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 March 31, 2012
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 May 13, 2012
Common stock, $0.01 par value	14,889,014

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

	March 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 61,872	$ 64,337
Short-term investments	121	127
Accounts receivable, net	7,789	9,633
Unbilled costs and accrued profits on contracts in progress	2,595	2,593
Other current assets	4,073	3,670
Total current assets	76,450	80,360
Property and equipment, net	2,218	2,484
Goodwill	18,908	18,908
Other intangible assets, net	7,084	7,309
Other long-term assets	4,275	4,318
Total assets	$ 108,935	$ 113,379
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 3,302	$ 4,139
Unearned contract revenue	16,555	15,882
Accrued salary and bonus	6,404	8,283
Other accrued expenses	15,901	17,774
Total current liabilities	42,162	46,078
Long-term liabilities	7,203	7,778
Total liabilities	49,365	53,856
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;		
15,979,549 and 15,820,373 shares issued, respectively;		
14,889,014 and 14,744,924 shares outstanding, respectively	160	158
Additional paid-in capital	127,147	126,720
Accumulated deficit	(54,003)	(53,731)
Accumulated other comprehensive income	7	12
Treasury stock, at cost (1,090,535 and 1,075,449 shares, respectively)	(13,741)	(13,636)
Total stockholders' equity	59,570	59,523
Total liabilities and stockholders' equity	$ 108,935	$ 113,379

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 March 31, 2012	Three Months Ended March 31, 2011
Revenue, net	$ 31,677	$ 44,302
Cost of services	24,311	36,139
Gross profit	7,366	8,163
Compensation expense	4,582	5,277

Other selling, general and administrative expenses	3,005	4,275
Total operating expenses	7,587	9,552
Operating loss	(221)	(1,389)
Other expense, net	(1)	(65)
Loss from continuing operations before income tax	(222)	(1,454)
Provision (benefit) for income tax	81	(1,043)
Loss from continuing operations	(303)	(411)
Income (loss) from discontinued operations, net of tax	31	(139)
Net loss	$ (272)	$ (550)
Other comprehensive income:		
Unrealized holding (loss) gain on available-for-sale securities, net	(5)	3
Comprehensive loss	$ (277)	$ (547)
Basic and diluted (loss) income per share of common stock from:		
Continuing operations	$ (0.02)	$ (0.03)
Discontinued operations	—	(0.01)
Net loss per basic and diluted share of common stock	$ (0.02)	$ (0.04)
Weighted average number of common shares and common share equivalents outstanding:		
Basic	14,536	14,469
Diluted	14,536	14,469

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

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

	Three Months Ended March 31,	
	2012	**2011**
Cash Flows From Operating Activities		
Net loss	$ (272)	$ (550)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	501	785
Facilities realignment accrual accretion	35	100
Provision for bad debt	—	7
Stock-based compensation	429	727
Other changes in assets and liabilities:		
Decrease in accounts receivable	1,844	4,624
Increase in unbilled costs	(2)	(560)
Increase in other current assets	(452)	(448)
Decrease (increase) in other long-term assets	92	(5)
Decrease in accounts payable	(837)	(477)
Increase in unearned contract revenue	673	2,878
Decrease in accrued salaries and bonus	(1,879)	(438)
Decrease in other accrued expenses	(1,872)	(3,214)
Decrease in long-term liabilities	(610)	(1,674)
Net cash (used in) provided by operating activities	(2,350)	1,755
Cash Flows From Investing Activities		
Purchase of property and equipment	(10)	(128)
Net cash used in investing activities	(10)	(128)
Cash Flows From Financing Activities		
Cash paid for repurchase of restricted shares	(105)	(9)
Net cash used in financing activities	(105)	(9)
Net (decrease) increase in cash and cash equivalents	(2,465)	1,618
Cash and cash equivalents – beginning	64,337	62,711
Cash and cash equivalents – ending	$ 61,872	$ 64,329

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, 2011 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 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-month period ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

On December 29, 2011, we entered into an agreement to sell certain assets of our Pharmakon business unit to Informed Medical Communications, Inc. (Informed) in exchange for potential future royalty payments and a 1% ownership interest in Informed. See Note 12 to the interim financial statements for additional detail regarding the discontinued operations of Pharmakon.

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 revenue and costs associated with this unit are reflected in the Product Commercialization Services (PC Services) segment for the three-month period ended March 31, 2012.

