UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes £ No Q

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes £ No Q

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 Q 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 during the preceding 12 months (or for such short period that the registrant was required to submit and post such files). Yes Q No £

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. £

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 Q

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

The aggregate market value of the registrant's common stock, $0.01 par value per share, held by non-affiliates of the registrant on June 28, 2013, the last business day of the registrant's most recently completed second fiscal quarter, was $ 25,738,854 (based on the closing sales price of the registrant's common stock on that date). Shares of the registrant's common stock held by each officer and director and each person who owns 10% or more of the outstanding common stock of the registrant have been excluded because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 28, 2014, 15,366,061 shares of the registrant's common stock, $0.01 par value per share, were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the registrant's 2014 Annual Meeting of Stockholders (the Proxy Statement), to be filed within 120 days of the end of the fiscal year ended December 31, 2013, are incorporated by reference in Part III hereof. Except with respect to information specifically incorporated by reference in this Annual Report on Form 10-K (Form 10-K), the Proxy Statement is not deemed to be filed as part hereof.

PDI, Inc.
Annual Report on Form 10-K

* The information required under this item is to be contained in the Proxy Statement for the registrant's annual meeting of stockholders, and is incorporated herein by reference. It is anticipated that the Proxy Statement will be filed with the Securities and Exchange Commission by April 30, 2014.

FORWARD LOOKING STATEMENT INFORMATION

This Form 10-K 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-K, including, but not limited to, statements found in Part I – Item 1 – "Business," Part II – Item 5 – "Market for our Common Equity, Related Stockholder Matters and Issuer Purchases of Securities," and Part II – Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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 predictions 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:

- 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 and strategy;
- Our ability to successfully identify, complete and integrate any future acquisitions or successfully complete and integrate our diagnostic commercialization opportunities and the effects of any such items on our revenues, profitability and ongoing business;
- Our ability to meet performance goals in incentive-based arrangements with customers;
- Our ability to successfully negotiate contracts with reasonable margins and favorable payment terms;
- 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 of third-party service providers to perform their obligations to us;
- Volatility of our stock price and fluctuations in our quarterly and annual revenues and earnings;
- 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" of this Form 10-K, 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 and from the forward-looking statements discussed herein. 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 this Form 10-K and, except as may be required by law, we undertake no obligation to revise or update publicly any forward-looking statements for any reason.

PART I

ITEM 1. BUSINESS

Summary of Business

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, we also provide other promotional services including clinical educator services, digital communications, teledetailing and through our Interpace BioPharma business unit, we provide pharmaceutical, biotechnology, medical device and diagnostics clients with full-service product commercialization solutions. 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 have evolved our multi-channel promotional capabilities through innovation, organic growth, acquisitions and strategic partnerships. We have designed and implemented programs for many large pharmaceutical companies, a variety of emerging and specialty pharmaceutical and biotechnology companies as well as nutritional, diagnostic and other healthcare service providers. We recognize that our relationships with customers are dependent upon the quality of our performance and our ability to reach and engage their target audiences in a positive and meaningful manner. Our focus is to flawlessly execute our customers' programs in order to consistently deliver their desired results.

Recently, we have acted on our strategy of searching for product in-licensing, acquisition and partnering opportunities that will add more predictable, higher growth, higher margin business that can reduce the natural volatility of our current core businesses, and at the same time leverage the breadth of our installed infrastructure and strength of our core commercialization capabilities. See Strategy below for further information.

We originally commenced operations as an outsourced sales organization in 1987, incorporated in Delaware just prior to our initial public offering in May 1998. Our executive offices are located at Morris Corporate Center 1, Building A, 300 Interpace Parkway, Parsippany, New Jersey 07054. Our telephone number is (800) 242-7494.

Strategy

We strive to continually strengthen our position as a leading outsourced commercialization services organization in the United States. With a focus on superior quality and cost effectiveness, we have intensified our efforts on strengthening all aspects of our core outsourced promotional services business and broadening our overall commercialization capabilities. In 2013, we invested in several areas in an effort to proactively leverage our core strengths, help differentiate us and intensify our competitive position in the market. In 2014, through our Interpace Diagnostics entity, we will continue to differentiate ourselves as we build off of our strategy to add more predictable, higher growth, higher margin business that will complement our core business and reduce volatility.

Relative to our core outsourced promotional services businesses, which include our Sales Services segment (CSO and EngageCE--clinical educators), Marketing Services segment (Group DCA--digital communications and Voice--teledetailing) and Product Commercialization segment (Interpace BioPharma--full service product commercialization solutions), we have not only consistently added capabilities that strengthen our offerings, we have focused heavily on delivery of these comprehensive, multi-channel services in an integrated and optimized manner. We offer three distinct forms of outsourced promotional services: personal promotion; non-personal promotion; and full-service product commercialization. Personal promotion involves a face-to-face interaction between a healthcare provider and a sales representative or clinical educator. These services are included within our Sales Services and Product Commercialization segments. Non-personal promotion, included within our Marketing Services segment, involves the healthcare provider accessing clinical or product information via a personal computer, tablet, mobile device or telephone at a time that is convenient to them. Due to the on-demand nature of our non-personal offerings, healthcare professionals can participate 24 hours a day, 7 days a week whether at home, in the office or from another remote location. Full-service product commercialization solutions, included in our Product Commercialization segment, involves product distribution, personal and

non-personal product detailing, full supply chain management, operations, sales, marketing, compliance, and regulatory/medical management to pharmaceutical, biotechnology, medical device and diagnostics clients.

With our proven record of outsourced promotional services expertise, we took action in 2013 on our stated strategy of searching for product in-licensing, acquisition and partnering opportunities that will add more predictable, higher growth, higher margin business that can reduce the natural volatility of our current core businesses, and at the same time leverage the breadth of our installed infrastructure and strength of our core commercialization capabilities. Through our Interpace Diagnostic entity, we have recently announced a strategy focused on becoming a leading commercialization company for the molecular diagnostics industry via in-licensing, acquiring or partnering. The molecular diagnostics industry is highly fragmented with numerous strong science-based companies that have developed clinically important tests which are ready or near ready for market. A vast majority of these companies have very limited experience bringing a test to market and many of them do not have the capital to build an infrastructure to effectively commercialize their test. Due to their complexity, most molecular diagnostic tests require a specialized go-to-market strategy, which includes messaging to physicians and potentially patients, similar to launching of a new drug in the pharmaceutical market. Developing and delivering these kinds of messages, fully leveraging our extensive commercial infrastructure in an impactful, innovative and ROI centric manner is one of our strengths. Given our proven core sales and marketing and full commercialization capabilities, we believe this is a natural extension for us and the strength of these core capabilities, our installed infrastructure and the ability to gain synergies significantly mitigates the risks associated with this strategy.

In October 2013, we entered into phase one of a collaboration agreement to commercialize CardioPredict™, a molecular diagnostic test developed by Transgenomic, Inc. (Transgenomic) in the United States. Under the terms of the strategic collaboration agreement, we will be responsible for all U.S.-based marketing and promotion of CardioPredict™, while Transgenomic will be responsible for processing CardioPredict™ in its state-of-the-art CLIA lab and all customer support. Both parties will pay their respective expenses and will split profit on a formula basis. If we enter into phase two of the collaboration agreement, we may provide Transgenomic with funding support of up to $3.0 million principally to finance working capital requirements for the product.

In August 2013, we entered into phase one of a collaboration agreement with a privately held molecular diagnostics company (the Diagnostics Company) to commercialize its molecular diagnostic tests. The initial test to be commercialized is fully developed. Under the terms of the collaboration agreement, we paid an initial fee of $1.5 million and have the ability to enter the second phase of the collaboration arrangement in the form of a call option to purchase the outstanding common stock of the Diagnostics Company. The option price is dependent on the achievement of certain milestones during the collaboration period (the period up to the exercise of the purchase option or termination of the collaboration agreement) and could be up to $6 million if all milestones are achieved at their maximum levels and we enter into phase two of the collaboration agreement. We can terminate the collaboration agreement if all milestones are not achieved by August 2014 and would receive a $1.0 million termination fee. If all milestones are achieved by August 2014, and we have not exercised our option, the Diagnostics Company can require us to exercise the option to purchase the outstanding stock of the Diagnostics Company (enter phase two of the arrangement) or terminate the collaboration agreement and pay us a termination fee of approximately $2.0 million. If we purchase the Diagnostics Company, in addition to the option price based on the achievement of milestones, beginning in 2015, we would pay a royalty of 7% on annual net revenue up to $50 million with escalating royalty percentages for higher annual net revenue capped at 11% for annual net revenue in excess of $100 million.

In addition, we plan to actively promote and market our recently launched Group DCA business unit product offering, PD One™, a proprietary technology platform aimed at expanding relationships between pharmaceutical and life science companies and health care providers. The subscription-based platform enables clients to extend personal and brand interactions with physicians through a secure, professional networking platform that features direct messaging and dynamic content. The new platform complements PDI's award-winning companion site, *The Medical Bag*, a content-rich, multi-functional digital environment that receives more than 50,000 visits by medical professionals each month. This offering utilizes the Group DCA database of approximately 400,000 physicians, can be leveraged by our entire organization and will require ongoing support and enhancements.

As we continue to focus on developing the opportunities above, we will continue to search for similar opportunities that can leverage our installed infrastructure and the strength of our core commercialization capabilities while providing us with more predictable, higher growth, higher margin business that can also reduce the natural volatility of our current core businesses. In addition, we will continue to evaluate the risks and rewards of opportunities within our PC Services segment as they arise and evaluate acquisitions that will enhance our current service offerings and provide new business opportunities. See the "Going Forward" section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for a further explanation of our commitment to investment.

Reporting Segments and Business Units

We have three reporting segments: Sales Services; Marketing Services; and Product Commercialization Services (PC Services).

Sales Services (Personal Promotion)

This segment, which focuses primarily on product detailing, includes our outsourced sales teams and EngageCE business unit, and represented 89% of our consolidated revenue for the year ended December 31, 2013. Product detailing involves a sales representative meeting face-to-face with targeted physicians and other healthcare decision makers to provide a technical review of the product being promoted and deliver marketing materials, including samples. Outsourced sales teams can be deployed on either a customer dedicated or shared basis, and may use either full-time or flex-time sales representatives. This segment also includes a portfolio of expanded sales services which includes talent acquisition services, short-term teams and vacancy coverage services. Our talent acquisition platform provides pharmaceutical customers with an outsourced, stand-alone sales force recruiting and on-boarding service. Short-term programs provide temporary full or flex-time sales teams, and are designed to help our customers increase brand impact during key market cycles, rapidly respond to regional opportunities, or conduct pilot programs. Our vacancy coverage service provides customers with outsourced full or flex-time sales representatives to fill temporary territory vacancies created by leaves of absence within our customers' internal sales forces, thereby allowing our customers to maintain continuity of services.

Dedicated Sales Teams

A Dedicated Sales Team works exclusively on behalf of one customer. The sales team is customized to meet the customer's specifications with respect to sales representative profile, physician targeting, product training, incentive compensation plans, integration with the customer's in-house sales force, call reporting platform and data integration. Without adding permanent personnel, our customers receive high quality, industry-standard sales teams comparable to their internal sales force.

Established Relationship Teams

Our Established Relationship Teams business model centers on an existing PDI-managed team where multiple non-competing brands are promoted for different pharmaceutical companies. Using these teams, we make a face-to-face selling resource available to those customers who want an alternative to a Dedicated Sales Team. We are the leading provider of this type of detailing program in the United States. Since costs are shared among various companies, these programs may be less expensive for the customer than programs involving a dedicated sales force. With an Established Relationship Team, our customers receive targeted coverage of their physician audience.

EngageCE

Out EngageCE team offers expert clinical educators to work with health care providers typically in the management of chronic diseases in order to optimize patient care and outcomes. EngageCE clinical educators helps medical practices transition from providing routine health care to implementing recognized and recommended standards of care. The primary focus of EngageCE is to instill best-practice treatment standards and procedures among health care practitioners and engage in discussions on appropriate drug therapies. This involves protocols that proactively enhance patient and disease management, with the goals of preventing medical issues from becoming more serious and of improving patient outcomes. The secondary focus of EngageCE is providing patient education on medical treatments to improve the patients' ownership of their disease.

Marketing Services (Non-personal Promotion)

This segment includes two business units: Group DCA; and PDI Voice (Voice). The Marketing Services segment represented 3% of consolidated revenue for the year ended December 31, 2013.

Group DCA

Group DCA's business is focused on the creation, design and implementation of interactive digital communications, including its award-winning e-detailing programs to the healthcare community on behalf of its pharmaceutical, biotechnology and healthcare customers. Group DCA leverages the strength of the Internet, multimedia, tablet PCs, mobile devices, dimensional direct mail and its proprietary software, DIAGRAM™ (DIAlog, GRAphics, Motion), to deliver digital 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.

Voice

Voice's business is focused on the creation of teledetailing programs that are executed via tele-representatives. Voice programs are designed to cover healthcare providers that are either categorized as "no see," who are geographically not covered by our customer's sales team or where a vacancy within the team exists. In addition to teledetailing programs, a call center can provide program enrollment support, conduct telephonic surveys and manage sample, literature and other materials fulfillment requests by healthcare providers.

Product Commercialization Services (PC Services)

This segment includes: our efforts related to our two collaboration agreements entered into in connection with our strategy of becoming a leading commercialization company for the molecular diagnostics industry through our Interpace Diagnostics entity; and our Interpace BioPharma business unit.

Interpace BioPharma

Interpace BioPharma provides pharmaceutical, biotechnology, medical device and diagnostics clients with full-service product commercialization solutions. These services include product distribution, product detailing, full supply chain management, operations, sales, marketing, compliance, and regulatory/medical management. The PC Services segment represented 8% of consolidated revenue for the year ended December 31, 2013.

For details on revenue, operating results and total assets by segment, see Note 17, Segment Information, to the consolidated financial statements included in this Form 10-K.

Contracts

Set forth below is a general description of our service contracts within each of our business segments.

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 three 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. 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 established relationships agreements. Conversely, these same agreements generally include risk-based metrics which allow for incentive payments that can be earned if our promotional activities generate results that meet or exceed agreed-upon performance 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 a master service agreement(s) (MSAs) or statements of work (SOWs) and typically have a term of one to three years. These MSAs, and in certain instances, SOWs, 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 their 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 and our two collaboration agreements entered into in connection with our strategy of becoming a leading commercialization company for the molecular diagnostics industry.

In August 2011, Interpace BioPharma announced 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. This contract 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.

Due to the success of the program and to allow our customer to begin their long-term plan of building their own capabilities in the United States, this customer advised us that they wished to internalize selected commercialization activities as of October 1, 2012 and at the same time, extend other activities 6 months past the original December 31, 2013 contract expiration date to June 30, 2014. The modified and extended contract resulted in an estimated 10% to 15% net overall reduction of the original $55 million contract; however, the contract is no longer terminable by the customer without cause. We anticipate the contract will terminate on the June 30, 2014 contract expiration date. During the year ended December 31, 2013, this one customer accounted for all of the revenue in our PC Services segment.

We entered into two separate collaboration agreements to commercialize molecular diagnostic tests in 2013. Under the terms of our October 2013 strategic collaboration agreement with Transgenomic, we will be responsible for all U.S.-based marketing and promotion of CardioPredict™. We will bear the cost of our expenses only and will split profit on a formula basis. In addition, we may provide Transgenomic with funding support of up to $3.0 million principally to finance working capital requirements for the product. Under the terms of our August 2013 collaboration agreement with a privately held molecular diagnostics company (the Diagnostics Company), if we enter into the second phase of collaboration arrangement, we will be responsible for the full commercialization of their molecular diagnostic tests. Under the terms of the collaboration agreement, we paid an initial fee of $1.5 million and have the ability to enter the second phase of the collaboration agreement in the form of a call option to purchase the outstanding common stock of the Diagnostics Company. The option price is dependent on the achievement of certain milestones during the collaboration period (the period up to the exercise of the purchase option or termination of the collaboration agreement) and could be up to $6 million if all milestones are achieved at their maximum levels. We can terminate the collaboration agreement if all milestones are not achieved by August 2014 and would receive a $1.0 million termination fee. If all milestones are achieved by August 2014 and we have not exercised our option, the Diagnostics Company can require us to exercise the option to purchase the outstanding stock of the Diagnostics Company or terminate the collaboration agreement and pay us a termination fee of approximately $2.0 million. If we purchase the Diagnostic Company, in addition to the option price based on the achievement of milestones, beginning in 2015, we would pay a royalty of 7% on annual net revenue up to $50 million with escalating royalty percentages for higher annual net revenue capped at 11% for annual net revenue in excess of $100 million.

Significant Customers

Historically, we have experienced a high degree of customer concentration in our businesses. Our two largest customers were Pfizer Inc. and Vivus, Inc., which accounted for 47.5% and 19.3%, respectively, of our revenue for the year ended December 31, 2013 and collectively accounted for 88% of our accounts receivable and unbilled receivable balances as of December 31, 2013.

Marketing

Our marketing efforts target established and emerging companies in the pharmaceutical, biotechnology and healthcare industries and are designed to reach the senior sales, marketing, and business development personnel within these companies with the goal of informing them of the services we offer and the value we can bring to the promotion and sale of their products. Our tactical plan usually includes editorial contributions and/or advertising in trade publications, direct marketing campaigns, presence at industry seminars and conferences and a direct selling effort. We have a dedicated team of business development specialists who work within our business units to identify needs and opportunities within the pharmaceutical, biotechnology and healthcare industries that we can address. We review possible business opportunities as identified by our business development team and develop a customized strategy and solution for each attractive business opportunity.

Competition

With respect to our Sales Services reporting segment, we compete with our customers' ability to manage their needs internally. In addition, a small number of providers comprise the market for outsourced sales teams, and we believe that PDI, inVentiv Health Inc., Quintiles, and Publicis Touchpoint Solutions - part of Publicis Groupe SA, accounted for the majority of the outsourced sales team market share in the United States in 2013. Our Marketing Services reporting segment operates in a highly fragmented and competitive market and we believe that PDI, WebMD, Inc., Cadient Group, Inc., Physicians Interactive, Heartbeat Digital, Digitas, Inc. – part of Publicis Groupe SA, were the significant providers of marketing services to the pharmaceutical, biotechnology and healthcare industries in 2013.

We compete on the basis of such factors as reputation, service quality, management experience, performance record, customer satisfaction, ability to respond to specific customer needs, integration skills and price. Increased competition and/or a decrease in demand for our services may also lead to other forms of competition. We believe that our business units individually and our organization as a whole have a variety of competitive advantages that allow us to compete successfully in the marketplaces for our services. While we believe we compete effectively with respect to each of these factors, certain of our competitors are larger than us and have greater capital, personnel and other resources than we have. Increased competition may lead to pricing pressures and competitive practices that could have a material adverse effect on our market share and our ability to attract new business opportunities as well as our business, financial condition and results of operations.

Employees

As of February 28, 2014, we had approximately 830 employees, including approximately 706 full-time employees. Approximately 89% of our employees are field sales representatives and sales managers. We are not party to a collective bargaining agreement with any labor union.

Available Information

Our website address is www.pdi-inc.com. We are not including the information contained on our website as part of, or incorporating such information by reference into, this Form 10-K. We make available free of charge through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC.

The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding registrants such as us that file electronically with the SEC. The website address is www.sec.gov.

Government Regulations and Industry Guidelines

The healthcare sector is subject to extensive federal, state and local government regulations. A complex and evolving body of laws and regulations affects, among other matters, the approval, provision, licensing, labeling, marketing, promotion, price, sale and reimbursement of healthcare services and products, including pharmaceutical products. The federal government has extensive enforcement powers over the activities of pharmaceutical manufacturers, including authority to withdraw product approvals, commence actions to seize and prohibit the sale of unapproved or non-complying products, to halt manufacturing

operations that are not in compliance with good manufacturing practices, and to impose or seek injunctions, voluntary recalls, and civil, monetary, and criminal penalties.

The Patient Protection and Affordable Care Act (PPACA) (also known as the Sunshine Act) was signed into law on March 23, 2010. The PPACA was subsequently amended on March 30, 2010 by the Health Care and Education Reconciliation Act of 2010 (the Reconciliation Act). While the PPACA may increase the number of patients who have insurance coverage for the products we promote, its cost containment measures could also adversely affect reimbursement for our customers' products.

The Food, Drug and Cosmetic Act, as supplemented by various other statutes, regulates, among other matters, the approval, labeling, advertising, promotion, sale and distribution of drugs, including the practice of providing product samples to physicians. Under this statute, the Food and Drug Administration (FDA) regulates all promotional activities involving prescription drugs. The distribution of pharmaceutical products is also governed by the Prescription Drug Marketing Act (PDMA), which regulates promotional activities at both the federal and state level. The PDMA imposes extensive licensing, personnel record keeping, packaging, quantity, labeling, product handling and facility storage and security requirements intended to prevent the sale of pharmaceutical product samples or other diversions. Under the PDMA and its implementing regulations, states are permitted to require registration of manufacturers and distributors who provide pharmaceutical products even if such manufacturers or distributors have no place of business within the state. States are also permitted to adopt regulations limiting the distribution of product samples to licensed practitioners and require extensive record keeping and labeling of such samples for tracing purposes. The sale or distribution of pharmaceutical products is also governed by the Federal Trade Commission Act and state consumer protection laws.

There are also numerous federal and state laws pertaining to healthcare fraud and abuse as well as increased scrutiny regarding the off-label promotion and marketing of pharmaceutical products and devices. In particular, certain federal and state laws prohibit manufacturers, suppliers and providers from offering, giving or receiving kickbacks or other remuneration in connection with ordering or recommending the purchase or rental of healthcare items and services. The federal anti-kickback statute imposes both civil and criminal penalties for, among other things, offering or paying any remuneration to induce someone to refer patients to, or to purchase, lease or order (or arrange for or recommend the purchase, lease or order of) any item or service for which payment may be made by Medicare or other federally-funded state healthcare programs (e.g., Medicaid). This statute also prohibits soliciting or receiving any remuneration in exchange for engaging in any of these activities. The prohibition applies whether the remuneration is provided directly or indirectly, overtly or covertly, in cash or in kind. Violations of the statute can result in numerous sanctions, including criminal fines, imprisonment and exclusion from participation in the Medicare and Medicaid programs. Several states also have referral, fee splitting and other similar laws that may restrict the payment or receipt of remuneration in connection with the purchase or rental of medical equipment and supplies. State laws vary in scope and have been infrequently interpreted by courts and regulatory agencies, but may apply to all healthcare items or services, regardless of whether Medicare or Medicaid funds are involved.

Some of the services that we currently perform or that we may provide in the future may also be affected by various guidelines established by industry and professional organizations. For example, ethical guidelines established by the American Medical Association (AMA) govern, among other matters, the receipt by physicians of gifts from health-related entities. These guidelines govern honoraria and other items of economic value that AMA member physicians may receive, directly or indirectly, from pharmaceutical companies. Similar guidelines and policies have been adopted by other professional and industry organizations, such as Pharmaceutical Research and Manufacturers of America, an industry trade group. In addition, the Office of the Inspector General has also issued guidance for pharmaceutical manufacturers and the Accreditation Council for Continuing Medical Education has issued guidelines for providers of continuing medical education.

ITEM 1A. RISK FACTORS

In addition to the other information provided in this Annual Report on Form 10-K, you should carefully consider the following factors in evaluating our business, operations and financial condition. Additional risks and uncertainties not presently known to us, which we currently deem immaterial or that are similar to those faced by other companies in our industry or businesses in general, such as competitive conditions, may also impair our business operations. The occurrence of any of the following risks could have a material adverse effect on our business, financial condition, results of operations or cash flows.

PDI BUSINESS RISKS:

Our service contracts are generally cancelable at any time, which may result in lost revenue and additional costs and expenses.

Our service contracts are generally for a term of one to three years (certain of our business units have contracts of shorter duration) and many may be terminated by the customer at any time for any reason. In addition, many of our customers may internalize the contracted sales teams we provide under the terms of the contract or otherwise significantly reduce the number of sales representatives we deploy on their behalf. The early termination or significant reduction of a contract by one of our customers not only would result in lost revenue, but also cause us to incur additional costs and expenses, such as termination expenses relating to excess employee capacity. All of our sales representatives are employees rather than independent contractors. Accordingly, when a contract is significantly reduced or terminated, unless we can immediately transfer the related sales force to a new program, if permitted under the contract, we must either continue to compensate those employees, without realizing any related revenue, or terminate their employment. If we terminate their employment, we may incur significant expenses relating to their termination. The loss, termination or significant reduction of a large contract or the loss or termination of multiple contracts could have a material adverse effect on our business and results of operations.

The majority of our revenue is derived from a very limited number of customers, the loss of any one of which could materially and adversely affect our business, financial condition and results of operations.

Our revenue and profitability depend to a great extent on our relationships with a very limited number of large pharmaceutical companies. As of December 31, 2013, our two largest customers accounted for approximately 66.8% of our 2013 revenue. As of December 31, 2012, our four largest customers accounted for approximately 68.2% of our 2012 revenue. While we expect to continue gaining new business in 2014, it is likely that our revenue and profitability will continue to be dependent on significant contracts with a very limited number of large pharmaceutical companies, and we may experience an even higher degree of customer concentration in 2014 and beyond in light of continued consolidation within the pharmaceutical industry and current business development opportunities.

In order to continue increasing our revenues, we will need to maintain and grow business with our existing customers while attracting additional significant customers. Our failure to attract a sufficient number of new customers during a particular period, or our inability to replace the loss of or significant reduction in business from a major customer could have a material adverse effect on our business, financial condition and results of operations.

If any future at-risk or other similar opportunities that we may pursue are not profitable for us, our business, financial condition, results of operations and cash flows could be materially and adversely affected.

While we are not actively engaged in any fully at-risk opportunities at this time, we continue to evaluate potential opportunities on a very selective and opportunistic basis. To the extent we enter into any arrangements in the future in which our anticipated revenue is based on sales of the product, there can be no assurance that our promotional activities will generate sufficient product sales for these types of arrangements to be profitable for us and our business. In addition, there are a number of factors that could negatively impact product sales during the term of a sales force promotional program, many of which are beyond our control, including the level of promotional response to the product, withdrawal of the product from the market, the launch of a therapeutically equivalent generic version of the product, the introduction of a competing product, loss of managed care covered lives, a significant disruption in the manufacture or supply of the product as well as other significant events that could affect sales of the product or the prescription market for the product. As a result, our financial condition, results of operations and cash flows could be materially and adversely affected if sales of products subject to these types of arrangements are not at adequate levels.

If we do not meet performance goals established in our incentive-based arrangements with customers, or potential future revenue-sharing arrangements with customers, our revenue could be materially and adversely affected.

We have entered into a number of incentive-based arrangements with our customers. Under incentive-based arrangements, we are typically paid a lower fixed fee and, in addition, have an opportunity to earn additional compensation upon achieving specific performance goals with respect to the products being detailed. Typically, these performance goals relate to targeted sales or prescription volumes, sales force performance metrics or a combination thereof. In addition, although not currently a party to, we have entered into revenue sharing arrangements in the past and may in the future enter into revenue sharing arrangements with customers. Under revenue sharing arrangements, we have been typically paid a fixed fee covering all or a portion of our direct costs with our remaining compensation based on the market performance of the products being promoted by us, usually expressed as a percentage of product sales. These incentive-based and revenue sharing arrangements transfer some or most of the market risk from our customers to us. In addition, these arrangements can result in variability in revenue and earnings due to seasonality of product usage, changes in market share, new product introductions (including the introduction of competing generic products into the market), overall promotional efforts and other market-related factors. If we are unable to meet the future performance goals established in our incentive-based arrangements or the market performance goals in our revenue sharing arrangements, our

revenue could be materially and adversely affected. During the periods presented in this Annual Report on Form 10-K the revenue at risk under performance goals was not material to the Company.

Additionally, certain of our service contracts may contain penalty provisions pursuant to which our fixed fees may be significantly reduced if we do not meet certain minimum performance metrics, which may include the number and timing of sales calls, physician reach, territory vacancies and/or sales representative turnover.

Our business strategy involves expanding beyond our current core businesses to seek out and invest in product-based opportunities, which could adversely affect near-term operating results and if not successful, we may not meet our objectives of developing additional recurring and higher margin revenue.

Our business strategy involves an emphasis on in-licensing, acquiring or partnering on product-based opportunities that leverage our extensive product commercialization expertise for the molecular diagnostics industry. These types of opportunities will require us to invest capital resources, to acquire licenses or other rights in products, to assess the prospects for commercial success of products we may invest in, and incur expenses in executing the commercialization process. Compared to our core businesses, these activities are expected to carry greater risks and uncertainties concerning the ability to achieve additional revenues and profits, may take longer to achieve revenues and profits and therefore may have a short-term adverse effect on profitability. In addition, certain of these opportunities may require up-front, at-risk investments that may require capitalization in the Company's Consolidated Balance Sheets, which if not successful, may potentially become impaired and require write-off (or write-down) in future periods, which could adversely affect our profitability.

