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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011
OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _______________ to _______________

Commission File Number: 0-24249

PDI, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**22-2919486**
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

Morris Corporate Center 1, Building A
300 Interpace Parkway, Parsippany, NJ 07054
(Address of principal executive offices and zip code)

(800) 242-7494
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Shares Outstanding August 7, 2011
Common stock, $0.01 par value	14,723,168

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PDI, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited and in thousands, except share and per share data)

	June 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 64,020	$ 62,711
Short-term investments	124	147
Accounts receivable, net	4,730	11,057
Unbilled costs and accrued profits on contracts in progress	1,978	3,363
Other current assets	4,261	3,374
Total current assets	75,113	80,652
Property and equipment, net	3,267	3,947
Goodwill	23,976	23,976
Other intangible assets, net	9,758	10,393
Other long-term assets	4,837	5,421
Total assets	$ 116,951	$ 124,389
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,075	$ 3,266
Unearned contract revenue	15,266	13,417
Accrued salary and bonus	9,910	10,664
Other accrued expenses	9,032	15,981
Total current liabilities	38,283	43,328
Long-term liabilities	9,348	11,548
Total liabilities	47,631	54,876
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, $.01 par value; 5,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $.01 par value; 100,000,000 shares authorized;		
15,797,167 and 15,463,995 shares issued, respectively;		
14,722,834 and 14,390,788 shares outstanding, respectively	158	155
Additional paid-in capital	126,043	124,787
Accumulated deficit	(43,262)	(41,817)
Accumulated other comprehensive income	10	8
Treasury stock, at cost (1,074,333 and 1,073,207 shares, respectively)	(13,629)	(13,620)
Total stockholders' equity	69,320	69,513
Total liabilities and stockholders' equity	$ 116,951	$ 124,389

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

PDI, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited, in thousands, except for per share data)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Revenue, net	$ 40,626	$ 32,849	$ 86,728	$ 63,981
Cost of services	31,640	25,074	68,755	49,721
Gross profit	8,986	7,775	17,973	14,260
Compensation expense	6,174	4,528	12,172	8,963
Other selling, general and administrative expenses	3,484	3,300	7,993	6,866
Facilities realignment	—	583	—	583
Total operating expenses	9,658	8,411	20,165	16,412
Operating loss	(672)	(636)	(2,192)	(2,152)
Other (loss) income, net	(23)	10	(82)	75
Loss from continuing operations before income tax	(695)	(626)	(2,274)	(2,077)
Provision (benefit) for income tax	188	70	(855)	137
Loss from continuing operations	(883)	(696)	(1,419)	(2,214)
Loss from discontinued operations, net of tax	(12)	(194)	(26)	(375)
Net loss	$ (895)	$ (890)	$ (1,445)	$ (2,589)
Basic loss per share of common stock from:				
Continuing operations	$ (0.06)	$ (0.05)	$ (0.10)	$ (0.16)
Discontinued operations	—	(0.01)	—	(0.02)
Net loss per basic share of common stock	$ (0.06)	$ (0.06)	$ (0.10)	$ (0.18)
Diluted loss per share of common stock from:				
Continuing operations	$ (0.06)	$ (0.05)	$ (0.10)	$ (0.16)
Discontinued operations	—	(0.01)	—	(0.02)
Net loss per diluted share of common stock	$ (0.06)	$ (0.06)	$ (0.10)	$ (0.18)
Weighted average number of common shares and common share equivalents outstanding:				
Basic	14,413	14,289	14,386	14,274
Diluted	14,413	14,289	14,386	14,274

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

PDI, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Cash Flows From Operating Activities		
Net loss	$ (1,445)	$ (2,589)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,564	763
Contingent consideration and realignment accrual accretion	179	67
Reversal of contingent consideration accrual	(191)	—
Provision for bad debt	3	15
Stock-based compensation	1,259	788
Other changes in assets and liabilities:		
Decrease in accounts receivable	6,327	4,149
Decrease (increase) in unbilled costs	1,385	(1,459)
Decrease in income tax refund receivable	—	3,298
Increase in other current assets	(302)	(728)
Increase in other long-term assets	(4)	—
Increase (decrease) in accounts payable	809	(1,263)
Increase in unearned contract revenue	1,849	5,200
(Decrease) increase in accrued salaries and bonus	(754)	1,298
(Decrease) increase in other accrued expenses	(6,924)	128
Decrease in long-term liabilities	(2,188)	(191)
Net cash provided by operating activities	1,567	9,476
Cash Flows From Investing Activities		
Purchase of property and equipment	(249)	(1,024)
Net cash used in investing activities	(249)	(1,024)
Cash Flows From Financing Activities		
Cash paid for repurchase of restricted shares	(9)	(24)
Net cash used in financing activities	(9)	(24)
Net increase in cash and cash equivalents	1,309	8,428
Cash and cash equivalents – beginning	62,711	72,463
Cash and cash equivalents – ending	$ 64,020	$ 80,891

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

(Tabular information in thousands, except per share amounts)

1. BASIS OF PRESENTATION

The accompanying unaudited interim condensed consolidated financial statements and related notes (the interim financial statements) should be read in conjunction with the consolidated financial statements of PDI, Inc. and its subsidiaries (the Company or PDI) and related notes as included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010 as filed with the Securities and Exchange Commission (SEC). The interim financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial reporting and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The interim financial statements include all adjustments (consisting of normal recurring adjustments) that, in the judgment of management, are necessary for a fair presentation of such interim financial statements. All significant intercompany balances and transactions have been eliminated in consolidation. Operating results for the three- and six-month periods ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

On November 3, 2010, the Company acquired 100% of the membership interest in Group DCA, a privately held interactive digital communications company serving the pharmaceutical, biotechnology and healthcare industries. On July 19, 2010, the Company's Board of Directors (Board) approved closing the TVG Marketing Research & Consulting (TVG) business unit. The Company completed the closure of TVG operations during the period ended September 30, 2010. These interim financial statements reflect the presentation of TVG as a discontinued operation for the three- and six-month periods ended June 30, 2011 and 2010, respectively. See Note 13 to the interim financial statements for additional detail regarding the discontinued operations of TVG.

On August 1, 2011 the Company announced the formation of its new business unit, Interpace BioPharma. Interpace BioPharma provides biopharmaceutical clients with full-service product commercialization solutions. These services include full supply chain management, operations, sales, marketing, compliance, and regulatory/medical management. The initial revenue and costs associated with this unit are reflected in the Product Commercialization Services (PC Services) segment for both the three- and six-month periods ended June 30, 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Estimates

The preparation of the interim financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported and disclosure of contingent assets and liabilities at the date of the interim financial statements and the reported amounts of revenues and expenses during the reporting period. Management's estimates are based on historical experience, facts and circumstances available at the time, and various other assumptions that are believed to be reasonable under the circumstances. Significant estimates include incentives earned or penalties incurred on contracts, best estimate of selling price in multiple element arrangements, valuation allowances related to deferred income taxes, self-insurance loss accruals, allowances for doubtful accounts and notes, income tax accruals, acquisition accounting, asset impairments and facilities realignment accruals. The Company periodically reviews these matters and reflects changes in estimates as appropriate. Actual results could materially differ from those estimates.

Basic and Diluted Net Loss per Share

A reconciliation of the number of shares of common stock used in the calculation of basic and diluted loss per share for the three- and six-month periods ended June 30, 2011 and 2010 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Basic weighted average number of common shares	14,413	14,289	14,386	14,274
Dilutive effect of stock-based awards	—	—	—	—
Diluted weighted average number of common shares	14,413	14,289	14,386	14,274

The following outstanding stock-based awards were excluded from the computation of the effect of dilutive securities on loss per share for the following periods because they would have been anti-dilutive:

(Tabular information in thousands, except per share amounts)

	Three and Six Months Ended June 30,	
	2011	2010
Options	143	233
Stock-settled stock appreciation rights (SARs)	363	490
Restricted stock/units	614	469
Performance contingent SARs	280	305
	1,400	1,497

Goodwill and Other Intangible Assets

The Company allocates the cost of acquired companies to the identifiable tangible and intangible assets acquired and liabilities assumed, with the remaining amount classified as goodwill. Since the entities the Company has acquired do not have significant tangible assets, a significant portion of the purchase price has been allocated to intangible assets and goodwill. The identification and valuation of these intangible assets and the determination of the estimated useful lives at the time of acquisition, as well as the completion of impairment tests require significant management judgments and estimates. These estimates are made based on, among other factors, consultations with an accredited independent valuation consultant, reviews of projected future operating results and business plans, economic projections, anticipated highest and best use of future cash flows and the market participant cost of capital. The use of alternative estimates and assumptions could increase or decrease the estimated fair value of goodwill and other intangible assets, and potentially result in a different impact to the Company's results of operations. Further, changes in business strategy and/or market conditions may significantly impact these judgments thereby impacting the fair value of these assets, which could result in an impairment of the goodwill.

The Company tests goodwill and indefinite lived intangible assets for impairment at least annually (as of December 31) and whenever events or circumstances change that indicate impairment may have occurred. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include, among others: a significant decline in expected future cash flows; a sustained, significant decline in stock price and market capitalization; a significant adverse change in legal factors or in the business climate of the pharmaceutical industry; unanticipated competition; and slower growth rates. Any adverse change in these factors could have a significant impact on the recoverability of goodwill, and indefinite lived intangible assets and our consolidated financial results. At June 30, 2011 no indicators of impairment were identified.

Long-Lived Assets

The Company reviews the recoverability of long-lived assets and finite-lived intangible assets whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The Company did not identify any events or changes in circumstances that indicated that the carrying value of such assets may not be recoverable during the six-month period ended June 30, 2011.