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

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-month periods ended March 31, 2012 and 2011 is as follows:

	Three Months Ended March 31,	
	2012	2011
Basic weighted average number of common shares	14,536	14,469
Dilutive effect of stock-based awards	—	—
Diluted weighted average number of common shares	14,536	14,469

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:

Three Months Ended
March 31,

	2012	2011
Options	91	151
Stock-settled stock appreciation rights (SARs)	591	391
Restricted stock/units	649	452
Performance contingent SARs	280	305
	1,611	1,299

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 March 31, 2012, 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 three-month period ended March 31, 2012.

Reclassifications

The Company reclassified certain prior period financial statement balances to conform to the current year presentation. See Note 12, Discontinued Operations, for further information.

Accounting Standards Updates

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-05 (ASU 2011-05), "Presentation of Comprehensive Income," 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 eliminated the option to present components of other comprehensive income as part of the statement of equity. ASU 2011-05 was effective for the Company January 1, 2012. The adoption of ASU 2011-05 did not have a material effect on the Company's operating results or financial position.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08 (ASU 2011-08), "Testing Goodwill for Impairment." ASU 2011-08 updates guidance on the periodic testing of goodwill for impairment. This updated guidance allows companies to assess qualitative factors to determine if it is more likely than not that goodwill will be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. The Company adopted this new guidance effective January 1, 2012. The adoption of ASU 2011-08 did not have a material effect on the Company's operating results or financial position.

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.

Available-for-sale securities consist of assets in a rabbi trust associated with the Company's deferred compensation plan. As of March 31, 2012 and December 31, 2011, the carrying value of available-for-sale securities was approximately $121,000 and

$127,000, respectively, and is included in short-term investments. Available-for-sale securities at March 31, 2012 and December 31, 2011 consisted of $59,000 and $65,000, respectively, in mutual funds, and approximately $62,000 in money market accounts.

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 $3.1 million at March 31, 2012 and December 31, 2011, as collateral for its existing insurance policies and facility leases.

At March 31, 2012 and December 31, 2011, held-to-maturity investments included the following:

	March 31, 2012	Maturing within 1 year	Maturing after 1 year through 3 years	December 31, 2011	Maturing within 1 year	Maturing after 1 year through 3 years
Cash/money accounts	$ 146	$ 146	$ —	$ 111	$ 111	$ —
US Treasury securities	4,253	1,321	2,932	4,293	1,323	2,970
Government agency securities	861	—	861	871	—	871
Total	$ 5,260	$1,467	$ 3,793	$ 5,275	$1,434	$ 3,841

At March 31, 2012 and December 31, 2011, held-to-maturity investments were recorded in the following accounts:

	March 31, 2012	December 31, 2011
Other current assets	$ 1,467	$ 1,434
Other long-term assets	3,793	3,841
Total	$ 5,260	$ 5,275

4. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and finite-lived intangible assets recorded as of March 31, 2012 are attributable to the 2010 acquisition of Group DCA. As of March 31, 2012 and December 31, 2011, the carrying amount of goodwill for Group DCA was $18.9 million.

The net carrying value of the identifiable intangible assets as of March 31, 2012 and December 31, 2011 is as follows:

		As of March 31, 2012			As of December 31, 2011		
	Life (Years)	Carrying Amount	Accumulated Amortization	Net	Carrying Amount	Accumulated Amortization	Net
Group DCA:							
Technology	6	$ 4,097	$ 967	$ 3,130	$ 4,097	$ 797	$ 3,300
Healthcare professional database	10	2,203	312	1,891	2,203	257	1,946
Corporate tradename	NA	2,063	—	2,063	2,063	—	2,063
Total		$ 8,363	$ 1,279	$ 7,084	$ 8,363	$ 1,054	$ 7,309

Amortization expense was $0.2 million for both the three-month periods ended March 31, 2012 and 2011. Estimated amortization expense for the current year and next four years is as follows:

2012	2013	2014	2015	2016
$ 903	$ 903	$ 903	$ 903	$ 754

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 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.

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.

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. In September 2011, the Company secured a sublease for the approximately 47,000 square feet of remaining space in Saddle River, New Jersey. This sublease runs through the end of the facility's lease term, January 2016. The Company expects to receive approximately $2.2 million in lease payments over the life of the sublease.

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 12, Discontinued Operations, for further information regarding the discontinued operations of TVG.

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.