Currently, we are in the initial phase of the collaboration agreements entered into in pursuit of our business strategy. This initial phase of each agreement significantly reduces the risks we are assuming; however, if we progress to the next phase of these agreements, we will likely be exposed to other significant risks. If we enter phase two of these or other agreements potential risks include, but are not limited to:

- the availability of alternative and competing tests or products and technological innovations or other advances in medicine and our ability to compete with them;
- pricing pressures, lower prices offered by competitors, or changes in third-party payor, government payor or private insurer reimbursement policies including potential delays or refusals to pay and uncertainty related to changes in billing codes (CPT codes);
- our ability to establish and maintain sufficient intellectual property rights in our products;
- parties infringing our intellectual property rights or operating outside our intellectual property rights;
- the labs we use being subject to routine governmental oversight and inspections for continued operation pursuant to the Clinical Laboratory Improvement Amendments, or CLIA, to process tests ordered by physicians;
- compliance with applicable federal and state regulations governing laboratory testing in a timely manner or at all;
- the accuracy rates of such tests, including rates of false negatives and/or false positives;
- concerns regarding the safety and effectiveness or clinical validity of tests;
- changes in the regulatory environment affecting health care and health care providers, including changes in laws regulating laboratory testing and/or device manufacturers;
- general changes or developments in the market for molecular diagnostics;
- identifying tests that can be performed at a reasonable cost; and
- our ability to increase commercial acceptance of our molecular diagnostic tests.

Although the two-phase structure of each agreement was consciously designed to significantly reduce the risks disclosed above and mitigate the initial financial commitment required of the Company, the structure and collaborative nature of these kinds of agreements have their own risks. The risks associated with the structure and collaborative nature of these collaborative agreements include, but is not limited to:

- the ability of the Company to successfully operate in a collaborative manner; and

- the inability of the Company to manage and direct the efforts and operations, day-to-day or strategic, of its collaborative partners.

Our Group DCA business unit has completed development of and launched a software-based product, PD One™, which enhances our Marketing Services segment offerings. The development of this product has led to amounts capitalized in the Company's Consolidated Balance Sheet that is subject to impairment and obsolescence as well as increased expenses, which could adversely affect our profitability.

There can be no assurance that execution of our strategies, which are intended to diversify our business, will achieve our objectives of adding revenues and increasing margins, either as to amount or timing.

We may require additional funds in order to implement our business model, which we may be unable to obtain on favorable terms, if at all.

We may require additional funds in order to pursue certain business opportunities or meet future operating requirements, develop incremental marketing and sales capabilities; and/or acquire other complementary businesses. We may seek additional funding through public or private equity or debt financing or other arrangements with collaborative partners. Any debt financing arrangements that we enter into may require us to comply with specified financial ratios, including ratios regarding interest coverage, total leverage, senior secured leverage and fixed charge coverage. Our ability to comply with these ratios may be affected by events beyond our control. If we raise additional funds by issuing equity securities, further dilution to existing stockholders may result. As a condition to providing us with additional funds, future investors may demand, and may be granted, rights superior to those of existing stockholders. We cannot be certain, however, that additional financing will be available from any of these sources or, if available, will be available on acceptable or affordable terms. If adequate additional funds are not available, we may be required to delay, reduce the scope of, or eliminate one or more of our strategic initiatives.

If we do not increase our revenues and successfully manage the size of our operations, our business, financial condition and results of operations could be materially and adversely affected.

The majority of our operating expenses are personnel-related costs such as employee compensation and benefits as well as the cost of infrastructure to support our operations, including facility space and equipment. We continuously review our personnel to determine whether we are fully utilizing their services. If we believe we are not in a position to fully utilize our personnel, we may make reductions to our workforce. If we are unable to achieve revenue growth in the future or fail to adjust our cost infrastructure to the appropriate level to support our revenues, our business, financial condition and results of operations could be materially and adversely affected.

Our business may suffer if we fail to attract and retain qualified sales representatives.

The success and growth of our business depends in large part on our ability to attract and retain qualified sales representatives. There is competition for sales representatives from CSOs and pharmaceutical, biotechnology and healthcare companies. In addition, in certain instances, we offer customers the option to permanently hire our sales representatives, and on occasion, our customers have hired the sales representatives that we trained to detail their products. We cannot provide assurance that we will continue to attract and retain qualified personnel. If we cannot attract and retain qualified sales personnel our Sales Services business will suffer and our ability to perform under our existing sales force contracts may be impaired.

If our information technology and communications systems fail or we experience a significant interruption in their operation, our reputation, business and results of operations could be materially and adversely affected.

The efficient operation of our business is dependent on our information technology and communications systems. The failure of these systems to operate as anticipated could disrupt our business and result in decreased revenue and increased overhead costs. In addition, we do not have complete redundancy for all of our systems and our disaster recovery planning cannot account for all eventualities. Our information technology and communications systems, including the information technology systems and services that are maintained by third party vendors, are vulnerable to damage or interruption from natural disasters, fire, terrorist attacks, malicious attacks by computer viruses or hackers, power loss or failure of computer systems, Internet, telecommunications or data networks. If these systems or services become unavailable or suffer a security breach, we may expend significant resources to address these problems, and our reputation, business and results of operations could be materially and adversely affected.

If we incur problems with any of our third party service providers, our business operations could be adversely affected.

We have historically relied on outside vendors for a variety of services and functions significant to our businesses. In the event one or more of our vendors ceases operations, terminates its service contract or otherwise fails to perform its obligations to us in a timely and efficient manner, we may be unable to replace these vendors on a timely basis at comparable prices, which could adversely affect our ability to satisfy our contractual obligations to our customers or otherwise meet business objectives and could lead to increases in our cost structure.

We have and may continue to experience goodwill impairment charges.

We are required to evaluate goodwill at least annually, and between annual tests if events or circumstances warrant such a test. These events or circumstances could include a significant long-term adverse change in the business climate, poor indicators of operating performance or a sale or disposition of a significant portion of a reporting unit. We test goodwill for impairment at the reporting unit level, which is one level below our segments. Goodwill has been assigned to the reporting units to which the value of the goodwill relates. We currently have five reporting units, with one reporting unit, Group DCA, having goodwill. If we determine that the fair value is less than the carrying value, an impairment loss will be recorded in our statement of comprehensive income (loss). The determination of fair value is a highly subjective exercise and can produce significantly different results based on the assumptions used and methodologies employed. If our projected long-term sales growth rate, profit margins or terminal growth rate are considerably lower and/or the assumed weighted-average cost of capital is considerably higher, future testing may indicate impairment and we would have to record a non-cash impairment loss in our statement of comprehensive income (loss). During the year ended December 31, 2012, we recorded an impairment charge of $22.8 million related to goodwill and other intangible assets. See Note 7, Goodwill and Other Intangible Assets, to the consolidated financial statements included in this Annual Report on Form 10-K.

We may make acquisitions in the future which may lead to disruptions to our ongoing business.

Historically, we have made a number of acquisitions, and we may pursue new acquisition opportunities in the future. If we are unable to successfully integrate an acquired company or business, the acquisition could lead to disruptions to our business. The success of an acquisition will depend upon, among other things, our ability to:

- assimilate the operations and services or products of the acquired company or business;
- integrate new personnel associated with the acquisition;
- retain and motivate key employees;
- retain customers; and
- minimize the diversion of management's attention from other business concerns.

In the event that the operations of an acquired company or business do not meet our performance expectations, we may have to restructure the acquired company or business or write-off the value of some or all of the assets of the acquired company or business, including goodwill and other intangible assets identified at the time of acquisition.

In addition, the current market for acquisition targets in our industry is extremely competitive, and there can be no assurance that we will be able to successfully identify, bid for and complete acquisitions necessary or desirable to achieve our strategic goals.

Our quarterly and annual revenues and operating results may vary, which may cause the price of our common stock to fluctuate.

Our quarterly and annual operating results may vary as a result of a number of factors, including:

- the commencement, delay, cancellation or completion of sales and marketing programs;
- regulatory developments;
- uncertainty about when, if at all, revenue from any product commercialization arrangements and/or other incentive-based arrangements with our customers will be recognized;
- mix of services provided and/or mix of programs during the period;
- timing and amount of expenses for implementing new programs and accuracy of estimates of resources required for ongoing programs;
- timing and integration of any acquisitions; and
- changes in regulations related to pharmaceutical, biotechnology and healthcare companies.

In addition, in the case of revenue related to service contracts, we recognize revenue as services are performed, while program costs, other than training costs, are expensed as incurred. We believe that quarterly, and in certain instances annual, comparisons of our financial results are not necessarily meaningful and should not be relied upon as an indication of future performance. Fluctuations in quarterly and annual results could materially and adversely affect the market price of our common stock in a manner unrelated to our long-term operating performance.

Our stock price is volatile and could be further affected by events not within our control, and an investment in our common stock could suffer a decline in value.

The market for our common stock is volatile. During 2013, our stock traded at a low of $3.82 and a high of $8.25. In 2012, our stock traded at a low of $5.84 and a high of $8.88. The trading price of our common stock has been and will continue to be subject to:

- general volatility in the trading markets;
- significant fluctuations in our quarterly operating results;
- significant changes in our cash and cash equivalent reserves;
- announcements regarding our business or the business of our competitors;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- industry and/or regulatory developments;
- changes in revenue mix;
- changes in revenue and revenue growth rates for us and for our industry as a whole;
- changes in accounting standards, policies, guidance, interpretations or principles; and
- statements or changes in opinions, ratings or earnings estimates made by brokerage firms or industry analysts relating to the markets in which we operate or expect to operate.

Our largest stockholder continues to have significant influence, which could delay or prevent a change in corporate control that may otherwise be beneficial to our stockholders.

John P. Dugan, our former chairman, beneficially owns approximately 32% of our outstanding common stock. As a result, Mr. Dugan is able to exercise significant influence over the election of all of our directors and to determine the outcome of most corporate actions requiring stockholder approval, including a merger with or into another company, the sale of all or substantially all of our assets and amendments to our certificate of incorporation. This ownership concentration by Mr. Dugan could delay or prevent a change in corporate control that may otherwise be beneficial to our other stockholders.

We have anti-takeover defenses that could delay or prevent an acquisition and could adversely affect the price of our common stock.

Our certificate of incorporation and bylaws include provisions, such as providing for three classes of directors, which may make it more difficult to remove our directors and management and may adversely affect the price of our common stock. In addition, our certificate of incorporation authorizes the issuance of "blank check" preferred stock, which allows our board of directors to create one or more classes of preferred stock with rights and preferences greater than those afforded to the holders of our common stock. This provision could have the effect of delaying, deterring or preventing a future takeover or a change in control, unless the takeover or change in control is approved by our board of directors. We are also subject to laws that may have a similar effect. For example, section 203 of the General Corporation Law of the State of Delaware prohibits us from engaging in a business combination with an interested stockholder for a period of three years from the date the person became an interested stockholder unless certain conditions are met. As a result of the foregoing, it will be difficult for another company to acquire us and, therefore, could limit the price that possible investors might be willing to pay in the future for shares of our common stock. In addition, the rights of our common stockholders will be subject to, and may be adversely affected by, the rights of holders of any class or series of preferred stock that may be issued in the future.

INDUSTRY RISKS:

Changes in outsourcing trends in the pharmaceutical, biotechnology or healthcare industries could materially and adversely affect our business, financial condition and results of operations.

Our business depends in large part on demand from the pharmaceutical, biotechnology and healthcare industries for outsourced promotional services. The practice of many companies in these industries has been to hire outside organizations like PDI to conduct large sales and marketing projects on their behalf. However, companies may elect to perform these services internally for a variety of reasons, including the rate of new product development and FDA approval of those products, the number of sales representatives employed internally in relation to demand, the need to promote new and existing products, and competition from

other suppliers. We have previously impacted significantly and adversely in previous years when several large pharmaceutical companies made changes to their commercial model by reducing the number of sales representatives employed internally and through outside organizations like PDI. These and other developments within the pharmaceutical industry have resulted in volatility in the market for outsourced sales and marketing services during the last few years, and there can be no assurances regarding the continuation, timing or extent of any changes of these trends. If companies in the pharmaceutical, biotechnology or healthcare industries reduce their demand for outsourcing services, our business, financial condition and results of operations could be materially and adversely affected.

If companies in the pharmaceutical, biotechnology or healthcare industries significantly reduce their promotional, marketing and sales expenditures or significantly reduce or eliminate the role of sales representatives in the promotion of their products, our business and results of operations could be materially and adversely affected.

Our revenues depend on promotional, marketing and sales expenditures by companies in the pharmaceutical, biotechnology and healthcare industries. Promotional, marketing and sales expenditures by pharmaceutical manufacturers have in the past been, and could in the future be, negatively impacted by, among other things, governmental reform or private market initiatives intended to reduce the cost of pharmaceutical products or by governmental, medical association or pharmaceutical industry initiatives designed to regulate the manner in which pharmaceutical manufacturers promote their products as well as the high level of patent expiration and related introduction of generic versions of branded medicine within the industry. Furthermore, the trend in the pharmaceutical, biotechnology and healthcare industries toward consolidation may result in a reduction in overall sales and marketing expenditures and, potentially, a reduction in the use of outsourced sales and marketing services providers. This reduction in demand for outsourced sales and marketing services could be further exacerbated by the current economic condition of the United States and foreign countries. If companies in the pharmaceutical, biotechnology or healthcare industries significantly reduce their promotional, marketing and sales expenditures or significantly reduce or eliminate the role of sales representatives in the promotion of their products, our business and results of operations could be materially and adversely affected.

Our industry is highly competitive and our failure to address competitive developments may reduce our market share, which could have a material adverse effect on our business and results of operations.

Our primary competitors for sales and marketing services include in-house sales and marketing departments of pharmaceutical, biotechnology and healthcare companies, other contract sales organizations (CSOs) and providers of marketing and related services. Most of our current and potential competitors are larger than us and have substantially greater capital, personnel and other resources than we have and certain of our competitors currently offer a broader range of personal and non-personal promotional and other related promotional services than we do. Additionally, certain of our competitors provide services on a global basis at the request of pharmaceutical, biotechnology and healthcare customers. Our inability to continue to remain competitive with respect to the range of service offerings that we can provide companies within the pharmaceutical, biotechnology and healthcare industries on a global basis or any other factors that result in increased competition may reduce our market share, which could have a material adverse effect on our business and result of results of operations.

Changes in governmental regulation could negatively impact our business operations and increase our costs.

The pharmaceutical, biotechnology and healthcare industries are subject to a high degree of governmental regulation. Significant changes in these regulations affecting the services we provide, including product promotional, marketing research services and physician interaction programs, could result in the imposition of additional restrictions on these types of activities, additional costs to us in providing these services to our customers or otherwise negatively impact our business operations. Changes in governmental regulations mandating price controls and limitations on patient access to our customers' products could also reduce, eliminate or otherwise negatively impact our customers' utilization of our sales and marketing services.

Our failure, or that of our customers, to comply with applicable healthcare regulations could limit, prohibit or otherwise adversely impact our business activities and could result in substantial penalties.

Various laws, regulations and guidelines established by government, industry and professional bodies affect, among other matters, the provision, licensing, labeling, marketing, promotion, sale and distribution of healthcare services and products, including pharmaceutical products. The healthcare industry also is regulated by various federal and state laws pertaining to healthcare fraud and abuse, including prohibitions on the payment or acceptance of kickbacks or other remuneration in return for the purchase or lease of products that are paid for by Medicare or Medicaid. Violations of these regulations may incur investigation or enforcement action by the FDA, Department of Justice, state agencies, or other legal authorities, and may result in substantial civil, criminal, or other sanctions. Sanctions for violating the fraud and abuse laws also may include possible exclusion from Medicare, Medicaid and other federal or state healthcare programs. Although we believe our current business arrangements do not violate these laws, we cannot assure you that our business practices will not be challenged under these laws in the future or that a challenge would

not have a material adverse effect on our business, financial condition or results of operations, even if we successfully defend against such claims. While we rely on contractual indemnification provisions with our customers to protect us against certain claims, we cannot provide assurance that these provisions will be fully enforceable or that they will provide adequate protection against the claims intended to be covered.

If our customers continue to experience increased competition from manufacturers of generic drugs, our business, financial condition and results of operations could be materially and adversely impacted.

Our revenues depend on promotional, marketing and sales expenditures by companies in the pharmaceutical, biotechnology and healthcare industries. Promotional, marketing and sales expenditures by pharmaceutical manufacturers have in the past been, and could in the future be, negatively impacted by the introduction of generic versions of branded medicines. This generic competition may occur upon the expiration or loss of patent protection, or in certain circumstances, upon the "at-risk" launch by a generic manufacturer of a generic version of a product we are promoting. The timing or impact of generic competition cannot be accurately predicted by us or our customers and could cause our customers to introduce cost cutting initiatives that result in reduced demand for our outsourced promotional services, or lead to the early termination of existing contracts, which could materially and adversely affect our business, financial condition and results of operations.

GENERAL RISKS:

Enacted healthcare reform legislation may increase our costs, impair our ability to match our pricing with any such increased costs, and therefore could materially and adversely affect our business, financial condition and results of operations.

The Patient Protection and Affordable Care Act (PPACA) was signed into law on March 23, 2010. The PPACA was subsequently amended on March 30, 2010 by the Health Care and Education Reconciliation Act of 2010 (the Reconciliation Act). The PPACA and Reconciliation Act (collectively the Act) entail sweeping healthcare reforms with staggered effective dates from 2010 through 2018, although certain of these effective dates have been delayed by action of the current administration. While some guidance has been issued under the Act over the past several years, many provisions in the Act require the issuance of additional guidance from the U.S. Department of Labor, the Internal Revenue Service, the U.S. Department of Health & Human Services, and state governments. This reform includes, but is not limited to: the implementation of a small business tax credit; required changes in the design of our healthcare policy including providing insurance coverage to part-time workers working on average thirty (30)or more hours per week; "grandfathering" provisions for existing policies; "pay or play" requirements; and a "Cadillac plan" excise tax.

Effective January 1, 2014, each state was required to participate in the PPACA marketplace and make health insurance coverage available for purchase by eligible individuals through a website. While these websites were subject to significant administrative issues leading up to their inception dates (and, in some cases, thereafter), it is currently estimated that in excess of 3 million individuals nationwide have sought health insurance coverage through these exchanges. It is unclear, however, how many of these individuals actually attained health insurance coverage or whether such individuals are becoming insured after previously not having health insurance coverage.

PPACA also requires Applicable Manufacturers to disclose to the Secretary of the Department of Health & Human Services drug sample distributions and certain payments or transfers of value to covered recipients (physicians and teaching hospitals) on an annual basis. Applicable Manufacturers and Applicable Group Purchasing Organizations must also disclose certain physician ownership or investment interests. The data submitted will ultimately be made available on a public website. Based upon the structure of its relationship with its clients, PDI may be defined as an applicable manufacturer for purposes of the disclosure requirements or may provide services that include the transfer of drug samples and/or other items of value to covered recipients. As such PDI may be required to disclose or provide information that is subject to disclosure. There may be certain risks and penalties associated with the failure to properly make such disclosures, including but not limited to the specific civil liabilities set forth in PPACA, which allows for a maximum civil monetary penalty per applicable manufacturer of $1,150,000. There may be additional risks and claims made by third parties derived from an improper disclosure that are difficult to ascertain at this time.

In June 2012, the United States Supreme Court upheld the constitutionality of key provisions of the PPACA. The PPACA contains numerous initiatives that impact the pharmaceutical industry. These include, among other things:

- increasing existing price rebates in federally funded health care programs;
- expanding rebates, or other pharmaceutical company discounts, into new programs;
- imposing a new non-deductible excise tax on sales of certain prescription pharmaceutical products by prescription drug manufacturers and importers;

- reducing incentives for employer-sponsored health care;
- creating an independent commission to propose changes to Medicare with a particular focus on the cost of biopharmaceuticals in Medicare Part D;
- providing a government-run public option with biopharmaceutical price-setting capabilities;
- allowing the Secretary of Health and Human Services to negotiate drug prices within Medicare Part D directly with pharmaceutical manufacturers;
- reducing the number of years of data exclusivity for innovative biological products potentially leading to earlier biosimilar competition; and
- increasing oversight by the FDA of pharmaceutical research and development processes and commercialization tactics.

While the PPACA may increase the number of patients who have insurance coverage for the products we promote, its cost containment measures could also adversely affect reimbursement for any of our customers' product candidates. Cost control initiatives could decrease the price that our customers receive for any product candidate they may develop in the future. If our customers' product candidates are not considered cost-effective or if they are unable to generate adequate third-party reimbursement for the users of their product candidates, then our customers may be unable to maintain price levels sufficient to realize an appropriate return on investment for product candidates currently in development. Our customers could impose margin pressures on us in an effort to recoup a portion of their return on investment, which would have an adverse impact on our business.

We are currently unable to determine the long-term, direct or indirect impact of such legislation on our business. Since the effect of many of the provisions of the Act may not be determinable for a number of years, we do not expect the Act to have a material adverse impact on our near term results of operations. However, healthcare reform as mandated and implemented under the Act and any future federal or state mandated healthcare reform could materially and adversely affect our business, financial condition and results of operations by increasing our costs, hindering our ability to effectively match our cost of providing health insurance with our pricing and impeding our ability to attract and retain customers as well as potentially changing our business model or causing us to lose certain current competitive advantages.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters are located in, and our Sales Services and PC Services segments are operated out of, Parsippany, New Jersey where we lease approximately 23,000 square feet. The lease runs through June 2017. Our Marketing Services business unit, Group DCA, operates out of an approximately 21,000 square foot facility in Parsippany, New Jersey under a lease that expires in June 2017, with a June 2014 early cancellation provision. The cancellation provision requires three months notice and a cancellation fee. In the fourth quarter of 2012, the Company reduced the amount of space the Group DCA business unit is operating out of and is currently seeking to sublet approximately 9,000 square feet of this unused office space in Parsippany, New Jersey. There can be no assurance, however, that we will be able to successfully sublet the unused office space on favorable terms or at all.

We also lease approximately 84,000 square feet of office space in Saddle River, New Jersey (our former corporate headquarters), that terminates in January 2016 and is cancelable by PDI on June 30, 2015. We have entered into subleases, which run through the end of the underlying lease, for all of the square footage at our Saddle River facility. Our discontinued Marketing Services business unit, TVG, operated out of a 38,000 square foot facility in Dresher, Pennsylvania under a lease that runs for a term of approximately 12 years and terminates in November 2016. Our discontinued Marketing Services business unit, Pharmakon, operated out of a 6,700 square foot facility in Schaumburg, Illinois under a lease that expires in February 2015. We have sublet all of the office space in Dresher, Pennsylvania and Schaumburg, Illinois through the end of the underlying leases.

We believe that our current facilities are adequate for our current and foreseeable operations and that suitable additional space will be available if needed.

ITEM 3. 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

(tabular information in thousands, except share and per share data)

proceedings, individually and in the aggregate, will not have a material adverse effect on our business, financial condition, results of operations or cash flow, 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, results of operations or cash flows. Legal fees are expensed as incurred.

ITEM 4. REMOVED AND RESERVED

PART II

ITEM 5. MARKET FOR OUR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is traded on the Nasdaq Global Market under the symbol "PDII." The price range per share of common stock presented below represents the high and low sales price for our common stock on the Nasdaq Global Market for the last two years by quarter.

	2013		2012	
	HIGH	LOW	HIGH	LOW
First quarter	$ 8.25	$ 6.09	$ 7.39	$ 6.03
Second quarter	$ 6.12	$ 3.82	$ 8.88	$ 6.55
Third quarter	$ 5.33	$ 4.23	$ 8.57	$ 6.33
Fourth quarter	$ 5.35	$ 4.37	$ 8.24	$ 5.84

Holders

We had 565 stockholders of record as of March 1, 2014. Not reflected in the number of record holders are persons who beneficially own shares of common stock held in nominee or street name.

Dividends

We have not declared any cash dividends and do not intend to declare or pay any cash dividends in the foreseeable future. Future earnings, if any, will be used to finance the future operation and growth of our business.

Securities Authorized For Issuance under Equity Compensation Plans

We have a number of stock-based incentive and benefit programs designed to attract and retain qualified directors, executives and management personnel. All equity compensation plans have been approved by security holders. The following table sets forth certain information with respect to our equity compensation plans as of December 31, 2013:

Equity Compensation Plan Information
Year Ended December 31, 2013

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders (2004 Stock Award and Incentive Plan, 2000 Omnibus Incentive Compensation Plan, and 1998 Stock Option Plan)	42,500	$ 19.26	1,251,082
Equity compensation plans not approved by security holders (1)	—	—	—
Total	42,500	$ 19.26	1,251,082

(1) Excludes restricted stock, restricted stock units and stock-settled stock appreciation rights.

ITEM 6. SELECTED FINANCIAL DATA

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

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our consolidated financial statements and the related notes appearing elsewhere in this Annual Report on Form 10-K.

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, we also provide other promotional services including clinical educator services, digital communications, teledetailing and through our Interpace BioPharma business unit, we provide pharmaceutical,

biotechnology, medical device and diagnostics clients with full-service product commercialization solutions. 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, we are also experiencing fluctuations in revenue due to certain clients renewing with a smaller salesforce and the expiration of certain other contracts due to the timing of new business and the variable nature of our business. We believe that we will continue to experience a high degree of customer concentration and this trend may continue as a result of the continuing consolidation within the pharmaceutical industry.

With our proven record of outsourced promotional services expertise, we took action in 2013 on our stated strategy of searching for product in-licensing, acquisition and partnering opportunities that could add more predictable, higher growth, higher margin business that can reduce the natural volatility of our current core businesses, and at the same time leverage the breadth of our installed infrastructure and strength of our core commercialization capabilities. Through our Interpace Diagnostics entity, we have recently announced a strategy focused on becoming a leading commercialization company for the molecular diagnostics industry via in-licensing, acquiring or partnering. The molecular diagnostics industry is highly fragmented with numerous strong science-based companies that have developed clinically important tests which are ready or near ready for market. A vast majority of these companies have very limited experience bringing a test to market and many of them do not have the capital to build an infrastructure to effectively commercialize their test. Due to their complexity, most molecular diagnostic tests require a specialized go-to-market strategy, which includes messaging to physicians and potentially patients, similar to launching of a new drug in the pharmaceutical market. Developing and delivering these kinds of messages, fully leveraging our extensive commercial infrastructure in an impactful, innovative and ROI centric manner is one of our strengths. Given our proven core sales and marketing and full commercialization capabilities, we believe this is a natural extension for us and the strength of these core capabilities, our installed infrastructure and the ability to gain synergies significantly mitigates the risks associated with this strategy.

In October 2013, we entered into phase one of a collaboration agreement to commercialize CardioPredict™, a molecular diagnostic test developed by Transgenomic, in the United States. Under the terms of the strategic collaboration agreement, we will be responsible for all U.S.-based marketing and promotion of CardioPredict™, while Transgenomic will be responsible for processing CardioPredict™ in its state-of-the-art CLIA lab and all customer support. Both parties will pay their respective expenses and will split profit on a formula basis. If we enter into phase two of the collaboration agreement, we may provide Transgenomic with funding support of up to $3.0 million, principally to finance working capital requirements.

In August 2013, we entered into phase one of a collaboration agreement with a privately held molecular diagnostics company (the Diagnostics Company) to commercialize their molecular diagnostic tests. The initial test to be commercialized is fully developed. Under the terms of the collaboration agreement, we paid an initial fee of $1.5 million and have received an option to purchase the outstanding common stock of the Diagnostics Company. The option price is dependent on the achievement of certain milestones during the collaboration period (the period up to the exercise of the purchase option or termination of the collaboration agreement) and could be up to $6 million if all milestones are achieved at their maximum levels and we enter into phase two of the collaboration agreement. We can terminate the collaboration agreement if all milestones are not achieved by August 2014 and would receive a $1.0 million termination fee. If all milestones are achieved by August 2014 and we have not exercised our option, the Diagnostics Company can require us to exercise the option to purchase the outstanding stock of the Diagnostics Company or terminate the collaboration agreement and pay us a termination fee of approximately $2.0 million. If we purchase the Diagnostics Company, in addition to the option price based on the achievement of milestones, beginning in 2015, we would pay a royalty of 7% on annual net revenue up to $50 million with escalating royalty percentages for higher annual net revenue capped at 11% for annual net revenue in excess of $100 million.

In December 2011, we entered into an agreement to sell certain assets of our Pharmakon business unit to 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. In the fourth quarter of 2012, we wrote-off all of the assets related to the sale of Pharmakon to Informed as we believed that these assets became impaired. See Note 19, Discontinued Operations, to the audited consolidated financial statements included in this Form 10-K for additional details.

In November 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, iPads, mobile devices, 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.

We paid cash (net) of approximately $23.9 million for Group DCA. 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. 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 buy out of the contingent earn-out fee. Under the amendment, we paid $3.4 million to buy out the contingent earn-out fee under the purchase agreement in 2012 and pursuant to their respective retirement agreements we paid $0.3 million to each of the co-CEOs in 2013.

During our 2012 annual impairment tests of goodwill and indefinite-lived intangible assets and our review of the recoverability of finite-lived intangible assets, we identified potential impairment and subsequently determined that these Group DCA business unit assets were impaired and recognized an impairment charge of $22.8 million. See Note 7, Goodwill and Other Intangible Assets, to our consolidated financial statements included in this Annual Report on Form 10-K for further information.