Reclassifications

The Company reclassified certain prior period financial statement balances to conform to the current year presentation. See Note 13, Discontinued Operations, for further information.

Forward Looking Accounting Standards Updates

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-05, "Presentation of Comprehensive Income" (ASU 2011-05), which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of equity. ASU 2011-05 will be effective for periods beginning after December 15, 2011. The adoption of ASU 2011-05 will not have a material effect on the Company's operating results or financial position.

Recently Adopted Accounting Standards Updates

In October 2009, the FASB issued Accounting Standards Update No. 2009-13 (ASU 2009-13), "Multiple-Deliverable Revenue Arrangements-a consensus of the FASB Emerging Issues Task Force". ASU 2009-13 updates the existing multiple-deliverable revenue arrangements guidance included under Accounting Standards Codification 605-25. The revised guidance:

- eliminates the need for objective and reliable evidence of fair value of the undelivered element in order for a delivered item to be treated as a separate unit of accounting;
- eliminates the residual value method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method, which allocates any discount in the arrangement proportionally to each deliverable on the basis of each deliverable's selling price;
- establishes a selling price hierarchy for determining the selling price of a deliverable, which is based on:
  - vendor-specific objective evidence (VSOE) if available;
  - third party evidence (TPE) if VSOE is not available; or
  - an estimated selling price if neither VSOE nor TPE is available;
- requires that a vendor determine its best estimate of selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a stand-alone basis; and
- expands the disclosure requirements for multiple-deliverable revenue arrangements.

The Company frequently provides promotional services under multiple-deliverable revenue arrangements (Arrangements) through its Pharmakon and Group DCA business units. The significant deliverables in these Arrangements generally include:

- for Pharmakon:
  - recruitment mailings (Recruitment) to generate attendance at interactive meetings and events; and
  - the various forms of interactive meetings and events (Events); and
- for Group DCA;
  - the content development phase (Development) of an interactive digital program; and
  - the hosting period (Delivery) of an interactive digital program, which could include various services, but is primarily comprised of i) the design and delivery of recruitment activities to generate participation in a program and ii) the online hosting, program management and progress reporting services.

ASU 2009-13 became effective for, and was adopted by, the Company beginning January 1, 2011 on a prospective basis. The adoption of ASU 2009-13 as of January 1, 2011 impacted the revenue recognition policies of the Company's marketing segment business units as follows:

Prior to the Adoption of ASU 2009-13

Prior to its adoption of ASU 2009-13, the Company separated the deliverables in its Arrangements into separate units of accounting, as required by the applicable revenue recognition accounting guidance in effect at the time, if a) the delivered item(s) had value to the customer on a standalone basis, b) there was objective and reliable evidence of fair value of the undelivered item(s), and c) if an arrangement included a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) was considered probable and substantially in the control of the Company. The application of this guidance resulted in the following accounting treatment at each business unit:

<u>Pharmakon</u>

In general, prior to January 1, 2011 and the adoption of ASU 2009-13, the Company divided the deliverables within these Arrangements into two units of accounting: Recruitment and Events. Recruitment, which is delivered in advance of the Events, was determined to have standalone value to the customer. The Company was able to establish VSOE for the undelivered item, the Events, based on prices charged to its customers when sold on a standalone basis. Revenue was allocated to the deliverables using the residual value method, and was then recognized in accordance with the revenue recognition policies of the individual units of accounting based on the characteristics of the underlying deliverables.

Generally, revenue was recognized as Recruitment mailings were mailed and when Events were conducted.

Group DCA

The Company acquired Group DCA on November 3, 2010 and upon the acquisition determined that Development and Delivery services provided by Group DCA did not qualify as separate units of accounting due to the lack of objective and reliable evidence, either from VSOE or TPE, of the fair value of the Delivery unit of accounting, which was the undelivered item in the arrangements. As a result, the Company grouped the deliverables under these Arrangements into one unit of accounting and deferred all revenue related to the programs until it had achieved the recognition criteria applicable to the combined single unit of accounting. Generally, all revenue recognition criteria were met and revenue recognition commenced at the inception of a program's hosting period, and revenue was recognized ratably over the period. Group DCA revenues were not material to the Company's consolidated financial statements during the year ended December 31, 2010.

For further information on the Company's revenue recognition policy refer to the *Revenue & Cost of Services* section of Footnote 1 in our 2010 Annual Report on Form 10-K.

Impact of the Adoption of ASU 2009-13

Pharmakon

Effective January 1, 2011, the residual value method was no longer an allowable method of allocating arrangement consideration. Pharmakon now utilizes the selling price hierarchy, described above. In applying this hierarchy, the Company first determined that both VSOE and TPE continue to be unavailable for establishing the relative selling price of Recruitment. Based on that determination, the Company now utilizes its best estimate to determine the selling price of this deliverable. The Company has determined that the rate card price Pharmakon charges for this service represents the best estimate of selling price of the Recruitment deliverable as the business unit has an established pricing policy and the rate card price is the price Pharmakon would charge its customers for this service if provided on a standalone basis. The rate card price was determined by estimating the average cost incurred by Pharmakon to provide this service to its customers plus an average profit margin per the business unit pricing policy, and is consistent with the pricing on all services provided by Pharmakon. The application of ASU 2009-13 resulted in little to no change in the allocation of consideration when compared to the residual value method and therefore the adoption of ASU 2009-13 did not have a material impact on Pharmakon revenue recognition during the six-month period ended June 30, 2011, and is not expected to have a material impact on subsequent periods.

Group DCA

Under the guidance in ASU 2009-13, Group DCA is now required to estimate the selling price of a deliverable if it has standalone value to the customer and both VSOE and TPE of the selling price are not available. As a result, the deliverables in Group DCA Arrangements have been determined to be separate units of accounting and consideration is allocated based on relative selling prices. Selling prices are estimated for most deliverables through an analysis of historical selling price as well as estimated internal labor hours and an average billing rate based on employee costs. Revenue is recognized for each unit of accounting depending upon the characteristics of their underlying deliverables. For Development, revenue is recognized as the service is being provided to the customer. Revenue allocated to Delivery is recognized ratably over the hosting period. The adoption of the new guidance did not materially impact Group DCA revenue recognition during the six-month period ended June 30, 2011.

3. INVESTMENTS IN MARKETABLE SECURITIES

Available-for-sale securities are carried at fair value with the unrealized holding gains or losses, net of tax, included as a component of accumulated other comprehensive income (loss) in stockholders' equity. Realized gains and losses on available-for-sale securities are computed based upon specific identification and included in other income (expense), net in the consolidated statement of operations. Declines in value judged to be other-than-temporary on available-for-sale securities are recorded in other income (expense), net in the consolidated statement of operations and the cost basis of the security is reduced. The fair values for marketable equity securities are based on quoted market prices. Held-to-maturity investments are stated at amortized cost which approximates fair value. Interest income is accrued as earned. Realized gains and losses on held-to-maturity investments are computed based upon specific identification and included in other income (expense), net in the condensed consolidated statement of operations. The Company does not have any investments classified as trading.

(Tabular information in thousands, except per share amounts)

Available-for-sale securities consist of assets in a rabbi trust associated with the Company's deferred compensation plan. As of June 30, 2011 and December 31, 2010, the carrying value of available-for-sale securities was approximately $124,000 and $147,000, respectively, and is included in short-term investments. Available-for-sale securities at June 30, 2011 and December 31, 2010 consisted of approximately $62,000 and $76,000, respectively, in money market accounts, and approximately $62,000 and $71,000, respectively, in mutual funds. At June 30, 2011, there were no gross unrealized holding gains and $10,000 of gross unrealized holding losses included in accumulated other comprehensive income. At December 31, 2010, accumulated other comprehensive income included gross unrealized holding gains of approximately $8,000 and no gross unrealized holding losses. There were no gross realized gains or losses included in other income, net in the three- and six-month periods ended June 30, 2011 and 2010.

The Company's other marketable securities consist of investment grade debt instruments such as obligations of U.S. Treasury and U.S. Federal Government agencies. These investments are categorized as held-to-maturity since the Company's management has the ability and intent to hold these securities to maturity. The Company's held-to-maturity investments are carried at amortized cost which approximates fair value and are maintained in separate accounts to support the Company's letters of credit. The Company had standby letters of credit of approximately $5.0 million and $5.4 million at June 30, 2011 and December 31, 2010, respectively, as collateral for its existing insurance policies and facility leases.

At June 30, 2011 and December 31, 2010, held-to-maturity investments included the following:

		Maturing			Maturing	
	June 30, 2011	within 1 year	after 1 year through 3 years	December 31, 2010	within 1 year	after 1 year through 3 years
Cash/money accounts	$ 65	$ 65	$ —	$ 80	$ 80	$ —
US Treasury securities	4,032	—	4,032	4,093	—	4,093
Government agency securities	1,143	490	653	1,181	—	1,181
Total	$ 5,240	$ 555	$ 4,686	$ 5,354	$ 80	5,274

At June 30, 2011 and December 31, 2010, held-to-maturity investments were recorded in the following accounts:

	June 30, 2011	December 31, 2010
Other current assets	$ 555	$ 80
Other long-term assets	4,685	5,274
Total	$ 5,240	$ 5,354

4. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and finite-lived intangible assets recorded as of June 30, 2011 are attributable to the 2010 acquisition of Group DCA and the 2004 acquisition of Pharmakon. As of June 30, 2011 and December 31, 2010, the carrying amount of goodwill was $24.0 million, consisting of $18.9 million and $5.1 million for the Group DCA and Pharmakon business (reporting) units, respectively.