Schaumburg, Illinois Facility

In December 2011, the Company sold certain assets of its Pharmakon business unit, vacated the business units' Schaumburg, Illinois facility and recorded a facility realignment charge of $0.4 million in discontinued operations. During the first quarter of 2012, the Company secured a sublease for the approximately 6,700 square feet of office space in Schaumburg, Illinois. This sublease runs through the end of the facility's lease term, February 2015. The Company expects to receive approximately $0.3 million in lease payments over the life of the sublease.

The following table presents a rollforward of the Company's restructuring reserve from December 31, 2011 to March 31, 2012, of which approximately $1.7 million is included in other accrued expenses and $2.2 million is included in long-term liabilities as of March 31, 2012. The Company recognizes accretion expense in *Other expense, net* in the Condensed Consolidated Statement of Operations.

	Sales Services	Marketing Services	Total
Balance as of December 31, 2011	$ 3,417	$ 1,072	$ 4,489
Accretion	28	7	35
Adjustments	—	(125)	(125)
Payments	(373)	(157)	(530)
Balance as of March 31, 2012	$ 3,072	$ 797	$ 3,869

6. FAIR VALUE MEASUREMENTS

The Company's financial assets and liabilities reflected at fair value in the consolidated financial statements include: cash and cash equivalents; short-term investments; accounts receivable; other current assets; accounts payable; and contingent consideration. 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 Valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or

3: 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.

	As of March 31, 2012		Fair Value Measurements as of March 31, 2012		
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents:					
Cash	$ 20,042	$ 20,042	$ 20,042	$ —	$ —
Money Market Funds	41,830	41,830	41,830	—	—
	$ 61,872	$ 61,872	$ 61,872	$ —	$ —
Marketable securities:					
Money Market Funds	$ 62	$ 62	$ 62	$ —	$ —
Mutual Funds	59	59	59	—	—
U.S. Treasury securities	4,253	4,253	4,253	—	—
Government agency securities	861	861	861	—	—
Total	$ 5,235	$ 5,235	$ 5,235	$ —	$ —

The fair value of cash and cash equivalents and marketable securities is valued using market prices in active markets (level 1). As of March 31, 2012, the Company did not have any marketable securities in less active markets (level 2) or (level 3).

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 March 31, 2012, the Company had outstanding letters of credit of $3.1 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 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 is subject 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.

The Company will record a liability when management believes that it is both probable that a liability has been incurred and the amount of the loss is reasonably estimable. For such matters where management believes a liability is not probable but is reasonably possible, a liability is not recorded; instead, an estimate of loss or range of loss, if material individually or in the aggregate, is disclosed if reasonably estimable, or a statement will be made that an estimate of loss cannot be made. Once a matter has been disclosed that is material, or could be material to the Company, the matter is continued to be reported upon until there is finality of outcome or until it is determined that disclosure is no longer warranted. Further, we believe our estimate of the aggregate range of reasonably possible losses for legal proceedings was not material at March 31, 2012.

8.LONG-TERM LIABILITIES

Long-term liabilities consisted of the following as of March 31, 2012 and December 31, 2011:

	March 31, 2012	December 31, 2011
Rent payable	$ 1,992	$ 2,070
Uncertain tax positions	2,888	2,887
Restructuring	2,182	2,679
Other	141	142
	$ 7,203	$ 7,778

9. STOCK-BASED COMPENSATION

On January 30, 2012, 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 units and SARs to certain executive officers and members of senior management of the Company. The full Board approved the portion of these grants made to the Company's Chief Executive Officer. These grants were made as part of the Company's long-term incentive plan and aggregated 150,567 shares of restricted stock units issued with a weighted average grant date fair value of $6.56 per share.

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-month period ended March 31, 2012:

	Three Months Ended March 31, 2012
Risk-free interest rate	0.31%
Expected life (in years)	3.5
Expected volatility	57.62%
Dividend yield	—%

The Company did not issue any SARs during the three months ended March 31, 2011.

The Company recognized $0.4 million and $0.7 million of stock-based compensation expense for the three-month periods ended March 31, 2012 and 2011, respectively.

10. 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 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-month periods ended March 31, 2012 and 2011:

	Three Months Ended March 31,	
	2012	2011
Provision (benefit) for income tax	$ 81	$ (1,043)
Effective income tax rate	(36.5)%	71.7%

Income tax expense for the three-month period ended March 31, 2012 was primarily due to state taxes. The income tax benefit for the three-month period ended March 31, 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.

