil and gas properties.

4. OIL AND GAS SALES AND MARKETING REVENUES

Oil and gas sales represent the invoiced value of sales of oil and gas attributable to the interests of the Group, net of royalties and the government share oil that is lifted and sold on behalf of the government. Revenue from the sale of oil is recognised when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer. Revenue from the production of oil and gas in which the Group has a joint interest with other producers is recognised based on the Group’s working interest and the terms of the relevant production sharing contracts. Differences between production sold and the Group’s share of production are not significant.

Marketing revenues principally represent the sales of oil and gas purchased from the foreign partners under the production sharing contracts and revenues from the trading of oil and gas through the Company's subsidiaries. The marketing cost of the oil and gas sold is included in "Crude oil and product purchases" in the interim condensed consolidated statement of comprehensive income.

5. SPECIAL OIL GAIN LEVY

In 2006, a Special Oil Gain Levy ("SOG Levy") was imposed by the Ministry of Finance of the PRC ("MOF") at the progressive rates from 20% to 40% on the portion of the monthly weighted average sales price of the crude oil lifted in the PRC exceeding US\$40 per barrel. MOF has decided to increase the threshold of the SOG Levy to US\$55, with effect from 1 November 2011. Notwithstanding this adjustment, the SOG Levy continues to have five levels and should be calculated and charged according to the progressive and valorem rates on the excess amounts. The SOG Levy paid can be claimed as a deductible expense for corporate income tax purposes and is calculated based on the actual volume of the crude oil entitled.

6. FINANCE COSTS

Accretion expenses of approximately RMB647 million relating to the provision for dismantlement liabilities have been recognised in the interim condensed consolidated statement of comprehensive income for the six months ended 30 June 2012 (six months ended 30 June 2011: approximately RMB421 million).

7. TAX

(i) Income tax

The Company and its subsidiaries are subject, on an entity basis, to income taxes on profits arising in or derived from the tax jurisdictions in which the entities of the Group are domiciled and operate. The Company is subject to profits tax at a rate of 16.5% (2011: 16.5%) on profits arising in or derived from Hong Kong, which is qualified as a foreign tax credit to offset the PRC corporate income tax starting from 1 January 2008.

The Company is regarded as a Chinese Resident Enterprise (as defined in the "Enterprise Income Tax Law of the People's Republic of China") by the State Administration of Taxation of the PRC. As a result, the Company is subject to the PRC corporate income tax at the rate of 25% starting from 1 January 2008.

The Company's subsidiary in Mainland China, CNOOC China Limited, is a wholly-owned foreign enterprise. It is subject to corporate income tax at the rate of 25% under the prevailing tax rules and regulations.

Subsidiaries of the Group domiciled outside the PRC are subject to income tax at rates ranging from 10% to 56%.

(ii)

Other taxes

The Company's PRC subsidiaries pay the following other taxes and dues:

-Production taxes at the rate of 5% on independent production and production under production sharing contracts;

Resource taxes at the rate of 5% (reduced tax rates may apply to specific products and fields) on the oil and gas sales revenue (excluding production taxes) derived by oil and gas fields under production sharing contracts signed after 1 November 2011 and independent offshore oil and gas fields starting from 1 November 2011, which replaced the royalties for oil and gas fields, except for those under production sharing contracts signed before 1 November 2011 which will be subject to related resource taxes requirement after the expiration of such production sharing contracts;

Mineral resource compensation at the temporary rate of 1% on the oil and gas sales revenue derived by oil and gas fields under production sharing contracts signed after 1 November 2011 and independent offshore oil and gas fields starting from 1 November 2011;

- Export tariffs at the rate of 5% on the export value of petroleum oil;

- Business tax at rates of 3% to 5% on other income;

- City construction tax at the rate of 1% or 7% on the actual paid production taxes and business tax;
- Educational surcharge at the rate of 3% on the actual paid production taxes and business tax; and
- Local educational surcharge at the rate of 2% on the actual paid production taxes and business tax.

In addition, other taxes paid and payable by the Company's non-PRC subsidiaries include royalty as well as taxes levied on petroleum-related income, profit, budgeted operating and capital expenditures.

8.

EARNINGS PER SHARE

Six months ended 30 June	
2012	2011
(Unaudited)	(Unaudited)

Earnings:

Profit for the period attributable to ordinary equity holders for the basic and diluted earnings per share calculation	31,869	39,343
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Number of shares:

Number of ordinary shares issued at the beginning of the period, excluding repurchased but not cancelled shares	44,646,305,984	44,669,199,984
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Weighted average number of ordinary shares for the purpose of basic earnings per share	44,646,305,984	44,669,199,984
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Effect of dilutive potential ordinary shares under the share option schemes	161,740,031	220,916,382
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Weighted average number of ordinary shares for the purpose of diluted earnings per share	44,808,046,015	44,890,116,366
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Earnings per share – Basic (RMB Yuan)	0.71	0.88
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– Diluted (RMB Yuan)	0.71	0.88
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9. NET (LOSS)/GAIN ON AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET OF TAX

Six months ended 30 June	
2012	2011
(Unaudited)	(Unaudited)

Available-for-sale financial assets:

Comprehensive income arising during the period	9	1,870
Less: Reclassification adjustment for net gain included in the investment income	(509)	(660)
Less: Income tax effect	(121)	–
	(621)	1,210

The comprehensive income of the Group's available-for-sale investments was derived from investment of corporate wealth management products, liquidity funds and the investment in the equity securities of MEG Energy Corporation.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, additions to the Group's property, plant and equipment, including the property, plant and equipment acquired in acquisitions, amounted to approximately RMB32,474 million (six months ended 30 June 2011: approximately RMB25,044 million).

The interest of the Group in the North West Shelf ("NWS") Project in Australia has been collateralised to the other partners of the project as security for certain of the Group's liabilities relating to the project.

Included in the current period's additions was an amount of approximately RMB684 million (six months ended 30 June 2011: approximately RMB456 million) in respect of interest capitalised in property, plant and equipment.

11. INTANGIBLE ASSETS

The intangible assets of the Company comprise software, gas processing rights of the NWS Project. The computer software is amortised over their respective useful lives on the straight-line basis. The intangible asset regarding the gas processing rights has been amortised upon the commencement of commercial production of the liquefied natural gas using the unit-of-production method.

12. TRADE RECEIVABLES

The credit terms of the Group are generally within 30 days after the delivery of oil and gas, except for new customers, where payment in advance is normally required. Trade receivables are non-interest-bearing.

As at 30 June 2012 and 31 December 2011, substantially all the trade receivables were aged within 30 days. All customers have a good repayment history and no receivables are past due.

13. TIME DEPOSITS WITH MATURITY OVER THREE MONTHS

Included in the time deposit is a deposit of RMB8.88 billion placed by CNOOC China Limited, a wholly-owned subsidiary of the Company, with the Bank of China to secure loans of US\$1.37 billion (note 15) granted by the Bank of China.

14. TRADE AND ACCRUED PAYABLES

As at 30 June 2012 and 31 December 2011, substantially all the trade and accrued payables were aged within six months. The trade and accrued payables are non-interest-bearing.