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. 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 year ended December 31, 2013, our three reporting segments were as follows:

- Sales Services, which consists of the following business units:
  - Dedicated Sales Teams;
  - Established Relationship Teams; and
  - EngageCE.
- Marketing Services, which consists of the following business units:
  - Group DCA; and
  - Voice.
- Product Commercialization Services (PC Services) which consists of efforts related to our collaboration agreements through Interpace Diagnostics and the following business unit:
  - Interpace BioPharma.

Select financial information for each of these segments is contained in Note 17, Segment Information, to our consolidated financial statements included in this Annual Report on Form 10-K and in the discussion under "*Consolidated Results of Operations."*

CRITICAL ACCOUNTING POLICIES

We prepare our financial statements in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of financial statements and related disclosures in conformity with GAAP requires management to make judgments, estimates and assumptions at a specific point in time that affect the amounts reported in our consolidated financial statements and disclosed in the accompanying notes. These assumptions and estimates are inherently uncertain. Outlined below are accounting policies, which are important to our financial position and results of operations, and require our management to make significant judgments in their application. Some of those judgments can be subjective and complex. Management's estimates are based on historical experience, information from third-party professionals, facts and circumstances available at the time and various other assumptions that are believed to be reasonable. Actual results could differ from those estimates. Additionally, changes in estimates could have a material impact on our consolidated results of operations in any one period. For a summary of all of our significant accounting policies, including the accounting policies discussed below, see Note 1, Nature of Business and Significant Account Policies, to our consolidated financial statements included in this Annual Report on Form 10-K.

Revenue and Cost of Services

We recognize revenue from services rendered when the following four revenue recognition criteria are met: persuasive evidence of an arrangement exists; services have been rendered; the selling price is fixed or determinable; and collectability is reasonably assured. Our contracts containing multiple deliverables are accounted for in accordance with Accounting Standards Codification 605-25, Revenue Recognition: Multiple Element Arrangements.

Sales Services

Revenue under pharmaceutical detailing contracts is generally based on the number of sales representatives utilized or the number of physician details made. Revenue is generally recognized on a straight-line basis over the contract period or as the physician details are performed. A portion of revenues earned under certain contracts may be risk-based. The risk-based metrics may be based on activity metrics such as call activity, turnover, or other agreed upon measures, or on contractually defined percentages of prescriptions written. Revenue from risk-based metrics is recognized in the period which the metrics have been attained and when we are reasonably assured that payment will be made. Many of our product detailing contracts also allow for additional periodic incentive fees to be earned if certain activities have occurred or client specific sales performance benchmarks have been attained. Revenue from incentive fees is recognized in the period earned when the performance benchmarks have been attained and when we are reasonably assured that payment will be made. Many contracts also stipulate penalties if agreed upon performance benchmarks have not been met. Revenue is recognized net of any potential penalties until the performance criteria relating to the penalties have been achieved. Commission based revenue is recognized when performance is completed.

Our product detailing contracts are generally for terms of one to three years and may be renewed or extended. The majority of these contracts, however, are terminable by the customer without cause upon 30 days' to 180 days' prior written notice. 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.

We maintain continuing relationships with our Sales Services customers which may lead to multiple ongoing contracts between us and one customer. In situations where we enter into multiple contracts with one customer at or near the same time, we evaluate the various factors involved in negotiating the arrangements in order to determine if the contracts were negotiated as a package and should be accounted for as a single agreement.

The loss or termination of a large pharmaceutical detailing contract or the loss of multiple contracts could have a material adverse effect on our financial condition or results of operations. Historically, we have derived a significant portion of service revenue from a limited number of customers. Concentration of business in the pharmaceutical industry is common and the industry continues to consolidate. As a result, we are likely to continue to experience significant customer concentration in future periods. For the year ended December 31, 2013, our two largest customers, who each individually represented 10% or more of our Sales Services revenue, collectively accounted for approximately 65.5% of our consolidated service revenue. For the year ended December 31, 2012, our three largest customers, who each individually represented 10% or more of our Sales Services

revenue, collectively accounted for approximately 52.5% of our consolidated service revenue. See Note 13, Significant Customers, to our consolidated financial statements included in this Annual Report on Form 10-K.

Cost of services consists primarily of the costs associated with executing product detailing programs, performance based contracts or other sales and marketing services identified in the contract and includes personnel costs and other direct costs, as well as the initial direct costs associated with staffing a product detailing program. Personnel costs, which constitute the largest portion of cost of services, include all labor related costs, such as salaries, bonuses, fringe benefits and payroll taxes for the sales representatives, sales managers and professional staff that are directly responsible for executing a particular program. Other direct costs include, but are not limited to, facility rental fees, travel expenses, sample expenses and other promotional expenses.

Initial direct program costs are the costs associated with initiating a product detailing program, such as recruiting and hiring and certain other direct incremental costs, excluding pass through costs that are billed to customers. Other direct costs include, but are not limited to, facility rental fees, travel expenses, sample expenses and other promotional expenses. Through March 31, 2012, we expensed these initial direct program costs as incurred, as these amounts were not material to our operating results. As a result of our recent contract signings and plans to enter into larger contracts in the future, requiring more material initial direct program costs, commencing April 1, 2012, we changed our policy for the recognition of such initial direct program costs. These costs are now being deferred and amortized to expense in proportion to the revenue recognized as driven by the terms of the underlying contract. As of December 31, 2013 and 2012, we deferred $2.3 million and $1.8 million of initial direct program costs, respectively. During the years ended December 31, 2013 and 2012, we amortized $0.9 million and $0.2 million initial direct program costs into expense, respectively. This change in accounting was not applied retrospectively because the effect on prior periods was immaterial.

Reimbursable out-of-pocket expenses include those relating to travel and other similar costs, for which we are reimbursed at cost by our customers. Reimbursements received for out-of-pocket expenses incurred are characterized as revenue and an identical amount is included as cost of services in the consolidated statements of comprehensive loss. For the years ended December 31, 2013 and 2012, reimbursable out-of-pocket expenses were $30.8 million and $19.9 million, respectively.

Training costs include the costs of training the sales representatives and managers on a particular product detailing program so that they are qualified to properly perform the services specified in the related contract. For the majority of our contracts, training costs are reimbursable out-of-pocket expenses.

Marketing Services

Revenue under marketing service contracts are primarily based on a series of deliverable services associated with the design and execution of interactive digital promotional programs. The contracts are generally terminable by the customer for any reason in both the development phase and delivery phase of the contract. Upon termination, the customer is generally responsible for payment for all work completed to date, plus the cost of any nonrefundable commitments we have made on behalf of the customer in both the development phase and delivery phase of the contract.

Revenue from certain promotional contracts that include more than one service offering is accounted for as multiple-element arrangements. For these contracts, the deliverable elements are divided into separate units of accounting provided the following criteria are met: the delivered elements have stand-alone value to the customer; and if there is a right of return or refund, delivery or performance of the undelivered items is probable and substantially in our control. The contract revenue is then allocated to the separate units of accounting. Revenue and cost of services are recognized for each unit of accounting separately as the related services are rendered and costs are incurred, respectively.

A majority of our multiple-element arrangements generally contain two phases for each wave of promotional content that is developed under the program: the development phase and the delivery phase. The development phase represents the creation of the promotional assets to be used in the program while the delivery phase represents the delivery of those assets to the customer's target audience and any communications received from the targets in response to the materials. We have determined that these two phases represent the units of accounting of a majority of our multiple-element arrangements.

For multiple element arrangements, revenue is recognized based on an allocation of the total amount of the arrangement to each deliverable based on the relative selling price method. When applying the relative selling price method, the selling price for each deliverable is determined using a hierarchy. Using this hierarchy, the fair value is determined using vendor-specific objective evidence (VSOE) if available, third-party evidence (TPE) if VSOE is not available, or best estimate of selling price if neither VSOE or TPE is available. We use our best estimate of selling price to determine the value of all deliverables within the development unit of accounting and a majority of the deliverables within the delivery unit of accounting. The best estimate of selling price of standard deliverables is derived primarily from our standard rate card, which covers a majority of the deliverables included within

our customer contracts and is reviewed and updated on an annual basis or more frequently if circumstances warrant, and management's margin objectives. Prices on the standard rate card are derived primarily from our standard hourly project budgets and standard hourly billing rate; however, these prices are then evaluated against recent market conditions and sales trends and may be adjusted by management in order to remain competitive in the current environment.

The best estimate of selling price of non-standard deliverables included within its customer contracts, which generally represent custom projects, is derived from the deliverable's hourly project budget and our standard hourly billing rate. For a select few types of deliverables provided within its customer contracts, we use third party evidence to determine the value of the deliverables. This applies primarily to the physical production of program recruitment tactics such as webkeys and direct mail, as well as other vendor services that we utilize from time to time such as email broadcasting fees.

We recognize revenue for the development unit of accounting under a percentage-of-completion method by recognizing revenue as work on a contract progresses. We are able to reasonably estimate: the extent of progress towards completion; total contract costs; and contract revenue. Work performed and revenue recognized in this phase of the contract generally ranges between six and twelve months. Revenue is recognized on a straight-line basis over the delivery phase of the contract, as defined in the contract, and generally ranges between six and twelve months.

We maintain continuing relationships with our Marketing Services customers which may lead to multiple ongoing contracts between the two parties. In situations where we enters into multiple contracts with one customer at or near the same time, we evaluate the various factors involved in negotiating the arrangements in order to determine if the contracts were negotiated together and should be accounted for as a single agreement.

Cost of services consists primarily of the costs associated with executing interactive digital promotional programs or other sales and marketing services identified in the contract and include personnel costs and other direct costs. Personnel costs, which constitute the largest portion of cost of services, include all labor related costs, such as salaries, bonuses, fringe benefits and payroll taxes for the professional staff that are directly responsible for executing a particular program. Other direct costs include, but are not limited to, freelance costs; email broadcasting fees; list rental fees; webkeys and direct mail production fees; and other promotional expenses. All personnel costs and direct program costs are expensed as incurred.

PC Services

Revenue under product commercialization contracts is based on the number of sales representatives utilized and when applicable, the commercial operations services we provide. We have determined that there are two units of accounting in our PC Services arrangement: the Dedicated Sales Team providing product detailing services; and the commercial operations providing full supply chain management, operations, marketing, compliance, and regulatory/medical management services. Due to the significant level of customization, selling prices are determined for the Dedicated Sales Team through internal development of a program budget consistent with the manner of deriving selling prices that we employ in our Sales Services segment. Selling prices for commercial operations are determined by estimating the expenditures required to perform the services, plus the addition of a profit margin consistent with the expected profit margin to be generated by the Dedicated Sales Team. Revenue is recognized for the Dedicated Sales Team on a straight-line basis over the product detailing service period which begins upon deployment of the sales force. Revenue is recognized for commercial operations services as services are provided over the term of the contract.

Cost of services consists primarily of the costs associated with executing product detailing programs and includes personnel costs and other direct costs, as well as the initial direct costs associated with staffing a product detailing program or a collaboration arrangement. Cost of services may also include costs such as distribution, marketing and promotion, public relations, patient reimbursement programs, managed care support, and market research. Personnel costs, which constitute the largest portion of cost of services, include all labor related costs, such as salaries, bonuses, fringe benefits and payroll taxes for the sales representatives, sales managers and professional staff that are directly responsible for executing a program or collaboration arrangement. Initial direct program costs are those costs associated with initiating a product detailing program, such as recruiting, hiring, and training the sales representatives who staff a particular program. Other direct costs include, but are not limited to, facility rental fees, travel expenses, sample expenses and other promotional expenses. Through March 31, 2012, we expensed initial direct program costs as incurred, as these amounts were not material to our operating results. As a result of our recent contract signings and plans to enter into larger contracts in the future, requiring more material initial direct program costs, commencing April 1, 2012, we changed our policy for the recognition of such initial direct program costs. These costs are now being deferred and amortized to expense in proportion to the revenue recognized as driven by the terms of the underlying contract. This change in accounting was not applied retrospectively because the effect on prior periods was immaterial. All personnel costs and other direct costs, excluding initial direct program costs, are expensed as incurred.

Goodwill and Indefinite-Lived Intangible Assets

We allocate 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 we have 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, 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 our results of operations. Further, changes in business strategy and/or market conditions may significantly impact these judgments and thereby impact the fair value of these assets, which could result in an impairment of the goodwill or intangible assets.

We test goodwill and indefinite-lived intangible asset 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 our expected future cash flows; a sustained, significant decline in our 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, the indefinite-lived intangible asset and our consolidated financial results.

We test goodwill for impairment at the business (reporting) unit level, which is one level below our operating segments. The goodwill has been assigned to the reporting unit to which the value relates. One of our five reporting units, Group DCA, has goodwill. We tested goodwill by estimating the fair value of the reporting unit using a Discounted Cash Flow (DCF) model. The key assumptions used in the DCF model to determine the highest and best use of estimated future cash flows include revenue growth rates and profit margins based on internal forecasts, terminal value and an estimate of a market participant's weighted-average cost of capital used to discount future cash flows to their present value. While we use available information to prepare estimates and to perform impairment evaluations, actual results could differ significantly from these estimates or related projections, resulting in impairment related to recorded goodwill balances.

During our 2012 annual impairment tests of goodwill and indefinite-lived intangible assets, management identified potential impairment. We tested the indefinite-lived intangible asset using a Relief From Royalty Method (RFRM) under the Income Approach. The key assumptions used in the RFRM model include revenue growth rates, the terminal value and the assumed discount rate. Management then determined that these Group DCA business unit assets were impaired and recognized an impairment loss of $18.4 million as the carrying value of the Group DCA business unit was in excess of its fair value. During our 2013 annual impairment test of goodwill, no potential impairment was identified by management, as the fair value of the Group DCA business unit was in excess of its carrying value. If Group DCA's projected long-term sales growth rate, profit margins, or terminal rate continue to change, or the estimated weighted-average cost of capital is considerably higher, future testing may indicate additional impairment in this reporting unit and, as a result, the remaining assets may also be impaired.

Long-Lived Assets, including Finite-Lived Intangible Assets

We review 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. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, an impairment loss is recognized by reducing the recorded value of the asset to its fair value measured by future discounted cash flows. This analysis requires estimates of the amount and timing of projected cash flows and, where applicable, judgments associated with, among other factors, the appropriate discount rate. Such estimates are critical in determining whether any impairment charge should be recorded and the amount of such charge if an impairment loss is deemed to be necessary. During the year ended December 31, 2012 we recorded a non-cash charge of approximately $4.4 million related to the full impairment of the Group DCA finite-lived intangible assets. See Note 7, Goodwill and Other Intangible Assets, to our consolidated financial statements included in this Annual Report on Form 10-K.

Acquisition Accounting

We account for business combinations by applying the acquisition method of accounting. The cost of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets transferred, liabilities incurred, equity instruments issued, and costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed are measured separately at their fair value as of the acquisition date. The excess of the cost of the acquisition over our interest in the fair value of the identifiable net assets acquired is recorded as goodwill.

The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed is based on various assumptions and valuation methodologies requiring considerable management judgment. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. Management determines discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected life of products and forecasted life cycle and cash flows over that period. Although we believe that the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ materially from the forecasted amounts.

Contingencies

In the normal course of business, we are subject to various contingencies. Contingencies are recorded in the consolidated financial statements when it is probable that a liability will be incurred and the amount of the loss can be reasonably estimated, or otherwise disclosed, in accordance with Accounting Standards Codification 450, Contingencies. Significant judgment is required in both the determination of probability and the determination as to whether a loss is reasonably estimable. In the event we determine that a loss is not probable, but is reasonably possible, and it becomes possible to develop what we believe to be a reasonable range of possible loss, then we will include disclosures related to such matter as appropriate and in compliance with ASC 450. To the extent there is a reasonable possibility that the losses could exceed the amounts already accrued, we will, when applicable, adjust the accrual in the period the determination is made, disclose an estimate of the additional loss or range of loss, indicate that the estimate is immaterial with respect to its financial statements as a whole or, if the amount of such adjustment cannot be reasonably estimated, disclose that an estimate cannot be made. We are currently involved in certain legal proceedings and, as required, have accrued our estimate of the probable costs for the resolution of these claims. These estimates are developed in consultation with outside counsel and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. Predicting the outcome of claims and litigation, and estimating related costs and exposures, involves substantial uncertainties that could cause actual costs to vary materially from estimates.

The Group DCA purchase agreement provided for the former members of Group DCA to earn a contingent earn-out fee of up to an additional $30 million from the date of acquisition through 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 paid $3.4 million in 2012 to buy out the contingent earn-out fee under the purchase agreement. Pursuant to their respective retirement agreements, we paid $0.3 million to each of the co-CEOs in 2013.

Income Taxes

Income taxes are based on income for financial reporting purposes calculated using our expected annual effective rate and reflect a current tax liability or asset for the estimated taxes payable or recoverable on the current year tax return and expected annual changes in deferred taxes. Any interest or penalties on income tax are recognized as a component of income tax expense.

We account for income taxes using the asset and liability method. This method requires recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences that currently exist between tax bases and financial reporting bases of our assets and liabilities based on enacted tax laws and rates. Deferred tax expense (benefit) is the result of changes in the deferred tax asset and liability. A valuation allowance is established, when necessary, to reduce the deferred income tax assets when it is more likely than not that all or a portion of a deferred tax asset will not be realized.

We operate in multiple tax jurisdictions and provide taxes in each jurisdiction where we conduct business and are subject to taxation. The breadth of our operations and the complexity of the various tax laws require assessments of uncertainties and judgments in estimating the ultimate taxes we will pay. The final taxes paid are dependent upon many factors, including negotiations with taxing authorities in various jurisdictions, outcomes of tax litigation and resolution of proposed assessments arising from federal and state audits. We have established estimated liabilities for uncertain federal and state income tax positions. Uncertain tax positions are recognized in the financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) that a position taken or expected to be taken in a tax return would be sustained upon examination by tax authorities that have full knowledge of all relevant information. A recognized tax position is then measured as the largest amount of benefit that is greater than fifty percent likely to be realized upon ultimate settlement. We adjust our accruals for unrecognized tax benefits as facts and circumstances change, such as the progress of a tax audit. We believe that any potential audit adjustments will not have a material adverse effect on our financial condition or liquidity. However, any adjustments made may be material to our consolidated results of operations or cash flows for a reporting period. Penalties and interest, if incurred, would be recorded as a component of current income tax expense.

Significant judgment is also required in evaluating the need for and magnitude of appropriate valuation allowances against deferred tax assets. We currently have significant deferred tax assets resulting from net operating loss carryforwards and deductible temporary differences. The realization of these assets is dependent on generating future taxable income. We perform an analysis quarterly to determine whether the expected future income will more likely than not be sufficient to realize the deferred tax assets. Our recent operating results and projections of future income weighed heavily in our overall assessment. The existing and forecasted levels of pretax earnings for financial reporting purposes are not sufficient to generate future taxable income and realize our deferred tax assets and, as a result, we established a full federal and state valuation allowance for the net deferred tax assets at December 31, 2013 and 2012, as we determined that it was more likely than not that these assets would not be realized.

Stock Compensation Costs

The compensation cost associated with the granting of stock-based awards is based on the grant date fair value of the stock award. We recognize the compensation cost, net of estimated forfeitures, over the shorter of the vesting period or the period from the grant date to the date when retirement eligibility is achieved. Forfeitures are initially estimated based on historical information and subsequently updated over the life of the awards to ultimately reflect actual forfeitures. As a result, changes in forfeiture activity can influence the amount of stock compensation cost recognized from period-to-period.

We primarily use the Black-Scholes option pricing model to determine the fair value of stock options and stock-based stock appreciation rights (SARs). The determination of the fair value of stock-based payment awards is made on the date of grant and is affected by our stock price as well as assumptions made regarding a number of complex and subjective variables. These assumptions include: our expected stock price volatility over the term of the awards; actual and projected employee stock option exercise behaviors; the risk-free interest rate; and expected dividend yield. Our assumptions are more fully described in Note 12, Stock-Based Compensation, to our consolidated financial statements in this Annual Report on Form 10-K.

Changes in the valuation assumptions could result in a significant change to the cost of an individual award. However, the total cost of an award is also a function of the number of awards granted, and as result, we have the ability to manage the cost and value of our equity awards by adjusting the number of awards granted.

Restructuring, Facilities Realignment and Related Costs

From time-to-time, in order to consolidate operations, downsize and improve operating efficiencies, we recognize restructuring or facilities realignment charges. The recognition of these charges requires estimates and judgments regarding employee termination benefits, lease termination costs and other exit costs to be incurred when these actions take place. We reassess the cost to complete the restructurings and facility realignment and related charges on a quarterly basis. These estimates may vary significantly from actual costs depending, in part, upon factors that may be beyond our control, resulting in changes to these estimates in current operations.

CONSOLIDATED RESULTS OF OPERATIONS

The following table sets forth for the periods indicated below selected statement of comprehensive loss data as a percentage of revenue. The trends illustrated in this table may not be indicative of future operating results.

	Years Ended December 31,	
	2013	2012
Revenue, net	100.0 %	100.0 %
Cost of services	83.8 %	78.8 %
Gross profit	16.2 %	21.2 %
Compensation expense	11.5 %	12.9 %
Other selling, general and administrative expenses	7.5 %	9.0 %
Asset impairment	— %	18.5 %
Facilities realignment	— %	0.6 %
Total operating expenses	19.0 %	41.0 %
Operating loss	(2.8)%	(19.9)%
Other expense, net	— %	— %
Loss from continuing operations before income tax	(2.8)%	(19.9)%
Provision for income tax	0.1 %	0.2 %
Loss from continuing operations	(2.9)%	(20.1)%
Loss from discontinued operations, net of tax	— %	— %
Net loss	(2.9)%	(20.1)%

Results of Continuing Operations for the Year Ended December 31, 2013 Compared to the Year Ended December 31, 2012

(in thousands)	Sales Services	Marketing Services	PC Services	Consolidated
Year ended December 31, 2013:				
Revenue, net	$ 133,968	$ 4,569	$ 12,305	$ 150,842
Cost of Services	$ 112,966	$ 4,149	$ 9,317	$ 126,432
Gross Profit	$ 21,002	$ 420	$ 2,988	$ 24,410
Gross Profit %	15.7%	9.2%	24.3%	16.2%
Year ended December 31, 2012:				
Revenue, net	$ 99,206	$ 10,127	$ 17,566	$ 126,899
Cost of Services	$ 80,130	$ 7,240	$ 12,669	$ 100,039
Gross Profit	$ 19,076	$ 2,887	$ 4,897	$ 26,860
Gross Profit %	19.2%	28.5%	27.9%	21.2%

Operations Overview

We operate in three business segments: Sales Services; Marketing Services; and PC Services. In 2013, significant increases in revenues from our Sales Services segment drove an increase in Sales Services segment gross profit relative to 2012; however, this improvement was more than offset by declines in revenues in both our PC Services and Marketing Services segments and decreases in gross profit as a percent of revenue in all of our segments.

We are in the pursuit of adding more predictable, higher growth, higher margin business that will eliminate natural volatility of our current core businesses, and at the same time leverage the breadth of our installed infrastructure and the strength of our core commercialization capabilities through our recently announced strategy to become a leading commercialization company for the molecular diagnostics industry via in-licensing, acquiring or partnering through our Interpace Diagnostics entity. The molecular diagnostics industry is highly fragmented with numerous strong science-based companies that have developed clinically important tests which are ready or near ready for market. A vast majority of these companies have very limited experience bringing a test to market and many of them do not have the capital to build an infrastructure to effectively commercialize their test. Due to their

complexity, most molecular diagnostic tests require a specialized go-to-market strategy, which includes messaging to physicians and potentially patients, similar to launching of a new drug in the pharmaceutical market. Developing and delivering these kinds of messages, fully leveraging our extensive commercial infrastructure in an impactful, innovative and ROI centric manner is one of our strengths. Given our proven core sales and marketing and full commercialization capabilities, we believe that this is a natural extension for us and the strength of our core capabilities, installed infrastructure and the ability to gain synergies significantly mitigates the risks associated with this strategy.

Our revenue and profitability depend to a great extent on our relationships with a limited number of large pharmaceutical companies. Our two largest customers in 2013 accounted for approximately 47.5% and 19.3%, respectively, of our revenue. We believe that we will continue to experience a high degree of customer concentration and that the loss or a significant reduction of business from any of our major customers, or a decrease in demand for our services, could have a material adverse effect on our business, financial condition and results of operations.

Revenue, net

Consolidated revenue for the year ended December 31, 2013 increased by $23.9 million, or 18.9%, to $150.8 million, compared to the year ended December 31, 2012. This increase was attributable to the significant 2012 new contract wins in our Sales Services segment being executed in 2013.

Revenue in our Sales Services segment for the year ended December 31, 2013 increased by $34.8 million, or 35.0%, to $134.0 million, compared to the year ended December 31, 2012. The increase in Sales Services revenue, as mentioned above, was primarily due to the significant new contract wins in 2012 being executed in 2013 and the impact of 2013 contract wins.

Revenue in our Marketing Services segment for the year ended December 31, 2013 decreased by $5.6 million, to $4.6 million, compared to the year ended December 31, 2012. This decrease was primarily due to a decline in revenue at our Group DCA business unit as a result of fewer contract signings in 2013.

Revenue in our PC Services segment for the year ended December 31, 2013 decreased by $5.3 million, to $12.3 million, due to the internalization of selected commercialization activities by our customer as of October 1, 2012.

Cost of services

Consolidated cost of services for the year ended December 31, 2013 increased $26.4 million, or 26.4%, to $126.4 million, compared to the year ended December 31, 2012. This increase was primarily due to the increase in revenue from Sales Services segment contracts that were executed in 2013, partially offset by a reduction of costs in our PC Services and Marketing Services segments.

Cost of services in our Sales Services segment for the year ended December 31, 2013 increased to $113.0 million, or 41.0%, compared to the year ended December 31, 2012. This increase was directly attributable to the increase in revenue discussed above.

Cost of services in our Marketing Services segment for the year ended December 31, 2013 decreased $3.1 million to $4.1 million, compared to the year ended December 31, 2012. This decrease was directly attributable to the decline in revenue and our emphasis on cost savings initiatives as we continued to right-size the structure of our Group DCA business unit in an effort to realign the cost structure with the current level of business; however, with the announced launch of our new product, PD One™, the business unit was not able to reduce its cost structure in proportion with the decline in revenue.

Cost of services in our PC Services segment for the year ended December 31, 2013 decreased $3.4 million to $9.3 million. This decrease was directly attributable to the decline in revenue discussed above. PC services cost of services for the year ended December 31, 2013 included $0.3 million of expenses related to collaboration agreement efforts as part of our molecular diagnostic strategy in Interpace Diagnostics.

Gross profit

Consolidated gross profit for the year ended December 31, 2013 decreased by $2.5 million, or 9.1%, to $24.4 million, compared to the year ended December 31, 2012. The consolidated gross profit percentage decreased 5.0%, to 16.2% for the year ended December 31, 2013, compared to the year ended December 31, 2012.

The gross profit percentage in our Sales Services segment for the year ended December 31, 2013 decreased by 3.6%, to 15.7%, compared to the year ended December 31, 2012. This decrease was due to new business being won with lower profit margins

resulting from competitive pricing pressures and the reduction in revenue from our Established Relationship Teams business unit relative to its fixed management costs.

The gross profit percentage in our Marketing Services segment for the year ended December 31, 2013 decreased to 9.2%, from 28.5% in the year ended December 31, 2012. The decrease in gross profit percentage was due to the decline in Group DCA revenue and the business unit not being able to reduce its cost structure in proportion with the decline in revenue due to the announced launch of its new product, PD One™.

The gross profit in our PC Services segment for the year ended December 31, 2013 decreased to 24%, from 28% in the year ended December 31, 2012. The decrease in gross profit percentage was primarily due to the expenses related to a collaboration agreement for our molecular diagnostic strategy in Interpace Diagnostics.

Note: Compensation expense and Other selling, general and administrative (other SG&A) expense amounts for each segment include allocated corporate overhead.

Compensation expense (in thousands)

Year Ended December 31,	Sales Services	% of sales	Marketing Services	% of sales	PC Services	% of sales	Total	% of sales
2013	$ 14,073	10.5%	$ 2,714	59.4%	$ 618	5.0%	$ 17,405	11.5%
2012	12,602	12.7%	2,912	28.8%	900	5.1%	16,414	12.9%
Change	$ 1,471		$ (198)		$ (282)		$ 991	

Consolidated compensation expense for the year ended December 31, 2013 increased by $1.0 million, or 6.0%, compared to the year ended December 31, 2012. The increase was primarily attributable to an increase in bonus expense of $1.7 million, partially offset by a decrease in salary costs. As a percentage of consolidated revenue, consolidated compensation expense decreased to 11.5% for the year ended December 31, 2013, from 12.9% for the year ended December 31, 2012, primarily due to the increase in consolidated revenue.

Compensation expense in our Sales Services segment for the year ended December 31, 2013 increased by $1.5 million, or 11.7%, to $14.1 million compared to the year ended December 31, 2012. This increase is primarily attributable to the increase in bonus expense discussed above. As a percentage of segment revenue, compensation expense decreased 2.2%, to 10.5% for the year ended December 31, 2013, from 12.7% for the year ended December 31, 2012. The decrease in segment compensation expense as a percent of segment revenue was primarily driven by the increase in segment revenue.