11. 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, 2011. 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.

	Sales Services	Marketing Services	Product Commercialization Services	Consolidated
Three months ended March 31, 2012:				
Revenue	$ 23,369	$ 3,063	$ 5,245	$ 31,677
Operating (loss) income	$ (570)	$ (467)	$ 816	$ (221)
Capital expenditures	$ 5	$ 5	$ —	$ 10
Depreciation expense	$ 201	$ 68	$ 6	$ 275
Three months ended March 31, 2011:				
Revenue	$ 42,355	$ 1,947	$ —	$ 44,302
Operating income (loss)	$ 1,512	$ (2,901)	$ —	$ (1,389)
Capital expenditures	$ 8	$ 120	$ —	$ 128
Depreciation expense	$ 367	$ 95	$ —	$ 462

12. DISCONTINUED OPERATIONS

On December 29, 2011, we entered into an agreement to sell certain assets of our Pharmakon business unit to Informed in exchange for potential future royalty payments and a 1% ownership interest in Informed. The consolidated statement of operations reflects the presentation of Pharmakon as a discontinued operation in all periods presented.

On July 19, 2010, the Board approved closing the TVG business unit. 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 Pharmakon's and TVG's results included in Income (loss) from Discontinued Operations in the Condensed Consolidated Statements of Operations for the three-month periods ended March 31, 2012 and 2011.

	Three Months Ended March 31,	
	2012	2011
Revenue, net	$ —	$ 1,800
Income (loss) from discontinued operations, before income tax	33	(152)
Provision (benefit) for income tax	2	(13)
Income (loss) from discontinued operations, net of tax	$ 31	$ (139)

The major classes of assets and liabilities included in the Condensed Consolidated Balance Sheet for TVG and Pharmakon as of March 31, 2012 and December 31, 2011 are as follows:

	March 31, 2012	December 31, 2011
Current assets	$ 300	$ 1,013
Non-current assets	475	625
Total assets	$ 775	$ 1,638
Current liabilities	$ 624	$ 1,865
Non-current liabilities	1,345	1,526
Total liabilities	$ 1,969	$ 3,391

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

FORWARD-LOOKING STATEMENTS

This quarterly 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, as amended (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 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;
- 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;
- Our largest 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;
- 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, 2011, 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 outsourced commercial 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 and teledetailing. Combined, our services offer customers a range of both personal and non-personal promotional options for the commercialization of their products throughout their lifecycles, 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. 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 and access, successful challenges to intellectual property rights (including the introduction of competitive generic products), a strict regulatory environment, decreased pipeline productivity and a slow-down in the rate of approval of new products by the United States Food and Drug Administration (FDA). 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. However, during 2011, 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 December 29, 2011, we entered into an agreement to sell certain assets of our Pharmakon business unit to Informed Medical Communications, Inc. (Informed) in exchange for potential future royalty payments with a fair value of $0.4 million and a 1% ownership interest in Informed valued at $0.1 million. Net of the aforementioned consideration, we recorded a charge of approximately $7.5 million. See Note 12, Discontinued Operations, to the consolidated financial statements included in this Form 10-Q for additional details.

On August 1, 2011, we announced the formation of our new business unit, Interpace BioPharma. Interpace BioPharma provides pharmaceutical, biotechnology, medical device and diagnostics clients with full-service product commercialization solutions. These services include full supply chain management, operations, sales, marketing, compliance, and regulatory/medical management. This unit currently has one contract, the revenue and expenses of which is included in the Product Commercialization Services segment.

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

On November 3, 2010, we acquired 100% of the membership interest in 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, DIAGRAM™, 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 PDI's 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 March 31, 2012, $1.3 million is still held in escrow and will be paid out 18 months from the date of acquisition. The purchase agreement also provided for the former members of Group DCA to earn up to an additional $30.0 million from the date of acquisition through December 31, 2012. These payouts were to be based on Group DCA's achievement of revenue and gross profit metrics and ranged up to: $5.0 million in the period ended December 31, 2010; $12.5 million in the year ended December 31, 2011; and $12.5 million the year ending December 31, 2012. The metrics for payments related to the periods ended December 31, 2010 were not achieved. In November 2011, we announced the retirement of the Group DCA co-CEOs as of December 31, 2011 and announced that we amended the Group DCA purchase agreement to negotiate a buyout of the contingent earn-out fee. Under the amendment, we will pay $3.4 million to buyout the contingent earn-out fee under the purchase agreement in 2012. Pursuant to their respective retirement agreements, we will pay $0.3 million to each of the co-CEOs in 2013.

