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

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009
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)

(862) 207-7800
(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 ☒

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 ☒

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

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

Indicate by checkmark 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 ☒

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

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 30, 2009, the last business day of the registrant's most recently completed second fiscal quarter, was $29,231,073 (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 26, 2010, 14,242,715 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 2010 Annual Meeting of Stockholders (the Proxy Statement), to be filed within 120 days of the end of the fiscal year ended December 31, 2009, 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 (the Form 10-K), the Proxy Statement is not deemed to be filed as part hereof.

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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 (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,” Part II – Item 7 – “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Part II – Item 7A – “Quantitative and Qualitative Disclosures About Market Risk.”

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:

- The effects of the current worldwide economic and financial crisis;
- Changes in outsourcing trends or a reduction in promotional, marketing and sales expenditures in the pharmaceutical, biotechnology and life sciences industries;
- Early termination of a significant services contract or the loss of one or more of our significant customers or a material reduction in service revenues from such customers;
- Our ability to obtain additional funds in order to implement our business model;
- Our ability to successfully identify, complete and integrate any future acquisitions and the effects of any such acquisitions on our ongoing business;
- Our ability to meet performance goals in incentive-based arrangements with customers;
- Competition in our industry;
- Continued consolidation within the life sciences industry;
- Our ability to attract and retain qualified sales representatives and other key employees and management personnel;
- Product liability claims against us;
- Changes in laws and healthcare regulations applicable to our industry or our, or our customers’, failure to comply with such laws and regulations;
- The sufficiency of our insurance and self-insurance reserves to cover future liabilities;
- Our ability to successfully develop and generate sufficient revenue from product commercialization opportunities;
- Failure of third-party service providers to perform their obligations to us;
- Our ability to increase our revenues and successfully manage the size of our operations;
- Volatility of our stock price and fluctuations in our quarterly revenues and earnings;
- Our ability to sublease the unused office space in Saddle River, New Jersey and Dresher, Pennsylvania;
- 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.

PDI, Inc.
Annual Report on Form 10-K

PART I

ITEM 1. BUSINESS

Summary of Business

We provide promotional services to established and emerging companies in the pharmaceutical, biotechnology and healthcare industries. We are a leading provider of outsourced pharmaceutical 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 interaction program services, call centers and marketing research. Combined, our services offer customers a range of 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 are among the leaders in outsourced pharmaceutical commercialization services in the United States. We have evolved our commercial capabilities through innovation, organic growth and acquisitions. We have designed and implemented programs for many large pharmaceutical companies, a variety of emerging and specialty pharmaceutical 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 focus is to flawlessly execute our customers' programs in order to consistently deliver their desired results.

Typically, our customers engage us on a contractual basis to design and implement promotional programs for prescription, over-the-counter, nutritional, diagnostic and other healthcare products. The programs are tailored to meet the specific needs of the product and the customer. These services are provided predominantly on a fee-for-service basis. These contracts may include incentive payments that will be earned if our activities generate results that meet or exceed performance targets. Contracts may generally be terminated with or without cause by our customers. Certain contracts provide that we may incur specific penalties if we fail to meet stated performance benchmarks.

We commenced operations as an outsourced sales organization in 1987 and we completed our initial public offering in May 1998. In December 2009, we relocated our executive offices to Morris Corporate Center 1, Building A, 300 Interpace Parkway, Parsippany, New Jersey 07054. Our telephone number is (800) 242-7494.

Strategy

Under the direction of our chief executive officer, the entire executive team is fully committed to establishing PDI as the best-in-class outsourced promotional services organization in the United States. With a focus on best-in-class quality and cost effectiveness, we have intensified our focus on strengthening all aspects of our core outsourced promotional services business.

In addition to concentrating our efforts on strengthening our core outsourced sales business, we also continue to focus on enhancing our commercialization capabilities by aggressively promoting and broadening the depth of our value-added service offerings. While our primary approach in broadening our value-added services offerings will be through internal development, we do not exclude the possibility of growth through acquisition.