15. LOANS AND BORROWINGS

Current

	Effective interest rate and final maturity	Bank loan	30 June 2012 (Unaudited) Notes/ Bonds	Total	Bank loan	31 December 2011 (Audited) Notes/ Bonds	Total
Short-term loans and borrowings							
General loan	LIBOR+0.6% to 1.5% per annum with maturity within one year	24,160	–	24,160	16,193	–	16,193
		24,160	–	24,160	16,193	–	16,193
L o a n s a n d borrowings due within one year							
For Tangguh L N Project*****	GLIBOR+0.23% to 0.38% per annum with maturity within one year	220	–	220	207	–	207
For Nigeria O M L 1 3 0 Project	LIBOR+4% per annum with maturity within one year	–	–	–	369	–	369
Finance (2002)*		–	–	–	–	3,150	3,150
Finance (2003)**		–	1,263	1,263	–	–	–

220	1,263	1,483	576	3,150	3,726
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24,380	1,263	25,643	16,769	3,150	19,919
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Non-current

	Effective interest rate and final maturity	Bank loan	30 June 2012 (Unaudited) Notes/ Bonds	Total	Bank loan	31 December 2011 (Audited) Notes/ Bonds	Total
For Tangguh LNG Project*****	LIBOR+0.23% to 0.38% per annum with maturity through 2021	2,460	–	2,460	2,562	–	2,562
Finance (2003)**		–	1,853	1,853	–	3,102	3,102
Finance (2011)***		–	12,467	12,467	–	12,412	12,412
Finance (2012)****		–	12,567	12,567	–	–	–
		2,460	26,887	29,347	2,562	15,514	18,076

As at 30 June 2012, except for general loans of US\$1.37 billion secured by time deposits (note 13), all the bank loans of the Group were unsecured. None of the outstanding borrowings was guaranteed by CNOOC.

*The principal amount of US\$500 million of 6.375% guaranteed notes due in 2012 was issued by CNOOC Finance (2002) Limited, a wholly-owned subsidiary of the Company. The obligations of CNOOC Finance (2002) Limited in respect of the notes were unconditionally and irrevocably guaranteed by the Company, and were repaid in March 2012.

**The principal amount of US\$200 million of 4.125% guaranteed notes due in 2013 and the principal amount of US\$300 million of 5.500% guaranteed notes due in 2033 were issued by CNOOC Finance (2003) Limited, a wholly-owned subsidiary of the Company. The obligations of CNOOC Finance (2003) Limited in respect of the notes are unconditionally and irrevocably guaranteed by the Company.

***The principal amount of US\$1,500 million of 4.25% guaranteed notes due in 2021 and the principal amount of US\$500 million of 5.75% guaranteed notes due in 2041 were issued by CNOOC Finance (2011) Limited, a wholly-owned subsidiary of the Company. The obligations of CNOOC Finance (2011) Limited in respect of the notes are unconditionally and irrevocably guaranteed by the Company.

****The principal amount of US\$1,500 million of 3.875% guaranteed notes due in 2022 and the principal amount of US\$500 million of 5.000% guaranteed notes due in 2042 were issued by CNOOC Finance (2012) Limited, a wholly-owned subsidiary of the Company. The obligations of CNOOC Finance (2012) Limited in respect of the

notes are unconditionally and irrevocably guaranteed by the Company.

***** The amount represented the Group's share of utilised bank loans in Tangguh Liquefied Natural Gas Project (the "Tangguh LNG Project").

The Company delivered a guarantee dated 29 October 2007 in favour of Mizuho Corporate Bank, Ltd., which acts as the facility agent for and on behalf of various international commercial banks under a US\$884 million commercial loan agreement dated 29 October 2007 in connection with the Tangguh LNG Project in Indonesia. The Company guarantees the payment obligations of the trustee borrower under the subject loan agreement and is subject to a maximum cap of approximately US\$164,888,000. Together with the loan agreement dated 31 July 2006 with a maximum cap of approximately US\$487,862,000, the total maximum guarantee cap is US\$652,750,000.

An agreement in respect of the sale of a 3.05691% interest of the Company in the Tangguh LNG Project to Talisman Energy Inc. (“Talisman”) for a consideration of US\$212.5 million became effective on 1 January 2008. The transaction was completed through the equity transfer of an indirect subsidiary of the Company. The Company through its subsidiary continues to hold a 13.89997% interest in the Tangguh LNG Project after the sale.

In addition, a letter of credit agreement was signed between the Company and Talisman with the execution of the aforesaid agreement. Accordingly, Talisman has delivered valid and unexpired standby letters of credit with the amount of US\$120 million to the Company (as the beneficiary) as a counter-guarantee to offset the exposure of the Company’s guarantee for the aforesaid interest of 3.05691% in respect of the Tangguh LNG Project financing.

There was no default of principal, interest or redemption terms of the loans and borrowings during the period.

16. ISSUED CAPITAL			
Shares	Number of shares	Share capital HK\$ million	Issued share capital equivalent of RMB million
Authorised:			
Ordinary shares of HK\$0.02 each			
as at 30 June 2012 and			
31 December 2011	75,000,000,000	1,500	
Issued and fully paid:			
Ordinary shares of HK\$0.02 each			
as at 1 January 2011	44,669,199,984	893	949
Share repurchased and cancelled in 2011*	(10,019,000)	–	–
As at 31 December 2011 (audited)	44,659,180,984	893	949
Share repurchased and cancelled in 2012*	(12,875,000)	–	–

As at 30 June 2012 (unaudited)	44,646,305,984	893	949
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*During the year of 2011, the Company purchased 22,894,000 of its shares with an aggregate cash payment of HK\$315,016,715 on The Stock Exchange of Hong Kong Limited (the “HKSE”). 10,019,000 shares had been cancelled by the Company by 31 December 2011 and the remaining 12,875,000 shares were cancelled on 10 January 2012.

17. DIVIDEND

On 21 August 2012, the board of Directors (the “Board”) declared an interim dividend of HK\$0.15 (tax inclusive) per share (six months ended 30 June 2011: HK\$0.25 (tax inclusive) per share), totalling approximately HK\$6,697 million (tax inclusive) (equivalent to approximately RMB5,459 million (tax inclusive)) (six months ended 30 June 2011: approximately RMB9,287 million (tax inclusive)), based on the number of issued shares as at 30 June 2012.

Pursuant to the “Enterprise Income Tax Law of the People’s Republic of China” and related laws and regulations, the Company is regarded as a Chinese resident enterprise, and thus is required to withhold corporate income tax at the rate of 10% when it distributes dividends to its non-resident enterprise (as defined in the “Enterprise Income Tax Law of the People’s Republic of China”) shareholders, with effect from the distribution of the 2008 final dividend. In respect of all shareholders whose names appear on the Company’s register of members and who are not individuals (including HKSCC Nominees Limited, corporate nominees or trustees such as securities companies, banks, and other entities or organizations, which are all considered as non-resident enterprise shareholders), the Company will distribute the dividend after deducting corporate income tax of 10%.