The net carrying value of the identifiable intangible assets as of June 30, 2011 and December 31, 2010 is as follows:

(Tabular information in thousands, except per share amounts)

		As of June 30, 2011			As of December 31, 2010		
	Life (Years)	Carrying Amount	Accumulated Amortization	Net	Carrying Amount	Accumulated Amortization	Net
Pharmakon:							
Customer relationships	7	$ 1,751	$ 375	$ 1,376	$ 1,751	$ 250	$ 1,501
Corporate tradename	7	791	170	621	791	113	678
Group DCA:							
Technology	6	4,097	455	3,642	4,097	113	3,984
Healthcare professional database	10	2,203	147	2,056	2,203	36	2,167
Corporate tradename	NA	2,063	—	2,063	2,063	—	2,063
Total		$ 10,905	$ 1,147	$ 9,758	$ 10,905	$ 512	$ 10,393

Amortization expense was $0.3 million and $0.1 million for the three-month periods ended June 30, 2011 and 2010, respectively and $0.6 million and $0.2 million for the six-month periods ended June 30, 2011 and 2010. Estimated amortization expense for the current and next four years is as follows:

2011	2012	2013	2014	2015
$ 1,266	$ 1,266	$ 1,266	$ 1,266	$ 1,266

5. FACILITIES REALIGNMENT

Saddle River, New Jersey Facility

Prior to December 2009, the Company's corporate headquarters was located in a three-floor facility in Saddle River, New Jersey. In December 2009, the Company relocated its corporate headquarters from its Saddle River, New Jersey facility to a smaller office located in Parsippany, New Jersey. Due to the relocation, the Company recorded a facility realignment charge of approximately $3.9 million in December 2009 and a non-cash impairment charge of approximately $1.5 million related to furniture, leasehold improvements and office equipment in the office space. Effective September 1, 2009, the Company extended the sublease for the first floor of its Saddle River, New Jersey facility through the remainder of the facility lease term. The sublease is expected to provide approximately $2.3 million in sublease income through January 2016, but will not fully offset the Company's lease obligations for this space. As a result, the Company recorded a $0.8 million facility realignment charge in the third quarter of 2009. The Company also recorded a non-cash impairment charge of approximately $0.4 million related to furniture and leasehold improvements in the office space. In 2007, the Company entered into a sublease for the second floor of its Saddle River, New Jersey facility through the end of the facility's lease term, January 2016. This sublease will not fully offset the Company's lease obligations for this space; therefore, the Company recorded a $1.0 million charge for facility realignment and related asset impairment for furniture and leasehold improvements in the office space.

Due to continued adverse conditions in the real estate market in 2010, the Company adjusted its assumptions regarding its ability to sublease unoccupied space on the third floor of the Saddle River, New Jersey facility resulting in realignment charges of approximately $0.6 million and $1.4 million during the quarters ended June 30, 2010 and December 31, 2010, respectively. The Company is currently seeking to sublease the approximate 47,000 square feet of remaining space in Saddle River, New Jersey.

Dresher, Pennsylvania Facility

During the year ended December 31, 2009, the Company continued to right size its operations in Dresher, Pennsylvania and recorded facility realignment charges of $1.4 million and non-cash impairments of furniture and leasehold improvements of $0.7 million. During 2010 the Company discontinued the operations of its TVG business unit and exited the remaining portion of space at the facility, thus recording additional restructuring charges of $0.3 million for facility realignment and $0.6 million for non-cash asset impairments of furniture and leasehold improvements in discontinued operations for the year ended December 31, 2010. See Note 13, Discontinued Operations, for further information regarding the discontinued operations of TVG.

(Tabular information in thousands, except per share amounts)

In the first quarter of 2011, the Company entered into two separate agreements to sublease substantially all of the remaining space in Dresher, Pennsylvania. These subleases have lease terms that expire on November 30, 2016 in connection with the underlying facility lease.

The following table presents a rollforward of the Company's restructuring reserve from December 31, 2010 to June 30, 2011, of which approximately $2.5 million is included in other accrued expenses and $2.7 million is included in long-term liabilities as of June 30, 2011. The Company recognizes accretion expense in *Other (loss) income, net* in the Condensed Consolidated Statement of Operations.

	Sales Services	Marketing Services	Total
Balance as of December 31, 2010	$ 5,029	$ 1,272	$ 6,301
Accretion	74	14	88
Adjustments	(2)	(11)	(13)
Payments	(739)	(444)	(1,183)
Balance as of June 30, 2011	$ 4,362	$ 831	$ 5,193

6. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market-corroborated, or generally unobservable inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based upon observable inputs used in the valuation techniques, the Company is required to provide information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values into three broad levels as follows:

Level 1: Valuations for assets and liabilities traded in active markets from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

Level 3: Valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The valuation methodologies used for the Company's financial instruments measured on a recurring basis at fair value, including the general classification of such instruments pursuant to the valuation hierarchy, is set forth in the table below.

(Tabular information in thousands, except per share amounts)

	As of June 30, 2011		Fair Value Measurements as of June 30, 2011		
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents:					
Cash	$ 22,192	$ 22,192	$ 22,192	$ —	$ —
Money Market Funds	41,828	41,828	41,828	—	—
	$ 64,020	$ 64,020	$ 64,020	$ —	$ —
Marketable securities:					
Money Market Funds	$ 62	$ 62	$ 62	$ —	$ —
Mutual Funds	62	62	62	—	—
U.S. Treasury securities	4,032	4,032	4,032	—	—
Government agency securities	1,143	1,143	1,143	—	—
Total	$ 5,299	$ 5,299	$ 5,299	$ —	$ —
Liabilities:					
Contingent Consideration	$ 1,445	$ 1,445	$ —	$ —	$ 1,445

The fair value of cash and cash equivalents and marketable securities is valued using market prices in active markets (level 1). As of June 30, 2011, the Company did not have any marketable securities in less active markets (level 2). Contingent consideration does not have observable market value and requires a high level of judgment to determine fair value (level 3).

In connection with the November 3, 2010, acquisition of Group DCA the Company recorded $1.6 million of contingent consideration. The Company determined the fair value of the contingent consideration based on a probability-weighted income approach derived from revenue estimates and a probability assessment with respect to the likelihood of achieving the various earn-out criteria. The fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement. During the quarter ended June 30, 2011, the Company determined that a portion of the earn-out was not achievable and reversed the related portion of the contingent consideration within other selling, general and administrative expenses in the condensed consolidated statement of operations. A rollforward of the contingent consideration is as follows:

	Contingent Consideration
Balance as of December 31, 2010	$ 1,557
Accretion	79
Adjustment	(191)
Balance as of June 30, 2011	$ 1,445

The Company considers carrying amounts of accounts receivable, accounts payable and accrued expenses to approximate fair value due to the short-term nature of these financial instruments. There is no fair value ascribed to the letters of credit as management does not expect any material losses to result from these instruments because performance is not expected to be required.

7. COMMITMENTS AND CONTINGENCIES

Letters of Credit

As of June 30, 2011, the Company had outstanding letters of credit of $5.0 million as required by its existing insurance policies and facility leases. These letters of credit are supported by investments in held-to-maturity securities. See Note

(Tabular information in thousands, except per share amounts)

3, Investments in Marketable Securities, for additional detail regarding investments in marketable securities.

Litigation

Due to the nature of the businesses in which the Company is engaged, such as product detailing and in the past, the distribution of products, it could be exposed to certain risks. Such risks include, among others, risk of liability for personal injury or death to persons using products the Company promotes or distributes. There can be no assurance that substantial claims or liabilities will not arise in the future due to the nature of the Company's business activities and recent increases in litigation related to healthcare products, including pharmaceuticals. The Company seeks to reduce its potential liability under its service agreements through measures such as contractual indemnification provisions with customers (the scope of which may vary from customer to customer, and the performance of which is not secured) and insurance. The Company could, however, also be held liable for errors and omissions of its employees in connection with the services it performs that are outside the scope of any indemnity or insurance policy. The Company could be materially adversely affected if it were required to pay damages or incur defense costs in connection with a claim that is outside the scope of an indemnification agreement; if the indemnity, although applicable, is not performed in accordance with its terms; or if the Company's liability exceeds the amount of applicable insurance or indemnity.

8. COMPREHENSIVE LOSS

A reconciliation of net loss as reported in the unaudited interim condensed consolidated statements of operations to comprehensive loss, net of taxes is presented in the table below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net loss	$ (895)	$ (890)	$ (1,445)	$ (2,589)
Other comprehensive loss:				
Unrealized holding gain (loss) on available-for-sale securities, net	(1)	(3)	2	(1)
Comprehensive loss	$ (896)	$ (893)	$ (1,443)	$ (2,590)

9. LONG-TERM LIABILITIES

Long-term liabilities consisted of the following as of June 30, 2011 and December 31, 2010:

	June 30, 2011	December 31, 2010
Rent Payable	$ 2,221	$ 2,374
Uncertain tax positions	2,843	4,088
Restructuring	2,688	3,435
Contingent earn-out fee	1,445	1,557
Other	151	94
	$ 9,348	$ 11,548

See Note 6, Fair Value Measurements, for additional information related to the Group DCA contingent earn-out fee above.

10. STOCK-BASED COMPENSATION

On March 3, 2011, under the terms of the stockholder-approved PDI, Inc. 2004 Stock Award Incentive Plan (the 2004 Plan), the Compensation and Management Development Committee of the Board (the Compensation Committee) approved grants of restricted stock to certain executive officers and members of senior management of the Company.

(Tabular information in thousands, except per share amounts)

The full Board approved the portion of these grants made to the Company's Chief Executive Officer. In approving grants under the 2004 plan, the Compensation Committee, and the Board when required, considered, among other things, the overall performance of the Company and the business unit of the Company for which the executive has responsibility, the individual contribution and performance level of the executive, and the need to retain key management personnel. As part of the Company's 2010 long-term incentive plan, these grants aggregated 234,598 shares of restricted stock issued with a grant date fair value of $8.44 per share.