In April 2009, we ended our sole product commercialization arrangement; however, we continue to evaluate potential opportunities for similar types of promotional arrangements on a very selective and opportunistic basis to the extent we are able to mitigate certain risks relating to the investment of our resources.

Reporting Segments and Operating Groups

For 2009, we reported under the following three segments: Sales Services; Marketing Services; and Product Commercialization Services (PC Services). For details on revenue, operating results and total assets by segment, see Note 19, Segment Information, to the consolidated financial statements included in this Form 10-K.

Sales Services

This segment, which focuses primarily on product detailing, includes our outsourced sales teams. This segment represented 86% of our consolidated revenue for the year ended December 31, 2009. 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. 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 forces, 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.

Shared Sales Teams

Our Shared Sales Teams business model centers around 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 a 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 a Shared Sales Team, our customers receive targeted coverage of their physician audience.

Marketing Services

This segment currently includes two business units: Pharmakon and TVG Marketing Research & Consulting (TVG). This segment also included our continuing medical education business unit, Vital Issues in Medicine (VIM), which ceased operations in the third quarter of 2009. This segment represented 20% of consolidated revenue for the year ended December 31, 2009.

Pharmakon

Pharmakon's business is focused on the creation, design and implementation of promotional peer interactive programming targeted to healthcare professionals. Each marketing program can be delivered through a number of different venues including: teleconferences; dinner meetings; webcasts; satellite; and other alternative media. Within each of our programs, we offer a number of services including strategic design, tactical execution, technology support, audience generation, moderator services and thought leader management. In the last ten years, Pharmakon has conducted over 45,000 peer interactive programs with more than 550,000 participants. In addition to our peer interactive programs, Pharmakon also provides promotional communications activities, thought leader training and content development.

TVG Marketing Research & Consulting

TVG provides qualitative and quantitative marketing research to pharmaceutical companies with respect to healthcare providers, patients and managed care customers worldwide. We offer a full range of leading edge and in some cases proprietary, pharmaceutical marketing research services, including studies designed to identify the highest impact business strategy, profile, positioning, message, execution, implementation and post implementation for a product. We believe our marketing research model improves our customers' knowledge about how physicians and other healthcare professionals will likely react to products.

We utilize a systematic approach to pharmaceutical marketing research. Recognizing that every marketing need, and therefore every marketing research solution, is unique, we have developed our marketing model to help identify the work that needs to be done in order to identify critical paths to marketing goals. At each step of the marketing model, we can offer proven research techniques, proprietary methodologies and customized study designs to address specific product needs.

Product Commercialization Services

In March 2008, we announced a new strategic initiative to identify and take advantage of opportunities to enter into arrangements with pharmaceutical companies to provide sales and marketing support services and potentially limited capital in connection with the promotion of pharmaceutical products in exchange for a percentage of product sales above a certain threshold amount. On April 11, 2008, we announced that we had entered into our first arrangement under our product commercialization strategic initiative to provide sales and marketing support services in connection with the promotion of a pharmaceutical product on behalf of Novartis Pharmaceuticals Corporation. On April 22, 2009, we announced the termination of this agreement with Novartis.

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 business segment consist primarily of detailing agreements and are nearly all fee-for-service arrangements. The term of these contracts is typically between one and two years and may be renewed or extended upon mutual agreement of the parties. The majority of these contracts, however, are terminable by the customer for any reason upon 30 to 90 days' notice. The loss or termination of a large contract or the loss of multiple Sales Services contracts could have a material adverse effect on our business, financial condition, results of operations and cash flow. Our Sales Services contracts include standard mutual representations and warranties as well as mutual confidentiality and indemnification provisions, including product liability indemnification for our benefit. Some of these contracts (including contracts with significant customers of ours) may also contain performance benchmarks, such as a minimum amount of detailing activity to certain physician targets within a specified amount of time, and our failure to meet these stated benchmarks may result in specific financial penalties for us. Certain contracts may also include incentive payments that can be earned if our activities generate results that meet or exceed agreed-upon performance targets.