18. SHARE OPTION SCHEMES

The Company has adopted the following four share option schemes:

- (i) Pre-Global Offering Share Option Scheme (as defined in the Other Information section);
- (ii) 2001 Share Option Scheme (as defined in the Other Information section);
- (iii) 2002 Share Option Scheme (as defined in the Other Information section); and
- (iv) 2005 Share Option Scheme (as defined in the Other Information section).

Details of these share option schemes are disclosed in the Other Information section in the interim report.

During the six months ended 30 June 2012, the movements in the options granted under all of the above share option schemes were as follows:

	Number of share options	Weighted average exercise price HK\$
Outstanding as at 1 January 2012	420,960,900	9.56
Granted during the period	–	–
Exercised during the period	–	–
Forfeited during the period	(6,026,000)	10.89
Outstanding as at 30 June 2012	414,934,900	9.54
Exercisable as at 30 June 2012	383,227,000	9.28

No share options had been cancelled during the six months ended 30 June 2012.

As at 30 June 2012, the share options outstanding under these share option schemes represented approximately 0.93% of the Company's shares in issue as at that date (31 December 2011: 0.94%).

Other than those disclosed in these interim condensed consolidated financial statements, no right to subscribe for equity or debt securities of the Company was granted by the Company to, nor have any such rights been exercised by, any other person during the six months ended 30 June 2012.

The assumptions on which the option pricing model is based represent the subjective estimation of the Directors as to the circumstances existing at the time the options were granted.

19. RELATED PARTY TRANSACTIONS

As disclosed in note 1, the Company is a subsidiary of CNOOC, which is a state-owned enterprise subject to the control of the State Council of the PRC. The State Council of the PRC directly and indirectly controls a significant number of state-owned entities and organizations.

As the Group is controlled by CNOOC, transactions with CNOOC, its subsidiaries and associates (the "CNOOC Group") are disclosed as related party transactions. The Company entered into a comprehensive framework agreement with CNOOC on 1 November 2010 for the provision (1) by the Group to CNOOC Group and (2) by CNOOC Group to the Group, of a range of products and services which may be required and requested from time to time by either party and/or its associates in respect of the continuing connected transactions. The term of the comprehensive framework agreement is for a period of three years from 1 January 2011. The continuing connected transactions and relevant annual caps were approved by the independent shareholders of the Company on 24 November 2010. The approved related party/continuing

connected transactions are as follows:

1. Provision of exploration, oil and gas development, oil and gas production as well as marketing, management and ancillary services by CNOOC Group to the Group:

- a) Provision of exploration and support services
- b) Provision of oil and gas development and support services
- c) Provision of oil and gas production and support services
- d) Provision of marketing, management and ancillary services
- e) FPSO vessel leases

2. Provision of management, technical, facilities and ancillary services, including the supply of materials by the Group to CNOOC Group; and

3. Sales of petroleum and natural gas products by the Group to CNOOC Group:

- a) Sales of petroleum and natural gas products (other than long term sales of natural gas and liquefied natural gas)
- b) Long term sales of natural gas and liquefied natural gas

Pricing principles

The related party/continuing connected transactions referred to in paragraphs 1(a) to 1(d) above provided by CNOOC Group to the Group and paragraph 2 above provided by the Group to CNOOC Group are based on negotiations with CNOOC Group on normal commercial terms, or on terms no less favourable than those available to the Group from independent third parties, under prevailing local market conditions, including considerations such as volume of sales, length of contracts, package of services, overall customer relationship and other market factors.

For services provided by CNOOC Group to the Group as described above, on the basis of the above pricing principle, such services must be charged in accordance with the following pricing mechanism and in the following sequential order:

- (i) state-prescribed prices; or
- (ii) where there is no state-prescribed price, market prices, including the local, national or international market prices; or
- (iii) when neither (i) nor (ii) is applicable, the costs of CNOOC Group for providing the relevant service (including the cost of sourcing or purchasing from third parties) plus a margin of not more than 10%, before any applicable taxes.

The related party/continuing connected transactions referred to in paragraph 1(e) above provided by CNOOC Group to the Group are at market prices on normal commercial terms which are calculated on a daily basis.

The related party/continuing connected transactions referred to in paragraphs 3(a) above provided by the Group to CNOOC Group are at state-prescribed prices or local, national or international market prices and on normal commercial terms.

The related party/continuing connected transactions referred to in paragraphs 3(b) above provided by the Group to CNOOC Group are at state-prescribed prices or local, national or international market prices and on normal commercial terms, which are subject to adjustment in accordance with movements in international oil prices as well as other factors such as the term of the sales agreement and the length of the relevant pipeline.

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties during the period and the balances arising from related party transactions at the end of the period:

- (i) Provision of exploration, oil and gas development, oil and gas production as well as marketing, management and ancillary services by CNOOC Group to the Group

	Six months ended 30 June	
	2012 (Unaudited)	2011 (Unaudited)
Provision of exploration and support services	3,936	3,024
– Inclusive of amount capitalised under property, plant and equipment	2,298	1,860
Provision of oil and gas development and support services	7,314	3,165
Provision of oil and gas production and support services (Note a)	3,632	2,661
Provision of marketing, management and ancillary services (Note b)	278	236
FPSO vessel leases (Note c)	559	641
	15,719	9,727

- (ii) Provision of management, technical, facilities and ancillary services, including the supply of materials by the Group to CNOOC Group

The Group did not enter into any transactions in the above category for the periods from 1 January to 30 June of 2012 and 2011.

(iii) Sales of petroleum and natural gas products by the Group to CNOOC Group

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
Sales of petroleum and natural gas products (other than long term sales of natural gas and liquefied natural gas) (Note d)	73,415	66,627
Long term sales of natural gas and liquefied natural gas (Note e)	2,385	2,925
	75,800	69,552

(iv) Transactions with CNOOC Finance Corporation Limited (“CNOOC Finance”)

(a) Interest income received by the Group

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
Interest income from deposits in CNOOC Finance (Note f)	134	40

(b) Deposits made by the Group

	30 June	31
	2012	December
	(Unaudited)	2011
		(Audited)
Deposits in CNOOC Finance (Note f)	17,369	9,800

(v)	Balances with CNOOC Group	30 June 2012 (Unaudited)	31 December 2011 (Audited)
Amount due to CNOOC			
	– included in other payables and accrued liabilities	77	456
Amounts due to other related parties			
	– included in trade and accrued payables	8,742	11,075
		8,819	11,531
Amounts due from other related parties			
	– included in trade receivables	11,223	10,058
	– included in other current assets	297	254
		11,520	10,312

(vi)	Balances with a joint venture	30 June 2012 (Unaudited)	31 December 2011 (Audited)
Amounts due from a joint venture			
	– included in held-to-maturity financial assets	44	44

(vii) Transactions and balances with other state-owned entities

The Group enters into extensive transactions covering purchases and sales of crude oil, natural gas, property, plant and equipment and other assets, receiving of services, and making deposits and borrowings with state-owned entities, other than the CNOOC Group, in the normal course of business at terms comparable to those with other non state-owned entities. The purchases of property, plant and equipment and other assets, and receipt of services from these state-owned entities are individually not significant. The individually significant sales transactions with these state-owned entity customers: 29% of the Group's oil and gas sales during the period was generated from two major customers, PetroChina Company Limited and China Petroleum and Chemical Corporation, which are controlled by the PRC government. Transactions with other state-owned entities which are controlled, jointly

controlled or significantly influenced by the same government are individually not significant and are in the ordinary course of business. In addition, the Group has certain of its cash and time deposits and outstanding short-term bank loans with certain state-owned banks in the PRC as at 30 June 2012, as summarised below:

	30 June 2012 (Unaudited)	31 December 2011 (Audited)
Cash and cash equivalents	9,036	12,524
Time deposits with financial institutions	15,976	14,976
	25,012	27,500
Short-term loans	12,460	11,153

Interest rates for the above time deposits and short-term loans are at prevailing market rates.