The Company recognized $0.5 million and $0.4 million of stock-based compensation expense for the three-month periods ended June 30, 2011 and 2010, respectively and $1.3 million and $0.8 million of stock-based compensation expense for the six-month periods ended June 30, 2011 and 2010, respectively. The grant date fair values of SARs awards are determined using a Black-Scholes pricing model. Assumptions utilized in the model are evaluated and revised, as necessary, to reflect market conditions and experience. The following table provides the weighted average assumptions used in determining the fair value of the non-performance based SARs awards granted during the three- and six-month periods ended June 30, 2010:

	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
Risk-free interest rate	1.31%	1.34%
Expected life	3.5 years	3.5 years
Expected volatility	51.70%	51.08%
Dividend yield	0.0%	0.0%

The Company did not issue any SARs awards during the six-month period ended June 30, 2011.

11. INCOME TAXES

Generally, accounting standards require companies to provide for income taxes each quarter based on their estimate of the effective tax rate for the full year. The authoritative guidance for accounting for income taxes allows use of the discrete method when, in certain situations, the actual interim period effective tax rate may be used if it provides a better estimate of income tax expense. Due to the Company's valuation allowance position and the existence of a deferred tax liability related to indefinite lived intangibles, it is the Company's position that the discrete method provides a more accurate estimate of income tax expense and therefore income tax expense for the current quarter has been presented using the discrete method. As the year progresses, the Company refines its estimate based on the facts and circumstances by each tax jurisdiction. The following table summarizes income tax expense on income from continuing operations and the effective tax rate for the three- and six-month periods ended June 30, 2011 and 2010:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Provision (benefit) for income tax	$ 188	$ 70	$ (855)	$ 137
Effective income tax rate	27.1%	11.2%	(37.6)%	6.6%

The income tax benefit for the six-month period ended June 30, 2011 was primarily due to the release of reserves related to uncertain tax positions that were reversed in connection with the closing of the Company's IRS examination for the 2003, 2004 and 2008 tax years, partially offset by state taxes and tax expense associated with the tax amortization of indefinite lived intangibles. Income tax expense for the three month period ended June 30, 2011 was primarily due to state taxes and recording a deferred tax liability for tax amortization of goodwill. Income tax expense for the three- and six-month periods ended June 30, 2010 was primarily related to state taxes, as the Company and its subsidiaries file separate income tax returns in numerous state and local jurisdictions.

12. SEGMENT INFORMATION

The accounting policies of the segments are described in Note 1 of the Company's audited consolidated financial statements in its Annual Report on Form 10-K for the year ended December 31, 2010. Corporate charges are allocated to each of the reporting segments on the basis of total salary expense. Corporate charges include corporate headquarters costs and certain depreciation expenses. Certain corporate capital expenditures have not been allocated from the Sales Services segment to the other reporting segments since it is impracticable to do so.

(Tabular information in thousands, except per share amounts)

On August 1, 2011 the Company announced the formation of its new business unit, Interpace BioPharma. Interpace BioPharma provides biopharmaceutical clients with full-service product commercialization solutions. These services include full supply chain management, operations, sales, marketing, compliance, and regulatory/medical management. The initial revenue and costs associated with this unit are reflected in the Product Commercialization Services (PC Services) segment for both the three- and six-month periods ended June 30, 2011.

	Sales Services	Marketing Services	Product Commercialization	Consolidated
Three months ended June 30, 2011:				
Revenue	$ 34,585	$ 5,357	$ 684	$ 40,626
Operating income (loss)	$ 438	$ (1,194)	$ 84	$ (672)
Capital expenditures	$ 111	$ 10	$ —	$ 121
Depreciation expense	$ 370	$ 93	$ —	$ 463
Three months ended June 30, 2010:				
Revenue	$ 30,327	$ 2,522	$ —	$ 32,849
Operating loss	$ (590)	$ (46)	$ —	$ (636)
Capital expenditures	$ 875	$ —	$ —	$ 875
Depreciation expense	$ 241	$ 14	$ —	$ 255
Six months ended June 30, 2011:				
Revenue	$ 76,940	$ 9,104	$ 684	$ 86,728
Operating income (loss)	$ 2,037	$ (4,313)	$ 84	$ (2,192)
Capital expenditures	$ 119	$ 130	$ —	$ 249
Depreciation expense	$ 736	$ 194	$ —	$ 930
Six months ended June 30, 2010:				
Revenue	$ 58,645	$ 5,336	$ —	$ 63,981
Operating loss	$ (1,876)	$ (276)	$ —	$ (2,152)
Capital expenditures	$ 1,024	$ —	$ —	$ 1,024
Depreciation expense	$ 478	$ 28	$ —	$ 506

13. DISCONTINUED OPERATIONS

On July 19, 2010, the Board approved closing the TVG business unit and subsequently notified employees and issued a press release announcing this decision. The decision to take this action resulted from an extensive evaluation of the TVG business in the context of the Company's strategy, which is to focus on outsourced promotional services targeted to healthcare providers, as well as TVG's consistently declining revenues over recent years and the shrinking market in which TVG operates. The Company completed the closure of the TVG operations during the quarter ended September 30, 2010, including the completion of all active customer contracts. The financial statements reflect the presentation of TVG as a discontinued operation in all periods presented.

The table below presents the significant components of TVG's results included in Loss from Discontinued Operations in the Condensed Consolidated Statements of Operations for the three- and six-month periods ended June 30, 2011 and 2010, respectively.

(Tabular information in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenue, net	$ —	$ 675	$ —	$ 1,916
Loss from discontinued operations, before income tax	(11)	(194)	(38)	(375)
Provision for income tax	1	—	(12)	—
Loss from discontinued operations, net of tax	$ (12)	$ (194)	$ (26)	$ (375)

The major classes of assets and liabilities included in the Condensed Consolidated Balance Sheet for TVG as of June 30, 2011 and December 31, 2010 are as follows:

	June 30, 2011	December 31, 2010
Current assets	$ 39	$ 277
Non-current assets	300	300
Total assets	$ 339	$ 577
Current liabilities	$ 421	$ 816
Non-current liabilities	1,458	1,560
Total liabilities	$ 1,879	$ 2,376

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

This report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Securities Exchange Act of 1934 (the Exchange Act). Statements that are not historical facts, including statements about our plans, objectives, beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words "believes," "expects," "anticipates," "plans," "estimates," "intends," "projects," "should," "may," "will" or similar words and expressions. These forward-looking statements are contained throughout this Form 10-Q.

Forward-looking statements are only predictions and are not guarantees of future performance. These statements are based on current expectations and assumptions involving judgments about, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. These statements are also affected by known and unknown risks, uncertainties and other factors that may cause our actual results to be materially different from those expressed or implied by any forward-looking statement. Many of these factors are beyond our ability to control or predict. Such factors include, but are not limited to, the following:

- The effects of the current worldwide economy;
- Changes in outsourcing trends or a reduction in promotional, marketing and sales expenditures in the pharmaceutical, biotechnology and healthcare industries;
- Our customer concentration risk in light of continued consolidation within the pharmaceutical industry and our current business development opportunities;
- Early termination of a significant services contract, the loss of one or more of our significant customers or a material reduction in service revenues from such customers;
- Our ability to obtain additional funds in order to implement our business model;
- Our ability to successfully integrate the acquisition of the Group DCA business and the effect of this acquisition on our ongoing business;
- Our ability to successfully identify, complete and integrate any future acquisitions and the effects of any such acquisitions on our ongoing business;
- Our ability to meet performance goals in incentive-based arrangements with customers;
- Competition in our industry;
- Our ability to attract and retain qualified sales representatives and other key employees and management personnel;
- Product liability claims against us;
- Failure to comply with laws and regulations or changes to such laws and regulations by us, our industry or our customers;
- The sufficiency of our insurance and self-insurance reserves to cover future liabilities;
- Our ability to successfully develop and generate revenue from product commercialization opportunities;
- Failure of third-party service providers to perform their obligations to us;
- Volatility of our stock price and fluctuations in our quarterly revenues and earnings;
- As a percentage of our stock outstanding, our controlling stockholder continuing to have significant influence, which could delay or prevent a change in corporate control that may otherwise be beneficial to our other stockholders;
- Our anti-takeover defenses could delay or prevent an acquisition and could adversely affect the price of our common stock;
- Our ability to sublease the unused office space in Saddle River, New Jersey;
- Failure of, or significant interruption to, the operation of our information technology and communication systems; and
- The results of any future impairment testing for goodwill and other intangible assets.

Please see Part I – Item 1A – "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010, as well as other documents we file with the United States Securities and Exchange Commission (SEC) from time-to-time, for other important factors that could cause our actual results to differ materially from our current expectations as expressed in the forward-looking statements discussed in this Form 10-Q. Because of these and other risks, uncertainties and assumptions, you should not place undue reliance on these forward-looking statements. In addition, these statements speak only as of the date of the report in which they are set forth and, except as may be required by law, we undertake no obligation to revise or update publicly any forward-looking statements for any reason.