Marketing Services

Our Marketing Services contracts generally take the form of either master service agreements with a term of one to three years, or contracts specifically related to particular projects with terms equal to the duration of the project, typically two to six months. These contracts include standard representations and warranties as well as confidentiality and indemnification obligations and are generally terminable by the customer for any reason. Upon termination, the customer is generally responsible for payment of all work completed to date, plus the cost of any nonrefundable commitments made by us on behalf of the customer. There is significant customer concentration in our Pharmakon business, and the loss or termination of one or more of Pharmakon's large master service agreements could have a material adverse effect on our business, financial condition or results of operations. Due to the typical size of most of TVG's contracts, it is unlikely that the loss or termination of any individual TVG contract would have a material adverse effect on our business, financial condition, results of operations or cash flow.

Product Commercialization Services

In April 2008, we entered into a contract under our product commercialization initiative with Novartis. On April 22, 2009, we announced the termination of this agreement with Novartis. See Note 11 to the condensed consolidated financial statements for additional information relating to the agreement. However we continue to evaluate potential opportunities within this segment on a very selective and opportunistic basis and may pursue additional opportunities in the future to the extent we are able to mitigate certain risks relating to the investment of our resources.

Significant Customers

Historically, we have experienced a high degree of customer concentration in our businesses. Our two largest customers were Pfizer Inc. and Roche Laboratories Inc., which accounted for approximately 42.0% and 16.5%, respectively, or approximately 58.5% in the aggregate, of our revenue for the year ended December 31, 2009.

Marketing

Our marketing efforts target established and emerging companies in the biopharmaceutical and life sciences industries. Our marketing efforts 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 their products. Our tactical plan usually includes advertising in trade publications, direct mail 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 biopharmaceutical and life sciences 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 segment, we compete with our customers' ability to manage their needs internally. In addition, a small number of providers comprise the market for outsourced pharmaceutical sales teams, and we believe that PDI, inVentiv Health Inc., Innovex Inc. and Publicis Groupe SA combined accounted for the majority of the outsourced sales team market share in the United States in 2009. Our Marketing Services segment operates in a highly fragmented and competitive market.

There are modest barriers to entry into the businesses in which we operate and, as the industry continues to evolve, new competitors may emerge. 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. While we believe we compete effectively with respect to each of these factors, certain of our competitors are larger than we are 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 source new business opportunities as well as our business, financial condition and results of operations.

Employees

As of February 28, 2010, we had approximately 1,200 employees, including approximately 650 full-time employees. Approximately 90% of our employees are field sales representatives and sales managers. We are not party to a collective bargaining agreement with any labor union. We believe our relationship with our employees is generally positive.

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 Securities and Exchange Commission (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 and Industry Regulation

The healthcare sector is heavily regulated by both government and industry. Various laws, regulations and guidelines established by government, industry and professional bodies affect, 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 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.

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.

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.

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 or results of operations.

Changes in outsourcing trends in the pharmaceutical and biotechnology 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 commercialization 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. During the past few years, there has been a slow-down in the rate of approval of new products by the FDA and this trend may continue. Additionally, several large pharmaceutical companies have recently 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 a decrease in the market for outsourced sales and marketing services during the last few years, and there can be no assurances regarding the timing or extent of any reversal of these trends. If the pharmaceutical and life sciences industries reduce their tendency to outsource these projects, our business and results of operations could be materially and adversely affected.

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

Our revenues depend on promotional, marketing and sales expenditures by companies in the life sciences industries, including the pharmaceutical and biotechnology 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 life sciences 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 pharmaceutical sales and marketing services could be further exacerbated by the current economic and financial crisis occurring in the United States and worldwide. If companies in the life sciences industries significantly reduce their promotional, marketing and sales expenditures or significantly reduce or eliminate the role of pharmaceutical sales representatives in the promotion of their products, our business and results of operations would be materially and adversely affected.