(viii) Key management personnel's remuneration

	Six months ended 30 June	
	2012 (Unaudited)	2011 (Unaudited)
Short term employee benefits	8	9
Pension scheme contributions	–	–
Amount paid/payable during the period	8	9
Share option benefits	33	48
Total compensation	41	57

Notes:

- a) These represent the services for production operations, the provision of various facilities and ancillary services, such as provision of different types of materials, medical and employee welfare services, maintenance and repair of major equipment and supply of water, electricity and heat to the Group, some of which may not be available from independent third parties or available on comparable terms.

- b) These include marketing, administration and management, management of oil and gas operations and integrated research services as well as other ancillary services relating to exploration, development, production and research activities of the Group. In addition, CNOOC Group leased certain premises to the Group for use as office premises and staff quarters out of which they provided management services to certain properties.
- c) CNOOC Energy Technology & Services Limited (formerly known as “CNOOC Oil Base Group Limited”) leased floating production, storage and offloading (FPSO) vessels to the Group for use in oil production operations.
- d) The sales include crude oil, condensate oil, liquefied petroleum gas, natural gas and liquefied natural gas to CNOOC Group. Individual sales contracts were entered into from time to time between the Group and CNOOC Group.
- e) It is the market practice for sales terms to be determined based on the estimated reserves and production profile of the relevant gas fields. The long term sales contracts usually last for 15 to 20 years.
- f) CNOOC Finance is a 31.8% owned associate of the Company and also a subsidiary of CNOOC. Under the renewed financial services framework agreement with CNOOC Finance dated 20 August 2010, CNOOC Finance continues to provide to the Group settlement, depository, discounting, loans and entrustment loans services. The renewal agreement is effective from 1 January 2011 to 31 December 2013. The depository services were exempted from independent shareholders’ approval requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The stated deposits in (iv) (b) above represent the maximum daily outstanding balance for deposits (including accrued interest, excluding funds placed for the purpose of extending entrustment loan services) during the period.

The related party transactions in respect of items listed above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

The amount due to the parent company and amounts due from/to related parties are unsecured, interest-free and are repayable on demand, unless otherwise disclosed.

20. COMMITMENTS AND CONTINGENCIES

(i) Capital commitments

As at 30 June 2012, the Group had the following capital commitments, principally for the construction and purchases of property, plant and equipment:

	30 June 2012 (Unaudited)	31 December 2011 (Audited)
Contracted, but not provided for*	28,043	15,219
Authorised, but not contracted for	57,680	59,584

* The amount includes the estimated payments with respect to the Group's exploration and production licenses to the Ministry of Land and Resources of the PRC for the next five years.

The above table includes a commitment of approximately RMB7,645 million (31 December 2011: RMB3,221 million) contracted with CNOOC Group.

Capital commitments of a joint venture:

	30 June 2012 (Unaudited)	31 December 2011 (Audited)
Contracted, but not provided for	471	–
Authorised, but not contracted for	684	1,384

As at 30 June 2012, the Group had unutilised banking facilities amounting to approximately RMB31,698 million (31 December 2011: approximately RMB160,580 million).

(ii) Operating lease commitments

(a) Office properties

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 3 months to 9 years.

As at 30 June 2012, the Group had total minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2012 (Unaudited)	31 December 2011 (Audited)
Commitments due:		
Within one year	202	191
In the first to second years, inclusive	38	30
After the second but before the fifth years, inclusive	24	18
After the fifth year	1	2
	265	241

The above table includes minimum lease payments of approximately RMB137 million (31 December 2011: RMB145 million) to CNOOC Group.

Office properties commitments of a joint venture:

	30 June 2012 (Unaudited)	31 December 2011 (Audited)
Commitments due:		
Within one year	34	7
In the first to second years, inclusive	25	6
After the second but before the fifth years, inclusive	42	11
	101	24

(b) Plant and equipment

The Group leases certain of its plant and equipment under operating lease arrangements for a term from 8 months to 24 years.

As at 30 June 2012, the Group had total minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2012 (Unaudited)	31 December 2011 (Audited)
Commitments due:		
Within one year	541	783
In the first to second years, inclusive	452	444
After the second but before the fifth years, inclusive	691	606
After the fifth year	1,333	313
	3,017	2,146

The above table includes minimum lease payments of approximately RMB1,675 million (31 December 2011: RMB1,783 million) to the CNOOC Group.

(iii) Contingencies

(a) On 8 January 2006, the Company signed a definitive agreement with South Atlantic Petroleum Limited (“SAPETRO”) to acquire a 45% working interest in the Offshore Oil Mining Lease 130 (“OML130”) in Nigeria (the “OML130 Transaction”) and the OML130 Transaction was completed on 20 April 2006.

In 2007, a local tax office in Nigeria (the “Nigerian Local Tax Office”) conducted a tax audit on SAPETRO. According to the preliminary tax audit results, the Nigerian Local Tax Office has raised a disagreement with the tax filings made for the OML130 Transaction.

The tax audit assessment made by the Nigerian Local Tax Office has been contested by the Company in accordance with Nigerian laws. The Company then filed a suit in the Nigerian Federal High Court. In March 2011, the Nigeria Federal High Court delivered a binding judgement in favour of the Company, agreeing that the Company is not subject to Value Added Tax for the OML130 Transaction. The judgement was appealed by counterparties. After seeking legal advice, the Company’s management believes that the Company has reasonable grounds in defending for such an appeal. Consequently, no provision has been made for any expenses which might arise as a result of the dispute.

(b) On 26 October 2011, the Company received notice of assessment from Federal Inland Revenue Service of Nigeria (“FIRS”), confirming that the effective Petroleum Profit Tax (“PPT”) and

related tax in the year of 2010 for the Company's investment in OML130 project, shall be calculated and payable on the basis of the PPT Tax Return prepared by Nigerian National Petroleum Corporation. The Company contested the notice of assessment. On 13 January 2012, the Company, together with SAPETRO, has filed an appeal in relation thereto to the local Tax Appeal Tribunal.

The Company received a notice of assessment issued by FIRS on 13 June 2012, stating that investment tax allowance, instead of investment tax credit should be applied for the PPT calculation of the Company's investment in OML130 project. In July 2012, the Company, together with SAPETRO, filed an appeal in relation thereto to the local Tax Appeal Tribunal.

No verdict has been issued to date, and the results of the appeals are still uncertain.