OVERVIEW

We are a leading provider of integrated multichannel outsourced promotional services to established and emerging pharmaceutical, biotechnology and healthcare companies in the United States. We are a leading provider of outsourced sales teams that target healthcare providers, offering a range of complementary sales support services designed to achieve our customers' strategic and financial product objectives. In addition to outsourced sales teams in the United States, we also provide other promotional services, including clinical educator services, digital communications, medical education, teledetailing and with the formation of our new business unit during the second quarter of 2011, Interpace BioPharma, we provide biopharmaceutical clients with full-service product commercialization solutions. These services include full supply chain management, operations, sales, marketing, compliance, and regulatory/medical management. Combined, our services offer customers a range of both personal and non-personal promotional options for the commercialization of their products throughout the product lifecycle, from development through maturity. We provide innovative and flexible service offerings designed to drive our customers' businesses forward and successfully respond to a continually changing market. Our services provide a vital link between our customers and the medical community through the communication of product information to physicians and other healthcare professionals for use in the care of their patients. We provide these services through three reporting segments: Sales Services; Marketing Services; and Product Commercialization Services (PC Services). These segments are described in detail under the caption *Description of Reporting Segments* below.

Our business depends in large part on demand from the pharmaceutical, biotechnology and healthcare industries for outsourced promotional services. In recent years, this demand has been impacted by certain industry-wide factors affecting pharmaceutical, biotechnology and healthcare companies, including, among other things, pressures on pricing, successful challenges to intellectual property rights (including the introduction of competitive generic products), a strict regulatory environment, decreased pipeline productivity, a slow-down in the rate of approval of new products by the Food and Drug Administration (FDA) and access to physicians. Additionally, a number of pharmaceutical companies have made changes to their commercial models by reducing the internal number of sales representatives. A significant portion of our revenue is derived from our sales force arrangements with large pharmaceutical companies, and we have therefore benefited from cost control measures implemented by these companies and their resultant increased reliance on outsourced promotional services. Conversely, certain of our Marketing Services customers delayed the implementation or reduced the scope of a number of marketing initiatives. In addition to fluctuations in customer demand, we continue to experience a high degree of customer concentration and this trend may continue as a result of recent and continuing consolidation within the pharmaceutical industry.

On November 3, 2010, we acquired 100% of the membership interest in Group DCA, LLC (Group DCA), a privately held interactive digital communications company serving the pharmaceutical, biotechnology and healthcare industries. Based in Parsippany, New Jersey, Group DCA leverages the strength of the Internet, multimedia, tablet PCs, dimensional direct mail and its proprietary software, DIAGRAMtm, to deliver non-personal selling solutions via interactive communications exchanges that accommodate the schedules of healthcare providers. Group DCA's proprietary software also yields meaningful response data that allows customers the opportunity to better understand the needs and opinions of their audiences and, in turn, the opportunity to market to their audiences more effectively. With the combination of our traditional outsourced promotional services and Group DCA's e-detailing, patient education communications and other digital communications, we expect to be even better positioned to offer customers increased insight and greater engagement, resulting in integrated information and more impactful messages being delivered to healthcare providers across multiple communication channels.

We paid cash (net) of approximately $23.9 million for Group DCA, of which $1.3 million was placed in escrow. As of June 30, 2011, $1.3 million remains in escrow and any remaining amounts will be paid out in May 2012, eighteen months from the date of acquisition. The final purchase price is subject to working capital adjustment in accordance with the purchase agreement. The purchase agreement also provides for the members of Group DCA to earn up to an additional $30 million from the date of acquisition through December 31, 2012. These payouts are based on Group DCA's achievement of revenue and gross profit metrics and range up to: $5.0 million in the period ended December 31, 2010; and $12.5 million in each of the years ending December 31, 2011 and 2012. The metrics for payments related to the period ended December 31, 2010 were not achieved.

On March 3, 2011, we announced the launch of a new business unit within our Sales Services segment, EngageCE, that will provide clinical educator services to our customers. The goal of clinical educators is to work with healthcare providers in the management of chronic diseases to optimize patient care and outcomes. We have seen a growing demand for these types of services by our customers and we believe that the clinical educator services provided via EngageCE will complement traditional sales force efforts and enhance our offerings.

On August 1, 2011 the Company announced the formation of its new business unit, Interpace BioPharma. Interpace BioPharma provides biopharmaceutical clients with full-service product commercialization solutions. These services include full supply chain management, operations, sales, marketing, compliance, and regulatory/medical management. The initial revenue and costs associated with this unit are reflected in the PC Services segment for both the three- and six-month periods ended June 30, 2011.

While we recognize that there is currently significant volatility in the markets in which we provide services, we believe there are opportunities for growth in our Sales Services, Marketing Services and PC Services businesses, which provide our customers with the flexibility to successfully respond to a constantly changing market and a means of controlling costs through promotional outsourcing partnerships. In particular, we believe that the significant reduction in the number of pharmaceutical sales representatives within the industry during the past few years is placing increasing demands on our customers' product portfolios and therefore we expect the market share penetration of outsourced sales organizations to increase in order to address these needs. We have recently intensified our focus on strengthening all aspects of the core outsourced pharmaceutical sales teams business that we believe will most favorably position PDI as the best-in-class outsourced promotional services organization in the United States. In addition, we continue to diligently evaluate the risks and rewards of opportunities within our PC Services segment as they arise, while enhancing future value-added service offerings, as well as continuing to evaluate acquisitions that will enhance our current service offerings and provide new business opportunities.

DESCRIPTION OF REPORTING SEGMENTS

For the quarter ended June 30, 2011, our three reporting segments were as follows:

- Sales Services, which is comprised of the following business units:
  - Dedicated Sales Teams;
  - Shared Sales Teams; and
  - EngageCE.
- Marketing Services, which is comprised of the following business units:
  - Pharmakon;
  - Group DCA; and
  - Voice.
- PC Services;
  - Interpace BioPharma.

Selected financial information for each of these segments is contained in Note 12, Segment Information, to these interim financial statements and in the discussion under the caption *Consolidated Results of Operations.*

Nature of Contracts by Segment

Sales Services

Contracts within our Sales Services reporting segment consist primarily of detailing agreements and are nearly all fee-for-service arrangements. The term of these contracts is typically between one and two years. On occasion, certain contracts have terms that are shorter or longer due to the seasonal nature of the products or at the request of the customer. All agreements, whether or not specifically provided for by terms within the contract, may be renewed or extended upon mutual agreement of the parties as to revised terms for provisions such as pricing, penalties, incentives and performance metrics.

The majority of our Sales Services contracts are terminable by the customer without cause upon 30 days' to 180 days' prior written notice. Additionally, certain contracts include provisions mandating that such notice may not be provided prior to a pre-determined future date and also provide for termination payments if the customer terminates the agreement without cause. Typically, however, the total compensation provided by minimum service periods (otherwise referred to as minimum purchase obligations) and termination payments within any individual agreement will not fully offset the revenue we would have earned from fully executing the contract or the costs we may incur as a result of its early termination. The loss or termination of multiple Sales Services contracts could have a material adverse effect on our financial condition, results of operations and cash flow.

Our Sales Services contracts generally include standard mutual representations and warranties as well as mutual confidentiality and indemnification provisions, including product liability indemnification for our protection. Most of our contracts also include exclusivity provisions limiting our ability to promote competing products during the contract service period unless consent has been provided by the customer, and may also require the personnel we utilize to be dedicated exclusively to promoting the customer's product for the term of the contract.

Some of our contracts, including contracts with significant customers of ours, may contain performance benchmarks requiring adherence to certain call plan metrics, such as a minimum amount of detailing activity to certain physician targets within a specified time period. Our failure to meet these benchmarks may result in specific financial penalties for us, such as a reduction in our program management fee on our dedicated sales agreements or a discount on the fee we are permitted to charge per detail on our shared sales agreements. Conversely, these same agreements generally include incentive payments that can be earned if our promotional activities generate results that meet or exceed agreed-upon performance targets, both related to call plan adherence as well as increases in the number of prescriptions written by physician targets.

All of our contracts provide for certain reimbursable out-of-pocket expenses such as travel, meals and entertainment or product sample distribution costs, for which we are reimbursed at cost by our customers. Certain contracts may also provide for reimbursement of other types of expenses depending upon the type of services we are providing to the customer.

Marketing Services

Our Marketing Services reporting segment is comprised of our Pharmakon, Group DCA and Voice business units. Our Pharmakon business unit enters into and performs contracts that generally take the form of either master service agreements (MSAs) with a term of one to three years, or contracts specifically related to particular projects with terms equal to the duration of the project (typically two to six months). These contracts include standard representations and warranties as well as confidentiality and indemnification obligations and are generally terminable by the customer for any reason. Upon termination, the customer is generally responsible for payment of all work completed to date, plus the cost of any nonrefundable commitments made by us on behalf of the customer. There is significant customer concentration in our Pharmakon business, and the loss or termination of one or more of Pharmakon's large MSAs could have a material adverse effect on our financial condition, results of operations or cash flows.

Our Group DCA business unit enters into and performs contracts with our major customers that generally take the form of MSAs and typically have a term of one to three years. These contracts include standard representations and warranties, as well as confidentiality and indemnification obligations, and are generally terminable by the customer or us for any reason. There is significant customer concentration within our Group DCA business unit.

PC Services

Our PC Services segment currently consists of our Interpace BioPharma business unit. Interpace BioPharma provides biopharmaceutical clients with full-service product commercialization solutions. These services include full supply chain management, operations, sales, marketing, compliance, and regulatory/medical management.