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 Product Commercialization Services businesses. These businesses 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 leading outsourced promotional services organization in the United States. We believe our focus has led to the significant level of new business we experienced in 2011. 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 continue to evaluate acquisitions that will enhance our current service offerings and provide new business opportunities.

DESCRIPTION OF REPORTING SEGMENTS

For the quarter ended March 31, 2012, 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:
  - Group DCA; and
  - Voice.
- Product Commercialization Services (PC Services) which is comprised of the following business unit:
  - Interpace BioPharma.

Selected financial information for each of these segments is contained in Note 11, 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 modestly 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. Renewed or extended contracts may include 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. Some 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 Group DCA and Voice business units. Our Group DCA business unit enters into contracts and performs services with our major clients that fall under the scope of master service agreements (MSAs) that typically have terms of one to three years. These MSAs include standard representations and warranties, as well as confidentiality and indemnification obligations, and are generally terminable by the customer or us, without cause or prior written notice, for any reason. If terminated, the customer is responsible for work completed to date, plus the cost of any nonrefundable commitments we made on its behalf. There is significant customer concentration within our Group DCA business unit.

Our Voice business unit enters into contracts and performs services with our clients that generally take the form of MSAs and typically have a term of three months to one year.

PC Services

Our PC Services segment currently consists of our Interpace BioPharma business unit. In August 2011, Interpace BioPharma announced its first contract, a two and one-half year fee-for-service arrangement with a pharmaceutical company. This contract includes standard representations and warranties, as well as mutual confidentiality and indemnification obligations for our protection, and is terminable by the customer without cause upon 180 days prior written notice after the first anniversary of the contract effective date. If the contract is terminated by the customer without cause, breakup fees apply. The total compensation provided by the break up fee 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. During the period ended March 31, 2012, one customer accounted for all of the revenue in our PC Services segment.

This contract also includes 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. This agreement also includes incentive payments that can be earned if our promotional activities generate results that meet or exceed agreed-upon performance targets.

In addition, this contract provides for certain reimbursable out-of-pocket expenses such as travel, meals and entertainment and product sample distribution costs, for which we are reimbursed at cost by our customer.

CONSOLIDATED RESULTS OF OPERATIONS

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

	Three Months Ended March 31,	
	2012	2011
Revenue, net	100.0 %	100.0 %
Cost of services	76.7 %	81.6 %
Gross profit	23.3 %	18.4 %
Compensation expense	14.5 %	11.9 %
Other selling, general and administrative expenses	9.5 %	9.6 %
Total operating expenses	24.0 %	21.6 %
Operating loss	(0.7)%	(3.2)%
Other expense, net	— %	(0.1)%
Loss from continuing operations before income tax	(0.7)%	(3.3)%
Provision (benefit) for income tax	0.3 %	(2.4)%
Loss from continuing operations	(1.0)%	(0.9)%

Results of Continuing Operations for the Quarter Ended March 31, 2012 Compared to the Quarter Ended March 31, 2011

Overview

We operate in three business segments: Sales Services; Marketing Services; and PC Services. Our quarter to quarter results may be impacted by the start or completion/termination of contracts.

Revenue, net (in thousands)	Three Months Ended March 31,			
	2012	2011	Change ($)	Change (%)
Sales Services	$ 23,369	$ 42,355	$ (18,986)	(44.8)%
Marketing Services	3,063	1,947	1,116	57.3 %
PC Services	5,245	—	5,245	NA
Total	$ 31,677	$ 44,302	$ (12,625)	(28.5)%

Consolidated revenue, net (revenue) for the quarter ended March 31, 2012 decreased by $12.6 million, or 28.5%, to $31.7 million, compared to the quarter ended March 31, 2011. This decrease was attributable to the new contract in our PC Services segment and the increase in revenue in our Group DCA business unit being more than offset by the expiration or non-renewal of contracts in our Sales Services segment.

Revenue in our Sales Services segment for the quarter ended March 31, 2012 decreased by $19.0 million, or 44.8%, to $23.4 million, compared to the quarter ended March 31, 2011. The decrease in Sales Services revenue was primarily due to certain clients renewing with a smaller salesforce and the expiration of certain other contracts totaling approximately $16.7 million partially offset by the launch of several new smaller contracts.