- (c) The Company has extended interest-free intercompany loans to CNOOC International Limited, a wholly-owned subsidiary, to provide onward funding to its subsidiaries domiciled outside the PRC. Upon receipt of the Chinese resident enterprise approval, the Company may be liable to pay taxes on the deemed interest income for the intercompany loan to CNOOC International Limited starting from 1 January 2008. The Company is currently applying to, and awaiting confirmation from its in-charge tax authority for an exemption on this possible deemed interest income. In July 2011, the Company completed the transfer of the interest-free intercompany loans to the capital investment in CNOOC International Limited, in order to reduce the future tax exposure arising from any deemed interest income for the intercompany loans.
- (d) Two oil spill accidents occurred on 4 June and 17 June 2011 respectively at Platforms B and C of Penglai 19-3 oilfield, which is being operated under a production sharing contract ("PSC") among CNOOC China Limited, the subsidiary of the Company, and two subsidiaries of ConocoPhillips ("ConocoPhillips"), the US based oil company, among which ConocoPhillips China Inc. ("COPC") is the operator and responsible for the daily operations of the oilfield.

On 21 June 2012, the State Oceanic Administration of the PRC announced the Accident Investigation and Settlement Report by a Joint Investigation Team on the Penglai 19-3 Oilfield Oil Spill Accidents, pointing out that "the Joint Investigation Team has concluded that COPC violated the oilfield Overall Development Program, had defects in its operation procedures and management, and failed to take necessary precautionary measures against foreseen risks, all of which eventually resulted in the oil spills. The Penglai 19-3 Oilfield Oil Spill Accidents were accidents involving liabilities, causing significant marine pollution by oil spill. Pursuant to the PSC, COPC (the operator of the oilfield) shall bear full responsibility for the oil spill accidents."

The Company is of the view that the Company's obligations, if any, arising from the above mentioned accidents shall be determined in accordance with relevant laws and regulations, the PSC and related agreements, among others. Based on evaluations performed as of the date of these financial statements, the Company believes that it is not possible to determine provisions, if any, for the above mentioned accidents in these financial statements. The financial impact of such oil spill accidents on the Company is still uncertain, and the Company has not made any provision for the accidents in these financial statements.

21.

SEGMENT INFORMATION

The Group is organised on a worldwide basis into three major operating segments. The Group is involved in the upstream operating activities of the petroleum industry that comprise independent operations, operations under joint arrangement and trading business. These segments are determined primarily because the Group's chief operating decision maker makes key operating decisions and assesses performance of the segments separately. The Group evaluates the performance of each segment based on profit or loss from operations before income tax.

The Group mainly engages in the exploration, development, production and sales of crude oil, natural gas and other petroleum products in offshore China. Activities outside the PRC are mainly conducted in Indonesia, Australia, Nigeria, Argentina, the United States of America, Canada, Uganda and Singapore.

The following table presents revenue, profit and assets information for the Group's operating segments.

	Independent operations		Joint arrangements		Trading business		Corporate		Eliminations		Consolidated
	Six months ended 30 June 2012	Six months ended 30 June 2011	Six months ended 30 June 2012	Six months ended 30 June 2011	Six months ended 30 June 2012	Six months ended 30 June 2011	Six months ended 30 June 2012	Six months ended 30 June 2011	Six months ended 30 June 2012	Six months ended 30 June 2011	Six months ended 30 June 2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue											
Sales to external customers:											
Oil and gas sales	59,123	56,731	36,535	40,299	–	–	–	–	–	–	95,658
Marketing revenues	–	–	–	–	21,884	27,110	–	–	–	–	21,884
Intersegment revenues	–	–	7,620	10,114	–	–	–	–	(7,620)	(10,114)	–
Other income	1	149	674	223	–	–	51	56	–	–	726
Total	59,124	56,880	44,829	50,636	21,884	27,110	51	56	(7,620)	(10,114)	118,266
Segment results											
Profit before tax	27,328	30,188	24,611	31,035	104	84	786	883	(7,620)	(10,114)	45,209
Profit for the period	27,328	30,188	24,611	31,035	104	84	(12,554)	(11,850)	(7,620)	(10,114)	31,869
	Independent operations		Joint arrangements		Trading business		Corporate		Eliminations		Consolidated

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	31		31		31		31	30	31		31
	30 June	December	30 June	December	30 June	December	30 June	December	June	December	30 June
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)
O t h e r segment information											
S e g m e n t assets	100,232	100,629	192,548	178,164	3,314	4,232	118,127	101,239	–	–	414,22

22.

SUBSEQUENT EVENTS

(a) On 23 July 2012, the Company, CNOOC Canada Holding Ltd. and Nexen Inc. entered into the Arrangement Agreement in relation to the proposed acquisition by the Company (through its wholly-owned subsidiary, CNOOC Canada Holding Ltd.) of all the Nexen Inc. common shares and (if the Preferred Shareholder Resolution is passed) preferred shares, pursuant to a plan of arrangement under the Canada Business Corporations Act. The aggregate value of the consideration of the proposed acquisition is approximately US\$15.1 billion (approximately HK\$117.2 billion), and is to be payable in cash. The current indebtedness of Nexen Inc. of approximately US\$4.3 billion (approximately HK\$33.6 billion) will remain outstanding. Completion of the acquisition is conditional on, amongst others, all necessary governmental and regulatory approvals.

(b) On 3 August 2012, CNOOC China Limited, a wholly-owned subsidiary of the Company, entered into the Coalbed Methane Resources Exploration and Development Cooperation Agreement (“Cooperation Agreement”) with China United Coalbed Methane Corporation Limited (“CUCBM”) in connection with the exploration, development, production and sale of Coalbed Methane (“CBM”) and CBM products within the contract areas (as defined in the Cooperation Agreement). The Cooperation Agreement and the transactions contemplated thereunder were approved by independent shareholders of the Company on 21 August 2012. As at the date of the Cooperation Agreement, CNOOC China Limited expected to incur total expenses of RMB9,933.3 million (being (1) RMB9,713.3 million for the initial three years of the five years exploration period, plus (2) the minimum exploration costs of RMB220 million as required under the applicable PRC laws and regulations for the remaining two years of the exploration period). CUCBM is a connected person of the Company, hence the Cooperation Agreement constitutes a connected transaction of the Company under the Listing Rules.

23.

APPROVAL OF INTERIM FINANCIAL STATEMENTS

The interim condensed consolidated financial statements for the six months ended 30 June 2012 were approved and authorised for issue by the Board on 21 August 2012.

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
CNOOC Limited
(Incorporated in the Hong Kong Special Administrative Region with limited liability)

INTRODUCTION

We have reviewed the accompanying interim condensed consolidated financial statements set out on pages 8 to 36 which comprises the interim condensed consolidated statement of financial position of CNOOC Limited (the “Company”) and its subsidiaries (collectively as the “Group”) as of 30 June 2012 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 Interim Financial Reporting (“IAS 34”) issued by the International Accounting Standards Board or Hong Kong Accounting Standard 34 Interim Financial Reporting (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants.

The directors are responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with IAS 34 and HKAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 and HKAS 34.