CONSOLIDATED RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain statements of operations data as a percentage of revenue, net (Sales). The trends illustrated in this table may not be indicative of future results.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenue, net	100.0 %	100.0 %	100.0 %	100.0 %
Cost of services	77.9 %	76.3 %	79.3 %	77.7 %
Gross profit	22.1 %	23.7 %	20.7 %	22.3 %
Compensation expense	15.2 %	13.8 %	14.0 %	14.0 %
Other selling, general and administrative expenses	8.6 %	10.0 %	9.2 %	10.7 %
Facilities realignment	— %	1.8 %	— %	0.9 %
Total operating expenses	23.8 %	25.6 %	23.3 %	25.7 %
Operating loss	(1.7)%	(1.9)%	(2.5)%	(3.4)%
Other (loss) income, net	(0.1)%	— %	(0.1)%	0.1 %
Loss from continuing operations before income tax	(1.7)%	(1.9)%	(2.6)%	(3.2)%
Provision (benefit) for income tax	0.5 %	0.2 %	(1.0)%	0.2 %
Loss from continuing operations	(2.2)%	(2.1)%	(1.6)%	(3.5)%
Loss from discontinued operations, net of tax	— %	(28.7)%	— %	(19.6)%
Net loss	(2.2)%	(2.7)%	(1.7)%	(4.0)%

Group DCA Accounting Impacts

On the date of the Group DCA acquisition, we outlined certain acquisition accounting related items that would impact the Group DCA operating results in the future. The following is an updated summary of how accounting related to the Group DCA acquisition will impact our reported results:

- As of the purchase date, Group DCA had deferred revenue on its historical closing balance sheet. Had Group DCA not been purchased, that amount would be recorded as revenue by Group DCA as projects were completed through 2011. However, as required by the rules of acquisition accounting, a large part of the deferred revenue at the date of the acquisition did not carry over to PDI after the acquisition, the majority of which impacts 2011, making reported revenue for the first six months of 2011 lower than we believe it will be on a normal go-forward basis.
- Acquisition accounting requires ongoing amortization of finite lived intangibles acquired and valued for accounting purposes as of the date of the acquisition. These include the acquired proprietary technology and the extensive health care provider database. Amortization of these intangibles will result in annual charges of approximately $0.9 million.
- The accounting for potential earn-out payments is influenced by acquisition accounting. Up to $5.0 million of the potential $30.0 million of earn-out payments must be charged against earnings as they are earned over 2011 and 2012. However, in determining the amount that was recorded in the initial purchase price, acquisition accounting required the company to estimate the fair value for the remainder of the $25.0 million of potential earn-out payments which we determined by estimating the present value of earn-out payments we think are probable on a weighted risk-adjusted basis. The amount we recorded as the fair value of these estimated earn-out payments was $1.6 million, which is considered part of the initial purchase price for accounting purposes. During the quarter ended June 30, 2011 we recognized a benefit of $0.2 million in our Marketing Services segment, as the amount we expect to pay as of June 30, 2011 is lower than our original estimate. Going forward, any difference between our June 30, 2011 estimate and our updated estimates of expected payments in 2012 and 2013 will be adjusted through the statement of operations. This will result in a charge if the amounts we expect to pay are higher than our June 30, 2011 estimate or an additional gain if the amounts we expect to pay are lower than our June 30, 2011 estimate.

Results of Continuing Operations for the Quarter Ended June 30, 2011 Compared to the Quarter Ended June 30, 2010

Revenue, net (in thousands)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Change ($)	Change (%)
Sales Services	$ 34,585	$ 30,327	$ 4,258	14.0%
Marketing Services	5,357	2,522	2,835	112.4%
PC Services	684	—	684	—
Total	$ 40,626	$ 32,849	$ 7,777	23.7%

Consolidated revenue, net (revenue) for the quarter ended June 30, 2011 increased by $7.8 million, or 23.7%, to $40.6 million, compared to the quarter ended June 30, 2010. This increase was primarily attributable to new business wins in our Sales Services segment and an increase in our Marketing Services segment revenue due to the addition of Group DCA.

Revenue in our Sales Services segment for the quarter ended June 30, 2011 increased by $4.3 million, or 14.0%, to $34.6 million, compared to the quarter ended June 30, 2010. The increase in Sales Services revenue was primarily due to business wins in the second half 2010 totaling approximately $11.6 million and 2011 new business wins of $1.6 million; partially offset by a reduction in revenue from the expiration or reduction in size of existing contracts of approximately $8.9 million.Revenue in the Marketing Services segment for the quarter ended June 30, 2011 increased by $2.8 million, or 112.4%, to $5.4 million, compared to the quarter ended June 30, 2010. This increase was primarily attributable to the addition of Group DCA, partially offset by decreases of $0.2 million in revenue in both our Pharmakon and PDI Voice business units when compared to the quarter ended June 30, 2010.

Revenue in the PC Services segment for the quarter ended June 30, 2011 of $0.7 million is related to operational support services under our new fee for service arrangement. There was no revenue in the PC Services segment for the quarter ended June 30, 2010 as there were no ongoing product commercialization activities during the period.

Cost of services (in thousands)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Change ($)	Change (%)
Sales Services	$ 28,223	$ 23,658	$ 4,565	19.3%
Marketing Services	3,017	1,416	1,601	113.1%
PC Services	400	—	400	NA
Total	$ 31,640	$ 25,074	$ 6,566	26.2%

Consolidated cost of services for the quarter ended June 30, 2011 increased by $6.6 million, or 26.2%, to $31.6 million, compared to the quarter ended June 30, 2010. This increase was due to higher program expenses in the Sales Services segment in support of the increased revenues discussed above and the fourth quarter 2010 addition of Group DCA to our Marketing Services segment.

Cost of services in our Sales Services segment for the quarter ended June 30, 2011 increased by $4.6 million, or 19.3%, to $28.2 million, compared to the quarter ended June 30, 2010. This increase was directly attributable to the higher number of Sales Services engagements, which required a significant increase in headcount to deliver the additional services. The higher headcount resulted in corresponding increases in costs related to: recruiting, hiring and training new employees; employee compensation; employee-related benefits; automobile lease expense; and reimbursable travel expenses such as mileage and gas.

Cost of services in our Marketing Services segment for the quarter ended June 30, 2011 increased by $1.6 million, or 113.1%, to $3.0 million, compared to the quarter ended June 30, 2010. The increase was attributable to $2.0 million of Group DCA cost of services, partially offset by reductions of $0.2 million at our Voice business unit and $0.2 million at our Pharmakon business unit, which was directly attributable to decreases in the number of programs/meetings executed.

Cost of services in our PC Services segment for the quarter ended June 30, 2011 was $0.4 million. There was no cost of services in the PC Services segment for the quarter ended June 30, 2010 as there were no ongoing product commercialization activities during the period.

Gross profit (in thousands)

Three Months Ended June 30,	Sales Services	% of Sales	Marketing Services	% of Sales	PC Services	% of Sales	Total	% of Sales
2011	$ 6,362	18.4%	$ 2,340	43.7%	$ 284	41.5%	$ 8,986	22.1%
2010	6,669	22.0%	1,106	43.9%	—	—	7,775	23.7%
Change	$ (307)		$ 1,234		$ 284		$ 1,211	

Consolidated gross profit for the quarter ended June 30, 2011 increased by $1.2 million, or 15.6%, to $9.0 million, compared to the quarter ended June 30, 2010. The change in consolidated gross profit was primarily attributable to the addition of Group DCA.

The gross profit percentage in our Sales Services segment for the quarter ended June 30, 2011 decreased to 18.4%, from 22.0% in the quarter ended June 30, 2010. The decrease was primarily attributable to the decline in margin within our Shared Sales business unit as a result of the fixed management costs incurred to generate lower Shared Sales Teams revenue in the quarter ended June 30, 2011.

The gross profit percentage in our Marketing Services segment for the quarter ended June 30, 2011 remained relatively flat at 43.7%, compared to 43.9% in the quarter ended June 30, 2010.

Gross profit in our PC Services segment for the quarter ended June 30, 2011 was approximately $0.3 million. There was no gross profit in the PC Services segment for the quarter ended June 30, 2010 as there were no ongoing product commercialization activities during the period.

Compensation expense (in thousands)

Three Months Ended June 30,	Sales Services	% of Sales	Marketing Services	% of Sales	PC Services	% of Sales	Total	% of Sales
2011	$ 3,705	10.7%	$ 2,366	44.2%	$ 103	15.1%	$ 6,174	15.2%
2010	3,765	12.4%	763	30.3%	—	—	4,528	13.8%
Change	$ (60)		$ 1,603		$ 103		$ 1,646	

Consolidated compensation expense for the quarter ended June 30, 2011 increased by $1.6 million, to $6.2 million, compared to the quarter ended June 30, 2010. As a percentage of consolidated revenue, consolidated compensation expense increased to 15.2% for the quarter ended June 30, 2011, from 13.8% for the quarter ended June 30, 2010. This increase is primarily due to the increase in headcount from the addition of Group DCA.

Compensation expense in our Sales Services segment for the quarter ended June 30, 2011 was relatively flat compared to the quarter ended June 30, 2010. As a percentage of segment revenue, compensation expense decreased 1.7%, to 10.7% for the quarter ended June 30, 2011, from 12.4% for the quarter ended June 30, 2010. The decline in segment compensation expense as a percent of segment revenue was primarily driven by the increase in segment revenue in the quarter ended June 30, 2011.

Compensation expense in our Marketing Services segment for the quarter ended June 30, 2011 increased by $1.6 million, to $2.4 million, compared to the quarter ended June 30, 2010. The increase in segment compensation expense is primarily attributable to the addition of Group DCA. As a percentage of segment revenue, compensation expense increased 13.9%, to 44.2% for the quarter ended June 30, 2011, from 30.3% for the quarter ended June 30, 2010. The increase in segment compensation expense as a percent of segment revenue was primarily due to the addition of Group DCA.

Compensation expense in our PC Services segment for the quarter ended June 30, 2011 of $0.1 million is attributable to the allocation of corporate support costs. There was no compensation expense for the quarter ended June 30, 2010, as there were no ongoing product commercialization activities during the period.