Our service contracts are generally short-term agreements and are 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 two years (certain of our operating entities 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 representatives we deploy on their behalf. The early termination or significant reduction of a contract by one of our customers not only results in lost revenue, but also typically causes 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 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, 2009, our two largest customers accounted for approximately 42.0% and 16.5%, or a total of 58.5%, of our service revenue for 2009. As of December 31, 2008, our three largest customers accounted for approximately 28.2%, 13.6%, and 10.7%, respectively, or approximately 52.5% in the aggregate, of our revenue for 2008. We believe that we may experience an even higher degree of customer concentration during 2010 and this trend may continue beyond 2010 in light of continued consolidation within the pharmaceutical industry.

In order to increase our revenues, we will need to attract additional significant customers on an ongoing basis. Our failure to attract a sufficient number of such customers during a particular period, or our inability to replace the loss of or significant reduction in business from a major customer would have a material adverse effect on our business, financial condition and results of operations. For example, during 2006 and 2007, we announced the termination and expiration of a number of significant service contracts. In addition, another customer terminated a significant sales force program effective September 30, 2008 due to generic competition. This sales force program accounted for 9.5% of our revenue during 2008.

We incurred substantial losses in connection with our recently terminated promotional agreement under our product commercialization initiative, and if we are unable to generate sufficient revenue from any future product commercialization or other similar opportunities that we may pursue, our business, financial condition, results of operations and cash flows could be materially and adversely affected.

Effective April 22, 2009, we and Novartis mutually agreed to terminate the promotional agreement that was entered into in April 2008 in connection with our product commercialization initiative. During the term of this promotion agreement, we incurred significant expenses in connection with implementing and maintaining the program while required product sales levels necessary to receive revenue under the agreement were never achieved, and therefore we did not generate any revenue from this agreement during its term.

While we are not actively engaged in any additional product commercialization 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 all or a portion of 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, financial condition, results of operations and cash flows could be materially and adversely affected. 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.

If we do not meet performance goals established in our incentive-based and 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 pharmaceutical company 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 metrics with respect to the products being detailed. Typically, these performance metrics relate to targeted sales or prescription volumes, sales force performance metrics or a combination thereof. In addition, we have entered into and may in the future enter into revenue sharing arrangements with customers. Under revenue sharing arrangements, we are 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 performance goals established in our incentive-based arrangements or the expected product market performance goals in our revenue sharing arrangements, our revenue could be materially and adversely affected

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 number and timing of sales calls, physician reach, territory vacancies and/or sales representative turnover.

Our industry is highly competitive and our failure to address competitive developments promptly will limit our ability to retain and increase our market share.

Our primary competitors for sales and marketing services include in-house sales and marketing departments of pharmaceutical companies, other CSOs and providers of marketing and related services, including marketing research providers. There are relatively few barriers to entry in the businesses in which we compete and, as the industry continues to evolve, new competitors are likely to emerge. Most of our current and potential competitors are larger than we are 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 commercialization services than we do. Our inability to continue to remain competitive with respect to the range of service offerings that we can provide companies within the pharmaceutical industry or any other factors that result in increased competition may lead to pricing pressures that could have a material adverse effect on our market share and our ability to source new business opportunities as well as our business and results of operations.

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 services businesses. We may seek additional funding through public or private equity or debt financing or other arrangements with collaborative partners. Our ability to secure any future debt financing on favorable terms or at all may be materially and adversely affected by the current credit market turmoil. In addition, 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.

Due to the expiration and termination of several significant contracts during 2006, 2007 and 2008, our historical revenue and results of operations cannot be relied upon as representative of the revenue and results of operations that we may achieve in 2010 and future periods.