Ernst & Young
Certified Public Accountants

22nd Floor, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong
21 August 2012

OTHER INFORMATION

DIRECTORS' INTERESTS

As at 30 June 2012, the interests of each Director and chief executive of the Company in the equity or debt securities of the Company or any associated corporations (within the meaning of the Securities and Futures Ordinance (“SFO”)) which were required (i) to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”), to be notified to the Company and the HKSE were as follows:

Interests in share options granted by the Company

Name of grantee	No. of shares involved in the options outstanding at the beginning of the period	No. of shares involved in the options outstanding at the end of the period	Date of grant	Exercise period of share option*	Closing price per share immediately before the date of grant (HK\$)	Exercise price (HK\$)
E x e c u t i v e						
Directors						
Wu Guangqi	1,610,000	1,610,000	31 August 2005	31 August 2005 to 31 August 2015	5.75	5.62
	1,770,000	1,770,000	14 June 2006	14 June 2006 to 14 June 2016	5.30	5.56
	1,857,000	1,857,000	25 May 2007	25 May 2007 to 25 May 2017	7.43	7.29
	1,857,000	1,857,000	29 May 2008	29 May 2008 to 29 May 2018	14.20	14.828
	1,857,000	1,857,000	27 May 2009	27 May 2009 to 27 May 2019	9.33	9.93
	1,857,000	1,857,000	20 May 2010	20 May 2010 to 20 May 2020	12.22	12.696
Non-executive						
Directors						
Yang Hua	1,150,000	1,150,000	24 February 2003	24 February 2003 to 24 February 2013	2.09	2.108
	1,150,000	1,150,000	5 February 2004	5 February 2004 to 5 February 2014	3.13	3.152
	1,610,000	1,610,000	31 August 2005	31 August 2005 to 31 August 2015	5.75	5.62

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	1,770,000	1,770,000	14 June 2006	14 June 2006 to 14 June 2016	5.30	5.56
	1,857,000	1,857,000	25 May 2007	25 May 2007 to 25 May 2017	7.43	7.29
	1,857,000	1,857,000	29 May 2008	29 May 2008 to 29 May 2018	14.20	14.828
	2,835,000	2,835,000	27 May 2009	27 May 2009 to 27 May 2019	9.33	9.93
	2,000,000	2,000,000	20 May 2010	20 May 2010 to 20 May 2020	12.22	12.696
Zhou Shouwei	1,750,000	1,750,000	24 February 2003	24 February 2003 to 24 February 2013	2.09	2.108
	1,750,000	1,750,000	5 February 2004	5 February 2004 to 5 February 2014	3.13	3.152
	2,450,000	2,450,000	31 August 2005	31 August 2005 to 31 August 2015	5.75	5.62
	2,700,000	2,700,000	14 June 2006	14 June 2006 to 14 June 2016	5.30	5.56
	2,835,000	2,835,000	25 May 2007	25 May 2007 to 25 May 2017	7.43	7.29
	2,835,000	2,835,000	29 May 2008	29 May 2008 to 29 May 2018	14.20	14.828
	1,800,000	1,800,000	27 May 2009	27 May 2009 to 27 May 2019	9.33	9.93
	1,800,000	1,800,000	20 May 2010	20 May 2010 to 20 May 2020	12.22	12.696

Name of grantee	No. of shares involved in the options outstanding at the beginning of the period	No. of shares involved in the options outstanding at the end of the period	Date of grant	Exercise period of share option*	Closing price per share immediately before the date of grant (HK\$)	Exercise price (HK\$)
Wu Zhenfang	800,000	800,000	31 August 2005	31 August 2005 to 31 August 2015	5.75	5.62
	1,770,000	1,770,000	14 June 2006	14 June 2006 to 14 June 2016	5.30	5.56
	1,857,000	1,857,000	25 May 2007	25 May 2007 to 25 May 2017	7.43	7.29
	1,857,000	1,857,000	29 May 2008	29 May 2008 to 29 May 2018	14.20	14.828
	1,800,000	1,800,000	27 May 2009	27 May 2009 to 27 May 2019	9.33	9.93
	1,800,000	1,800,000	20 May 2010	20 May 2010 to 20 May 2020	12.22	12.696
Independent Non-executive Directors						
Chiu Sung Hong	1,150,000	1,150,000	5 February 2004	5 February 2004 to 5 February 2014	3.13	3.152
Other Employees						
in Aggregate	10,649,966	10,649,966	24 February 2003	24 February 2003 to 24 February 2013	2.09	2.108
	17,649,934	17,649,934	5 February 2004	5 February 2004 to 5 February 2014	3.13	3.152
	27,230,000	27,230,000	31 August 2005	31 August 2005 to 31 August 2015	5.75	5.62
	40,370,000	39,870,000	14 June 2006	14 June 2006 to 14 June 2016	5.30	5.56
	47,848,000	46,798,000	25 May 2007	25 May 2007 to 25 May 2017	7.43	7.29
	59,283,000	58,233,000	29 May 2008	29 May 2008 to 29 May 2018	14.20	14.828
	73,776,000	72,376,000	27 May 2009	27 May 2009 to 27 May 2019	9.33	9.93

90,163,000	88,137,000	20 May 2010	20 May 2010 to 20 May 2020	12.22	12.696
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*Except for share options granted under the Pre-Global Offering Share Option Scheme, all share options granted are subject to a vesting schedule pursuant to which one-third of the options granted vest on the first, second and third anniversaries of the date of grant, respectively, such that the options granted are fully vested on the third anniversary of the date of grant.

During the six months ended 30 June 2012, no share options granted under the share option schemes of the Company were exercised.

All the interests stated above represent long positions. As at 30 June 2012, save as disclosed above, none of the Directors and chief executive of the Company was interested in the equity or debt securities of the Company or any associated corporations (within the meaning of the SFO) which were required (i) to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein or (iii) pursuant to the Model Code, to be notified to the Company and the HKSE.

Other than those disclosed in this interim report, no right to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any other person during the six months ended 30 June 2012.

SUBSTANTIAL INTERESTS IN SHARE CAPITAL

As at 30 June 2012, so far as was known to the Directors and chief executive of the Company, the persons, other than a Director or chief executive of the Company, who had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

	Ordinary shares held	Percentage of total issued shares
(i) CNOOC (BVI) Limited	28,772,727,268	64.45 %
(ii) Overseas Oil & Gas Corporation, Ltd. (“OOGC”)	28,772,727,273	64.45 %
(iii) CNOOC	28,772,727,273	64.45 %

CNOOC (BVI) Limited is a direct wholly owned subsidiary of OOGC, which is a direct wholly owned subsidiary of CNOOC. Accordingly, CNOOC (BVI)’s interests are recorded as the interests of OOGC and CNOOC.

All the interests stated above represent long positions. As at 30 June 2012, save as disclosed above, the Directors and chief executive of the Company are not aware of any other person having interests or short positions (other than the Directors and chief executives of the Company) in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

INFORMATION ON SHARE OPTION SCHEMES

The Company has adopted the following share option schemes for the grant of options to the Company’s Directors, senior management and other eligible grantees:

1. Pre-Global Offering Share Option Scheme (as defined below);
2. 2001 Share Option Scheme (as defined below);
3. 2002 Share Option Scheme (as defined below); and
4. 2005 Share Option Scheme (as defined below).