Other selling, general and administrative expenses (in thousands)

Three Months Ended June 30,	Sales Services	% of Sales	Marketing Services	% of Sales	PC Services	% of Sales	Total	% of Sales
2011	$ 2,219	6.4%	$ 1,168	21.8%	$ 97	14.2%	$ 3,484	8.6%
2010	2,911	9.6%	389	15.4%	—	—	3,300	10.0%
Change	$ (692)		$ 779		$ 97		$ 184	

Consolidated other selling, general and administrative expenses for the quarter ended June 30, 2011 increased by $0.2 million, to $3.5 million, compared to the quarter ended June 30, 2010. As a percentage of consolidated revenue, consolidated other selling, general and administrative expenses decreased to 8.6% for the quarter ended June 30, 2011, from 10.0% in the quarter ended June 30, 2010, due to the increase in consolidated revenue.

Other selling, general and administrative expenses in our Sales Services segment for the quarter ended June 30, 2011 decreased by $0.7 million, to $2.2 million, compared to the quarter ended June 30, 2010. As a percentage of segment revenue, other selling, general and administrative expenses decreased 3.2%, to 6.4% for the quarter ended June 30, 2011, from 9.6% in the quarter ended June 30, 2010. This decrease was primarily attributable to a decrease in allocated corporate costs.

Other selling, general and administrative expenses in our Marketing Services segment for the quarter ended June 30, 2011 increased by $0.8 million compared to the quarter ended June 30, 2010 due to the addition of Group DCA. Other selling, general and administrative expenses as a percentage of revenue increased 6.4%, to 21.8% for the quarter ended June 30, 2011, from 15.4% in the quarter ended June 30, 2010 due to the addition of Group DCA.

Other selling, general and administrative expense in our PC Services segment for the quarter ended June 30, 2011 of $0.1 million is attributable to the allocation of corporate support activities. There was no other selling, general and administrative expense for the quarter ended June 30, 2010 as there were no ongoing product commercialization activities during the period.

Facilities Realignment

During the quarter ended June 30, 2010, our Sales Services segment incurred a charge of approximately $0.6 million from adjustments in our assumptions regarding the ability to sublease unoccupied space on the third floor of our Saddle River, New Jersey facility due to continued adverse conditions in the real estate market.

Operating loss

We had operating losses of $0.7 million and $0.6 million for the quarters ended June 30, 2011 and 2010, respectively. The increased operating loss was primarily due to the second quarter operating loss associated with Group DCA, partially offset by higher revenues in our Sales Services segment and a reduction in corporate operating expenses.

Provision for income tax

We had income tax expense of approximately $0.2 million for the quarter ended June 30, 2011, compared to income tax expense of $66,000 for the quarter ended June 30, 2010. Income tax expense for the quarters ended June 30, 2011 and 2010 was primarily due to state and local taxes as we and our subsidiaries file separate income tax returns in numerous state and local jurisdictions.

Results of Continuing Operations for the Six Months Ended June 30, 2011 Compared to the Six Months Ended June 30, 2010

Revenue, net (in thousands)	Six Months Ended June 30,			
	2011	2010	Change ($)	Change (%)
Sales Services	$ 76,940	$ 58,645	$ 18,295	31.2%
Marketing Services	9,104	5,336	3,768	70.6%
PC Services	684	—	684	—
Total	$ 86,728	$ 63,981	$ 22,747	35.6%

Consolidated revenue for the six-month period ended June 30, 2011 increased by $22.7 million, or 35.6%, to $86.7 million, compared to the six-month period ended June 30, 2010. This increase was primarily attributable to new business wins in our Sales Services segment and an increase in revenue in our Marketing Services segment due to the addition of Group DCA.

Revenue in our Sales Services segment for the six-month period ended June 30, 2011 increased by $18.3 million, or 31.2%, to $76.9 million, compared to the six-month period ended June 30, 2010. The increase in Sales Services revenue was primarily due to business wins in the second half of 2010 totaling approximately $25.1 million and 2011 new business wins of $1.6 million, partially offset by a reduction in revenue from the expiration of existing contracts or in the reduction in size of existing contracts of approximately $7.7 million.

Revenue in the Marketing Services segment for the six-month period ended June 30, 2011 increased by $3.8 million, or 70.6%, to $9.1 million, compared to the six-month period ended June 30, 2010. This increase was primarily attributable to the addition of Group DCA, partially offset by revenue from our Pharmakon business unit decreasing approximately $1.1 million compared to the six-month period ended June 30, 2010. Pharmakon's decrease in revenue, net was the result of a decrease in program attendee revenue of $0.8 million and a decrease in direct mail campaign revenue of $0.3 million.

Revenue in the PC Services segment for the six-months ended June 30, 2011 was $0.7 million related to operational support services under our new fee for service arrangement. There was no revenue in the six-month period ended June 30, 2010 for this segment.

Cost of services (in thousands)	Six Months Ended June 30,			
	2011	2010	Change ($)	Change (%)
Sales Services	$ 61,801	$ 46,500	$ 15,301	32.9%
Marketing Services	6,554	3,221	3,333	103.5%
PC Services	400	—	400	—
Total	$ 68,755	$ 49,721	$ 19,034	38.3%

Consolidated cost of services for the six-month period ended June 30, 2011 increased by $19.0 million, or 38.3%, to $68.8 million, compared to the six-month period ended June 30, 2010. This increase was due to higher program expenses in the Sales Services segment in support of the increased revenues discussed above and the fourth quarter 2010 addition of Group DCA to our Marketing Services segment.

Cost of services in our Sales Services segment for the six-month period ended June 30, 2011 increased by $15.3 million, or 32.9%, to $61.8 million, compared to the six-month period ended June 30, 2010. This increase was directly attributable to the higher number of Sales Services engagements, which require a significant increase in headcount in order to deliver the additional services. The higher headcount resulted in corresponding increases in costs related to: recruiting, hiring and training new employees; employee compensation; employee-related benefits; automobile lease expense; and reimbursable travel expenses such as mileage and gas.

Cost of services in our Marketing Services segment for the six-month period ended June 30, 2011 increased by $3.3 million, or 103.5%, to $6.6 million, compared to the six-month period ended June 30, 2010. The increase was attributable to $4.4 million of Group DCA cost of services, partially offset by reductions at Voice of $0.5 million and of $0.4 million at our Pharmakon business unit which was directly attributable to decreases in the number of programs/meetings executed.

Cost of services in our PC Services segment for the six-month period ended June 30, 2011 was approximately $0.4 million. There was no cost of services for this segment in six-month period ended June 30, 2010 as there was no ongoing product commercialization activity during the period.

Gross profit (in thousands)

Six Months Ended June 30,	Sales Services	% of Sales	Marketing Services	% of Sales	PC Services	% of Sales	Total	% of Sales
2011	$ 15,139	19.7%	$ 2,550	28.0%	$ 284	41.5%	$ 17,973	20.7%
2010	12,145	20.7%	2,115	39.6%	—	—	14,260	22.3%
Change	$ 2,994		$ 435		$ 284		$ 3,713	

Consolidated gross profit for the six-month period ended June 30, 2011 increased by $3.7 million, or 26.0%, to $18.0 million, compared to the six-month period ended June 30, 2010. The change in consolidated gross profit was primarily attributable to the significant increase in Sales Services gross profit.

The gross profit percentage in our Sales Services segment for the six-month period ended June 30, 2011 decreased to 19.7%, from 20.7% in the six-month period ended June 30, 2010. The decrease in Sales Services gross profit percentage was attributable to our Shared Sales business unit as a result of our fixed management costs over smaller Shared Sales revenue in the six-month period ended June 30, 2011.

The gross profit percentage in our Marketing Services segment for the six-month period ended June 30, 2011 decreased to 28.0%, from 39.6% in the six-month period ended June 30, 2010. This decrease was primarily attributable to Group DCA's negative gross profit in the first quarter of 2011 due to the impact of acquisition accounting which eliminated the overwhelming majority of Group DCA's deferred revenue on the acquisition date and the application of revenue recognition rules in effect for contracts entered into prior to January 1, 2011. The application of these rules required the recognition of revenue of an interactive digital program over the program's hosting period.

Gross profit in our PC Services segment for the six-month period ended June 30, 2011 was approximately $0.3 million. There was no gross profit in our PC Services segment for the six-month period ended June 30, 2010 as there was no ongoing product commercialization activity during the period.

Compensation expense (in thousands)

Six Months Ended June 30,	Sales Services	% of Sales	Marketing Services	% of Sales	PC Services	% of Sales	Total	% of Sales
2011	$ 7,898	10.3%	$ 4,171	45.8%	$ 103	15.1%	$ 12,172	14.0%
2010	7,431	12.7%	1,532	28.7%	—	—	8,963	14.0%
Change	$ 467		$ 2,639		$ 103		$ 3,209	

Consolidated compensation expense for the six-month period ended June 30, 2011 increased by $3.2 million, to $12.2 million, compared to the six-month period ended June 30, 2010. This was primarily driven by the addition of Group DCA in 2011 as well as an increase in stock compensation expense of $0.5 million. As a percentage of consolidated revenue, consolidated compensation expense remained flat at 14.0% as the increase in compensation expense was offset by the increase in consolidated revenue.

Compensation expense in our Sales Services segment for the six-month period ended June 30, 2011 increased by approximately $0.5 million compared to the six-month period ended June 30, 2010. This increase was primarily attributable to increased salary costs. As a percentage of segment revenue, compensation expense decreased 2.4%, to 10.3% for the six-month period ended June 30, 2011, from 12.7% for the six-month period ended June 30, 2010. The decline in segment compensation expense as a percent of segment revenue was primarily driven by the significant increase in segment revenue for the six-month period ended June 30, 2011.