Revenue in our Marketing Services segment for the quarter ended March 31, 2012 increased by $1.1 million, or 57.3%, to $3.1 million, compared to the quarter ended March 31, 2011. This increase was primarily attributable to the increase in revenue in our Group DCA business unit compared to the quarter ended March 31, 2011. The significant impact of acquisition accounting on Group DCA's deferred revenue had a direct effect on the business unit's revenue in the quarter ended March 31, 2011.

Revenue in our PC Services segment for the quarter ended March 31, 2012 of $5.2 million is related to our fee for service arrangement in our Interpace BioPharma business unit. There was no revenue in the PC Services segment for the quarter ended March 31, 2011, as there were no ongoing product commercialization activities during that period.

Cost of services (in thousands)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Change ($)	Change (%)
Sales Services	$ 18,416	$ 33,578	$ (15,162)	(45.2)%
Marketing Services	1,828	2,561	(733)	(28.6)%
PC Services	4,067	—	4,067	NA
Total	$ 24,311	$ 36,139	$ (11,828)	(32.7)%

Consolidated cost of services for the quarter ended March 31, 2012 decreased by $11.8 million, or 32.7%, to $24.3 million, compared to the quarter ended March 31, 2011. This decrease was due to the reduction of contracts within our Sales Services segment, partially offset by our fee for service arrangement in our PC Services segment.

Cost of services in our Sales Services segment for the quarter ended March 31, 2012 decreased by $15.2 million, or 45.2%, to $18.4 million, compared to the quarter ended March 31, 2011. This decrease was directly attributable to the decrease in revenue discussed above.

Cost of services in our Marketing Services segment for the quarter ended March 31, 2012 decreased by $0.7 million, or 28.6%, to $1.8 million, compared to the quarter ended March 31, 2011. The decrease was attributable to our emphasis on cost savings initiatives as we right-sized the structure of our Group DCA business unit throughout 2011 and during the first quarter of 2012.

Cost of services in our PC Services segment for the quarter ended March 31, 2012 was $4.1 million and is related to our fee for service arrangement in our Interpace BioPharma business unit. There was no cost of services in the PC Services segment for the quarter ended March 31, 2011, as there were no ongoing product commercialization activities during that period.

Gross profit (in thousands)

Three Months Ended March 31,	Sales Services	% of Sales	Marketing Services	% of Sales	PC Services	% of Sales	Total	% of Sales
2012	$ 4,953	21.2%	$ 1,235	40.3 %	$ 1,178	22.5%	$ 7,366	23.3%
2011	8,777	20.7%	(614)	(31.5)%	—	—	8,163	18.4%
Change	$ (3,824)		$ 1,849		$ 1,178		$ (797)	

Consolidated gross profit for the quarter ended March 31, 2012 decreased by $0.8 million, or 9.8%, to $7.4 million, compared to the quarter ended March 31, 2011. The change in consolidated gross profit was attributable to the increase in revenue in our Group DCA business unit and the revenue from our PC Services fee for service arrangement being more than offset by the decline in revenue within our Sales Services segment.

The gross profit percentage in our Sales Services segment for the quarter ended March 31, 2012 increased to 21.2%, from 20.7% in the quarter ended March 31, 2011. The increase was primarily attributable to improved margins within our Dedicated Sales Team business unit as a result of exceeding certain incentive targets on one of our larger programs.

The gross profit percentage in our Marketing Services segment for the quarter ended March 31, 2012 increased to 40.3%, from (31.5)% in the quarter ended March 31, 2011. This increase was primarily attributable to the increase in Group DCA's revenue and Group DCA realizing more normalized margins in the quarter ended March 31, 2012 as compared to the quarter ended March 31, 2011. The significant impact of acquisition accounting on Group DCA's deferred revenue, had a direct effect on the business unit's revenue, and therefore gross profit, in the quarter ended March 31, 2011.

Gross profit in our PC Services segment for the quarter ended March 31, 2012 was approximately $1.2 million. There was no gross profit in the PC Services segment for the quarter ended March 31, 2011, as there were no ongoing product commercialization activities during that period.