As noted above, during 2006 and the first half of 2007, we experienced the expiration and termination of several significant contracts which accounted for an aggregate of approximately $150.9 million of revenue during 2006 and $15.9 million of revenue during 2007. In addition, another significant sales force program was terminated in 2008 which accounted for approximately $10.7 million of revenue during 2008. Unless and until we generate sufficient new business to offset the loss of these contracts, our financial results for these previous periods will not be duplicated in future periods, and future revenue and cash flows from operations will be significantly less than in previous periods.

The current worldwide economic and financial crisis may have a material and adverse effect on our business, financial condition and results of operations.

The current global financial crisis involves, among other things, significant reductions in available capital and liquidity from banks and other providers of credit, substantial reductions and/or fluctuations in equity and currency values worldwide. Sustained downturns in the economy generally affect the markets in which we operate. If our customers' access to capital or willingness to make expenditures is curtailed as a result of the current economic and financial crisis, the demand for our services may decrease and our business, financial condition and results of operations could be materially and adversely affected. For example, certain customers within our Marketing Services segment delayed the implementation or reduced the scope of a number of marketing initiatives during 2009. In addition, economic conditions could affect the financial strength of our vendors and their ability to fulfill their commitments to us, and could also affect the financial strength of our customers and our ability to collect accounts receivable. Recent disruptions in the credit markets may also negatively impact our ability to obtain additional sources of financing. The potential effects of the current economic and financial crisis are difficult to forecast and mitigate and are likely to continue to have a significant adverse impact on our customers, vendors and our business for the next several years.

Our liquidity, business and financial condition could be materially and adversely affected if the financial institutions which hold our funds fail.

We have substantial funds held in bank deposits, money market funds and other accounts at certain financial institutions. A significant portion of the funds held in these accounts exceeds the Federal Deposit Insurance Corporation's insurance limits. If any of the financial institutions where we have deposited funds were to fail, we may lose some or all of our deposited funds that exceed the insurance coverage limit. Such a loss would have a material and adverse effect on our liquidity, business and financial condition.

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 pharmaceutical sales representatives. There is intense competition for pharmaceutical sales representatives from CSOs and pharmaceutical 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 assure you that we will continue to attract and retain qualified personnel. If we cannot attract and retain qualified sales personnel, we will not be able to maintain or expand our Sales Services business and our ability to perform under our existing sales force contracts will be impaired.

Product liability claims could harm our business, and result in substantial penalties.

We could face substantial product liability claims in the event any of the pharmaceutical or other products we have previously marketed or market now or may in the future market is alleged to cause negative reactions or adverse side effects or in the event any of these products causes injury, is alleged to be unsuitable for its intended purpose or is alleged to be otherwise defective. For example, in the past we were named as a defendant in numerous lawsuits as a result of our detailing of Baycolâ on behalf of Bayer Corporation (Bayer). Product liability claims, regardless of their merits, could be costly and divert management's attention from our business operations; could adversely affect our reputation and the demand for our services; and could result in substantial civil, criminal, or other sanctions. Additionally, such litigation 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. Any action against us, even if we successfully defend against it, could have a material adverse effect on our business and results of operations. While we rely on contractual indemnification provisions with our customers to protect us against certain product liability related claims, we cannot assure you that these provisions will be fully enforceable or that they will provide adequate protection against claims intended to be covered. We currently have product liability insurance in the aggregate amount of $5.0 million but cannot ensure that our insurance will be sufficient to cover fully all potential claims. Also, adequate insurance coverage might not be available in the future at acceptable costs, if at all.

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. During 2009, we instituted a number of cost-saving initiatives, including a reduction in employee headcount. In addition, we are currently seeking to sublet unused office space in our Saddle River, New Jersey and Dresher, Pennsylvania facilities, although there is no guarantee that we will be able to successfully sublet this unused office space, particularly in light of the current economic and financial crisis. 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 are unable to hire and retain key management personnel to fill critical vacancies.