Compensation expense in our Marketing Service*s* segment for the six-month period ended June 30, 2011 increased by $2.6 million, to $4.2 million, compared to the six-month period ended June 30, 2010. The increase in segment compensation expense is primarily attributable to the addition of Group DCA. As a percentage of segment revenue, compensation expense increased 17.1%, to 45.8% for the six-month period ended June 30, 2011, from 28.7% for the six-month period ended June 30, 2010. The increase in segment compensation expense as a percent of segment revenue was due to the addition of Group DCA and the decrease in revenue at Pharmakon.

Compensation expense in our PC Services segment for the six-month period ended June 30, 2011 of $0.1 million is attributable to the allocation of corporate support costs. There was no compensation expense in our PC Services business unit in the six-month period ended June 30, 2010 as there was no ongoing product commercialization activity during the period.

Other selling, general and administrative expenses (in thousands)

Six Months Ended June 30,	Sales Services	% of Sales	Marketing Services	% of Sales	PC Services	% of Sales	Total	% of Sales
2011	$ 5,204	6.8%	$ 2,692	29.6%	$ 97	14.2%	$ 7,993	9.2%
2010	6,007	10.2%	859	16.1%	—	—	6,866	10.7%
Change	$ (803)		$ 1,833		$ 97		$ 1,127	

Consolidated other selling, general and administrative expenses for the six-month period ended June 30, 2011 increased by $1.1 million, to $8.0 million, compared to the six-month period ended June 30, 2010. The increase was primarily attributable to the addition of Group DCA. As a percentage of revenue, consolidated other selling, general and administrative expenses decreased to 9.2% for the six-month period ended June 30, 2011, from 10.7% in the six-month period ended June 30, 2010, due to the significant increase in consolidated revenue.

Other selling, general and administrative expenses in our Sales Services segment for the six-month period ended June 30, 2011 decreased by $0.8 million, to $5.2 million, compared to the six-month period ended June 30, 2010. As a percentage of segment revenue, other selling, general and administrative expenses decreased 3.4%, to 6.8% for the six-month period ended June 30, 2011, from 10.2% in the six-month period ended June 30, 2010 due to the significant increase in consolidated segment revenue and lower allocated corporate costs.

Other selling, general and administrative expense in our Marketing Services segment for the six-month period ended June 30, 2011 increased by $1.8 million compared to the six-month period ended June 30, 2010 due to the addition of Group DCA. Other selling, general and administrative expenses as a percentage of revenue increased 13.5%, to 29.6% for the six-month period ended June 30, 2011, from 16.1% in the six-month period ended June 30, 2010 due to the addition of Group DCA.

Other selling, general and administrative expense in our PC Services segment for the six-month period ended June 30, 2011 of $0.1 million is attributable to the allocation of corporate support costs. There were no corporate costs allocated to our PC Services segment for the six-month period ended June 30, 2010, as there were no ongoing product commercialization activities during the period.

Facilities Realignment

During the six-month period ended June 30, 2010, our Sales Services segment incurred a charge of approximately $0.6 million from adjustments in our assumptions regarding the ability to sublease unoccupied space on the third floor of our Saddle River, New Jersey facility due to continued adverse conditions in the real estate market.

Operating loss

We had operating losses of approximately $2.2 million for both the six-month periods ended June 30, 2011 and 2010, respectively. The operating loss was associated with Group DCA, partially offset by higher revenues in our Sales Services segment and a reduction in corporate operating expenses.

Provision for income tax

We had an income tax benefit of approximately $0.9 million for the six-month period ended June 30, 2011, compared to income tax expense of $0.1 million for the six-month period ended June 30, 2010. The income tax benefit for the six-month period ended June 30, 2011 was primarily due to the release of reserves related to uncertain tax positions that were reversed in connection with the closing of the Company's IRS examination for the 2003, 2004 and 2008 tax years. Income tax expense for the six-month period ended June 30, 2010 was primarily due to state and local taxes as we and our subsidiaries file separate income tax returns in numerous state and local jurisdictions.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2011, we had cash and cash equivalents and short-term investments of approximately $64.0 million and working capital of $36.8 million, compared to cash and cash equivalents and short-term investments of approximately $62.9 million and working capital of approximately $37.3 million at December 31, 2010. As of June 30, 2011, we had no commercial debt.

For the six-month period ended June 30, 2011, net cash provided by operating activities was $1.6 million, compared to $9.5 million of net cash provided by operating activities for the six-month period ended June 30, 2010. The main components of cash provided by operating activities during the six-month period ended June 30, 2011 were the decrease in accounts receivable of $6.3 million, non-cash expense items of approximately $3.0 million and an increase in unearned contract revenue of $1.8 million, partially offset by a decrease in other accrued expenses of $6.9 million and long-term liabilities of $2.4 million. The main components of cash provided by operating activities during the six-month period ended June 30, 2010 were an increase in unearned contract revenue of $5.2 million, a decrease in accounts receivable of $4.1 million and the receipt of a $3.3 million income tax refund, partially offset by the net loss of $2.6 million.

As of June 30, 2011 and December 31, 2010, we had $2.0 million and $3.4 million of unbilled costs and accrued profits on contracts in progress, respectively. When services are performed in advance of billing, the value of such services is recorded as unbilled costs and accrued profits on contracts in progress. Normally all unbilled costs and accrued profits are earned and billed within 12 months from the end of the respective period. As of June 30, 2011 and December 31, 2010, we had $15.3 million and $13.4 million of unearned contract revenue, respectively. When we bill clients for services before they have been completed, billed amounts are recorded as unearned contract revenue and are recorded as income when earned.

For the six-month period ended June 30, 2011, net cash used in investing activities was $0.2 million compared to $1.0 million of cash used in investing activities during the six-month period ended June 30, 2010. All capital expenditures were funded out of available cash. For the six-month period ended June 30, 2011, net cash used in financing activities represented shares of our stock that were delivered to us and included in treasury stock for the payment of taxes resulting from the vesting of restricted stock.

Our revenue and profitability depend to a great extent on our relationships with a limited number of large pharmaceutical companies. For the six-month period ended June 30, 2011, we had three customers that accounted for approximately 47.9%, 17.1% and 10.6% of our service revenue. We are likely to continue to experience a high degree of customer concentration, particularly if there is further consolidation within the pharmaceutical industry. The loss or significant reduction of business from any of our significant customers, or a decrease in demand for our services, could have a material adverse effect on our financial condition and results of operations. In addition, our Shared Sales business unit's services to our second largest customer are seasonal in nature, occurring primarily in the winter season.

Going Forward

Our primary sources of liquidity are cash generated from our operations, available cash and cash equivalents and short-term investments. These sources of liquidity are needed to fund our working capital requirements and 2011 estimated capital expenditures of approximately $1.5 million.

We believe that our existing cash balances and expected cash flows generated from operations will be sufficient to meet our operating requirements beyond the next 12 months. However, we may require alternative forms of financing to achieve our longer-term strategic plans. In the event that our long-term strategic plans require an alternative form of financing, we filed a registration statement on Form S-3 that became effective on July 15, 2011. In the event that our longer-term strategic plans require an alternative form of financing, this registration statement on Form S-3 could allow us to sell securities registered in a public primary offering with a value not exceeding more than one-third of our public float in any 12-month period so long as our public float remains below $75.0 million.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our market risks primarily consist of the impact of changes in the market value of certain of our investments. As of June 30, 2011, no material change had occurred in our market risks as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010 included in Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 (the "Exchange Act") as of the end of the period covered by this Quarterly Report on Form 10-Q. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, management is required to apply its judgment in evaluating the benefits of possible disclosure controls and procedures relative to their costs to implement and maintain.

Based on our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in internal controls

In November 2010, we completed the acquisition of Group DCA. We excluded this business from Management's Report on Internal Control over Financial Reporting as of December 31, 2010. We will include this business in Management's Report on Internal Control Financial Reporting as of December 31, 2011.

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are currently a party to legal proceedings incidental to our business. As required, we have accrued our estimate of the probable costs for the resolution of these claims. While management currently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not have a material adverse effect on our business, financial condition or results of operations, litigation is subject to inherent uncertainties. Were we to settle a proceeding for a material amount or were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on our business, financial condition or results of operations. Legal fees are expensed as incurred.

Item 1A. Risk Factors

There have been no other material changes to the risk factors discussed in Part I, "Item 1A. Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2010 (Form 10-K). You should carefully consider the risks described in our Form 10-K, which could materially affect our business, financial condition or future results. The risks described in our Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, and/or results of operations. If any of the risks actually occur, our business, financial condition, and/or results of operations could be negatively affected.

Item 6. Exhibits

Exhibit No.	Description
10.1*	Form of Indemnification Agreement (Directors and Executive Officers)(incorporated by reference to the registrant's current report on Form 8-K filed the SEC on April 20, 2011).
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

*—Denotes compensatory plan, compensation arrangement or management contract.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 10, 2011	PDI, Inc. (Registrant)
	/s/ Nancy S. Lurker Nancy S. Lurker Chief Executive Officer
	/s/ Jeffrey E. Smith Jeffrey E. Smith Chief Financial Officer

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Nancy S. Lurker, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 of PDI, Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2011

/s/ Nancy S. Lurker
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeffrey E. Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 of PDI, Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2011

/s/ Jeffrey E. Smith
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of PDI, Inc. (the "Company") on form 10-Q for the period ended June 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nancy S. Lurker, as Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 10, 2011

/s/ Nancy S. Lurker
Chief Executive Officer
(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of PDI, Inc. (the "Company") on form 10-Q for the period ended June 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nancy S. Lurker, as Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 10, 2011

/s/ Jeffrey E. Smith
Chief Financial Officer
(Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.