Compensation expense in our Marketing Services segment for the year ended December 31, 2013 decreased by $0.2 million, to $2.7 million, compared to the year ended December 31, 2012. As a percentage of segment revenue, segment compensation expense increased 30.6%, to 59.4% for the year ended December 31, 2013, from 28.8% for the year ended December 31, 2012. The increase in segment compensation expense as a percent of segment revenue was primarily a result of Group DCA's decline in revenue.

Compensation expense in our PC Services segment for the year ended December 31, 2013 and the year ended December 31, 2012 is primarily attributable to the allocated costs of corporate support activities in each of the respective periods.

Other selling, general and administrative expenses (in thousands)

Year Ended December 31,	Sales Services	% of sales	Marketing Services	% of sales	PC Services	% of sales	Total	% of sales
2013	$ 8,682	6.5%	$ 2,096	45.9%	$ 504	4.1%	$ 11,282	7.5%
2012	6,813	6.9%	3,880	38.3%	762	4.3%	11,455	9.0%
Change	$ 1,869		$ (1,784)		$ (258)		$ (173)	

Consolidated other selling, general and administrative expenses for the year ended December 31, 2013 decreased by $0.2 million, or 1.5%, to $11.3 million, compared to the year ended December 31, 2012. As a percentage of consolidated revenue, consolidated other selling, general and administrative expenses decreased to 7.5% for the year ended December 31, 2013, from 9.0% in the year ended December 31, 2012, due primarily to the increase in revenue.

Other selling, general and administrative expenses in our Sales Services segment for the year ended December 31, 2013 increased by $1.9 million, to $8.7 million, compared to the year ended December 31, 2012, primarily due to an increase in allocated corporate costs, primarily legal and consulting services. As a percentage of segment revenue, other selling, general and administrative expenses decreased 0.4%, to 6.5% for the year ended December 31, 2013, from 6.9% for the year ended December 31, 2012. The decrease as a percentage of segment revenue was attributable to the increase in revenue mentioned above.

Other selling, general and administrative expenses in our Marketing Services segment for the year ended December 31, 2013 decreased by $1.8 million, or 46.0%, to $2.1 million, compared to the year ended December 31, 2012, primarily due to a decrease in facility costs of $0.9 million and a decrease in amortization expense of $0.9 million as the intangible assets were written off in 2012. As a percentage of segment revenue, other selling, general and administrative expenses increased to 45.9% for the year ended December 31, 2013, from 38.3% for the year ended December 31, 2012. This increase was primarily attributable to the decrease in Group DCA revenue in the period ended December 31, 2013 compared to the year ended December 31, 2012.

Other selling, general and administrative expense in our PC Services segment for the year ended December 31, 2013 and the year ended December 31, 2012 is attributable to the allocated cost of corporate support activities in each of the respective periods. PC services other selling, general and administrative expense for the year ended December 31, 2013 included $0.1 million of expenses related to collaboration agreement efforts for molecular diagnostic tests.

Asset impairments

For the year ended December 31, 2012, we incurred approximately $22.8 million in asset impairment charges within our Marketing Services segment. These impairment charges were associated with the write-down of goodwill of $16.4 million and other intangible assets of $6.4 million in our Group DCA business unit. The decline in revenue from significant customers in the business unit, the decrease in new business generated by this business unit and changes in pharmaceutical industry spending were the main factors contributing to the impairment. We also incurred a charge of approximately $0.7 million in 2012 related to the write-off of all of the assets related to the sale of Pharmakon to Informed as we believed those assets were impaired.

Facilities realignment

For the year ended December 31, 2012, our Marketing Services segment incurred a charge of approximately $0.7 million related to the downsizing of approximately 9,000 square feet of office space in Parsippany, New Jersey. We are currently seeking to sublet this unused office space.

Operating loss

There were operating losses from continuing operations of $4.3 million and $25.2 million during the years ended December 31, 2013 and 2012, respectively. The decrease in operating loss from continuing operations in 2013 was primarily attributable to the asset impairment charges in 2012 of $23.5 million.

Provision for income taxes

We had an income tax expense of approximately $0.2 million each of the years ended December 31, 2013 and 2012. Income tax expense for the years ended December 31, 2013 and 2012 were 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 December 31, 2013, we had cash and cash equivalents and short-term investments of approximately $45.7 million and working capital of $31.3 million, compared to cash and cash equivalents and short-term investments of approximately $52.9 million and working capital of approximately $35.2 million at December 31, 2012. As of December 31, 2013 and 2012, we had no outstanding commercial debt.

During the years ended December 31, 2013 and December 31, 2012, there was net cash used in operating activities of $3.5 million and $10.3 million, respectively. The main component of cash used in operating activities during the year ended December 31, 2013 was the net loss. The main components of cash used in operating activities during the year ended December 31, 2012 was the net loss and decreases in our current liability accounts.

As of December 31, 2013, we had $8.0 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 on contracts in progress are earned and billed within a few months of the period they are originally recognized. The increase in unbilled costs is primarily due to changes of billing terms in contracts with our largest customer that resulted in an additional 25 days to 30 days to collect receivables for the majority of amounts billed to this main customer. As of December 31, 2013, we had approximately $9.4 million of unearned contract revenue. Unearned contract revenue represents amounts billed to customers for services that have not been performed. These amounts are recorded as revenue in the periods they are earned, which is generally within a few months of the period they are originally recognized.

For the years ended December 31, 2013 and December 31, 2012, net cash used in investing activities was approximately $3.3 million and $1.1 million, respectively. The net cash used in investing activities was the investment in the non-controlled entity and capital expenditures in 2013 and capital expenditures in 2012.

For each of the years ended December 31, 2013 and 2012, net cash used in financing activities represents shares that were delivered back to us and included in treasury stock for the payment of taxes resulting from the vesting of restricted stock.

We had standby letters of credit of approximately $2.0 million and $2.6 million at December 31, 2013 and 2012, respectively, as collateral for our existing insurance policies and our facility leases. Our standby letters of credit automatically renew every year unless canceled in writing by us with consent of the beneficiary, generally not less than 60 days before the expiry date.

We recorded facility realignment charges totaling approximately $0.7 million during the year ended December 31, 2012 for costs related to excess leased office space at our Marketing Services segment Parsippany, New Jersey facility. We are currently seeking to sublet this unused office space.

A rollforward of the activity for the facility realignment accrual is as follows (in thousands):

Balance as of January 1, 2012	$	4,489
Accretion		142
Adjustments		715
Payments		(2,067)
Balance as of December 31, 2012	$	3,279
Accretion		142
Adjustments		—
Payments		(1,459)
Balance as of December 31, 2013	$	1,962

Charges for facility lease obligations relate to real estate lease contracts where we have exited certain space and are required to make payments over the remaining lease term (January 2016 for the Saddle River, New Jersey facility, November 2016 for the Dresher, Pennsylvania facility, February 2015 for the Schaumburg, Illinois facility and June 2017 for the Parsippany, New Jersey facility). All lease termination amounts are shown net of projected sublease income.

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 buy out of the contingent earn-out fee. Under the amendment, we paid $3.4 million in 2012 to buy out the contingent earn-out fee under the purchase agreement. Pursuant to their respective retirement agreements we paid $0.3 million to each of the co-CEOs in 2013.

Going Forward

We anticipate 2014 to be a year during which we continue to differentiate ourselves as we build off of our strategy to add more predictable, higher growth, higher margin business that could reduce the natural volatility of our current core business. Last year we announced our strategic focus on becoming a leading commercialization company for the molecular diagnostics industry via in-licensing, acquiring or partnering. The molecular diagnostics industry is highly fragmented with numerous strong science-based companies that have developed clinically important tests which are ready or near ready for market. A vast majority of these companies have very limited experience bringing a test to market and many of them do not have the capital to build an infrastructure to effectively commercialize their test. Due to their complexity, most molecular diagnostic tests require a specialized go-to-market strategy, which includes messaging to physicians, and potentially patients, similar to launching of a new drug in the pharmaceutical

market. Developing and delivering these kinds of messages, fully leveraging our extensive commercial infrastructure in an impactful, innovative and ROI centric manner is one of our strengths. Given our proven core sales and marketing and full commercialization capabilities, we believe this is a natural extension for us and the strength of these core capabilities, our installed infrastructure and the ability to gain synergies significantly mitigates the risks associated with this strategy.

In 2014 we will continue to focus on the flawless execution of our customers' programs in order to consistently deliver desired results. We recognize that our relationships with customers are dependent upon the quality of our performance and our ability to reach and engage their target audiences in a positive and meaningful manner. Through our core outsourced promotional services expertise, we must continue to provide innovative and flexible service offerings designed to drive our customers' businesses forward and successfully respond to a continually changing market. We have, and will continue to, evolve our multi-channel promotional capabilities for many large pharmaceutical companies, a variety of emerging and specialty pharmaceutical and biotechnology companies as well as nutritional, diagnostic and other healthcare service providers.

Our primary strategic focus in 2014 is to determine the viability of the two significant opportunities to commercialize innovative molecular diagnostics tests, in Interpace Diagnostics, that we announced in the second half of 2013. In 2014, we will determine whether or not we will move into the second phase of either collaboration agreement. Our determination of moving forward with either of these collaboration agreements is dependent upon, among other things, commercial responsiveness to promotional efforts and the achievement of certain contractual milestones. We will also continue to evaluate other commercialization opportunities in the molecular diagnostics tests in 2014. We are actively seeking opportunities of this kind, and see the potential to complete at least two additional opportunities during 2014 and multiple deals over the longer term.

We will continue to be diligent with but are prepared to use a portion of our cash, supplemented by additional financings, if necessary, to continue this strategy as these two existing molecular diagnostic opportunities will require additional resources in 2014 and future opportunities may require up-front investment. We have begun, and will continue, to refocus resources internally and add both internal and external resources to move this strategy forward.

Our other strategic focus is the active promotion and marketing of our recently launched Group DCA business unit product offering, PD One™. PD One™ is a proprietary technology platform aimed at expanding relationships between pharmaceutical and life science companies and health care providers. The subscription-based platform enables clients to extend personal and brand interactions with physicians through a secure, professional networking platform that features direct messaging and dynamic content. The new platform complements PDI's award-winning companion site, *The Medical Bag*, a content-rich, multi-functional digital environment that receives more than 50,000 visits by medical professionals each month. This offering utilizes the Group DCA database of approximately 400,000 physicians, can be leveraged by our entire organization and will require ongoing support and enhancements.

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 2014. We expect our working capital requirements to increase as a result of new customer contracts generally providing for longer than historical payment terms.

Considering the information provided above, we anticipate 2014 operations will result in a loss and 2014 cash flows will be negative. While 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, we may require alternative forms of financing to achieve our strategic plan of product in-licensing, acquisitions or partnering.

Contractual Obligations

We have committed cash outflow related to operating lease agreements and other contractual obligations. We lease facilities, automobiles and certain equipment under agreements classified as operating leases, which expire at various dates through 2017. Substantially all of the property leases provide for increases based upon use of utilities and landlord's operating expenses as well as predefined rent escalations. Total expense under these agreements for the years ended December 31, 2013 and 2012 was approximately $4.9 million and $3.0 million, respectively, of which $4.1 million and $2.4 million, respectively, related to automobiles leased for use by employees for a maximum lease term of one year from the date of delivery with the option to renew. Under our two collaboration arrangements we have committed to spend up to $1.0 million as part of phase one collaboration efforts. If we move forward into phase two of the collaboration arrangement with Transgenomic, we may provide Transgenomic with funding support of up to $3.0 million, principally to mitigate working capital requirements. In addition, if we move forward into phase two of the collaboration agreement with the Diagnostics Company, and all milestones are achieved at their maximum levels, we could pay up to $6.0 million to the Diagnostics Company.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial statements and the financial statement schedule specified by this Item 8, together with the reports thereon of BDO USA, LLP, are presented following Item 15 of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the

Exchange Act) as of December 31, 2013. Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed by us in reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure and is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Our Chief Executive Officer and Chief Financial Officer have concluded that, based on their review, our disclosure controls and procedures are effective to provide such reasonable assurance.

Our management, including the Chief Executive Officer and Chief Financial Officer, believes that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must consider the benefits of controls relative to their costs. Inherent limitations within a control system include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. While the design of any system of controls is to provide reasonable assurance of the effectiveness of disclosure controls, such design is also based in part upon certain assumptions about the likelihood of future events, and such assumptions, while reasonable, may not take into account all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and may not be prevented or detected.

Our management has conducted an assessment of its internal control over financial reporting as of December 31, 2013 as required by Section 404 of the Sarbanes-Oxley Act. Management's report on our internal control over financial reporting is included in this Form 10-K. Management has concluded that internal control over financial reporting is effective as of December 31, 2013.

Management's Annual Report on Internal Control over Financial Reporting

The management of PDI, Inc. (“PDI”) is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f).

All internal control systems, no matter how well designed, have inherent limitations including the possibility of human error and the circumvention or overriding of controls. Further, because of changes in conditions, the effectiveness of internal controls may vary over time. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Accordingly, even those systems determined to be effective can provide us only with reasonable assurance with respect to financial statement preparation and presentation.

PDI's management has assessed the effectiveness of internal control over financial reporting as of December 31, 2013, following the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework*. Based on our assessment under the framework in *Internal Control - Integrated Framework*, PDI's management has concluded that our internal control over financial reporting was effective as of December 31, 2013.

Changes in Internal Control over Financial Reporting

There has not been any change in our system of internal control over financial reporting during the fiscal quarter ended December 31, 2013 that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

The Company’s Board of Directors, on the recommendation of its Compensation Committee, granted to our chief executive officer Nancy S. Lurker a retention and performance incentive award of 188,165 performance contingent five year stock appreciation rights (“SARs”). Each SAR represents the right to receive an amount, payable in shares of the Company’s Common Stock (the

"Shares"), equal in value to the excess, if any, of the market value of a Share on the date of exercise over the exercise price of $5.10 per Share. The exercise price represents the market value of a Share as of the date of the grant.

The SARs will vest only upon the achievement of both time-based and stock performance-based conditions; provided that Ms. Lurker remains employed with the Company on the date(s) both conditions are met. The time-based conditions will be satisfied in three installments as follows: (i) 36,496 of the SARs on the first anniversary of the grant date; (ii) 64,460 of the SARs on the second anniversary of the grant date; and (iii) 87,209 of the SARs on the third anniversary of the grant date. The stock performance-based conditions will be deemed satisfied if at any time during the five year term the market value of the Company's stock (based on the 60 consecutive trading day average price per Share), exceeds the following targets: (i) Year 1 Tranche - $7.65; (ii) Year 2 Tranche - $10.20; and (iii) Year 3 Tranche - $15.30. The achievement of these target stock prices represent premiums of 50%, 100% and 200% to the market value of the Company's common stock on the date of grant.

The award of SARs was made under the Company's Amended and Restated 2004 Stock Incentive and Award Plan, for the purpose of incenting retention of Ms. Lurker's employment in the future for a five year period. The Board believes that the retention of Ms. Lurker for this period is critical to the successful implementation of several new strategic initiatives and new products that may have a significant impact on the success of the business and future return to shareholders. The Board also believes that there is a significant retention risk for her services from competitors, due to the relatively low value of her current equity retention incentives. In addition to the retention features of this award, the Board also believes that the performance elements will provide additional motivation for Ms. Lurker to focus on increasing business performance and the growth of shareholder returns.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information relating to directors and executive officers of the registrant that is responsive to Item 10 of this Annual Report on Form 10-K will be included in our Proxy Statement for our 2014 annual meeting of stockholders and such information is incorporated by reference herein.

ITEM 11. EXECUTIVE COMPENSATION

Information relating to executive compensation that is responsive to Item 11 of this Annual Report on Form 10-K will be included in our Proxy Statement for our 2014 annual meeting of stockholders and such information is incorporated by reference herein.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information relating to security ownership of certain beneficial owners and management that is responsive to Item 12 of this Annual Report on Form 10-K will be included in our Proxy Statement for our 2014 annual meeting of stockholders and such information is incorporated by reference herein.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information relating to certain relationships and related transactions that is responsive to Item 13 of this Annual Report on Form 10-K will be included in our Proxy Statement for our 2014 annual meeting of stockholders and such information is incorporated by reference herein.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information relating to principal accounting fees and services that is responsive to Item 14 of this Annual Report on Form 10-K will be included in our Proxy Statement for our 2014 annual meeting of stockholders and such information is incorporated by reference herein.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Annual Report on Form 10-K:

(1) Financial Statements – See Index to Financial Statements on page F-1 of this report.

(2) Financial Statement

Schedule

Schedule II: Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(3) Exhibits

Exhibit No.	Description
2.1	Asset Purchase Agreement by and among InServe Support Solutions, the Company and Informed Medical Communications, Inc. dated December 30, 2011 (16). Upon the request of the SEC, the Company agrees to furnish copies of the following exhibits and schedules: Exhibit A - Form of Promissory Note; Exhibit B - Form of Bill of Sale; Exhibit C - Form of Assignment and Assumption Agreement; Schedule 1(a)(ii) - Contracts, Agreements, Proposals, Identified Opportunities; Schedule 1(a)(ii) - Client and Customer List; Schedule 1(a)(iii) - Intellectual Property Assets; Schedule 1.1(b) - Accounts Receivable; Schedule 2(b) - Programs Qualifying for Buyer Royalty Payments; Schedule 9(g) - Consents; Schedule 15 - Employees; Schedule 17(f) - Name Use Terminations.
3.1	Certificate of Incorporation of PDI, Inc. (1)
3.2	Amended and Restated By-Laws of PDI, Inc., filed herewith
3.3	Certificate of Amendment of Certificate of Incorporation of PDI, Inc. (3)
3.4	Certificate of Amendment to the Certificate of Incorporation of PDI, Inc. (18)
4.1	Specimen Certificate Representing the Common Stock (1)
10.2*	2000 Omnibus Incentive Compensation Plan (2)
10.3*	Executive Deferred Compensation Plan (12)
10.4*	Amended and Restated 2004 Stock Award and Incentive Plan (4)
10.5*	Form of Restricted Stock Unit Agreement for Employees (11)
10.6*	Form of Stock Appreciation Rights Agreement for Employees (11)
10.7*	Form of Restricted Stock Unit Agreement for Directors (11)
10.8*	Form of Restricted Share Agreement (12)
10.9*	Employment Separation Agreement between the Company and Nancy Lurker (7)
10.10*	Amended and Restated Employment Agreement between the Company and Jeffrey Smith (8)
10.14	Saddle River Executive Centre Lease (5)
10.15	Saddle River Executive Centre 2005 Sublease (5)
10.16	Saddle River Executive Centre 2007 Sublease (6)
10.17	First Amendment to Saddle River Executive Centre 2005 Sublease (10)
10.18	Morris Corporate Center Lease (9)
10.20.1†	Amended and Restated Master Services Agreement, dated September 23, 2009, between the Company and Pfizer Inc. (14)
10.20.2†	Statement of Work dated October 2, 2012 between the Company and Pfizer Inc. (20)

Exhibit No.	Description
10.20.3†	Amendment No. 1 to the Amended and Restated Master Services Agreement, effective September 22, 2011, between the Company and Pfizer Inc. (20)
10.21	Consulting Agreement, dated July 1, 2010, between the Company and John P. Dugan (13)
10.22	Membership Interest Purchase Agreement, dated November 3, 2010, between the Company, Group DCA, LLC, JD & RL, Inc., Robert O. Likoff and Jack Davis (15)
10.25	Group DCA Lease in Parsippany, NJ (15)
10.26*	Stock Appreciation Rights for Nancy Lurker, filed herewith
10.27*	New Hire Chief Executive Officer Term Sheet (15)
10.28†	Collaboration Agreement dated as of August 19, 2013 (19)
16.1	Change in Certifying Accountants (17)
18.1	Preferability Letter of BDO USA, LLP (18)
21.1	Subsidiaries of the Registrant (15)
23.1	Consent of BDO USA, LLP, filed herewith
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.
†	Portions of this Exhibit were omitted and filed separately with the Secretary of the SEC pursuant to an order for confidential treatment from the SEC.
(1)	Filed as an exhibit to our Registration Statement on Form S-1 (File No 333-46321), filed with the SEC on May 19, 1998 and incorporated herein by reference.
(2)	Filed as an exhibit to our definitive proxy statement dated May 10, 2000, filed with the SEC on May 11, 2000 and incorporated herein by reference.
(3)	Filed as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2001, filed with the SEC on March 13, 2002 and incorporated herein by reference.
(4)	Filed as an exhibit to our definitive proxy statement filed with the SEC on April 28, 2004 and incorporated herein by reference.
(5)	Filed as an exhibit to our Form 10-K for the year ended December 31, 2005, filed with the SEC on March 17, 2006 and incorporated herein by reference.
(6)	Filed as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2007, filed with the SEC on March 13, 2008 and incorporated herein by reference.

Exhibit No.	Description
(7)	Filed as an exhibit to our Current Report on Form 8-K filed with the SEC on November 18, 2008 and incorporated herein by reference.
(8)	Filed as an exhibit to our Current Report on Form 8-K filed with the SEC on January 7, 2009 and incorporated herein by reference.
(9)	Filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, filed with the SEC on November 5, 2009 and incorporated herein by reference.
(10)	Filed as an exhibit to our Current Report on Form 8-K filed with the SEC on December 4, 2009 and incorporated herein by reference.
(11)	Filed as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on March 13, 2009 and incorporated herein by reference.
(12)	Filed as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2009, filed with the SEC on March 8, 2010 and incorporated herein by reference.
(13)	Filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, filed with the SEC on August 4, 2010 and incorporated herein by reference
(14)	Filed as an exhibit to our Amended Annual Report on Form 10-K/A for the year ended December 31, 2009, filed with the SEC on January 28, 2011 and incorporated herein by reference.
(15)	Filed as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on March 23, 2011 and incorporated herein by reference.
(16)	Filed as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2011, filed with the SEC on March 9, 2012 and incorporated herein by reference.
(17)	Filed as an exhibit to our Current Report on Form 8-K filed with the SEC on March 29, 2012 and incorporated herein by reference.
(18)	Filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, filed with the SEC on August 14, 2012 and incorporated herein by reference
(19)	Filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, filed with the SEC on November 11, 2013 and incorporated herein by reference.†
(20)	Filed as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the SEC on March 15, 2013 and incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, on the 6th day of March, 2014.

PDI, INC.

/s/ Nancy S. Lurker

Nancy S. Lurker

Chief Executive Officer

POWER OF ATTORNEY

PDI, Inc., a Delaware Corporation, and each person whose signature appears below constitutes and appoints each of Nancy Lurker and Jeffrey Smith, and either of them, such person's true and lawful attorney-in-fact, with full power of substitution and resubstitution, for such person and in such person's name, place and stead, in any and all capacities, to sign on such person's behalf, individually and in each capacity stated below, any and all amendments to this Annual Report on Form 10-K and other documents in connection therewith, and to file the same and all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing necessary or desirable to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, thereby ratifying and confirming all that said attorneys-in-fact, or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Form 10-K has been signed by the following persons on behalf of the Registrant and in the capacities indicated and on the 6th day of March, 2014.

Signature	Title
/s/ Gerald Belle Gerald Belle	Chairman of the Board of Directors
/s/ Nancy S. Lurker Nancy S. Lurker	Chief Executive Officer and Director (principal executive officer)
/s/ Jeffrey Smith Jeffrey Smith	Chief Financial Officer and Treasurer (principal accounting and financial officer)
/s/ John Federspiel John Federspiel	Director
/s/ Stephen J. Sullivan Stephen J. Sullivan	Director
/s/ Jack E. Stover Jack E. Stover	Director
/s/ Veronica Lubatkin Veronica Lubatkin	Director
/s/ John M. Climaco John M. Climaco	Director

PDI, Inc.
Index to Consolidated Financial Statements
and Financial Statement Schedules

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of PDI, Inc.:

We have audited the accompanying consolidated balance sheets of PDI, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive loss, stockholders' equity, and cash flows for the years ended December 31, 2013 and 2012. In connection with our audits of the financial statements, we have also audited the financial statements schedule listed in the accompanying index. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PDI, Inc. at December 31, 2013 and 2012, and the results of its operations and its cash flows for the years ended December 31, 2013 and 2012, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the related financial statement schedule, when considered in the relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/BDO USA, LLP

Woodbridge, New Jersey
March 6, 2014

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

	December 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 45,639	$ 52,783
Short-term investments	103	92
Accounts receivable, net	2,422	10,687
Unbilled costs and accrued profits on contracts in progress	7,982	1,955
Other current assets	6,563	6,066
Total current assets	62,709	71,583
Property and equipment, net	2,789	2,396
Goodwill	2,523	2,523
Other long-term assets	1,043	1,945
Total assets	$ 69,064	$ 78,447
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,350	$ 3,388
Unearned contract revenue	9,379	14,501
Accrued salary and bonus	9,643	6,674
Other accrued expenses	10,028	11,827
Total current liabilities	31,400	36,390
Long-term liabilities	5,185	6,427
Total liabilities	36,585	42,817
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, $.01 par value; 5,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $.01 par value; 40,000,000 shares authorized; 16,316,169 and 16,063,514 shares issued, respectively; 15,169,898 and 14,965,875 shares outstanding, respectively	163	161
Additional paid-in capital	130,229	128,508
Accumulated deficit	(83,823)	(79,258)
Accumulated other comprehensive income	16	11
Treasury stock, at cost (1,146,271 and 1,097,639 shares, respectively)	(14,106)	(13,792)
Total stockholders' equity	32,479	35,630
Total liabilities and stockholders' equity	$ 69,064	$ 78,447

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

PDI, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands, except per share data)

	For The Years Ended December 31,	
	2013	**2012**
Revenue, net	$ 150,842	$ 126,899
Cost of services	126,432	100,039
Gross profit	24,410	26,860
Operating expenses:		
Compensation expense	17,405	16,414
Other selling, general and administrative expenses	11,282	11,455
Asset impairments	—	23,517
Facilities realignment	—	706
Total operating expenses	28,687	52,092
Operating loss	(4,277)	(25,232)
Other expense, net	(59)	(28)
Loss from continuing operations before tax	(4,336)	(25,260)
Provision for income tax	180	208
Loss from continuing operations	(4,516)	(25,468)
Loss from discontinued operations, net of tax	(49)	(59)
Net loss	$ (4,565)	$ (25,527)
Other comprehensive income (loss):		
Unrealized holding gain (loss) on available-for-sale securities, net	5	(1)
Comprehensive loss	$ (4,560)	$ (25,528)
Basic and diluted loss per share of common stock:		
From continuing operations	$ (0.31)	$ (1.75)
From discontinued operations	—	—
Net loss per basic and diluted share of common stock	$ (0.31)	$ (1.75)
Weighted average number of common shares and common share equivalents outstanding:		
Basic	14,718	14,585
Diluted	14,718	14,585

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

PDI, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	For The Years Ended December 31,			
	2013		2012	
	Shares	Amount	Shares	Amount
Common stock:				
Balance at January 1	16,064	$ 161	15,820	$ 158
Common stock issued	146	1	144	1
SARs exercised	1	—	4	—
Restricted stock issued	143	1	151	2
Restricted stock forfeited	(38)	—	(55)	—
Balance at December 31	16,316	163	16,064	161
Treasury stock:				
Balance at January 1	1,097	(13,792)	1,075	(13,636)
Treasury stock purchased	49	(314)	22	(156)
Balance at December 31	1,146	(14,106)	1,097	(13,792)
Additional paid-in capital:				
Balance at January 1		128,508		126,720
Common stock issued		—		(1)
Restricted stock issued		(2)		(2)
Stock-based compensation expense		1,723		1,791
Balance at December 31		130,229		128,508
Accumulated deficit:				
Balance at January 1		(79,258)		(53,731)
Net loss		(4,565)		(25,527)
Balance at December 31		(83,823)		(79,258)
Accumulated other comprehensive income (loss):				
Balance at January 1		11		12
Unrealized holding gain (loss) on available-for-sale securities, net of tax		5		(1)
Balance at December 31		16		11
Total stockholders' equity		$ 32,479		$ 35,630

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

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

	For The Years Ended December 31,	
	2013	**2012**
Cash Flows From Operating Activities		
Net loss	$ (4,565)	$ (25,527)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,425	2,034
Realignment accrual accretion	142	142
Provision for bad debt	9	16
Stock-based compensation	1,723	1,791
Asset impairments	—	23,517
Non-cash facilities realignment	—	69
Other changes in assets and liabilities:		
Decrease (increase) in accounts receivable	8,256	(1,054)
(Increase) decrease in unbilled costs	(6,027)	638
Decrease (increase) in other current assets	1,740	(758)
Decrease (increase) in other long-term assets	165	(7)
Decrease in accounts payable	(1,038)	(751)
Decrease in unearned contract revenue	(5,122)	(1,381)
Increase (decrease) in accrued salaries and bonus	2,969	(1,609)
Decrease in accrued liabilities	(1,805)	(5,913)
Decrease in long-term liabilities	(1,384)	(1,493)
Net cash used in operating activities	(3,512)	(10,286)
Cash Flows From Investing Activities		
Purchase of property and equipment	(1,818)	(1,112)
Investment in non-controlled entity	(1,500)	—
Net cash used in investing activities	(3,318)	(1,112)
Cash Flows From Financing Activities		
Cash paid for repurchase of restricted shares	(314)	(156)
Net cash used in financing activities	(314)	(156)
Net decrease in cash and cash equivalents	(7,144)	(11,554)
Cash and cash equivalents – beginning	52,783	64,337
Cash and cash equivalents – ending	$ 45,639	$ 52,783
Cash paid for taxes	$ 235	$ 175

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

1. Nature of Business and Significant Accounting Policies

Nature of Business

PDI, Inc., together with its wholly-owned subsidiaries (PDI or the Company), is a leading provider of outsourced commercial services to established and emerging pharmaceutical, biotechnology and healthcare companies in the United States. PDI is 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, PDI also provides other promotional services, including clinical educator services, digital communications, teledetailing and full product commercialization services. Combined, PDI's 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. These services include product distribution, personal and non-personal product detailing, full supply chain management, operations, sales, marketing, compliance, and regulatory/medical management. PDI provides innovative and flexible service offerings designed to drive customers' businesses forward and successfully respond to a continually changing market. The Company's services provide a vital link between its 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. The Company provides these services through three reporting segments: Sales Services; Marketing Services; and Product Commercialization Services (PC Services).