The success of our business also depends on our ability to attract and retain qualified senior management who are in high demand and who often have competitive employment options. Our failure to attract and retain qualified individuals could have a material adverse effect on our business, financial condition and results of operations.

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

The pharmaceutical and life sciences industries are subject to a high degree of governmental regulation. Significant changes in these regulations affecting the services we provide, including pharmaceutical product promotional and 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. In addition, potential healthcare reform legislation currently under consideration by the U.S. Congress could significantly increase our costs in providing healthcare benefits to our employees, including a possible mandate requiring that certain benefits be provided to our part-time employees.

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. Additionally, violations of these regulations could result in litigation which could result in substantial civil, criminal, or other sanctions. Further, violations of these regulations may, among other things, limit or prohibit our or our customers' current or business activities, subject us or our customers to adverse publicity, and increase the cost of regulatory compliance. Sanctions for violating these laws include civil and criminal fines and penalties and 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 assure you that these provisions will be fully enforceable or that they will provide adequate protection against claims intended to be covered.

We have and may continue to experience additional impairment charges of our goodwill and other intangible assets.

We are required to evaluate goodwill for impairment 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 operating segments. Goodwill has been assigned to the reporting units to which the value of the goodwill relates. We currently have five reporting units; however, only one reporting unit, Pharmakon, includes goodwill. If we determine that the fair value is less than the carrying value, an impairment loss will be recorded in our statement of operations. 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 goodwill impairment loss in our statement of operations. During the year ended December 31, 2009, we recorded an impairment charge of $18.1 million related to goodwill and other intangible assets. See Note 6, Goodwill and Other Intangible Assets, in Part II – "Financial Statements and Supplementary Data" for further information.

If our insurance and self-insurance reserves are insufficient to cover our future liabilities for workers compensation, automobile and general liability and employee health care benefits, our business, financial condition and results of operations could be materially and adversely affected.

We use a combination of insurance and self-insurance to provide for potential liabilities for workers' compensation, automobile and general liability and employee health care benefits. Although we have reserved for these liabilities not covered by third-party insurance, our reserves are based on estimates developed using actuarial data as well as historical trends. Any projection of these losses is subject to a high degree of variability and we may not be able to accurately predict the number or value of the claims that occur in the future. In the event that our actual liability exceeds our reserves for any given period or if we are unable to control rapidly increasing health care costs, our business, financial condition and results of operations could be materially and adversely affected.

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.

If we are unable to successfully sublet unused office space, our financial condition and cash flows could be materially and adversely affected.

During the fourth quarter of 2009, we exited our Saddle River, New Jersey facility and relocated our corporate headquarters to a smaller, less costly and more strategically located office space in Parsippany, New Jersey. We are currently seeking to sublease our third floor office space, approximately 47,000 square feet, in Saddle River, New Jersey. At December 31, 2009, we had future minimum lease payments associated with the Saddle River, New Jersey facility totaling $14.2 million offset by future minimum sublease rental income totaling $5.7 million. Additionally, we are currently seeking to sublease approximately 22,100 square feet of unused space at our Dresher, Pennsylvania facility. There can be no assurance, however, that we will be able to successfully sublet any or all of our unused office space, on favorable terms or at all, particularly in light of the current economic conditions. The recognition of these charges requires estimates and judgments regarding lease termination costs and other exit costs when these actions take place. Actual results may vary from these estimates.

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, 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;
- 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 business do not meet our performance expectations, we may have to restructure the acquired business or write-off the value of some or all of the assets of the acquired business, including goodwill and other intangible assets identified at 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 goals.

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

Our quarterly 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;
- changes in regulations related to pharmaceutical companies; and
- general economic conditions, including the current economic and financial crisis.