Compensation expense (in thousands)

Three Months Ended March 31,	Sales Services	% of Sales	Marketing Services	% of Sales	PC Services	% of Sales	Total	% of Sales
2012	$ 3,602	15.4%	$ 791	25.8%	$ 189	3.6%	$ 4,582	14.5%
2011	4,235	10.0%	1,042	53.5%	—	—	5,277	11.9%
Change	$ (633)		$ (251)		$ 189		$ (695)	

Consolidated compensation expense for the quarter ended March 31, 2012 decreased by $0.7 million, to $4.6 million, as compared to the quarter ended March 31, 2011. The decrease was primarily attributable to a decrease in stock compensation costs of $0.3 million, vacant positions expected to be filled and the decrease at Group DCA from right-sizing the business throughout 2011. As a percentage of consolidated revenue, consolidated compensation expense increased to 14.5% for the quarter ended March 31, 2012, from 11.9% for the quarter ended March 31, 2011, primarily due to the decrease in consolidated revenue.

Compensation expense in our Sales Services segment for the quarter ended March 31, 2012 decreased by $0.6 million, to $3.6 million, as compared to the quarter ended March 31, 2011. This decrease was primarily attributable to a decrease in allocated corporate costs, including the decrease in stock compensation expense of $0.3 million. As a percentage of segment revenue, compensation expense increased 5.4%, to 15.4% for the quarter ended March 31, 2012, from 10.0% for the quarter ended March 31, 2011, primarily due to the decrease in Sales Services segment revenue.

Compensation expense in our Marketing Services segment for the quarter ended March 31, 2012 decreased by $0.3 million, to $0.8 million, compared to the quarter ended March 31, 2011. This decrease was primarily due to right-sizing the business throughout 2011, including a decrease in executive compensation costs. As a percentage of segment revenue, compensation expense decreased 27.7%, to 25.8% for the quarter ended March 31, 2012, from 53.5% for the quarter ended March 31, 2011. The decrease in segment compensation expense as a percent of segment revenue was a result of the increase in revenue at Group DCA, while Group DCA's compensation expense decreased from right-sizing the business.

Compensation expense in our PC Services segment for the quarter ended March 31, 2012 of $0.2 million is attributable to the allocation of corporate support costs. There was no compensation expense for the quarter ended March 31, 2011, as there were no ongoing product commercialization activities during that period.

Other selling, general and administrative expenses (in thousands)

Three Months Ended March 31,	Sales Services	% of Sales	Marketing Services	% of Sales	PC Services	% of Sales	Total	% of Sales
2012	$ 1,921	8.2%	$ 911	29.7%	$ 173	3.3%	$ 3,005	9.5%
2011	3,030	7.2%	1,245	63.9%	—	—	4,275	9.6%
Change	$ (1,109)		$ (334)		$ 173		$ (1,270)	

Consolidated other selling, general and administrative expenses for the quarter ended March 31, 2012 decreased by $1.3 million, to $3.0 million, compared to the quarter ended March 31, 2011. The decrease was primarily driven by our continued focus on cost savings, in particular: a $0.8 million decrease in professional services (i.e. consulting, audit, legal services); and $0.3 million decrease in information technology costs. As a percentage of consolidated revenue, consolidated other selling, general and administrative expenses decreased slightly to 9.5% for the quarter ended March 31, 2012, from 9.6% in the quarter ended March 31, 2011, due to the decrease in other selling, general and administrative expenses.

Other selling, general and administrative expenses in our Sales Services segment for the quarter ended March 31, 2012 decreased by $1.1 million, to $1.9 million, compared to the quarter ended March 31, 2011, primarily due to the decrease in allocated professional services and information technology costs mentioned above. As a percentage of segment revenue, other selling, general and administrative expenses increased 1.0%, to 8.2% for the quarter ended March 31, 2012, from 7.2% in the quarter ended March 31, 2011. This increase was attributable to the decrease in revenue during the three months ended March 31, 2012, as compared to the three months ended March 31, 2011.

Other selling, general and administrative expenses in our Marketing Services segment for the quarter ended March 31, 2012 decreased by $0.3 million compared to the quarter ended March 31, 2011, primarily due to a decrease in information technology consulting costs at Group DCA. Other selling, general and administrative expenses as a percentage of revenue decreased 34.2%, to 29.7% for the quarter ended March 31, 2012, from 63.9% in the quarter ended March 31, 2011 due to Group DCA's increase in revenue.

Other selling, general and administrative expense in our PC Services segment for the quarter ended March 31, 2012 of $0.2 million was attributable to the allocation of corporate support activities. There was no other selling, general and administrative expense for the quarter ended March 31, 2011, as there were no ongoing product commercialization activities during that period.