The Company has taken action on its stated strategy of searching for product in-licensing, acquisition and partnering opportunities that could add more predictable, higher growth, higher margin business that can reduce the natural volatility of its current core businesses, and at the same time leverage the breadth of its installed infrastructure and strength of its core commercialization capabilities. Through its Interpace Diagnostics entity, the Company has recently announced a strategy focused on becoming a leading commercialization company for the molecular diagnostics industry via in-licensing, acquiring or partnering. Leveraging PDI's core sales and marketing and full commercialization capabilities, the Company believes this is a natural extension for itself and the strength of its core capabilities, and PDI's installed infrastructure and the ability to gain synergies significantly mitigates the risks associated with this strategy. During 2013, the Company entered into two arrangements as part of this new strategy. See Note 18, Investment in Non-Controlled Entity and Other Arrangements for further information.

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The consolidated financial statements include the accounts of PDI, Inc. and its wholly-owned subsidiaries: Group DCA, LLC (Group DCA); PDI Investment Company, Inc., Interpace BioPharma, LLC; and presented as discontinued operations, InServe Support Solutions (Pharmakon) and TVG, Inc. (TVG). All significant intercompany balances and transactions have been eliminated in consolidation.

Accounting Estimates

The preparation of consolidated 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 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 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.

Cash and Cash Equivalents

Cash and cash equivalents include unrestricted cash accounts, money market investments and highly liquid investment instruments with original maturity of three months or less at the date of purchase.

Receivables and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Management reviews a customer's credit history before extending credit. The Company records a provision for estimated losses based upon the inability of its customers to make required payments using historical experience and periodically adjusts these provisions to reflect actual experience. Additionally, the Company will establish a specific allowance for doubtful accounts when it becomes aware of a specific customer's inability or unwillingness to meet its financial obligations (e.g., bankruptcy filing). There was a $9,000 allowance for doubtful accounts for trade accounts receivables as of December 31, 2013 and no allowance for doubtful accounts as of December 31, 2012.

Unbilled Costs and Accrued Profits

In general, contractual provisions, including predetermined payment schedules or submission of appropriate billing detail, establish the prerequisites for billings. Unbilled costs and accrued profits arise when services have been rendered and payment is assured but customers have not been billed. These amounts are classified as a current asset.

Unearned Contract Revenue

Normally, in the case of detailing and e-detailing contracts, the customers agree to pay the Company a portion of the fee due under a contract in advance of performance of services because of large recruiting and employee development costs associated with the initial phase of a contract performance and effort required in the development of interactive digital communications. The excess of amounts billed over revenue recognized represents unearned contract revenue, which is classified as a current liability.

Loans and Investments in Privately Held Entities

From time-to-time, the Company makes investments in and/or loans to privately-held companies. The Company determines whether the fair values of any investments in privately held entities have declined below their carrying value whenever adverse events or changes in circumstances indicate that recorded values may not be recoverable. If the Company considers any such decline to be other than temporary (based on various factors, including historical financial results, and the overall health of the investee's industry), a write-down to estimated fair value is recorded. As of December 31, 2013, the Company had an investment in a privately held, non-controlled entity of $1.5 million within *Other current assets* in the Consolidated Balance Sheets in accordance with ASC 325-20 Investments Other - Cost Method Investments. See Note 18, Investment in Non-Controlled Entity and Other Arrangements for further information.

On a quarterly basis, the Company reviews outstanding loans receivable to determine if a provision for doubtful notes is necessary. These reviews include discussions with senior management of the investee, and evaluations of, among other things, the investee's progress against its business plan, its product development activities and customer base, industry market conditions, historical and projected financial performance, expected cash needs and recent funding events. Subsequent cash receipts on the outstanding interest are applied against the outstanding interest receivable balance and the corresponding allowance. The Company's assessments of value are subjective given that the investees may be at an early stage of development and rely regularly on their investors for cash infusions. As of December 31, 2013 and 2012, the Company had loan receivable balances of $750,000, which has been fully reserved.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation and amortization is recognized on a straight-line basis, using the estimated useful lives of: seven to ten years for furniture and fixtures; two to five years for office and computer equipment; and leasehold improvements are amortized over the shorter of the estimated service lives or the terms of the related leases which are currently four to five years. Repairs and maintenance are charged to expense as incurred. Upon disposition, the asset and related accumulated depreciation are removed from the related accounts and any gains or losses are reflected in operations.

Software Costs

Internal-Use Software - It is the Company's policy to capitalize certain costs incurred in connection with developing or obtaining internal-use software. Capitalized software costs are included in property and equipment on the consolidated balance sheet and amortized over the software's useful life, generally three to seven years. Software costs that do not meet capitalization criteria are expensed immediately. During the year ended December 31, 2013, the Company capitalized $0.5 million of internal-use software related to investment in the development of its core systems.

External-Use Software - It is the Company's policy to capitalize certain costs incurred in connection with developing or obtaining external-use software. Capitalized software costs are included in property and equipment on the consolidated balance sheet and amortized over the software's useful life, generally three years. Software costs that do not meet capitalization criteria are expensed immediately. During the year ended December 31, 2013, the Company capitalized $1.1 million of external-use software related to investment in the development of its recently launched Group DCA business unit product, PD One™.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and cash equivalents and investments in marketable securities. The Company maintains deposits in federally insured financial institutions. The Company also holds investments in Treasury money market funds that maintain an average portfolio maturity less than 90 days and deposits held with financial institutions may exceed the amount of insurance provided on such deposits; however, management believes the Company is not exposed to significant credit risk due to the financial position of the financial institutions in which those deposits are held and the nature of the investments.

Goodwill and Indefinite-Lived 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, 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 and thereby impact the fair value of these assets, which could result in an impairment of the goodwill or intangible assets.

The Company tests its goodwill 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 our expected future cash flows; a sustained, significant decline in our 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, indefinite-lived intangible assets and our consolidated financial results.

The Company tests its goodwill for impairment at the business (reporting) unit level, which is one level below its operating segments. The goodwill has been assigned to the reporting unit to which the value relates. One of the Company's five reporting units, Group DCA, has goodwill. The Company tested goodwill by estimating the fair value of the reporting unit using a Discounted Cash Flow (DCF) model. The key assumptions used in the DCF model to determine the highest and best use of estimated future cash flows include revenue growth rates and profit margins based on internal forecasts, terminal value and an estimate of a market participant's weighted-average cost of capital used to discount future cash flows to their present value. The Company tested the indefinite-lived intangible asset using a Relief From Royalty Method (RFRM) under the Income Approach. The key assumptions used in the RFRM model include revenue growth rates, the terminal value and the assumed discount rate. While the Company uses available information to prepare estimates and to perform impairment evaluations, actual results could differ significantly from these estimates or related projections, resulting in impairment related to recorded goodwill balances.

During the Company's 2012 annual impairment tests of goodwill and indefinite-lived intangible assets, management identified potential impairment. The Company's management then determined that these Group DCA business unit assets were impaired and recognized an impairment loss of $18.4 million as the carrying value of the Group DCA business unit was in excess of its fair value. During the Company's 2013 annual impairment tests of goodwill, no potential impairment was identified by management, as the fair value of the Group DCA business unit was in excess of its carrying value. If Group DCA's projected long-term sales growth rate, profit margins, or terminal rate change, or the assumed weighted-average cost of capital is considerably higher, future testing may indicate additional impairment in this reporting unit and, as a result, the remaining

assets may also be impaired. See Note 4, Fair Value Measurements and Note 7, Goodwill and Other Intangible Assets for further information.

Long-Lived Assets, including Finite-Lived Intangible 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. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, an impairment loss is recognized by reducing the recorded value of the asset to its fair value measured by future discounted cash flows. This analysis requires estimates of the amount and timing of projected cash flows and, where applicable, judgments associated with, among other factors, the appropriate discount rate. Such estimates are critical in determining whether any impairment charge should be recorded and the amount of such charge if an impairment loss is deemed to be necessary. For a discussion of impairment related to finite-lived intangible assets, see Note 7, Goodwill and Other Intangible Assets.

During the year ended December 31, 2012 the Company recorded a non-cash charge of approximately $4.4 million related to the full impairment of the Group DCA finite-lived intangible assets. See Note 7, Goodwill and Other Intangible Assets, for additional information.

Additionally, during the year ended December 31, 2012, the Company recorded non-cash charges of less than $ 0.1 million for the impairment of certain furniture and leasehold improvements as a result of exiting approximately 9,000 square feet of office space at its Group DCA facility in Parsippany, New Jersey. These charges have both been recorded in continued operations. See Note 14, Facilities Realignment for additional information.

Self-Insurance Accruals

The Company is self-insured for benefits paid under employee healthcare programs. The Company's liability for healthcare claims is estimated using an underwriting determination which is based on the current year's average lag days between when a claim is incurred and when it is paid. The Company maintains stop-loss coverage with third-party insurers to limit its total exposure on all of these programs. Periodically, the Company evaluates the level of insurance coverage and adjusts insurance levels based on risk tolerance and premium expense. Management reviews the self-insurance accruals on a quarterly basis. Actual results may vary from these estimates, resulting in an adjustment in the period of the change in estimate. Prior to October 1, 2008, the Company was also self-insured for certain losses for claims filed and claims incurred but not reported relating to workers' compensation and automobile-related liabilities for Company-leased cars. Beginning October 1, 2008, the Company became fully-insured through an outside carrier for these losses. The Company's liability for claims filed and claims incurred but not reported prior to October 1, 2008 is estimated on an actuarial undiscounted basis supplied by our insurance brokers and insurers using individual case-based valuations and statistical analysis. These estimates are based upon judgment and historical experience. However, the final cost of many of these claims may not be known for five years or more after filing of the claim. As of December 31, 2013, the Company had no outstanding claims filed and claims incurred but not reported for self-insured automobile-related liabilities. At December 31, 2013 and 2012, self-insurance accruals totaled $1.0 million and $0.9 million, respectively, and are included in other accrued expenses on the balance sheet.

Contingencies

In the normal course of business, the Company is subject to various contingencies. Contingencies are recorded in the consolidated financial statements when it is probable that a liability will be incurred and the amount of the loss is reasonably estimable, or otherwise disclosed, in accordance with Accounting Standards Codification 450, Contingencies (ASC 450). Significant judgment is required in both the determination of probability and the determination as to whether a loss is reasonably estimable. In the event the Company determines that a loss is not probable, but is reasonably possible, and it becomes possible to develop what the Company believes to be a reasonable range of possible loss, then the Company will include disclosures related to such matter as appropriate and in compliance with ASC 450. To the extent there is a reasonable possibility that the losses could exceed the amounts already accrued, the Company will, when applicable, adjust the accrual in the period the determination is made, disclose an estimate of the additional loss or range of loss, indicate that the estimate is immaterial with respect to its financial statements as a whole or, if the amount of such adjustment cannot be reasonably estimated, disclose that an estimate cannot be made. The Company is currently involved in certain legal proceedings and, as required, the Company has accrued its estimate of the probable costs for the resolution of these claims. These estimates are developed in consultation with outside counsel and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. Predicting the outcome of claims and litigation, and estimating related costs and exposures, involves substantial uncertainties that could cause actual costs to vary materially from estimates.

Revenue and Cost of Services

The Company recognizes revenue from services rendered when the following four revenue recognition criteria are met: persuasive evidence of an arrangement exists; services have been rendered; the selling price is fixed or determinable; and collectability is reasonably assured. The Company's contracts containing multiple deliverables are accounted for in accordance with Accounting Standards Codification 605-25, Revenue Recognition: Multiple Element Arrangements.

Sales Services

Revenue under pharmaceutical detailing contracts is generally based on the number of sales representatives utilized or the number of physician details made. Revenue is generally recognized on a straight-line basis over the contract period or as the physician details are performed. A portion of revenues earned under certain contracts may be risk-based. The risk-based metrics may be based on activity metrics such as call activity, turnover, or other agreed upon measures, or on contractually defined percentages of prescriptions written. Revenue from risk-based metrics is recognized in the period which the metrics have been attained and when we are reasonably assured that payment will be made. Many of the Company's product detailing contracts also allow for additional periodic incentive fees to be earned if certain activities have occurred or client specific sales performance benchmarks have been attained. Revenue from incentive fees is recognized in the period earned when the performance benchmarks have been attained and when the Company is reasonably assured that payment will be made. Many contracts also stipulate penalties if agreed upon performance benchmarks have not been met. Revenue is recognized net of any potential penalties until the performance criteria relating to the penalties have been achieved. Commission based revenue is recognized when performance is completed.

The Company's product detailing contracts are generally for terms of one to three years and may be renewed or extended. The majority of these contracts, however, are terminable by the customer without cause upon 30 days' to 180 days' prior written notice. 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 the Company would have earned from fully executing the contract or the costs the Company may incur as a result of its early termination.

The Company maintains continuing relationships with its Sales Services customers which may lead to multiple ongoing contracts with one customer. In situations where the Company enters into multiple contracts with one customer at or near the same time, the Company evaluates the various factors involved in negotiating the arrangements in order to determine if the contracts were negotiated in contemplation of one and other and should be accounted for as a single agreement.

The loss or termination of large pharmaceutical detailing contracts could have a material adverse effect on the Company's financial condition, results of operations and cash flow. Historically, the Company has derived a significant portion of its service revenue from a limited number of customers. Concentration of business in the pharmaceutical industry is common and the industry continues to consolidate. As a result, the Company is likely to continue to experience further customer concentration in future periods. For the years ended December 31, 2013 and 2012, the Company's two and three largest Sales Services customers, respectively, each of whom individually represented 10% or more of the Company's Sales Services revenue collectively accounted for approximately 65.5% and 52.5% of its consolidated service revenue, respectively. See Note 13, Significant Customers, for additional information.

Cost of services consists primarily of the costs associated with executing product detailing programs, performance based contracts or other sales and marketing services identified in the contract and includes personnel costs and other direct costs, as well as the initial direct costs associated with staffing a product detailing program. Personnel costs, which constitute the largest portion of cost of services, include all labor related costs, such as salaries, bonuses, fringe benefits and payroll taxes for the sales representatives, sales managers and professional staff that are directly responsible for executing a particular program. Other direct costs include, but are not limited to, facility rental fees, travel expenses, sample expenses and other promotional expenses.

Initial direct program costs are the costs associated with initiating a product detailing program, such as recruiting and hiring and certain other direct incremental costs, excluding pass through costs that are billed to customers. Other direct costs include, but are not limited to, facility rental fees, travel expenses, sample expenses and other promotional expenses. Through March 31, 2012, the Company expensed these initial direct program costs as incurred, as these amounts were not material to the operating results of the Company. As a result of the Company's then recent contract signings and plans to enter into larger

contracts in the future, requiring more material initial direct program costs, commencing April 1, 2012, the Company changed its policy for the recognition of such initial direct program costs. These costs are now being deferred and amortized to expense in proportion to the revenue recognized as driven by the terms of the underlying contract. As of December 31, 2013 and 2012, the Company deferred $2.3 million and $1.8 million of initial direct program costs, respectively. During the years ended December 31, 2013 and 2012, the Company amortized $0.9 million and $0.2 million initial direct program costs into expense, respectively. This change in accounting was not applied retrospectively because the effect on prior periods was immaterial. All personnel costs and other direct costs, excluding initial direct program costs, are expensed as incurred.

Reimbursable out-of-pocket expenses include those relating to travel, meals and entertainment, product sample distribution costs and other similar costs for which the Company is reimbursed at cost by its customers. Reimbursements received for out-of-pocket expenses incurred are characterized as revenue and an identical amount is included as cost of services in the consolidated statements of comprehensive loss. For the years ended December 31, 2013 and 2012, reimbursable out-of-pocket expenses were $30.8 million and $19.9 million, respectively.

Training costs include the costs of training the sales representatives and managers on a particular product detailing program so that they are qualified to properly perform the services specified in the related contract. For the majority of the Company's contracts, training costs are reimbursable out-of-pocket expenses.

Marketing Services

Revenue under marketing service contracts are primarily based on a series of deliverable services associated with the design and execution of interactive digital promotional programs. The contracts are generally terminable by the customer for any reason. Upon termination, the customer is generally responsible for payment for all work completed to date, plus the cost of any nonrefundable commitments the Company has made on behalf of the customer.

Revenue from certain promotional contracts that include more than one service offering is accounted for as multiple-element arrangements. For these contracts, the deliverable elements are divided into separate units of accounting provided the following criteria are met: the delivered elements have stand-alone value to the customer; and if there is a right of return or refund, delivery or performance of the undelivered items is probable and substantially in the Company's control. The contract revenue is then allocated to the separate units of accounting. Revenue and cost of services are recognized for each unit of accounting separately as the related services are rendered and costs are incurred, respectively.

A majority of the Company's multiple-element arrangements generally contain two phases for each wave of promotional content that is developed under the program: the development phase and the delivery phase. The development phase represents the creation of the promotional assets to be used in the program while the delivery phase represents the delivery of those assets to the customer's target audience and any communications received from the targets in response to the materials. The Company has determined that these two phases represent the units of accounting of a majority of its multiple-element arrangements.

For multiple element arrangements, revenue is recognized based on an allocation of the total amount of the arrangement to each deliverable based on the relative selling prince method. When applying the relative selling price method, the selling price for each deliverable is determined using a hierarchy. Using this hierarchy, the fair value is determined using vendor-specific objective evidence (VSOE) if available, third-party evidence (TPE) if VSOE is not available, or best estimate of selling price if neither VSOE or TPE is available. The Company uses its best estimate of selling price to allocate the total arrangement consideration to each deliverable within the development unit of accounting and a majority of the deliverables within the delivery unit of accounting. The best estimate of selling price of standard deliverables is derived primarily from the Company's standard rate card, which covers a majority of the deliverables included within its customer contracts and is reviewed and updated on an annual basis or more frequently if circumstances warrant. Prices on the standard rate card are derived primarily from the Company's standard hourly project budgets and its standard hourly billing rate, however, these prices are then evaluated against recent market conditions and Company sales trends and may be adjusted by management in order to remain competitive in the current environment.

The best estimate of selling price of non-standard deliverables included within its customer contracts, which generally represent custom projects, is derived from the deliverable's hourly project budget and the Company's standard hourly billing rate. For a select few types of deliverables provided within its customer contracts, the Company uses third party evidence to determine the value of the deliverables. This applies primarily to the physical production of program recruitment tactics such as webkeys and direct mail, as well as other vendor services that the Company utilizes from time to time such as email broadcasting fees.

The Company recognizes revenue for the development unit of accounting under a percentage-of-completion method by recognizing revenue as work on a contract progresses. The Company is able to reasonably estimate: the extent of progress towards completion; total contract costs; and contract revenue. Work performed and revenue recognized in this phase of the contract generally ranges between six and twelve months. Revenue is recognized on a straight-line basis over the delivery phase of the contract, as defined in the contract, and generally ranges between six and twelve months.

The Company maintains continuing relationships with our Marketing Services customers which may lead to multiple ongoing contracts between the two parties. In situations where the Company enters into multiple contracts with one customer at or near the same time, it evaluates the various factors involved in negotiating the arrangements in order to determine if the contracts were negotiated in contemplation of one and other and should be accounted for as a single agreement.

Cost of services consists primarily of the costs associated with executing interactive digital promotional programs or other sales and marketing services identified in the contract and include personnel costs and other direct costs. Personnel costs, which constitute the largest portion of cost of services, include all labor related costs, such as salaries, bonuses, fringe benefits and payroll taxes for the professional staff that are directly responsible for executing a particular program. Other direct costs include, but are not limited to: freelance costs; email broadcasting fees; list rental fees; direct mail production fees; and other promotional expenses. All personnel costs and direct program costs are expensed as incurred.

PC Services

Revenue under product commercialization contracts is based on the number of sales representatives utilized and when applicable, the commercial operations services we provide. The Company has determined that there are two units of accounting in its Interpace BioPharma arrangement: the Dedicated Sales Team providing product detailing services; and the commercial operations providing full supply chain management, operations, marketing, compliance, and regulatory/medical management services. Due to the significant level of customization, selling prices are determined for the Dedicated Sales Team through internal development of a program budget consistent with the manner of deriving selling prices that the Company employs in its Sales Services segment. Selling prices for commercial operations are determined by estimating the expenditures required to perform the services, plus the addition of a profit margin consistent with the expected profit margin to be generated by the Dedicated Sales Team. Revenue is recognized for the Dedicated Sales Team on a straight-line basis over the product detailing service period which begins upon deployment of the sales force. Revenue is recognized for commercial operations services as services are provided over the term of the contract. During the year ended December 31, 2013, one customer accounted for all of the revenue in the PC Services reporting segment.

In August 2011, Interpace BioPharma announced 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 the Company's protection, and is terminable by the customer without cause upon 180 days prior written notice after the first anniversary of the contract effective date. This contract 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.

Under the terms of the then current two and one-half year arrangement, the customer had the right to internalize various activities at different times over the life of the arrangement. Due to the success of the program to date and to allow the customer to begin their long-term plan of building their own capabilities in the United States, the Company allowed this customer to internalize selected commercialization activities as of October 1, 2012 and at the same time, extend other activities six months passed the then current December 31, 2013 agreement expiration date to June 30, 2014, resulting in an estimated net overall reduction to the then current $55 million contract of approximately 10% to 15%. The amended agreement is not terminable by the customer without cause. The Company anticipates the contract will terminate on the June 30, 2014 contract expiration date. During the year ended December 31, 2013, this one customer accounted for all of the revenue in the PC Services segment.

Cost of services consists primarily of the costs associated with executing product detailing programs and includes personnel costs and other direct costs, as well as the initial direct costs associated with staffing a product detailing program or a collaboration arrangement. Cost of services may also include costs such as distribution, marketing and promotion, public relations, patient reimbursement programs, managed care support, and market research. Personnel costs, which constitute the largest portion of cost of services, include all labor related costs, such as salaries, bonuses, fringe benefits and payroll taxes for the sales representatives, sales managers and professional staff that are directly responsible for executing the program or collaboration arrangement. Initial direct program costs are those costs associated with initiating a product detailing program,

such as recruiting, hiring, and training the sales representatives who staff a particular program. Other direct costs include, but are not limited to, facility rental fees, travel expenses, sample expenses and other promotional expenses. Through March 31, 2012, the Company expensed these initial direct program costs as incurred, as these amounts were not material to the operating results of the Company. As a result of the Company's recent contract signings and plans to enter into larger contracts in the future, requiring more material initial direct program costs, commencing April 1, 2012, the Company changed its policy for the recognition of such initial direct program costs. These costs are now being deferred and amortized to expense in proportion to the revenue recognized as driven by the terms of the contract. This change in accounting was not applied retrospectively because the effect on prior periods was immaterial. All personnel costs and other direct costs, excluding initial direct program costs, are expensed as incurred.

Stock-Based Compensation

The compensation cost associated with the granting of stock-based awards is based on the grant date fair value of the stock award. The Company recognizes the compensation cost, net of estimated forfeitures, over the shorter of the vesting period or the period from the grant date to the date when retirement eligibility is achieved. Forfeitures are initially estimated based on historical information and subsequently updated over the life of the awards to ultimately reflect actual forfeitures. As a result, changes in forfeiture activity can influence the amount of stock compensation cost recognized from period to period.

The Company primarily uses the Black-Scholes option pricing model to determine the fair value of stock options and stock-based stock appreciation rights (SARs). The determination of the fair value of stock-based payment awards is made on the date of grant and is affected by the Company’s stock price as well as assumptions made regarding a number of complex and subjective variables. These assumptions include: expected stock price volatility over the term of the awards; actual and projected employee stock option exercise behaviors; the risk-free interest rate; and expected dividend yield. These assumptions are more fully described in Note 12, Stock-Based Compensation. The fair value of restricted stock units (RSUs) and restricted shares is equal to the closing stock price on the date of grant.

Treasury Stock

Treasury stock purchases are accounted for under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock. Upon reissuance of shares, the Company records any difference between the weighted-average cost of such shares and any proceeds received as an adjustment to additional paid-in capital.

Rent Expense

Minimum rental expenses are recognized over the term of the lease. The Company recognizes minimum rent starting when possession of the property is taken from the landlord, which may include a construction period prior to occupancy. When a lease contains a predetermined fixed escalation of the minimum rent, the Company recognizes the related rent expense on a straight-line basis and records the difference between the recognized rental expense and the amounts payable under the lease as a deferred rent liability. The Company may also receive tenant allowances including cash or rent abatements, which are reflected in other accrued expenses and long-term liabilities on the consolidated balance sheet. These allowances are amortized as a reduction of rent expense over the term of the lease. Certain leases provide for contingent rents that are not measurable at inception. These contingent rents are primarily based upon use of utilities and the landlord’s operating expenses. These amounts are excluded from minimum rent and are included in the determination of total rent expense when it is probable that the expense has been incurred and the amount is reasonably estimable.

Income taxes

Income taxes are based on income for financial reporting purposes calculated using the Company’s expected annual effective rate and reflect a current tax liability or asset for the estimated taxes payable or recoverable on the current year tax return and expected annual changes in deferred taxes. Any interest or penalties on income tax are recognized as a component of income tax expense.

The Company accounts for income taxes using the asset and liability method. This method requires recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences that currently exist between tax bases and financial reporting bases of the Company’s assets and liabilities based on enacted tax laws and rates. Deferred tax expense (benefit) is the result of changes in the deferred tax asset and liability. A valuation allowance is established, when necessary, to reduce the deferred income tax assets when it is more likely than not that all or a portion of a deferred tax asset will not be realized.

The Company operates in multiple tax jurisdictions and pays or provides for the payment of taxes in each jurisdiction where it conducts business and is subject to taxation. The breadth of the Company's operations and the complexity of the tax law require assessments of uncertainties and judgments in estimating the ultimate taxes the Company will pay. The final taxes paid are dependent upon many factors, including negotiations with taxing authorities in various jurisdictions, outcomes of tax litigation and resolution of proposed assessments arising from federal and state audits. Uncertain tax positions are recognized in the financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) that a position taken or expected to be taken in a tax return would be sustained upon examination by tax authorities that have full knowledge of all relevant information. A recognized tax position is then measured as the largest amount of benefit that is greater than fifty percent likely to be realized upon ultimate settlement. The Company adjusts accruals for unrecognized tax benefits as facts and circumstances change, such as the progress of a tax audit. The Company believes that any potential audit adjustments will not have a material adverse effect on its financial condition or liquidity. However, any adjustments made may be material to the Company's consolidated results of operations or cash flows for a reporting period. Penalties and interest, if incurred, would be recorded as a component of current income tax expense.

Significant judgment is also required in evaluating the need for and magnitude of appropriate valuation allowances against deferred tax assets. Deferred tax assets are regularly reviewed for recoverability. The Company currently has significant deferred tax assets resulting from net operating loss carryforwards and deductible temporary differences, which should reduce taxable income in future periods. The realization of these assets is dependent on generating future taxable income.

Earnings (Loss) per Share

Basic earnings per common share are computed by dividing net income by the weighted average number of shares outstanding during the year including any unvested share-based payment awards that contain nonforfeitable rights to dividends. Diluted earnings per common share are computed by dividing net income by the sum of the weighted average number of shares outstanding and dilutive common shares under the treasury method. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid), are participating securities and are included in the computation of earnings per share pursuant to the two-class method. As a result of the losses incurred in both 2013 and 2012, the potentially dilutive common shares have been excluded from the earnings per share computation for these periods because its inclusion would have been anti-dilutive.

Comprehensive Income (Loss)

Comprehensive income (loss) includes net loss and the net unrealized gains and losses on investment securities, net of tax. Other comprehensive income (loss) is net of reclassification adjustments for items currently included in net loss, such as realized gains and losses on investment securities.

Subsequent Events

There are no subsequent events the Company has identified for disclosure.