Under these share option schemes, the Remuneration Committee of the Board will from time to time propose for the Board’s approval the grant of share options and the number of share options to be granted to the relevant grantees. The maximum aggregate number of shares (including those that could be subscribed for under the 2002 Share Option Scheme and the 2005 Share Option Scheme) which may be issued upon exercise of all options granted shall not exceed 10% of the total issued share capital of the Company as at 31 December 2005, being the date on which the shareholders of the Company approved the 2005 Share Option Scheme, excluding shares under options which have lapsed.

Pre-Global Offering Share Option Scheme

On 4 February 2001, the Company adopted a pre-global offering share option scheme (the “Pre-Global Offering Share Option Scheme”). Pursuant to the Pre-Global Offering Share Option Scheme:

1. options to subscribe for an aggregate of 23,100,000 shares have been granted; and
2. the exercise price for such options is HK\$1.19 per share.

The exercise periods for the options granted under the Pre-Global Offering Share Option Scheme shall end not later than 10 years from 12 March 2001. No further options may be granted under the Pre-Global Offering Share Option Scheme. The exercise periods for all options under the Pre-Global Offering Share Option Scheme have lapsed.

2001 Share Option Scheme

On 4 February 2001, the Company adopted a share option scheme (the “2001 Share Option Scheme”) for the purposes of recognising the contribution that certain individuals had made to the Company and for attracting and retaining the best available personnel to the Company. Pursuant to the 2001 Share Option Scheme:

1. options to subscribe for an aggregate of 44,100,000 shares have been granted; and
2. the exercise price for such options is HK\$1.232 per share.

The exercise periods for the options granted under the 2001 Share Option Scheme shall end not later than 10 years from 27 August 2001. No further options may be granted under the 2001 Share Option Scheme. The exercise periods for all options under the 2001 Share Option Scheme have lapsed.

2002 Share Option Scheme

In June 2002, the Company adopted a new share option scheme (the “2002 Share Option Scheme”) for the purposes of recognising the contribution that certain individuals had made to the Company and for attracting and retaining the best available personnel to the Company.

Under the 2002 Share Option Scheme, the Board may, at its discretion, offer to grant to the directors and employees of the Company or any of its subsidiaries options to subscribe for shares of the Company. The maximum number of shares in respect of which options may be granted under the 2002 Share Option Scheme to any individual in any 12-month period up to the date of the latest grant shall not exceed 1% of the total issued share capital of the Company from time to time.

According to the 2002 Share Option Scheme, the consideration payable by a grantee for the grant of options will be HK\$1.00. The exercise price for such options is determined by the Board at their discretion at the date of grant, except that such price shall be not less than the higher of:

1. the nominal value of a share of the Company on the date of grant;

2. the average closing price of the shares on HKSE as stated in the HKSE's quotation sheets for the five trading days immediately preceding the date of grant; and
3. the closing price of the shares on the HKSE as stated in the HKSE's quotation sheets on the date of grant.

The exercise periods for the options granted under the 2002 Share Option Scheme shall end not later than 10 years from the date of grant.

On 31 December 2005, the Company terminated the 2002 Share Option Scheme. Upon termination of the 2002 Share Option Scheme, no further options may be granted under the 2002 Share Option Scheme, but in all other respects the provisions of the 2002 Share Option Scheme shall remain in force. The outstanding options under the 2002 Share Option Scheme shall continue to be subject to the provisions of the 2002 Share Option Scheme.

2005 Share Option Scheme

On 31 December 2005, the Company adopted a new share option scheme (the "2005 Share Option Scheme"). Under the 2005 Share Option Scheme, the Board has the authority to grant options to subscribe for shares to the directors, officers and employees of the Company and its subsidiaries, and any other persons who in sole discretion of the Board have contributed or will contribute to the Group. Unless approved by the shareholders, the total number of shares issued and to be issued upon exercise of the options granted to each individual (including exercised and unexercised options) under the 2005 Share Option Scheme or any other share option scheme adopted by the Company, in any 12 months period, must not exceed 1% of the shares in issue of the Company.

According to the 2005 Share Option Scheme, the consideration payable by a grantee for the grant of options will be HK\$1.00. The exercise price for such options will be determined by the Board at its discretion at the date of grant, except that such price shall be at least the higher of:

1. the nominal value of a share of the Company on the date of grant;
2. the average closing price of the shares as stated in the HKSE's daily quotation sheets for the five trading days immediately preceding the date of grant; and
3. the closing price of the shares as stated in the HKSE's daily quotation sheets on the date of grant.

The period within which the options must be exercised, as well as any minimum holding period or performance targets which apply to the options, will be specified by the Board at the time of grant. The exercise periods for options granted under the 2005 Share Option Scheme shall end not later than 10 years from the date of grant. No options may be granted under the 2005 Share Option Scheme after the date of the 10th anniversary of the adoption of the 2005 Share Option Scheme.

AUDIT COMMITTEE

The Audit Committee of the Board of the Company has reviewed together with the management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters. The interim results for the six months ended 30 June 2012 are unaudited, but have been reviewed by Ernst & Young in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information

Performed by the Independent Auditor of the Entity”, issued by the Hong Kong Institute of Certified Public Accountants. This interim report has been reviewed by the Audit Committee.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

On 10 January 2012, the Company cancelled 12,875,000 of the 22,894,000 shares repurchased in 2011. During the six months ended 30 June 2012, there was no purchase, sale or redemption of the Company’s listed securities by the Company or any of its subsidiaries.

CODE ON CORPORATE GOVERNANCE PRACTICES

For the six months ended at 30 June 2012 (before and after the revision to the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules (now known as the “Corporate Governance Code and Corporate Governance Report”) came into effect on 1 April 2012), the Company has complied with relevant code provisions set out in Appendix 14 to the Listing Rules, except for the deviation from the code provision A.4.1 of the Corporate Governance Code and Corporate Governance Report as set out in the Appendix 14 to the Listing Rules. The following summarises the requirement under the above-mentioned code provision A.4.1 and the reason for such deviation.

Code Provision A.4.1

Under Code Provision A.4.1, non-executive directors should be appointed for a specific term and be subject to re-election.

None of the existing Independent Non-executive Directors of the Company is appointed for a specific term. This constitutes a deviation from Code Provision A.4.1. However, all the Directors are subject to the retirement provisions under article 97 of the Articles of Association of the Company (“Article 97”). According to Article 97, one-third of the Directors for the time being must retire from the office by rotation at each annual general meeting. The Company has observed the need for good corporate governance practices. All the incumbent Independent Non-executive Directors of the Company have retired from the office by rotation and have been re-elected in the past three years according to Article 97. Therefore, the Company considers that sufficient measures have been taken to ensure that the Company’s corporate governance practices are no less exacting than those in the Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted a Code of Ethics for Directors and Senior Management (“Code of Ethics”) incorporating the Model Code as set out in Appendix 10 to the Listing Rules. All Directors have confirmed that they complied, during the six months ended 30 June 2012, with the Company’s Code of Ethics and the required standards set out in the Model Code.