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. For all contracts, training costs are deferred and amortized on a straight-line basis over the shorter of the life of the contract to which they relate or 12 months. As a result, during the first two to three months of a new contract, we may incur substantial expenses associated with implementing that new program without recognizing any revenue under that contract. This could have a material adverse impact on our operating results and the price of our common stock for the quarters in which these expenses are incurred. For these and other reasons, we believe that quarterly comparisons of our financial results are not necessarily meaningful and should not be relied upon as an indication of future performance. Fluctuations in quarterly 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 2009, our stock traded at a low of $2.80 and a high of $6.25. In 2008, our stock traded at a low of $3.10 and a high of $9.40. The trading price of our common stock has been and will continue to be subject to:

- volatility in the trading markets generally, including volatility associated with the current economic and financial crisis in the United States and worldwide;
- 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 controlling stockholder continues to have effective control of us, which could delay or prevent a change in corporate control that may otherwise be beneficial to our stockholders.

John P. Dugan, our chairman, beneficially owns approximately 34% of our outstanding common stock. As a result, Mr. Dugan is able to exercise substantial control 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 will limit our stockholders' ability to influence corporate matters and, as a result, we may take actions that other stockholders do not view as beneficial, which may adversely affect the market price of our common stock.

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. 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.

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 30, 2017. We also lease approximately 84,000 square feet of office space in Saddle River, New Jersey (our former corporate headquarters), which lease terminates in January 2016 and is cancellable on June 30, 2015. We have entered into two subleases for a combined total of approximately 37,000 square feet at our Saddle River facility which run for the remaining term of our lease. TVG operates out of a 38,000 square foot facility in Dresher, Pennsylvania under a lease that runs for a term of approximately 12 years, which began in December 2004. Our Marketing Services business unit, TVG, entered into two subleases in August and October of 2007, each for terms of five years, and are approximately 3,000 and 4,900 square feet, respectively. Our Marketing Services business unit, Pharmakon, operates out of a 6,700 square foot facility in Schaumburg, Illinois under a lease that expires in February 2015. We believe that our current facilities are adequate for our current and foreseeable operations and that suitable additional space will be available if needed.

We are seeking to sublease approximately 22,100 square feet and approximately 47,000 square feet of unused office space at our Dresher and Saddle River locations, respectively. There can be no assurance, however, that we will be able to successfully sublet unused office space, on favorable terms or at all, particularly in light of current economic conditions.

ITEM 3. LEGAL PROCEEDINGS

Bayer-Baycol Litigation

We were named as a defendant in numerous lawsuits, including two class action matters, alleging claims arising from the use of Baycol, a prescription cholesterol-lowering medication. Baycol was distributed, promoted and sold by Bayer in the United States until early August 2001, at which time Bayer voluntarily withdrew Baycol from the U.S. market. Bayer had retained certain companies, such as us, to provide detailing services on its behalf pursuant to contract sales force agreements. In February 2003, we entered into a joint defense and indemnification agreement with Bayer, pursuant to which Bayer has agreed to assume substantially all of our defense costs in pending and prospective proceedings and to indemnify us in these lawsuits, subject to certain limited exceptions. We did not incur any costs or expenses relating to these matters during the years ended December 31, 2009, 2008 and 2007. In July 2009, the final Baycol lawsuit in which we were named as a defendant was dismissed, and as of December 31, 2009, there were no pending Baycol-related claims against us.

Other Legal Proceedings

We are currently a party to other legal proceedings incidental to our business. As required, we have accrued our estimate of the probable costs for the resolution of these claims. While management currently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not have a material adverse effect on our business, financial condition, 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 or results of operations. Legal fees are expensed as incurred.