2. Recent Accounting Standards

Accounting Standards Updates

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-02, Comprehensive Income (Topic 220), "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," effective for annual and interim reporting periods beginning after December 15, 2012. The new accounting rules require all U.S. public companies to report the effect of items reclassified out of accumulated other comprehensive income on the respective line items of net income, net of tax, either on the face of the financial statements where net income is presented or in a tabular format in the notes to the financial statements. The Company adopted ASU No. 2013-02 effective January 1, 2013. The new accounting rules expand the disclosure of other comprehensive income and had no impact on the Company's results of operations and financial condition.

3. Acquisition

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. The primary reason for the acquisition of Group DCA was to leverage the strength of its Internet, multimedia, tablet PC, dimensional direct mail and proprietary software, DIAGRAM™, in the delivery of non-personal selling solutions that accommodate the schedules of healthcare providers. Group DCA's proprietary software also yields meaningful response data that allows clients 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 personal promotional services and Group DCA's e-detailing, patient education communications and other digital communications, the Company expected to be better positioned to offer customers increased insight and greater engagement, which should result in integrated information and more impactful messages being delivered to health care providers across multiple communication channels.

The acquisition was accounted for as a purchase, subject to the provisions of Accounting Standards Codification 805-10-50 (ASC 805-10-50), and has been treated as an asset acquisition for tax purposes. The Company paid cash (net) of approximately $23.9 million, of which $1.3 million was placed in escrow. The escrow amount was paid out during the quarter ended June 30, 2012. Prior to being amended, 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 (contingent earn-out fee or contingent consideration). These earn-outs were 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; and $12.5 million in each of the years ended December 31, 2011 and 2012. Up to $2.5 million of the $12.5 million in each of the years ending December 31, 2011 and 2012 was related to certain integration activities. The metrics for payments related to the period ended December 31, 2010 were not achieved.

In connection with the transaction, the Company recorded $18.9 million of goodwill, all of which is deductible for tax purposes, and $8.4 million in other identifiable intangible assets as of December 31, 2010. The identified finite-lived intangible assets, the healthcare provider database and technology, had a weighted average amortization period of 7.4 years. The tradename, which was estimated to have an indefinite useful life, was not amortized. See Note 7, Goodwill and Other Intangible Assets, for additional information. The Company also recorded $4.0 million, the estimated fair value of deferred revenue, using a cost build-up approach. The cost build-up approach determines fair value by estimating the costs relating to fulfilling the obligations plus a normal profit margin of a market participant, less an estimated selling effort.

The Company determined the acquisition date fair value of the contingent consideration of $ 1.6 million 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 was based on significant subjective assumptions and inputs not observable in the market and thus represents a Level 3 fair value measurement. In addition, the Company recorded an indemnification asset and assumed a liability of approximately $0.9 million related to an ongoing sales tax assessment related to transactions that occurred prior to the acquisition date. Any subsequent changes to the final purchase price allocation above will be adjusted in the statement of comprehensive income (loss) accordingly.

In November 2011, the Company announced that it amended the Group DCA purchase agreement to buy out the contingent earn-out fee for $3.4 million. In connection with the signing of the amendment to the purchase agreement, the Company wrote-off the $1.6 million of contingent consideration recorded as part of the acquisition through the statement of operations and comprehensive loss during the year ended December 31, 2011. The buyout of the contingent earn-out fee was paid during the year ended December 31, 2012. See Note 4, Fair Value Measurements, for further information.

In the fourth quarter of 2012, as a result of the Company's annual goodwill and other intangible impairment tests, the Company wrote-off $16.4 million of goodwill and the intangible asset balance of $6.4 million. No indicator of impairment was identified from the Company's annual goodwill and other intangible impairment tests as of December 31, 2013. For more details, see Note 7, Goodwill and Other Intangible Assets.

4. 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

(tabular information in thousands, except share and per share data)

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 for assets and liabilities include certain unobservable inputs in the assumptions and projections used 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 tables below.

	As of December 31, 2013		Fair Value Measurements As of December 31, 2013		
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents:					
Cash	$ 10,315	$ 10,315	$ 10,315	$ —	$ —
Money market funds	35,324	35,324	35,324	—	—
	$ 45,639	$ 45,639	$ 45,639	$ —	$ —
Marketable securities:					
Money market funds	$ 48	$ 48	$ 48	$ —	$ —
Mutual funds	55	55	55	—	—
U.S. Treasury securities	1,730	1,730	1,730	—	—
Government agency securities	382	382	382	—	—
	$ 2,215	$ 2,215	$ 2,215	$ —	$ —

(tabular information in thousands, except share and per share data)

	As of December 31, 2012		Fair Value Measurements As of December 31, 2012		
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents:					
Cash	$ 10,956	$ 10,956	$ 10,956	$ —	$ —
Money market funds	41,827	41,827	41,827	—	—
	$ 52,783	$ 52,783	$ 52,783	$ —	$ —
Marketable securities:					
Money market funds	$ 48	$ 48	$ 48	$ —	$ —
Mutual funds	44	44	44	—	—
U.S. Treasury securities	2,450	2,450	2,450	—	—
Government agency securities	1,270	1,270	1,270	—	—
	$ 3,812	$ 3,812	$ 3,812	$ —	$ —

The fair value of marketable securities is valued using market prices in active markets (level 1). As of December 31, 2013 and 2012, the Company did not have any marketable securities in less active markets (level 2) or without observable market values that would require a high level of judgment to determine fair value (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.

Certain of the Company's non-financial assets, such as goodwill and other intangible assets are measured at fair value when there is an indicator of impairment and recorded at fair value only when an impairment charge is recognized. The following table summarizes these assets of the Company measured at fair value on a nonrecurring basis as of December 31, 2012:

	Carrying Amount as of December 31, 2012	Fair Value Measurements as of December 31, 2012		
		Level 1	Level 2	Level 3
Long-lived assets held and used:				
Goodwill	$ 2,523	$ —	$ —	$ 2,523

A review of Group DCA's historic, current and forecasted operating results as of December 31, 2013 indicated that the carrying amount of the Company's goodwill and indefinite-lived intangible assets is recoverable from the sum of future discounted cash flows. As of December 31, 2013, no further testing was necessary.

A review of Group DCA's historic, current and forecasted operating results as of December 31, 2012 indicated that the carrying amount of the Company's goodwill and indefinite-lived intangible assets may not be recoverable from the sum of future discounted cash flows. Goodwill and indefinite-lived intangible assets were tested by estimating the fair value of the reporting unit using a consideration of market multiples and a discounted cash flow model and were written down to their implied fair value. Finite-lived intangible assets were tested using undiscounted cash flows which were not sufficient to recover the book value of the assets. Therefore, the finite-lived intangible assets were written down to their respective fair vales. See Note 7, Goodwill and Other Intangible Assets, for additional information.

5. Investments in Marketable Securities

(tabular information in thousands, except share and per share data)

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 statements of comprehensive loss. Declines in value judged to be other than-temporary on available-for-sale securities are recorded as realized in other income (expense), net in the consolidated statements of comprehensive loss 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 interest income, net in the consolidated statements of comprehensive loss. 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. At December 31, 2013 and 2012, the carrying value of available-for-sale securities was approximately $103,000 and $92,000, respectively, which are included in short-term investments. The available-for-sale securities at December 31, 2013 and 2012 were approximately $48,000 in money market accounts for both periods, and approximately $55,000 and $44,000, respectively, in mutual funds. At December 31, 2013, accumulated other comprehensive income included gross unrealized holding gains of approximately $16,000 and no gross unrealized holding losses. At December 31, 2012, accumulated other comprehensive income (loss) included gross unrealized holding gains of approximately $11,000 and no gross unrealized holding losses. During the years ended December 31, 2013 and 2012, other income, net included no gross realized losses or realized gains.

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 and are maintained in separate accounts to support the Company's letters-of-credit. These investments are categorized as held-to-maturity because the Company's management has the intent and ability to hold these securities to maturity. The Company had standby letters-of-credit of approximately $2.0 million and $2.6 million at December 31, 2013 and 2012, respectively, as collateral for its existing insurance policies and facility leases.

At December 31, 2013 and 2012, held-to-maturity investments included:

	December 31, 2013	Maturing within 1 year	Maturing after 1 year through 3 years	December 31, 2012	Maturing within 1 year	Maturing after 1 year through 3 years
Cash/money market funds	$ 116	$ 116	$ —	$ 76	$ 76	$ —
US Treasury securities	1,730	1,360	370	2,450	1,051	1,399
Government agency securities	382	382	—	1,270	881	389
Total	$ 2,228	$ 1,858	$ 370	$ 3,796	$ 2,008	$ 1,788

At December 31, 2013 and December 31, 2012, held-to-maturity investments were recorded in the following accounts:

	December 31, 2013	December 31, 2012
Other current assets	$ 1,858	$ 2,008
Other long-term assets	370	1,788
Total	$ 2,228	$ 3,796

6. Property and Equipment

Property and equipment consisted of the following as of December 31, 2013 and 2012:

(tabular information in thousands, except share and per share data)

	December 31, 2013	December 31, 2012
Furniture and fixtures	$ 3,697	$ 3,613
Office equipment	1,187	1,282
Computer equipment	6,635	6,760
Internal-use software	11,442	11,138
External-use software	1,105	—
Leasehold improvements	7,121	7,128
	31,187	29,921
Less accumulated depreciation	(28,398)	(27,525)
	$ 2,789	$ 2,396

Depreciation expense was approximately $1.4 million and $1.1 million for the years ended December 31, 2013 and 2012, respectively. Included in depreciation expense is amortization expense for internal-use software costs of approximately $0.2 million and $0.3 million in the years ended December 31, 2013 and 2012, respectively. Included in depreciation expense is amortization expense for external-use software costs of approximately $0.1 million in the year ended December 31, 2013. As of December 31, 2013 and 2012, the unamortized balance of capitalized internal-use software was $0.7 million and $0.4 million, respectively. As of December 31, 2013, the unamortized balance of capitalized external-use software was $1.0 million.

During the year ended December 31, 2012, the Company recorded a non-cash charge of less than $0.1 million for furniture and leasehold improvements related to the downsizing of the Group DCA facility in Parsippany, NJ.

7. Goodwill and Other Intangible Assets

Goodwill recorded as of December 31, 2013 and 2012 is attributable to the 2010 acquisition of Group DCA. The Company's management did not identify impairment during its annual impairment testing of goodwill as of December 31, 2013. During the Company's annual impairment testing of goodwill and indefinite-lived intangible assets as of December 31, 2012, management identified a potential impairment as a result of a "step 1" discounted cash flow analysis.

Goodwill

During the Company’s annual goodwill impairment test performed as of December 31, 2012, management determined that the fair value of the Group DCA reporting unit was below its carrying value including goodwill, and accordingly, the Company calculated and recognized a $16.4 million goodwill impairment charge within asset impairment in the consolidated statement of comprehensive loss. As of December 31, 2013 and 2012, the balance of goodwill was $2.5 million. The Company had not recorded an impairment charge of Group DCA's goodwill prior or subsequent to December 31, 2012.

Other Intangible Assets

In connection with the 2010 acquisition of Group DCA, the Company recorded approximately $8.4 million of other intangible assets. This balance was comprised of technology of $4.1 million, the Healthcare Professionals database of $2.2 million and the corporate tradename of $2.1 million. See Note 3, Acquisition, for further information.

During the Company’s annual budgeting process that was performed in the fourth quarter of 2012 and, based on the evaluation of historic, current, budgeted and forecasted operating results, the Company observed indications that the carrying amount of the Company’s finite-lived intangible assets, technology and healthcare professional database, and indefinite-lived intangible asset, corporate tradename, will not be recoverable from the sum of future cash flows. Accordingly, the Company estimated the fair value of the intangibles and recognized impairment charges for the remaining carrying value of: $2.6 million for the technology asset; $1.7 million for the healthcare professional database; and $2.1 million for the corporate tradename, during the fourth quarter of 2012.

The fair value of the technology was determined using the “Excess Earnings Method” a variation of the “Income Approach”. This method reflects the present value of the operating cash flows generated by existing technology after taking into account the cost to realize the revenue, and an appropriate discount rate to reflect the time value and risk associated with the invested capital. The valuation analysis for the technology was based on the reporting unit's revenue projections with consideration given to: the value and required rate of return for other contributory assets of the reporting unit; and the benefit of tax amortization of the technology.

(tabular information in thousands, except share and per share data)

The fair value of the healthcare professional database (the database) was determined using the replacement cost new method under the "Cost Approach". This method is based on the principal of substitution; therefore the business unit would pay no more for the database than the amount necessary to replace it with an adjustment, if any, for a loss in value due to obsolescence.

The fair value of the corporate tradename was determined using the “Relief from Royalty Method” (RFRM), a variation of the “Income Approach”. The RFRM is used to estimate the cost savings that accrue to the owner of an intangible asset who would otherwise have to pay royalties or license fees on revenues earned through the use of the asset. The royalty rate is based on empirical, market-derived royalty rates for guideline intangible assets when available. The royalty rate is applied to the projected revenue over the expected remaining life of the intangible asset to estimate the royalty savings. The net after-tax royalty savings are calculated for each year in the remaining economic life of the intangible asset and discounted to present value. Additionally, as part of the analysis, the operating income of Group DCA was benchmarked to determine a range of royalty rates that would be reasonable based on a profit-split methodology. The profit-split methodology is based upon assumptions that the total amount of royalties paid for licensable intellectual property should approximate in order to determine a reasonable royalty rate to estimate the fair value of the corporate tradename.

There was no amortization expense for the year ended December 31, 2013. Amortization expense related to continuing operations was approximately $0.9 million for the year ended December 31, 2012. There is no estimated future amortization expense.

8. Retirement Plans

The Company offers an employee 401(k) saving plan. Under the PDI, Inc. 401(k) Plan, employees may contribute up to 25% of their pre- or post-tax base compensation. Effective January 1, 2004, the Company began offering a safe harbor matching contribution equal to 100% of the first 3% of the participant’s contributed base salary plus 50% of the participant’s base salary contributed exceeding 3% but not more than 5%. Participants are not allowed to invest any of their 401(k) funds in the Company’s common stock. The Company’s total contribution expense from continuing operations related to the 401(k) plan for the years ended December 31, 2013 and December 31, 2012 was approximately $0.7 million and $0.8 million, respectively.

9. Accrued Expenses and Long-Term Liabilities

Other accrued expenses consisted of the following as of December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
Accrued pass-through costs	$ 2,089	$ 3,729
Accrued reorganization expense	997	1,495
Self insurance accruals	1,020	900
Indemnification liability	875	875
All others	5,047	4,828
	$ 10,028	$ 11,827

Long-term liabilities consisted of the following as of December 31, 2013 and 2012:

	December 31, 2013	**December 31, 2012**
Rent payable	$ 969	$ 1,533
Uncertain tax positions	3,109	2,967
Restructuring	965	1,785
Other	142	142
	$ 5,185	$ 6,427

10. Commitments and Contingencies

(tabular information in thousands, except share and per share data)

The Company leases facilities, automobiles and certain equipment under agreements classified as operating leases, which expire at various dates through 2017. Substantially all of the property leases provide for increases based upon use of utilities and landlord's operating expenses as well as pre-defined rent escalations. Total expense under these agreements for the years ended December 31, 2013 and 2012 was approximately $4.9 million and $3.0 million, respectively, of which $4.1 million and $2.4 million, respectively, related to automobiles leased for use by employees for a lease term of one year from the date of delivery with the option to renew.

Under the Company's two collaboration arrangements it has committed to spend up to $1.0 million in the aggregate as part of phase one collaboration efforts. If the Company moves forward to phase two of the collaboration arrangement with Transgenomic, Inc. (Transgenomic) it may provide Transgenomic with funding support of up to $3.0 million, principally to mitigate working capital requirements. In addition, if the Company moves forward into phase two of the collaboration agreement with the Diagnostics Company, and all milestone are achieved at their maximum levels, the Company could pay up to $6.0 million to the Diagnostics Company.

As of December 31, 2013, contractual obligations with terms exceeding one year and estimated minimum future rental payments required by non-cancelable operating leases with initial or remaining lease terms exceeding one year are as follows:

	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	After 5 Years
Contractual obligations (1)	$ 666	$ 319	$ 343	$ 4	$ —
Operating lease obligations:					
Minimum lease payments	10,563	4,547	5,731	285	—
Less minimum sublease rentals (2)	(5,728)	(2,506)	(3,222)	—	—
Net minimum lease payments	4,835	2,041	2,509	285	—
Total	$ 5,501	$ 2,360	$ 2,852	$ 289	$ —

(1) Amounts represent contractual obligations related to software license contracts, office equipment and contracts for software systems.

(2) As of December 31, 2013, the Company has entered into various sublease agreements for all of the office space at the Saddle River, New Jersey facility, the Dresher, Pennsylvania facility, and the Schaumburg, Illinois facility. These subleases will provide aggregated lease income of approximately $3.7 million, $1.9 million and $0.1 million, respectively, over the remaining lease periods.

Letters of Credit

As of December 31, 2013, the Company had $2.0 million in letters of credit outstanding as required by its existing insurance policies and its facility leases. As discussed in Note 5, Investments in Marketable Securities these letters of credit are collateralized by certain investments.

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 routinely assesses its litigation and threatened litigation as to the probability of ultimately incurring a liability, and records its best estimate of the ultimate loss in situations where the Company assesses the likelihood of loss as probable. The Company accrues for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Significant judgment is required in both the determination of probability and the determination as to whether a loss is reasonably estimable. In addition, in the event the Company determines that a loss is not probable, but is reasonably possible, and it becomes possible to develop what the Company believes to be a reasonable range of possible loss, then the Company will include disclosures related to such matter as appropriate and in compliance with ASC 450. To the extent there is a reasonable possibility that the losses could exceed the amounts already accrued, the Company will, as applicable, adjust the accrual in the period the determination is made, disclose an estimate of the additional loss or range of loss, indicate that the estimate is immaterial with respect to its financial statements as a whole or, if the amount of such adjustment cannot be reasonably estimated, disclose that an estimate cannot be made. As of December 31, 2013 and 2012, the Company's accrual for litigation and threatened litigation was not material to the consolidated financial statements.

11. Preferred Stock

The board of directors of PDI (Board) is authorized to issue, from time-to-time, up to 5,000,000 shares of preferred stock in one or more series. The Board is authorized to fix the rights and designation of each series, including dividend rights and rates, conversion rights, voting rights, redemption terms and prices, liquidation preferences and the number of shares of each series. As of December 31, 2013 and 2012, there were no issued and outstanding shares of preferred stock.

12. Stock-Based Compensation

The Company’s stock-incentive program is a long-term retention program that is intended to attract, retain and provide incentives for talented employees, officers and directors, and to align stockholder and employee interests. The Company considers its stock-incentive program critical to its operations and productivity. Currently, the Company is able to grant options, SARs and restricted shares from the PDI, Inc. Amended and Restated 2004 Stock Award and Incentive Plan (the Amended 2004 Plan), which is described below.

The Company primarily uses the Black-Scholes option pricing model to determine the fair value of stock options and SARs. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by the Company’s stock price as well as assumptions regarding a number of complex and subjective variables. These variables include the Company’s expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rate and expected dividends. Expected volatility is based on historical volatility. As there is no trading volume for the Company’s options, implied volatility is not representative of the Company’s current volatility so the historical volatility of the Company's common stock is determined to be more indicative of the Company’s expected future stock performance. The expected life is determined using the safe-harbor method. The Company expects to use this simplified method for valuing employee options and SARs grants until more detailed information about exercise behavior becomes available over time. The Company bases the risk-free interest rate on U.S. Treasury zero-coupon issues with remaining terms similar to the expected term on the options or SARs. The Company does not anticipate paying any cash dividends in the foreseeable future and therefore uses an expected dividend yield of zero in the option valuation model. The Company is required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option forfeitures and records stock-based compensation expense only for those awards that are expected to vest. The Company recognizes compensation cost, net of estimated forfeitures, arising from the issuance of stock options and SARs on a straight-line basis over the vesting period of the grant.

The estimated compensation cost associated with the granting of restricted stock and restricted stock units is based on the fair value of the Company’s common stock on the date of grant. The Company recognizes the compensation cost, net of estimated forfeitures, arising from the issuance of restricted stock and restricted stock units on a straight-line basis over the shorter of the vesting period or the period from the grant date to the date when retirement eligibility is achieved.

The following table provides the weighted average assumptions used in determining the fair value of the non-performance based SARs granted during the years ended December 31, 2013 and 2012.

(tabular information in thousands, except share and per share data)

	December 31, 2013	December 31, 2012
Risk-free interest rate	0.33%	0.31%
Expected life	3.5	3.5
Expected volatility	49.80%	57.62%

Stock Incentive Plan

In 2011, the Board and stockholders approved the Amended 2004 Plan. The Amended 2004 Plan replaced the 1998 Stock Option Plan (the 1998 Plan) and the 2000 Omnibus Incentive Compensation Plan (the 2000 Plan). The Amended 2004 Plan authorized an additional 1,100,000 shares for new awards and combined the remaining shares available under the original 2004 Plan. Eligible participants under the Amended 2004 Plan include officers and other employees of the Company, members of the Board and outside consultants, as specified under the Amended 2004 Plan and designated by the Compensation and Management Development Committee of the Board (Compensation Committee). Unless earlier terminated by action of the Board, the Amended 2004 Plan will remain in effect until such time as no stock remains available for delivery under the Amended 2004 Plan and the Company has no further rights or obligations under the Amended 2004 Plan with respect to outstanding awards thereunder.

Historically, stock options were generally granted with an exercise price equal to the market value of the common stock on the date of grant, expired 10 years from the date they are granted, and generally vested over a two-year period for members of the Board of Directors and a three-year period for employees. Upon exercise, new shares are issued by the Company. The Company has not granted stock options since 2005. SARs are generally granted with a grant price equal to the market value of the common stock on the date of grant, vest one-third each year on the anniversary of the date of grant and expire five years from the date of grant. The restricted shares and restricted stock units granted to employees generally have a three year cliff vesting period and are subject to accelerated vesting and forfeiture under certain circumstances. Restricted shares and restricted stock units granted to board members generally have a three year graded vesting period and are subject to accelerated vesting and forfeiture under certain circumstances.

In November 2008, the Company's chief executive officer was granted 140,000 restricted stock units and 280,000 performance contingent SARs. The restricted stock units vested into shares of the Company's common stock, in five equal installments, with the initial 20% of the units vesting immediately on the grant date and an additional 20% of the units vesting on each anniversary of the grant date over a four year period. The performance contingent SARs have an exercise price of $4.28, a seven year term to expiration, and a weighted-average fair value of $0.86. The fair value estimate of the performance contingent SARs was calculated using a Monte Carlo Simulation model. The performance contingent SARs are subject to the same time-based vesting schedule as the restricted stock units, but will not vest unless and until certain additional, performance-based conditions are satisfied: (1) with respect to the initial 94,000 performance contingent SARs, the closing price of the Company's common stock is at least $10.00 per share for 60 consecutive trading days anytime within five years from the grant date; (2) with respect to the next 93,000 performance contingent SARs, the closing price of the Company's common stock is at least $15.00 per share for 60 consecutive trading days anytime within five years from the grant date; and (3) with respect to the final 93,000 performance contingent SARs, the closing price of the Company's common stock is at least $20.00 per share for 60 consecutive trading days anytime within five years from the grant date. Vesting of the performance contingent SARs granted to the CEO is contingent upon achievement of certain stock prices; these stock prices represent premiums in excess of 25% to the closing stock price of the Company's common stock on the date of grant. During the first quarter of 2011, the Company, with the approval of the Compensation Committee, modified the performance-based vesting conditions of all performance contingent SARS. The modified terms of the grant change the "60 consecutive trading days" disclosed above to "an average of 60 consecutive trading days." As of December 31, 2013, all of the performance contingent SARs expired.

The weighted-average fair value of non-performance based SARs granted during the year ended December 31, 2013 was estimated to be $1.97. The weighted-average fair value of non-performance based SARs granted during the year ended December 31, 2012 was estimated to be $2.71. There were 13,183 SARs exercised in 2013 with a weighted-average grant price of $5.90 and there were 38,169 SARs exercised in 2012 with a weighted-average grant price of $5.44. Historically, shares issued upon the exercise of options have been new shares and have not come from treasury shares.

As of December 31, 2013, there was $1.7 million of total unrecognized compensation cost, net of estimated forfeitures, related to unvested SARs and restricted stock that are expected to be recognized over a weighted-average period of approximately 1.5 years.

(tabular information in thousands, except share and per share data)

The impact of stock options, SARs, performance shares, RSUs and restricted stock on net loss for the years ended December 31, 2013 and 2012 is as follows:

	2013	2012
Stock options and SARs	$ 454	$ 349
Performance awards	—	115
RSUs and restricted stock	1,269	1,327
Total stock-based compensation expense	$ 1,723	$ 1,791

A summary of stock option and SARs activity for the year ended December 31, 2013, and changes during such year, is presented below:

	Shares	Average Grant Price	Remaining Contractual Period (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2013	880,601	$6.37	2.91	$ 1,700
Granted	396,760	$5.44	2.02	$ —
Exercised	(13,183)	$5.90		
Forfeited or expired	(425,635)	$5.22		
Outstanding at December 31, 2013	838,543	$6.52	3.08	$ 148
Exercisable at December 31, 2013	290,061	$7.90	1.57	$ —
Vested and expected to vest	798,816	$6.55	3.05	$ —

A summary of the status of the Company's nonvested SARs for the year ended December 31, 2013, and changes during such year, is presented below:

	Shares	Weighted- Average Grant Date Fair Value
Nonvested at January 1, 2013	677,911	$ 1.89
Granted	396,760	$ 1.97
Vested	(160,647)	$ 2.47
Forfeited	(369,451)	$ 0.61
Nonvested at December 31, 2013	544,573	$ 2.20

The aggregate fair value of SARs vested during the years ended December 31, 2013 and 2012 was $0.4 million and $0.2 million, respectively. The weighted-average grant date fair value of SARs vested during the year ended December 31, 2012 was $2.04.

A summary of the Company's nonvested shares of restricted stock and restricted stock units for the year ended December 31, 2013, and changes during such year, is presented below:

(tabular information in thousands, except share and per share data)

	Shares	Weighted-Average Grant Date Fair Value	Average Remaining Vesting Period (in years)	Aggregate Intrinsic Value
Nonvested at January 1, 2013	553,097	$ 7.60	1.40	$ 4,204
Granted	248,473	$ 5.10	2.73	$ 1,195
Vested	(160,762)	$ 6.74		
Forfeited	(59,099)	$ 7.41		
Nonvested at December 31, 2013	581,709	$ 4.81	1.44	$ 2,660

The aggregate fair value of restricted stock and restricted stock units vested during each of the years ended December 31, 2013 and 2012 was $1.1 million and $0.8 million, respectively. The weighted-average grant date fair value of restricted stock and restricted stock units vested during the year ended December 31, 2012 was $5.53.

13. Significant Customers

During the years ended December 31, 2013 and 2012, the Company had several significant customers for which it provided services under specific contractual arrangements. The following sets forth the net revenue generated by customers who accounted for more than 10% of the Company's revenue from continuing operations during each of the periods presented.

	Years Ended December 31,	
Customer	2013	2012
A	$ 71,621	$ 34,401
B	$ —	$ 19,464
C	$ —	$ 15,046
D	$ —	$ 17,690
E	$ 29,454	$ —

The Company recorded revenue from significant customers in its Sales Services segment from Customers A and E in 2013 and Customers A through C in 2012. The Company recorded revenue from significant customers in its Marketing Services segment from Customers A and E in 2013 and Customers A through D in 2012. The Company recorded revenue from Customer D in 2012 in its PC Services segment. For the years ended December 31, 2013 and 2012, the Company's two and four largest customers, each representing 10% or more of its revenue, accounted for, in the aggregate, approximately 66.8% and 68.2%, respectively, of its revenue from continuing operations. At December 31, 2013 and 2012, the Company's two and four largest customers represented 85% and 61%, respectively, of the aggregate of its outstanding accounts receivable and unbilled receivable balances.

The following sets forth the customers who accounted for more than 10% of the Company's accounts receivable and unbilled receivable balances as of December 31, 2013 and 2012.

	Years Ended December 31,	
Customer	2013	2012
A	$ 9,153	$ 5,301
C	$ —	$ 1,984
F	$ —	$ 1,447

14. Facilities Realignment

Saddle River, New Jersey Facility

(tabular information in thousands, except share and per share data)

Prior to December 2009, the Company's corporate headquarters were 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.

Parsippany, New Jersey Group DCA Facility

In the fourth quarter of 2012, the Company down-sized its operations at Group DCA, exiting approximately 9,000 square feet of space and recorded $0.6 million in realignment charges and $0.1 million in non-cash impairments of furniture and leasehold improvements.

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.

As of December 31, 2013, all of the space in Dresher, Pennsylvania has been subleased. These subleases run through the end of the facility's lease term, November 2016.

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.