CHANGES IN SENIOR MANAGEMENT

During the six months ended 30 June 2012, there was the following change in senior management.

On 22 March 2012, Mr. Jiang Yongzhi resigned as Joint Company Secretary of the Company and Mr. Zhong Hua, the Chief Financial Officer, was appointed as Joint Company Secretary of the Company with effect from the same day.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51(B) of the Listing Rules, the changes in information of Directors of the Company subsequent to the date of the 2011 Annual Report of the Company are set out below:

N a m e o f Director	Details of Changes
Wang Yilin	Appointed as Chairman of Nomination Committee of the Company on 28 March 2012
Zhou Shouwei	Resigned as Chairman of Nomination Committee of the Company on 28 March 2012

STATEMENT OF SIGNIFICANT DIFFERENCES IN CORPORATE GOVERNANCE PRACTICES FOR PURPOSES OF SECTION 303A.11 OF THE NEW YORK STOCK EXCHANGE LISTED COMPANY MANUAL

The Company is incorporated under the laws of Hong Kong. The principal trading market for the ordinary shares of the Company is HKSE. In addition, because the Company's ordinary shares are registered with the United States Securities and Exchange Commission and are listed on the New York Stock Exchange (the "NYSE"), the Company is subject to certain corporate governance requirements. However, many of the corporate governance rules in the NYSE Listed Company Manual (the "NYSE Standards") do not apply to the Company as a "foreign private issuer" and the Company is permitted to follow its home country corporate governance practices in lieu of most corporate governance standards contained in the NYSE Standards. Section 303A.11 of the NYSE Listed Company Manual requires NYSE-listed foreign private issuers to describe the significant differences between their corporate governance practices and the corporate governance standards applicable to U.S. companies listed on the NYSE. The Company has posted a brief summary of such significant differences on its website, which may be accessed through the following web page:

<http://www.cnoc ltd.com/encnoc ltd/gsgz/socg/default.shtml>

MISCELLANEOUS

The Directors are of the opinion that there have been no material changes to the information published in its annual report for the year ended 31 December 2011, other than those disclosed in this interim report.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 10 September 2012 (Monday) to 14 September 2012 (Friday) (both days inclusive) during which no transfer of shares of the Company can be registered. In order to qualify for the interim dividend, members are reminded to ensure that all instrument of transfer of shares accompanied by the relevant share certificate(s) must be lodged with the Company's registrar, Hong Kong Registrars Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 7 September 2012 (Friday). The interim dividend will be paid on or around 10 October 2012 (Wednesday) to those shareholders on the register of members on 14 September 2012 (Friday) (the "Record Date").

WITHHOLDING AND PAYMENT OF ENTERPRISE INCOME TAX FOR NON-RESIDENT ENTERPRISES IN RESPECT OF 2012 INTERIM DIVIDEND

Pursuant to the "Enterprise Income Tax Law of the People's Republic of China", the "Regulations on the Implementation of the Enterprise Income Tax Law of the People's Republic of China" and the "Notice of the State Administration of Taxation on Issues about the Determination of Chinese-Controlled Enterprises Registered Abroad as Resident Enterprises on the Basis of Their Body of Actual Management", the Company has been confirmed as a resident enterprise of People's Republic of China ("PRC") and the withholding and payment obligation lies with the Company. The Company is required to withhold and pay 10% enterprise income tax when it distributes the 2012 interim dividend to its non-resident enterprise (as defined in the "Enterprise Income Tax Law of the People's Republic of China") shareholders. In respect of all shareholders whose names appear on the Company's register of members as at the Record Date who are not individual natural person (including HKSCC Nominees Limited, corporate nominees or trustees such as securities companies and banks, and other entities or organizations, which are all considered as non-resident enterprise shareholders), the Company will distribute the 2012 interim dividend after deducting enterprise income tax of 10%. The Company will not withhold and pay the individual income tax in respect of the 2012 interim dividend payable to any natural person shareholders whose names appear on the Company's register of members as at the Record Date.

If any resident enterprise (as defined in the "Enterprise Income Tax Law of the People's Republic of China") listed on the Company's register of members which is duly incorporated in the PRC or under the laws of a foreign country (or a region) but with a PRC-based de facto management body, or any non-resident enterprise shareholder who is subject to a withholding tax rate of less than 10% pursuant to any tax treaty between the country of residence of such shareholder and the PRC or tax arrangements between the mainland of China and Hong Kong or Macau, or any other non-resident enterprise shareholder who may be entitled to a deduction or exemption of enterprise income tax in accordance with the applicable PRC rules, does not desire to have the Company withhold and pay the total amount of the said 10% enterprise income tax, it shall lodge with Hong Kong Registrars Limited documents from its governing tax authority confirming its PRC resident enterprise status, or the documents in support that a withholding tax of less than 10% is required to be paid pursuant to the above-mentioned tax treaty or arrangements, or the documents confirming its entitlement to a deduction or exemption of enterprise income tax in accordance with the applicable PRC rules at or before 4:30 p.m. on 7 September 2012 (Friday).

If anyone would like to change the identity of the shareholders in the register of members, please enquire about the relevant procedures with the nominees or trustees. The Company will withhold and pay the enterprise income tax for its non-resident enterprise shareholders strictly in accordance with the relevant laws and requirements of the relevant government departments and adhere strictly to the information set out in the Company's register of members on the Record Date. The Company assumes no liability whatsoever in respect of and will not entertain any claims arising from any delay in, or inaccurate determination of, the status of the shareholders at the aforesaid date or any disputes over the mechanism of withholding.

By Order of the Board
Zhong Hua
Joint Company Secretary

Hong Kong, 21 August 2012

FORWARD-LOOKING STATEMENTS

This interim report includes “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, including statements regarding expected future events, business prospectus or financial results. The words “expect”, “anticipate”, “continue”, “estimate”, “objective”, “ongoing”, “may”, “will”, “project”, “believe”, “plans”, “intends” and similar expressions are intended to identify such forward-looking statements.

These statements are based on assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors the Company believes are appropriate under the circumstances. However, whether actual results and developments will meet the expectations and predictions of the Company depends on a number of risks and uncertainties which could cause the actual results, performance and financial condition to differ materially from the Company’s expectations, including those associated with fluctuations in crude oil and natural gas prices, the exploration or development activities, the capital expenditure requirements, the business strategy, whether the transactions entered into by the Group can complete on schedule pursuant to its timetable or at all, the highly competitive nature of the oil and natural gas industries, the foreign operations, environmental liabilities and compliance requirements, and economic and political conditions in the People’s Republic of China. For a description of these and other risks and uncertainties, please see the documents the Company files from time to time with the United States Securities and Exchange Commission, including the 2011 Annual Report on Form 20-F filed on 20 April 2012. Consequently, all of the forward-looking statements made in this interim report are qualified by these cautionary statements. The Company cannot assure that the results or developments anticipated will be realised or, even if substantially realised, that they will have the expected effect on the Company, its business or operations.