Operating loss

We had operating losses of $0.2 million and $1.4 million for the quarters ended March 31, 2012 and 2011, respectively. The decrease in operating loss was primarily due to a reduction in operating expenses and the first quarter operating income of our PC Services segment and improvement in our Group DCA business unit being offset by the lower level of business in our Sales Services segment.

Provision for income tax

We had income tax expense of approximately $0.1 million for the quarter ended March 31, 2012, compared to an income tax benefit of $1.0 million for the quarter ended March 31, 2011. Income tax expense for the quarter ended March 31, 2012 was primarily due to state and local taxes as we and our subsidiaries file separate income tax returns in numerous state and local jurisdictions. The income tax benefit for the quarter ended March 31, 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.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2012, we had cash and cash equivalents and short-term investments of approximately $62.0 million and working capital of $34.3 million, compared to cash and cash equivalents and short-term investments of approximately $64.5 million and working capital of approximately $34.3 million at December 31, 2011. As of March 31, 2012, we had no commercial debt.

For the three-month period ended March 31, 2012, net cash used in operating activities was $2.4 million, compared to $1.8 million of net cash provided by operating activities for the three-month period ended March 31, 2011. The main components of cash used in operating activities during the three-month period ended March 31, 2012 were a decrease in accrued salaries and bonus of $1.9 million, and a decrease in accounts payable of $0.8 million. The main component of cash provided by operating activities during the three-month period ended March 31, 2011 was the change in other assets and liabilities of $0.7 million which more than offset the net loss of $0.6 million after taking into effect noncash items of $1.6 million.

As of both March 31, 2012 and December 31, 2011, we had $2.6 million of unbilled costs and accrued profits on contracts in progress. 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 March 31, 2012 and December 31, 2011, we had $16.6 million and $15.9 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 three-month period ended March 31, 2012, we essentially had no net cash used in investing activities compared to $0.1 million of cash used in investing activities during the three-month period ended March 31, 2011. All capital expenditures were funded out of available cash. For the three-month periods ended March 31, 2012 and March 31, 2011, net cash used in financing activities consisted of 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 three-month period ended March 31, 2012, we had four customers that accounted for approximately 28.0%, 19.7%, 16.6% and 15.3% 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.

Future Liquidity and Capital Resources

Our primary sources of liquidity are cash generated from our operations and available cash and cash equivalents. These sources of liquidity are needed to fund our working capital requirements, contractual obligations and estimated capital expenditures of approximately $2.0 million in 2012. We expect our working capital requirements to increase as a result of new customer contracts generally providing for longer than historical payment terms. In the fourth quarter of 2011, we announced the retirement of the Group DCA co-CEOs as of December 31, 2011 and announced that we amended the Group DCA purchase agreement to negotiate a buyout of the then existing contingent earn-out fee. Under the amendment, we will pay $3.4 million to buyout the contingent earn-out fee under the purchase agreement in 2012 as follows: $1.5 million in the second quarter of 2012; and $1.9

million in the fourth quarter of 2012. In addition, pursuant to their respective retirement agreements, we will pay $0.3 million to each of the co-CEOs in 2013.

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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

PDI is a smaller reporting company as defined by the disclosure requirements in Regulation S-K of the SEC and therefore not required to provide this information.

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 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

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

Except as set forth herein, there have been no 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, 2011 (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.

We have risks related to changes in laws, regulations and judicial decisions that could have an adverse effect on our operating results, financial position or cash flows.

Our future operating results, financial position or cash flows could be adversely impacted by changes in laws, regulations and judicial decisions affecting the Fair Labor Standards Act and various state and Federal laws and regulations governing such matters such as minimum wages, exempt status classification, overtime and employee benefits.

Item 6. Exhibits

Exhibit No.	Description
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.
101	The following financial information from this Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2012 formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Condensed Consolidated Balance Sheets; (ii) the Condensed Consolidated Statements of Operations; (iii) the Condensed Consolidated Statements of Cash Flows; and (iv) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.

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: May 15, 2012	PDI, Inc.
	(Registrant)
	/s/ Nancy S. Lurker
	Nancy S. Lurker
	Chief Executive Officer
	/s/ Jeffrey Smith
	Jeffrey 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 March 31, 2012 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: May 15, 2012

/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 March 31, 2012 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: May 15, 2012

/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 March 31, 2012 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: May 15, 2012

/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 March 31, 2012 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: May 15, 2012

/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.