There were no significant facility realignment charges during the year ended December 31, 2013. A summary of the significant components of the facility realignment charges for the year ended December 31, 2012 by segment is as follows:

2012	Sales Services	Marketing Services	Discontinued Operations	Total
Facility lease obligations	$ —	$ 637	$ 78	$ 715
Asset impairments	—	69	—	69
Related charges	—	—	—	—
Total facility realignment charge	$ —	$ 706	$ 78	$ 784

(tabular information in thousands, except share and per share data)

The following table presents a reconciliation of the restructuring charges during the years ended December 31, 2013 and 2012 to the balances as of December 31, 2013 and 2012, which is included in other accrued expenses ($1.0 million and $1.5 million, respectively) and in long-term liabilities ($1.0 million and $1.8 million, respectively):

	Sales Services	Marketing Services	Discontinued Operations	Total
Balance as of January 1, 2012	$ 3,417	$ —	$ 1,072	$ 4,489
Accretion	112	—	30	142
Adjustments	—	637	78	715
Payments	(1,502)	—	(565)	(2,067)
Balance as of December 31, 2012	2,027	637	615	3,279
Accretion	112	—	30	142
Adjustments	—	—	—	—
Payments	(1,014)	(179)	(266)	(1,459)
Balance as of December 31, 2013	$ 1,125	$ 458	$ 379	$ 1,962

15. Income Taxes

The provision for or benefit from income taxes on continuing operations for the years ended December 31, 2013 and 2012 is comprised of the following:

	2013	2012
Current:		
Federal	$ —	$ —
State	180	270
Total current	180	270
Deferred:		
Federal	—	(53)
State	—	(9)
Total deferred	—	(62)
Provision for income taxes	$ 180	$ 208

The Company performs an analysis each year to determine whether the expected future income will more likely than not be sufficient to realize the deferred tax assets. The Company's recent operating results and projections of future income weighed heavily in the Company's overall assessment. As a result of this analysis, the Company continues to maintain a full valuation allowance against its federal and state net deferred tax assets at December 31, 2013 as the Company believes that it is more likely than not that these assets will not be realized. The tax effects of significant items comprising the Company’s deferred tax assets and (liabilities) as of December 31, 2013 and 2012 are as follows:

(tabular information in thousands, except share and per share data)

	2013	2012
Current deferred tax assets (liabilities) included in other current assets:		
Allowances and reserves	$ 1,217	$ 1,742
Compensation	4,010	3,382
Valuation allowance on deferred tax assets	(5,227)	(5,124)
	—	—
Noncurrent deferred tax assets (liabilities) included in other long-term assets:		
State net operating loss carryforwards	4,774	4,103
Federal net operating loss carryforwards	31,253	28,615
State taxes	1,124	1,123
Self insurance and other reserves	294	338
Property, plant and equipment	2,196	2,294
Intangible assets	8,269	9,249
Other reserves - restructuring	391	410
Compensation	—	31
Deferred revenue	6	226
Valuation allowance on deferred tax assets	(48,307)	(46,389)
	—	—
Net deferred tax liability	$ —	$ —

Federal tax attribute carryforwards at December 31, 2013, consist primarily of approximately $89.7 million of federal net operating losses. In addition, the Company has approximately $90.1 million of state net operating losses carryforwards. The utilization of the federal carryforwards as an available offset to future taxable income is subject to limitations under federal income tax laws. If the federal net operating losses are not utilized, they begin to expire in 2027, and current state net operating losses not utilized begin to expire this year.

A reconciliation of the difference between the federal statutory tax rates and the Company's effective tax rate from continuing operations is as follows:

	2013	2012
Federal statutory rate	35.0 %	35.0 %
State income tax rate, net of Federal tax benefit	0.3 %	2.5 %
Meals and entertainment	(2.3)%	— %
Valuation allowance	(35.9)%	(38.1)%
Other non-deductible	(1.3)%	(0.4)%
Other taxes	— %	0.2 %
Net change in Federal and state reserves	— %	— %
Effective tax rate	(4.2)%	(0.8)%

The following table summarizes the change in uncertain tax benefit reserves for the two years ended December 31, 2013:

(tabular information in thousands, except share and per share data)

	Unrecognized Tax Benefits
Balance of unrecognized benefits as of January 1, 2011	$ 1,117
Additions for tax positions related to the current year	—
Additions for tax positions of prior years	—
Reductions for tax positions of prior years	—
Balance as of December 31, 2012	$ 1,117
Additions for tax positions related to the current year	—
Additions for tax positions of prior years	—
Reductions for tax positions of prior years	—
Balance as of December 31, 2013	$ 1,117

As of December 31, 2013 and 2012, the total amount of gross unrecognized tax benefits was $1.1 million in each year. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of December 31, 2013 and 2012 was $1.1 million in each year.

The Company recognized interest and penalties of $0.2 million related to uncertain tax positions in income tax expense during each of the years ended December 31, 2013 and 2012, respectively. At December 31, 2013 and 2012, accrued interest and penalties, net were $2.1 million and $1.9 million, respectively.

The Company and its subsidiaries file a U.S. Federal consolidated income tax return and consolidated and separate income tax returns in numerous states and local tax jurisdictions. The following tax years remain subject to examination as of December 31, 2013:

Jurisdiction	Tax Years
Federal	2009- 2013
State and Local	2007 - 2013

To the extent there was a failure to file a tax return in a previous year; the statute of limitation will not begin until the return is filed. There were no examinations in process by the Internal Revenue Service as of December 31, 2013. In 2014, the Company was selected for examination by the Internal Revenue Service for the tax periods ending December 31, 2012 and December 31, 2011.

16. Historical Basic and Diluted Net Loss per Share

A reconciliation of the number of shares used in the calculation of basic and diluted earnings per share for the years ended December 31, 2013 and 2012 is as follows:

	Years Ended December 31,	
	2013	2012
Basic weighted average number of common shares	14,718	14,585
Potential dilutive effect of stock-based awards	—	—
Diluted weighted average number of common shares	14,718	14,585

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 as they would have been anti-dilutive:

(tabular information in thousands, except share and per share data)

	Years Ended December 31,	
	2013	2012
Options	42,500	51,000
Stock-settled stock appreciation rights (SARs)	796,043	549,601
Restricted stock and restricted stock units (RSUs)	581,709	553,097
Performance contingent SARs	—	280,000
	1,420,252	1,433,698

17. Segment Information

The accounting policies followed by the segments are described in Note 1, Nature of Business and Significant Accounting Policies. Corporate charges are allocated to each of the reporting segments on the basis of total salary expense. Corporate charges include corporate headquarter costs and certain depreciation expenses. Certain corporate capital expenditures have not been allocated from Sales Services to the other reporting segments since it is impracticable to do so.

The Company reports under the following three segments:

Sales Services segment – includes the Company's Dedicated Sales Teams, Established Relationship Teams and EngageCE, the Company's clinical educators business unit. This segment provides services through personal promotion with healthcare providers and uses teams to deliver services to a wide base. These businesses have similar long-term average gross margins, contract terms, types of customers and regulatory environments and therefore the business units have been aggregated into one reporting segment.

Marketing Services segment – includes the Company's Group DCA and PDI Voice (Voice) business units. This segment provides services though non-personal promotion with healthcare providers and is project driven. The units comprising this segment have a large number of smaller contracts, share similar gross margins, have similar customers, and have low barriers to entry for competition and therefore the business units have been aggregated into one reporting segment. The offerings within this segment include peer-to-peer, interactive digital and telephonic communications with healthcare providers. Formerly this segment included TVG, whose operations were discontinued in 2010, and Pharmakon, whose operations were discontinued in 2011.

PC Services segment – includes the Company's Interpace BioPharma business unit and expenditures related to the collaboration arrangements for molecular diagnostic tests. Interpace BioPharma provides biopharmaceutical clients with full-service product commercialization solutions. These services include product distribution, product detailing, full supply chain management, operations, sales, marketing, compliance, and regulatory/medical management. Expenses under the Company's collaboration arrangements include: consulting fees; legal fees; and personnel costs, such as salaries, bonuses, fringe benefits and payroll taxes for the sales representatives, managers and professional staff that are directly responsible for executing the collaboration arrangements.

	Sales Services	Marketing Services	PC Services	Consolidated
For the year ended December 31, 2013:				
Revenue	$ 133,968	$ 4,569	$ 12,305	$ 150,842
Operating (loss) income	$ (1,753)	$ (4,390)	$ 1,866	$ (4,277)
Capital expenditures	$ 712	$ 1,106	$ —	$ 1,818
Depreciation expense	$ 1,063	$ 292	$ 70	$ 1,425
Total assets	$ 60,264	$ 5,284	$ 3,516	$ 69,064
For the year ended December 31, 2012:				
Revenue	$ 99,206	$ 10,127	$ 17,566	$ 126,899
Operating (loss) income	$ (930)	$ (27,465)	$ 3,163	$ (25,232)
Capital expenditures	$ 1,064	$ 48	$ —	$ 1,112
Depreciation expense	$ 808	$ 253	$ 70	$ 1,131
Total assets	$ 64,741	$ 6,125	$ 7,581	$ 78,447

18. Investment in Non-Controlled Entity and Other Arrangements

In August 2013, PDI entered into phase one of a collaboration agreement with a privately held molecular diagnostics company (the Diagnostics Company) to commercialize its fully-developed, molecular diagnostic tests. Under the terms of phase one of the collaboration agreement, PDI paid an initial fee of $1.5 million and has the ability to enter the second phase of the collaboration agreement in the form of a call option to purchase the outstanding common stock of the Diagnostics Company. The Company also has the option to contribute an additional $0.5 million for mutually agreed upon activities in furtherance of collaboration efforts. The option price is dependent on the achievement of certain milestones during the collaboration period (the period up to the exercise of the purchase option or termination of the collaboration agreement) and could be up to $6.0 million if all milestones are achieved at their maximum levels. PDI can terminate the collaboration agreement if all milestones are not achieved by August 2014 and would receive a $1.0 million termination fee, leaving the Company with a maximum exposure of $0.5 million plus amounts contributed in furtherance of collaboration efforts. If all milestones are achieved by August 2014 and PDI has not exercised its option, the Diagnostics Company can require PDI to exercise the option to purchase its outstanding common stock or terminate the collaboration agreement and pay PDI a termination fee of approximately $2.0 million. If PDI purchases the outstanding common stock of the Diagnostics Company, in addition to the option price based on the achievement of milestones, beginning in 2015, PDI would pay a royalty of 7% on annual net revenue up to $50.0 million with escalating royalty percentages for higher annual net revenue capped at 11% for annual net revenue in excess of $100.0 million.

PDI has recorded the initial fee as an investment in a non-controlled entity within *Other current assets* in the Consolidated Balance Sheets in accordance with ASC 325-20 Investments Other - Cost Method Investments.

Other Arrangements

In October 2013, the Company entered into phase one of a collaboration agreement to commercialize CardioPredict™, a molecular diagnostic test developed by Transgenomic, in the United States. Under the terms of the strategic collaboration agreement, PDI will be responsible for all U.S.-based marketing and promotion of CardioPredict™, while Transgenomic will be responsible for processing CardioPredict™ in its state-of-the-art CLIA lab and all customer support. Both parties will pay their respective expenses and will split profit on a formula basis. If the Company moves to the second phase of the collaboration agreement, PDI may provide Transgenomic with funding support of up to $3.0 million, principally to finance working capital requirements for the product. Through December 31, 2013, the Company has not provided any funding to Transgenomic.

PDI's costs related to both of these agreements are expensed in the Company's PC Services segment and reflected in *Cost of sales* or *Selling, general and administrative expenses* in the Consolidated Statement of Comprehensive Loss, depending upon the underlying nature of the expenses incurred.

19. Discontinued Operations

On December 29, 2011 the Company 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 an ownership interest in Informed. In the fourth quarter of 2012, the Company wrote-off all of the assets related to the sale of Pharmakon to Informed as it believes that these assets have become impaired. The write-offs, totaling $0.7 million, are reflected in asset impairments in the 2012 Consolidated Statement of Comprehensive Loss. On July 19, 2010, the Board approved closing the TVG business unit. The Company notified employees and issued a press release announcing this decision on July 20, 2010. The Consolidated Statements of Comprehensive Loss reflect the presentation of Pharmakon and TVG as discontinued operations in all periods presented.

A rollforward of the liabilities recognized in the consolidated balance sheet as of December 31, 2013 and December 31, 2012 is as follows:

(tabular information in thousands, except share and per share data)

Accrued liability as of January 1, 2012	$	1,120
Add: Costs incurred, excluding non-cash charges		—
Less: Cash payments		(1,115)
Accrued liability as of December 31, 2012 (1)	$	5
Add: Costs incurred, excluding non-cash charges		—
Less: Cash payments		(5)
Accrued liability as of December 31, 2013	$	—

(1) Accrued liability at December 31, 2012 consists of Pharmakon employee severance costs.

The table below presents the significant components of Pharmakon's and TVG's results included in Loss from Discontinued Operations, Net of Tax in the consolidated statements of comprehensive loss for the years ended December 31, 2013 and 2012.

	For the Years Ended December 31,	
	2013	2012
Revenue, net	$ —	$ —
Loss from discontinued operations, before income tax	(44)	(51)
Income tax expense	5	8
Loss from discontinued operations, net of tax	$ (49)	$ (59)

The major classes of assets and liabilities included in the consolidated balance sheets for Pharmakon and TVG as of December 31, 2013 and December 31, 2012 are as follows:

	December 31,	
	2013	**2012**
Current assets	$ —	$ 14
Non-current assets	150	150
Total assets	$ 150	$ 164
Current liabilities	$ 405	$ 368
Non-current liabilities	619	1,006
Total liabilities	$ 1,024	$ 1,374

20. Related Party Transactions

John P. Dugan

The Company entered into a consulting agreement (the "Agreement") with its founder and former Chairman of the Board, John P. Dugan. Mr. Dugan, who retired from the Board effective June 3, 2010, is the Company's largest stockholder beneficially owning approximately 32% of the outstanding common stock of PDI as of December 31, 2013.

The Agreement was executed on August 2, 2010 with an effective date of July 1, 2010, and shall continue for a period of thirty-six months. Pursuant to the Agreement, Mr. Dugan will provide consulting services to PDI including, but not limited to, corporate strategy, communications and other general advice upon request of the Company's Chief Executive Officer or the Board for a consulting fee of $12,500 per month over the term of the Agreement. The Agreement is terminable by the Company upon thirty days prior written notice to Mr. Dugan, and terminable by Mr. Dugan upon ten days prior written notice to the Company. The Agreement also contains certain confidentiality clauses as well as a non-compete clause that continues for a period of two years after the termination of the Agreement. Mr. Dugan was paid $75,000 and $150,000 for the years

(tabular information in thousands, except share and per share data)

ended December 31, 2013 and December 31, 2012, respectively, in his role as a consultant. The Agreement expired June 30, 2013.

PDI INC.
VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

Description	Balance at Beginning of Period	Additions Charged to Operations	Deductions and Other (1)	Balance at end of Period
2013				
Allowance for doubtful accounts	$ —	9	—	$ 9
Allowance for doubtful notes	$ 1,040	—	—	$ 1,040
Tax valuation allowance	$ 51,552	—	1,982	$ 53,534
2012				
Allowance for doubtful accounts	$ —	—	—	$ —
Allowance for doubtful notes	$ 778	262	—	$ 1,040
Tax valuation allowance	$ 42,786	—	8,766	$ 51,552

(1) Includes payments and actual write offs, as well as changes in estimates in the reserves.

EXHIBIT INDEX

Exhibit No.	Description
3.2	Amended and Restated By-Laws of PDI, Inc.
10.26*	Stock Appreciation Rights for Nancy Lurker
23.1	Consent of BDO USA, LLP
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
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
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

* Denotes compensatory plan, compensation arrangement or management contract.

Amended and Restated
ByLaws

Of

PDI, Inc.

(a Delaware corporation)

ARTICLE I

STOCKHOLDERS

A. CERTIFICATES REPRESENTING STOCK.

Certificates representing stock in PDI, Inc. (hereinafter referred to as the "Corporation") shall be signed by, or in the name of the Corporation, by the Chairman or Vice-Chairman of the Board of Directors, if any, or by the President or a Vice-President and by the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary of the Corporation. Any or all the signatures on any such certificate may be a facsimile. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent, or registrar at the date of issue. Whenever the Corporation shall be authorized to issue more than one class of stock or more than one series of any class of stock, and whenever the Corporation shall issue any shares of its stock as partly paid stock, the certificates representing shares of any such class or series or of any such partly paid stock shall set forth thereon the statements prescribed by the General Corporation Law. Any restrictions on the transfer or registration of transfer of any shares of stock of any class or series shall be noted conspicuously on the certificate representing such shares.

The Corporation may issue a new certificate of stock or uncertificated shares in place of any certificate theretofore issued by it, alleged to have been lost, stolen, or destroyed, and the Board of Directors may require the owner of the lost, stolen, or destroyed certificate, or his legal representative, to give the Corporation a bond sufficient to indemnify the Corporation against any claim that may be made against it on account of the alleged loss, theft, or destruction of any such certificate or the issuance of any such new certificate or uncertificated shares.

B. UNCERTIFICATED SHARES.

Subject to any conditions imposed by the General Corporation Law, the Board of Directors of the Corporation may provide by resolution or resolutions that some or all of any or all classes or series of the stock of the Corporation shall be uncertificated shares. Within a reasonable time after the issuance or transfer of any uncertificated

shares, the Corporation shall send to the registered owner thereof any written notice prescribed by the General Corporation Law.

C. FRACTIONAL SHARE INTERESTS.

The Corporation may, but shall not be required to, issue fractions of a share. If the Corporation does not issue fractions of a share, it shall (1) arrange for the disposition of fractional interests by those entitled thereto, (2) pay in cash the fair value of fractions of a share as of the time when those entitled to receive such fractions are determined, or (3) issue scrip or warrants in registered form (either represented by a certificate or uncertificated) or bearer form (represented by a certificate) which shall entitle the holder to receive a full share upon the surrender of such scrip or warrants aggregating a full share. A certificate for a fractional share or an uncertificated fractional share shall, but scrip or warrants shall not unless otherwise provided therein, entitle the holder to exercise voting rights, to receive dividends thereon, and to participate in any of the assets of the Corporation in the event of liquidation. The Board of Directors may cause scrip or warrants to be issued subject to the conditions that they shall become void if not exchanged for certificates representing the full shares or uncertificated full shares before a specified date, or subject to the conditions that the shares for which scrip or warrants are exchangeable may be sold by the Corporation and the proceeds thereof distributed to the holders of scrip or warrants, or subject to any other conditions which the Board of Directors may impose.

D. STOCK TRANSFERS.

Upon compliance with provisions restricting the transfer or registration of transfer of shares of stock, if any, transfers or registration of transfers of shares of stock of the Corporation shall be made only on the stock ledger of the Corporation by the registered holder thereof, or by his attorney hereunto authorized by power of attorney duly executed and filed with the Secretary of the Corporation or with a transfer agent or a registrar, if any, and, in the case of shares represented by certificates, on surrender of the certificate or certificates for such shares of stock properly endorsed and the payment of all taxes due thereon.

E. RECORD DATE FOR STOCKHOLDERS.

In order that the Corporation may determine the stockholders entitled to notice of, or to vote at, any meeting of stockholders, or any adjournment thereof, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than sixty nor less than ten days before the date of such meeting. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of, or to vote at, a meeting of stockholders, shall be the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled

to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting. In order that the Corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which date shall not be more than ten days after the date upon which the resolution fixing the record date is adopted by the Board of Directors. If no record date has been fixed by the Board of Directors, the record date for determining the stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is required by the General Corporation Law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Corporation by delivery to its registered office in the State of Delaware, its principal place of business, or an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to the Corporation's registered office shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the Board of Directors and prior action by the Board of Directors is required by the General Corporation Law, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the day on which the Board of Directors adopts the resolution taking such prior action. In order that the Corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion, or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than sixty days prior to such action. If no record date is fixed, the record date shall be not more than sixty days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

F. MEANING OF CERTAIN TERMS.

As used herein in respect of the right to notice of a meeting of stockholders or a waiver thereof or to participate or vote thereat or to consent or dissent in writing in lieu of a meeting, as the case maybe, the term "for or of stocks" or "of stock" or "stockholder" or "stockholders" refers to an outstanding share or shares of stock and to a holder or holders of record of outstanding shares of stock.

G. STOCKHOLDER MEETINGS.

1. TIME. The annual meeting shall be held on the date and at the time fixed from time to time, by the Board of Directors, provided, that the first annual meeting shall be held on a date within thirteen months after the organization of the Corporation, and each successive annual meeting shall be held on a date within thirteen

months after the date of the preceding annual meeting. A special meeting shall be held on the date and at the time fixed by the Board of Directors.

2. PLACE. Annual meetings and special meetings shall be held at such place, within or without the State of Delaware, as the Board of Directors may, from time to time fix. Whenever the Board of Directors shall fail to fix such place, the meeting shall be held at the executive office of the Corporation in the State of New Jersey.

3. CALL. Annual meetings and special meetings may be called by the Board of Directors or by any officer instructed by the Board of Directors to call the meeting.

4. NOTICE OR WAIVER OF NOTICE. Written notice of all meetings shall be given, stating the place, date, and hour of the meeting and stating the place within the city or other municipality or community at which the list of stockholders of the Corporation may be examined. The notice of an annual meeting shall state that the meeting is called for the election of directors and for the transaction of other business which may properly come before the meeting, and shall, if any other action which could be taken at a special meeting is to be taken at such annual meeting, state such purpose or purposes. The notice of a special meeting shall in all instances state the purpose or purposes for which the meeting is called. The notice of any meeting shall also include, or be accompanied by, any additional statements, information, or documents prescribed by the General Corporation Law. Except as otherwise provided by the General Corporation Law, a copy of the notice of any meeting shall be given, personally or by mail, not less than ten days nor more than sixty days before the date of the meeting, unless the lapse of the prescribed period of time shall have been waived, and directed to each stockholder at his record address or at such other address which he may have furnished by request in writing to the Secretary of the Corporation. Notice by mail shall be deemed to be given when deposited, with postage hereon prepaid, in the United States mail. If a meeting is adjourned to another time, not more than thirty days hence, and/or to another place, and if an announcement of the adjourned time and/or place is made at the meeting, it shall not be necessary to give notice of the adjourned meeting unless the directors, after adjournment, fix a new record date for the adjourned meeting. Notice need not be given to any stockholder who submits a written waiver of notice signed by him before or after the time stated therein. Attendance of a stockholder at a meeting of stockholders shall constitute a waiver of notice of such meeting, except when the stockholder attends the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice.

5. STOCKHOLDER LIST. The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered

in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city or other municipality or community where the meeting is to be held, which place shall be specified in the notice of the meeting, or if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. The stock ledger shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list required by this section or the books of the Corporation, or to vote at any meeting of stockholders.

6. ADVANCE NOTICE OF BUSINESS AND NOMINATIONS FOR DIRECTOR TO BE BROUGHT BEFORE A MEETING

(a) Notice of Business to be Brought Before a Meeting.

(1) At an annual or special meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (A) specified in a notice of meeting given by or at the direction of the Board of Directors, (B) if not specified in a notice of meeting, otherwise brought before the meeting by the Board of Directors or the Chairman of the Board of Directors or (C) otherwise properly brought before the meeting by a stockholder present in person who (i) was a beneficial owner of shares of the Corporation both at the time of giving the notice provided for in this subsection (a) and at the time of the meeting, (ii) is entitled to vote at the meeting, and (iii) has complied with this subsection (a) in all applicable respects or (iv) in lieu of clauses (i)-(iii) has properly made such proposal in accordance with Rule 14a-8 under the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (as so amended and inclusive of such rules and regulations, the "*Exchange Act*"). The foregoing clause (C) shall be the exclusive means for a stockholder to propose business to be brought before an annual meeting of the stockholders. The only matters that may be brought before a special meeting are the matters specified in the notice of meeting given by or at the direction of the Board of Directors, and stockholders shall not be permitted to propose business to be brought before a special meeting of the stockholders. For purposes of this subsection (a), "*present in person*" shall mean that the stockholder proposing that the business be brought before the annual meeting of the Corporation, or, if the proposing stockholder is not an individual, a qualified representative of such proposing stockholder, appear at such annual meeting. A "*qualified representative*" of such proposing stockholder shall be, if such proposing stockholder is (i) a general or limited partnership, any general partner or person who functions as a general partner of the general or limited partnership or who controls the general or limited partnership, (ii) a corporation or a limited liability company, any officer or person who functions as an officer of the corporation or limited liability company or any officer, director, general partner or person who functions as an officer, director or general partner of any entity ultimately in control of the corporation or limited liability company or (iii) a trust, any trustee of such trust. Stockholders seeking to nominate persons for election to the Board of Directors must comply with subsection (b) and subsection (c) and this subsection (a) shall not be

applicable to nominations except as expressly provided in subsection (b) and subsection (c).

(2) For business to be properly brought before an annual meeting by a stockholder, the stockholder must (i) provide Timely Notice (as defined below) thereof in writing and in proper form to the Secretary of the Corporation and (ii) provide any updates or supplements to such notice at the times and in the forms required by this subsection (a). To be timely, a stockholder's notice must be delivered to, or mailed and received at, the principal executive offices of the Corporation not less than ninety (90) days nor more than one hundred twenty (120) days prior to the one-year anniversary of the preceding year's annual meeting; *provided*, *however*, that if the date of the annual meeting is more than thirty (30) days before or more than sixty (60) days after such anniversary date, notice by the stockholder to be timely must be so delivered, or mailed and received, not later than the ninetieth (90th) day prior to such annual meeting or, if later, the tenth (10th) day following the day on which public disclosure of the date of such annual meeting was first made (such notice within such time periods, "*Timely Notice*"). In no event shall any adjournment or postponement of an annual meeting or the announcement thereof commence a new time period for the giving of Timely Notice as described above.

(3) To be in proper form for purposes of this subsection (a), a stockholder's notice to the Secretary shall set forth:

(A) As to each Proposing Person (as defined below), (i) the name and address of such Proposing Person (including, if applicable, the name and address that appear on the Corporation's books and records); and (ii) the class or series and number of shares of the Corporation that are, directly or indirectly, owned of record or beneficially owned (within the meaning of Rule 13d-3 under the Exchange Act) by such Proposing Person (the disclosures to be made pursuant to the foregoing clauses (i) and (ii) are referred to as "*Stockholder Information*");

(B) As to each Proposing Person, (i) any material pending or threatened legal proceeding in which such Proposing Person is a party or material participant involving the Corporation or any of its officers or directors, or any affiliate of the Corporation, (ii) any other material relationship between such Proposing Person, on the one hand, and the Corporation, any affiliate of the Corporation or any principal competitor of the Corporation, on the other hand, (iii) any direct or indirect material interest in any material contract or agreement of such Proposing Person with the Corporation, any affiliate of the Corporation or any principal competitor of the Corporation (including, for example, any employment agreement or consulting agreement) and (iv) any other information relating to such Proposing Person that would be required to be disclosed in a proxy statement or other filing required to be made in connection with solicitations of proxies or consents by such Proposing Person in support of the business proposed to be brought before the meeting pursuant to Section 14(a) of the Exchange Act (the disclosures to be made pursuant to the foregoing clauses (i) through (iv) are referred to as "*Disclosable Interests*"); *provided*, *however*, that Disclosable Interests shall not include any such disclosures with respect to the ordinary

course business activities of any broker, dealer, commercial bank, trust company or other nominee who is a Proposing Person solely as a result of being the stockholder directed to prepare and submit the notice required by these Bylaws on behalf of a beneficial owner; and

(C) As to each item of business that the stockholder proposes to bring before the annual meeting, (i) a brief description of the business desired to be brought before the annual meeting, the reasons for conducting such business at the annual meeting and any material interest in such business of each Proposing Person, (ii) the text of the proposal or business (including the text of any resolutions proposed for consideration), and (iii) a reasonably detailed description of all agreements, arrangements and understandings (x) between or among any of the Proposing Persons or (y) between or among any Proposing Person and any other person or entity (including their names) in connection with the proposal of such business by such stockholder; and (iv) any other information relating to such item of business that would be required to be disclosed in a proxy statement or other filing required to be made in connection with solicitations of proxies in support of the business proposed to be brought before the meeting pursuant to Section 14(a) of the Exchange Act.

For purposes of this subsection (a), the term " *Proposing Person*" shall mean (i) the stockholder providing the notice of business proposed to be brought before an annual meeting, (ii) the beneficial owner or beneficial owners, if different, on whose behalf the notice of the business proposed to be brought before the annual meeting is made, and (iii) any participant (as defined in paragraphs (a)(ii)-(vi) of Instruction 3 to Item 4 of Schedule 14A) with such stockholder in such solicitation or associate (within the meaning of Rule 12b-2 under the Exchange Act for purposes of these Bylaws) of such stockholder or beneficial owner.

(4) A Proposing Person shall update and supplement its notice to the Corporation of its intent to propose business at an annual meeting, if necessary, so that the information provided or required to be provided in such notice pursuant to this subsection (a) shall be true and correct as of the record date for notice of the meeting and as of the date that is ten (10) business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement shall be delivered to, or mailed and received by, the Secretary at the principal executive offices of the Corporation not later than five (5) business days after the record date for notice of the meeting (in the case of the update and supplement required to be made as of such record date), and not later than eight (8) business days prior to the date for the meeting or, if practicable, any adjournment or postponement thereof (and, if not practicable, on the first practicable date prior to the date to which the meeting has been adjourned or postponed) (in the case of the update and supplement required to be made as of ten (10) business days prior to the meeting or any adjournment or postponement thereof).

(5) Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at an annual meeting that is not properly brought before the meeting in accordance with this subsection (a). The presiding officer of the meeting shall, if the facts warrant, determine that the business was not properly brought

before the meeting in accordance with this subsection (a), and if he or she should so determine, he or she shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

(6) This subsection (a) is expressly intended to apply to any business proposed to be brought before an annual meeting of stockholders other than any proposal made in accordance with Rule 14a-8 under the Exchange Act and included in the Corporation's proxy statement. In addition to the requirements of this subsection (a) with respect to any business proposed to be brought before an annual meeting, each Proposing Person shall comply with all applicable requirements of the Exchange Act with respect to any such business. Nothing in this subsection (a) shall be deemed to affect the rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

(7) For purposes of these Bylaws, "*public disclosure*" shall mean disclosure in a press release reported by a national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Sections 13, 14 or 15(d) of the Exchange Act.

(b) Notice of Nominations for Election to the Board of Directors.

(1) Nominations of any person for election to the Board of Directors at an annual meeting may be made at such meeting only (A) by or at the direction of the Board of Directors, including by any committee or persons authorized to do so by the Board of Directors or these bylaws, or (B) by a stockholder present in person (i) who was a beneficial owner of shares of the Corporation both at the time of giving the notice provided for in this Section (b) and at the time of the meeting, (ii) is entitled to vote at the meeting, and (iii) has complied with this Section (b) and Section (c) as to such notice and nomination. For purposes of this Section (b), "present in person" shall mean that the stockholder proposing that the business be brought before the meeting of the Corporation, or, if the proposing stockholder is not an individual, a qualified representative (as such term is defined in Section (a)(1) above) of such stockholder, appear at such meeting. The foregoing clause (B) shall be the exclusive means for a stockholder to make any nomination of a person or persons for election to the Board of Directors at an annual meeting or special meeting.

(2) For a stockholder to make any nomination of a person or persons for election to the Board of Directors at an annual meeting, the stockholder must (A) provide Timely Notice (as defined in Section (a)(2) thereof in writing and in proper form to the Secretary of the Corporation, (B) provide the information, agreements and questionnaires with respect to such stockholder and its candidate for nomination as required to be set forth by this subsection (b) and subsection (c) and (C) provide any updates or supplements to such notice at the times and in the forms required by this subsection (b) and subsection (c).

(3) If the election of directors is a matter specified in the notice of meeting given by or at the direction of the Board of Directors, then for a stockholder to make any nomination of a person or persons for election to the Board of Directors at such special meeting, the stockholder must (A) provide timely notice thereof in writing and in proper form to the Secretary of the Corporation at the principal executive offices of the Corporation, (B) provide the information with respect to such stockholder and its candidate for nomination as required by this subsection (b) and (C) provide any updates or supplements to such notice at the times and in the forms required by this subsection (b). To be timely, a stockholder's notice for nominations to be made at a special meeting must be delivered to, or mailed and received at, the principal executive offices of the Corporation not earlier than the one hundred twentieth (120th) day prior to such special meeting and not later than the ninetieth (90th) day prior to such special meeting or, if later, the tenth (10th) day following the day on which public disclosure (as defined in Subsection (a)(7)) of the date of such special meeting was first made

(4) In no event shall any adjournment or postponement of an annual meeting or special meeting or the announcement thereof commence a new time period for the giving of a stockholder's notice as described above.

(5) To be in proper form for purposes of this subsection (b), a stockholder's notice to the Secretary shall set forth:

(A) As to each Nominating Person (as defined below), the Stockholder Information (as defined in subsection (a)(3), except that for purposes of this subsection (b) the term "Nominating Person" shall be substituted for the term "Proposing Person" in all places it appears in subsection (a)(3));

(B) As to each Nominating Person, any Disclosable Interests (as defined in subsection (a)(3)), except that for purposes of this subsection (b) the term "Nominating Person" shall be substituted for the term "Proposing Person" in all places it appears in subsection (a)(3) and the disclosure with respect to the business to be brought before the meeting in subsection (a)(3) shall be made with respect to the election of directors at the meeting);

(C) As to each candidate whom a Nominating Person proposes to nominate for election as a director, (i) all information with respect to such candidate for nomination that would be required to be set forth in a stockholder's notice pursuant to this subsection (b) and subsection (c) if such candidate for nomination were a Nominating Person, (ii) all information relating to such candidate for nomination that is required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors in a contested election pursuant to Section 14(a) under the Exchange Act (including such candidate's written consent to being named in the proxy statement as a nominee and to serving as a director if elected), (iii) a description of any direct or indirect material interest in any material contract or agreement between or among any Nominating Person, on the one hand, and each candidate for nomination or his or her respective associates or any other participants in such solicitation, on the other hand, including, without limitation, all information that

would be required to be disclosed pursuant to Item 404 under Regulation S-K if such Nominating Person were the "registrant" for purposes of such rule and the candidate for nomination were a director or executive officer of such registrant (the disclosures to be made pursuant to the foregoing clauses (i) through (iii) are referred to as "*Nominee Information*"), and (iv) a completed and signed questionnaire, representation and agreement as provided in subsection (c); and

For purposes of this subsection (b), the term " *Nominating Person*" shall mean (i) the stockholder providing the notice of the nomination proposed to be made at the meeting, (ii) the beneficial owner or beneficial owners, if different, on whose behalf the notice of the nomination proposed to be made at the meeting is made, and (iii) any associate of such stockholder or beneficial owner or any other participant in such solicitation.

(6) A stockholder providing notice of any nomination proposed to be made at a meeting shall further update and supplement such notice, if necessary, so that the information provided or required to be provided in such notice pursuant to this subsection (b) shall be true and correct as of the record date for notice of the meeting and as of the date that is ten (10) business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement shall be delivered to, or mailed and received by, the Secretary at the principal executive offices of the Corporation not later than five (5) business days after the record date for notice of the meeting (in the case of the update and supplement required to be made as of such record date), and not later than eight (8) business days prior to the date for the meeting (in the case of the update and supplement required to be made as of ten (10) business days prior to the meeting or any adjournment or postponement thereof).

(7) In addition to the requirements of this subsection (b) with respect to any nomination proposed to be made at a meeting, each Nominating Person shall comply with all applicable requirements of the Exchange Act with respect to any such nominations.

(c) Additional Requirements For Valid Nomination of Candidates to Serve as Director and, If Elected, to Be Seated as Directors.

(1) To be eligible to be a candidate for election as a director of the Corporation at an annual meeting a candidate must be nominated in the manner prescribed in subsection (b) the candidate for nomination, whether nominated by the Board of Directors or by a stockholder of record, must have previously delivered (in accordance with the time period prescribed for delivery in a notice to such candidate given by or on behalf of the Board of Directors)**,** to the Secretary at the principal executive offices of the Corporation, (A) a completed written questionnaire (in a form provided by the Corporation) with respect to the background, qualifications, stock ownership and independence of such proposed nominee and (B) a written representation and agreement (in form provided by the Corporation) that such candidate for nomination (**i**) is not and, if elected as a director during his or her term of office, will not become a

party to (**x**) any agreement, arrangement or understanding with, and has not given and will not give any commitment or assurance to, any person or entity as to how such proposed nominee, if elected as a director of the Corporation, will act or vote on any issue or question (a "*Voting Commitment*") or (**y**) any Voting Commitment that could limit or interfere with such proposed nominee's ability to comply, if elected as a director of the Corporation, with such proposed nominee's fiduciary duties under applicable law, (**ii**) is not, and will not become a party to, any agreement, arrangement or understanding with any person or entity other than the Corporation with respect to any direct or indirect compensation or reimbursement for service as a director and (iii) if elected as a director of the Corporation, will comply with all applicable corporate governance, conflict of interest, confidentiality, stock ownership and trading and other policies and guidelines of the Corporation applicable to directors and in effect during such person's term in office as a director (and, if requested by any candidate for nomination, the Secretary of the Corporation shall provide to such candidate for nomination all such policies and guidelines then in effect);

(2) The Board of Directors may also require any proposed candidate for nomination as a Director to furnish such other information as may reasonably be requested by the Board of Directors in writing prior to the meeting of stockholders at which such candidate's nomination is to be acted upon in order for the Board of Directors to determine the eligibility of such candidate for nomination to be an independent director of the Corporation in accordance with the Corporation's corporate governance guidelines.

(3) No candidate shall be eligible for nomination as a director of the Corporation unless such candidate for nomination and the Nominating Person seeking to place such candidate's name in nomination has complied with subsection (b) and this subsection (c), as applicable. The presiding officer at the meeting shall, if the facts warrant, determine that a nomination was not properly made in accordance with subsection (b) and this subsection (c), and if he or she should so determine, he or she shall so declare such determination to the meeting, the defective nomination shall be disregarded and any ballots cast for the candidate in question (but in the case of any form of ballot listing other qualified nominees, only the ballots case for the nominee in question) shall be void and of no force or effect.

(4) Notwithstanding anything in these Bylaws to the contrary, no candidate for nomination shall be eligible to be seated as a director of the Corporation unless nominated and elected in accordance with this subsection (c).

7. CONDUCT OF MEETINGS. Meetings of the stockholders shall be presided over by officers in the order of seniority and if present and acting - the Chairman of the Board, if any, the Vice-Chairman of the Board, if any, the President, a Vice-President, or, if none of the foregoing is in office and present and acting, by a chairman to be chosen by the stockholders. The Secretary of the Corporation, or in his absence, an Assistant Secretary, shall act as secretary of every meeting, but if neither the Secretary nor an Assistant Secretary is present the Chairman of the meeting shall appoint a secretary of the meeting.

8. PROXY REPRESENTATION. Every stockholder may authorize another person or persons to act for him by proxy in all matters in which a stockholder is entitled to participate, whether by waiving notice of any meeting, voting or participating at a meeting, or expressing consent or dissent without a meeting. Every proxy must be signed by the stockholder or by his attorney-in-fact. No proxy shall be voted or acted upon after three years from its date unless such proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and, if, and only as long as it is coupled with an interest sufficient in law to support an irrevocable power. A proxy may be made irrevocable regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the Corporation generally.

9. INSPECTORS. The Board of Directors, in advance of any meeting, may, but need not, appoint one or more inspectors of election to act at the meeting or any adjournment thereof. If an inspector or inspectors are not appointed, the person presiding at the meeting may, but need not, appoint one or more inspectors. In case any person who may be appointed as an inspector fails to appear or act, the vacancy may be filled by appointment made by the Board of Directors in advance of the meeting or at the meeting by the person presiding thereat. Each inspector, if any, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspectors at such meeting with strict impartiality and according to the best of his ability. The inspectors, if any, shall determine the number of shares of stock outstanding and the voting power of each, the shares of stock represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes, ballots, or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots, or consents, determine the result, and do such acts as are proper to conduct the election or vote with fairness to all stockholders. On request of the person presiding at the meeting, the inspector or inspectors, if any, shall make a report in writing of any challenge, question, or matter determined by him or them and execute a certificate of any fact found by him or them.

10. QUORUM. The holders of a majority of the outstanding shares of stock shall constitute a quorum at a meeting of stockholders for the transaction of any business. The stockholders present may adjourn the meeting despite the absence of a quorum.

11. VOTING. Each share of stock shall entitle the holders thereof to one vote. Directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors. Any other action shall be authorized by a majority of the votes cast except where the General Corporation Law prescribes a different percentage of votes and/or a different exercise of voting power, and except as may be otherwise prescribed by the provisions of the Certificate of Incorporation and these Bylaws. In the election of directors, and for any other action, voting need not be by ballot.

ARTICLE II

DIRECTORS

A. FUNCTIONS AND DEFINITIONS.

The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors of the Corporation. The Board of Directors shall have the authority to fix the compensation of the members thereof. The use of the phrase "whole board" herein refers to the total number of directors which the corporation would have if there were no vacancies.

B. QUALIFICATIONS AND NUMBER.

A director need not be a stockholder, a citizen of the United States, or a resident of the State of Delaware. The number of directors constituting the whole board shall be at least five, and subject to the foregoing minimum, the exact number shall be determined from time to time by resolution adopted by the affirmative vote of a majority of the entire Board of Directors.

C. ELECTION AND TERM.

The Certificate of Incorporation governs the election and term of members of the Board of Directors as well as the action necessary to change such governing provisions.

D. MEETINGS.

1. TIME. Meetings shall be held at such time as the Board of Directors shall fix, except that the first meeting of a newly elected Board of Directors shall be held as soon after its election as the directors may conveniently assemble.

2. PLACE. Meetings shall be held at such place within or without the State of Delaware as shall be fixed by the Board of Directors.

3. CALL. No call shall be required for regular meetings for which the time and place have been fixed. Special meetings may be called by or at the direction of the Chairman of the Board, if any, the Vice-Chairman of the Board, if any, the President, or of a majority of the directors in office.

4. NOTICE OR ACTUAL OR CONSTRUCTIVE WAIVER. No notice shall be required for regular meetings for which the time and place have been fixed. Written, oral, or any other mode of notice of the time and place shall be given for special meetings in sufficient time for the convenient assembly of the directors thereat. Notice need not be given to any director or to any member of a committee of directors who submits a written waiver of notice signed by him before or after the time stated therein. Attendance of any such person at a meeting shall constitute a waiver of notice of

such meeting, except when he attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the directors need be specified in any written waiver of notice.

5. QUORUM AND ACTION. A majority of the whole Board of Directors shall constitute a quorum except when a vacancy or vacancies prevents such majority, whereupon a majority of the directors in office shall constitute a quorum, provided, that such majority shall constitute at least one-third of the whole Board of Directors, if no vacancies existed. A majority of the directors present, whether or not a quorum is present, may adjourn a meeting to another time and place. Except as herein otherwise provided, and except as otherwise provided by the General Corporation Law, the vote of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors. The quorum and voting provisions herein stated shall not be construed as conflicting with any provisions of the General Corporation Law and these Bylaws which govern a meeting of directors held to fill vacancies and newly created directorships in the Board of Directors or action of disinterested directors. Any member or members of the Board of Directors or of any committee designated by the Board, may participate in a meeting of the Board of Directors, or any such committee, as the case may be, by means of a conference telephone call or similar communications equipment by means of which all persons participating in the meeting can hear each other.

6. CHAIRMAN OF THE MEETING. The Chairman of the Board, if any and if present and acting, shall preside at all meetings. Otherwise, the Vice-Chairman of the Board, if any and if present and acting, or the President, if present and acting, or any other director chosen by the Board of Directors, shall preside.

E. REMOVAL OF DIRECTORS.

Except as may otherwise be provided by the General Corporation Law, any director or the entire Board of Directors may be removed only for cause by the affirmative vote of the holders of at least two-thirds of the shares of the capital stock of the Corporation issued and outstanding and entitled to vote generally in the election of directors.

F. COMMITTEES.

The Board of Directors may, by resolution passed by a majority of the whole Board of Directors, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of any member of any such committee or committees, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they

constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board of Directors, shall have and may exercise the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation with the exception of any authority the delegation of which is prohibited by ss. 141 of the General Corporation Law, and may authorize the seal of the Corporation to be affixed to all papers which may require it.

G. WRITTEN ACTION.

Any action required or permitted to be taken at any meeting of the Board of Directors or any committee thereof may be taken without a meeting if all members of the Board of Directors or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors or committee.

ARTICLE III

OFFICERS

The officers of the Corporation shall consist of a Chairman of the Board, a President, a Secretary, a Treasurer, and, if deemed necessary, expedient, or desirable by the Board of Directors, a Vice-Chairman of the Board, an Executive Vice-President, one or more other Vice-Presidents, one or more Assistant Secretaries, one or more Assistant Treasurers, and such other officers with such titles as the resolution of the Board of Directors choosing them shall designate. Except as may otherwise be provided in the resolution of the Board of Directors choosing him, no officer other than the Chairman or Vice-Chairman of the Board, if any, need be a director. Any number of offices may be held by the same person, as the directors may determine.

Unless otherwise provided in the resolution choosing him, each officer shall be chosen for a term which shall continue until the meeting of the Board of Directors following the next annual meeting of stockholders and until his successor shall have been chosen and qualified.

All officers of the Corporation shall have such authority and perform such duties in the management and operation of the Corporation as shall be prescribed in the resolutions of the Board of Directors designating and choosing such officers and prescribing their authority and duties, and shall have such additional authority and duties as are incident to their office except to the extent that such resolutions may be inconsistent therewith. The Secretary or an Assistant Secretary of the Corporation shall record all of the proceedings of all meetings and actions in writing of stockholders, directors, and committees of directors, and shall exercise such additional authority and perform such additional duties as the Board of Directors shall assign to him. Any officer may be removed, with or without cause, by the Board of Directors.

Any vacancy in any office may be filled by the Board of Directors.

ARTICLE IV

CORPORATE SEAL

The corporate seal shall be in such form as the Board of Directors shall prescribe.

ARTICLE V

FISCAL YEAR

The fiscal year of the Corporation shall be fixed, and shall be subject to change, by the Board of Directors.

ARTICLE VI

CONTROL OVER BYLAWS

Subject to the provisions of the Certificate of Incorporation and the provisions of the General Corporation Law, the power to amend, alter, or repeal these Bylaws and to adopt new Bylaws may be exercised by the Board of Directors or by the stockholders.

Certificate of Secretary

These Amended and Restated By-Laws restate the By-laws of the Corporation as in effect on December 31, 2012, as amended by the two amendments to the By-laws approved by the Board of Directors and effective May 8, 2013 and November 6, 2013, respectively.

/s/ David S. Blatteis
David S. Blatteis, Secretary

PDI, INC.
2004 STOCK AWARD AND INCENTIVE PLAN
STOCK APPRECIATION RIGHTS AGREEMENT

This Stock Appreciation Rights ("SAR") Agreement (this "Agreement") is made as of February 26, 2014 (the "Date of Grant") between PDI, Inc., a Delaware corporation (the "Company"), and Nancy S. Lurker (the "Recipient"), an employee of the Company. This Agreement and the SARs granted hereunder are made pursuant to the terms of the Company's 2004 Stock Award and Incentive Plan (the "Plan"). Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Plan.

Section 1. Stock Appreciation Rights Award . The Company hereby grants to the Recipient, on the terms and conditions hereinafter set forth, 188,165 Stock Appreciation Rights (the "SARs"). Each SAR represents the right to receive an amount payable in shares of the Company's Stock (the "Shares") as provided in Section 4 below, equal in value to the excess, if any, of the Fair Market Value of a Share on the date of exercise of the SAR over the SAR Exercise Price. For purposes of this Agreement, the "SAR Exercise Price" shall mean the Fair Market Value of a Share as of the Date of Grant ($5.10).

Section 2. Vesting of SARs . Subject to Sections 4 and 5 hereof and except as otherwise provided in this Agreement, the SARs shall vest only upon the achievement of both the Time-Based Vesting Condition and the Stock Performance-Based Vesting Condition (each as defined below) with respect to all or any portion of the SARs. The "Time-Based Vesting Condition" shall be deemed satisfied in installments of 36,496 of the SARs on February 26, 2015, 64,460 of the SARs on February 26, 2016, and 87,209 of the SARs on February 26, 2017, provided that the Recipient remains employed with the Company on each such date. The "Stock Performance-Based Vesting Condition" shall be deemed satisfied with respect to each of the tranches of SARs listed below upon the achievement at any time prior to the fifth anniversary of the Date of Grant of the corresponding stock-based performance condition described below, in each case, provided the Recipient remains employed with the Company on the date that the following applicable stock-based performance condition is satisfied:

Tranche of SARs	Stock-Based Performance Condition
36,496 SARs	The Stock achieves an average closing price of at least $7.65 per share over sixty (60) consecutive trading days on the Nasdaq Stock Market or such other primary stock exchange on which the Stock is listed and traded (an "Exchange")
64,460 SARs	The Stock achieves an average closing price of at least $10.20 per share over sixty (60) consecutive trading days on an Exchange
87,209 SARs	The Stock achieves an average closing price of at least $15.30 per share over sixty (60) consecutive trading days on an Exchange

Notwithstanding the foregoing provisions of this Section 2, upon a Change in Control, (i) the Time-Based Vesting Conditions applicable to each SAR shall be deemed to have been fully attained as of the date of such Change in Control and (ii) with respect to each of the tranches of SARs listed above, if the Fair Market Value of a Share as of the date of any Change in Control (or, if greater, the per share consideration paid in connection with such Change in Control) exceeds the per share dollar threshold amount of the stock-based performance conditions set forth in the table above (without regard to the number of consecutive trading days for which the closing price was achieved), then such Stock Performance-Based Vesting Condition shall be deemed to have been achieved as of the date of such Change in Control, to the extent not previously achieved.

Section 3. SAR Term. Subject to the provisions of Section 5 of this Agreement, the SARs that become vested pursuant to Section 2 hereof may be exercised at any time for a period of five (5) years from the Date of Grant (the "SAR Term"). Upon the expiration of the SAR Term, any vested and unexercised SARs shall be cancelled and no longer exercisable, and shall be of no further force or effect.

Section 4. SAR Exercise.

(a) Subject to the provisions of Section 5 hereof, the Recipient may inform the Company of her intention to exercise any portion (or all) of the vested SARs at any time prior to the expiration of the SAR Term by submitting the appropriate SAR exercise form to the Company. The SAR exercise form must be provided to the Company at least three (3) business days prior to the proposed exercise date, and must: (i) state the number of SARs desired to be exercised; (ii) in the event that the SARs shall be exercised by any person other than the Recipient hereof pursuant to Sections 5 or 8 hereof, include appropriate proof of the right of such person to exercise the SAR; and (iii) comply with such further requirements consistent with the Plan as the Board or the Committee may from time to time prescribe. No exercise of any SARs will be effective until the appropriate and completed SAR exercise form is received and processed in the ordinary course by the Company.

(b) Upon the exercise of a SAR, the Recipient shall be entitled to receive that number of Shares having a Fair Market Value equal to the product of (i) the excess of the Fair Market Value of one Share on the date of exercise over the SAR Exercise Price, multiplied by (ii) the number of Shares in respect to which the SAR has been exercised. Except as otherwise determined by the Committee, the payment shall be made in Shares. Fractional shares shall be settled by payment in cash based upon the Fair Market Value on such date. The Recipient is responsible for the payment of all federal, state and local income taxes and other appropriate deductions associated with any SAR exercise, and the Company reserves the right to postpone the transfer of any Shares payable as a result of the Recipient's SAR exercise until such amounts are paid. Subject to the above provisions, the Shares payable upon the exercise of SARs shall be paid as soon as practicable following the exercise date; provided, however, that the Company may delay the issuance of such Shares to the extent necessary to comply with applicable federal and/or state laws and securities registration/ownership requirements.

Section 5. Termination of Service . If the Recipient's service as an employee of the Company is terminated, the Recipient shall: (i) immediately forfeit her interest in any SARs that have not yet become vested, which unvested SARS shall be cancelled and shall be of no further

force or effect, and (ii) retain the right to exercise any SARs that had previously become vested prior to the effective date of the Recipient's termination of employment with the Company until the expiration of thirty (30) days after the effective date of such termination of employment; provided, however, that in the event such termination of employment is as a result of the Recipient's Retirement or Permanent Disability, the period during which the Recipient may exercise her vested SARs shall continue until the expiration of ninety (90) days after the effective date of termination of employment. For purposes of this Agreement, "Retirement" shall mean the Recipient's voluntary termination of her employment with the Company at any time on or after the date on which the following two conditions have been satisfied: (i) the Recipient has reached age 62 and (ii) the Recipient has been continuously employed by the Company and its affiliates for at least two (2) years. For purposes of this Agreement, "Permanent Disability" shall mean a disability which, in the opinion of a physician designated by the Company, permanently prevents the Recipient from being able to render services to the Company. If the Recipient's employment with the Company terminates as a result of her death, or if the Recipient should die after terminating her employment with the Company but prior to the expiration of the above referenced thirty (30) or ninety (90) day exercise period, as appropriate, the representative of the Recipient's estate shall have one (1) year from the effective date of termination of employment to exercise any SARs that had previously become vested prior to the effective date of termination of the deceased Recipient's employment with the Company.

Section 6. No Rights as Stockholder or Employee .

(a) The Recipient shall not be deemed to be the holder of, or to have any of the rights of a holder with respect to, any Shares subject to the SARs until such SAR shall have been exercised pursuant to the terms of this Agreement and the Company shall have issued the Shares to the Recipient, whereupon the Recipient shall have full voting and other ownership rights with respect to such Shares.

(b) Nothing in this Agreement shall confer upon the Recipient any right to continue as an employee of the Company or to interfere in any way with the right of the Company to terminate the Recipient's employment at any time to the same extent as such right may exist in the absence of this Agreement.

Section 7. Adjustments. If at any time while any SARs are outstanding, the number of outstanding Shares is changed by reason of any events described in the Plan, the number of SARs granted under this Agreement, and any and all rights with regard to same, may be adjusted in accordance with the provisions of the Plan, in the sole discretion of the Committee.

Section 8. Restriction on Transfer of SAR Shares. No SARs (or the option to exercise same) may be transferred, pledged, assigned, hypothecated or otherwise disposed of in any way by the Recipient, except to the Company upon termination of the Recipient's employment as provided for herein. In the event the Recipient becomes legally incapacitated and terminates her employment, her SARs shall be exercisable by her legal guardian, committee or legal representative, in accordance with the provisions of Section 5 hereof. If the Recipient dies, the SAR shall thereafter be exercisable by the Recipient's designated beneficiary or, absent such a designation, by the executors or administrators of the Recipient's estate, in accordance with Section 5 hereof. Any attempted assignment, transfer, pledge, hypothecation or other disposition

of any SARs (or rights to exercise same) contrary to the provisions hereof, or the levy of any execution, attachment or similar process upon such SARs, shall be null and void and without effect.

Section 9. Notices. Any notice hereunder by the Recipient shall be given to the Company in writing and such notice shall be deemed duly given only upon receipt thereof at the Company's office at Morris Corporate Center1, Building A, 300 Interpace Parkway, Parsippany, NJ 07054, Attn: Human Resource Department, or at such other address as the Company may designate by notice to the Recipient. Any notice hereunder by the Company shall be given to the Recipient in writing and such notice shall be deemed duly given only upon receipt thereof at such address as the Recipient may have on file with the Company.

Section 10. Construction. The construction of this Agreement is vested in the Board or the Committee, as applicable, and their respective construction shall be final and conclusive.

Section 11. Governing Law. This Agreement shall be construed and enforced in accordance with the laws of the State of Delaware, without giving effect to the choice of law principles thereof.

Section 12. Failure to Enforce Not a Waiver . The failure of the Company to enforce at any time any provision of this Agreement shall in no way be construed to be a waiver of such provision or of any other provision hereof.

Section 13. Amendments. Except as provided in Section 16, this Agreement may be amended or modified at any time only by an instrument in writing signed by each of the parties hereto.

Section 14. Survival of Terms. This Agreement shall apply to and bind the Recipient and the Company and their respective permitted assignees and transferees, heirs, legatees, executors, administrators and legal successors.

Section 15. Severability. If a provision of this Agreement is held invalid by a court of competent jurisdiction, the remaining provisions will nonetheless be enforceable according to their terms. Further, if any provision is held to be over broad as written, that provision shall be amended to narrow its application to the extent necessary to make the provision enforceable according to applicable law and enforced as amended.

Section 16. Plan. The SARs are granted pursuant to the Plan, and the SARs and this Agreement are in all respects governed by the Plan and subject to all of the terms and provisions thereof, whether such terms and provisions are incorporated in this Agreement by reference or are expressly cited.

Section 17. Section 409A. This Agreement shall be interpreted and applied so that the SARs are exempt from, and will not be subject to, Section 409A of the Code. In addition, this Agreement shall be interpreted and applied as if it contained any additional provisions that are required to obtain in order for the SARs to be exempt from Section 409A of the Code.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement, effective as of the date first noted above.

Grant Date: February 26, 2014 **PDI, INC.**

By: _____
Jeffrey Smith
CFO

RECIPIENT

Signature:_____

Print Name: Nancy S. Lurker

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

PDI, Inc.
Parsippany, New Jersey

We hereby consent to the incorporation by reference in the Registration Statements on Form S3 (No. 333-174348) and Forms S8 (No. 333-61231, 333-60512, 333-123312, and 333-177969) of PDI, Inc. of our report dated March 6, 2014, relating to the consolidated financial statements and financial statement schedule, which appear in this Form 10-K.

/s/BDO USA, LLP

Woodbridge, New Jersey
March 6, 2014

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 Annual Report on Form 10-K for the year ended December 31, 2013 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: March 6, 2014

/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 Smith, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2013 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: March 6, 2014

/s/ Jeffrey 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 Annual Report of PDI, Inc. (the "Company") on form 10-K for the fiscal year ended December 31, 2013 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: March 6, 2014

/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 Annual Report of PDI, Inc. (the "Company") on form 10-K for the fiscal year ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey Smith, as Chief Financial 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: March 6, 2014

/s/ Jeffrey 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.