ITEM 4. 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 highest and lowest sales price for our common stock on the Nasdaq Global Market for the last two years by quarter:

	2009		2008	
	HIGH	LOW	HIGH	LOW
First quarter	$ 6.25	$ 2.80	$ 9.40	$ 7.01
Second quarter	$ 4.56	$ 2.93	$ 9.15	$ 7.61
Third quarter	$ 5.83	$ 3.90	$ 9.23	$ 7.22
Fourth quarter	$ 5.27	$ 3.78	$ 7.80	$ 3.10

Holders

We had 324 stockholders of record as of March 1, 2010. 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 in effect 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, 2009:

Equity Compensation Plan Information
Year Ended December 31, 2009

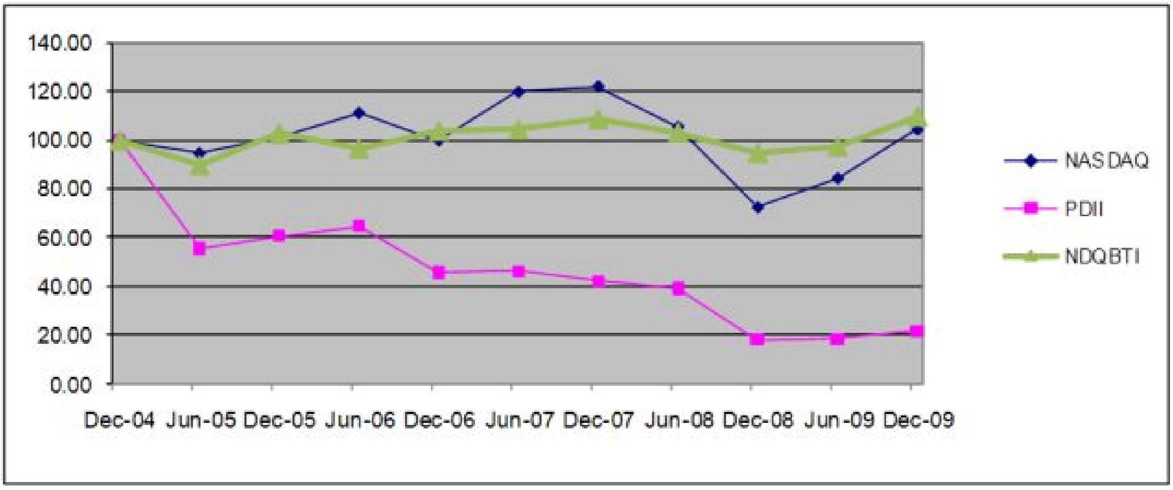
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders (2004 Stock Award and Incentive Plan, 2000 Omnibus Incentive Compensation Plan, and 1998 Stock Option Plan)	236,355	$ 23.79	980,294
Equity compensation plans not approved by security holders	-	-	-
Total	236,355	$ 23.79	980,294

Issuer Purchases of Equity Securities

From time-to-time, we repurchase our common stock on the open market or in privately negotiated transactions or both. On November 7, 2006, we announced that our Board of Directors authorized us to repurchase up to one million shares of our common stock, none of which have been repurchased. We did not repurchase any shares of our common stock on the open market during the years ended December 31, 2009, 2008 or 2007. Any future repurchases of shares will be made from available cash.

Comparative Stock Performance Graph

The graph below compares the yearly percentage change in the cumulative total stockholder return on our common stock, based on the market price of our common stock, with the total return of companies included within the Nasdaq Composite Index and the Nasdaq Biotech Index (NDQBTI) for the period commencing December 31, 2004 through December 31, 2009. The calculation of total cumulative return assumes a $100 investment in our common stock and the Nasdaq Composite Index on December 31, 2004, and the reinvestment of all dividends.



ITEM 6. SELECTED FINANCIAL DATA

The selected financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes appearing elsewhere in this Form 10-K. The operations data for the years ended December 31, 2009, 2008, and 2007 and the balance sheet data at December 31, 2009 and 2008 are derived from our audited consolidated financial statements appearing elsewhere in this Form 10-K. The operations data for the years ended December 31, 2006 and 2005 and the balance sheet data at December 31, 2007, 2006 and 2005 are derived from our audited consolidated financial statements that are not included in this Form 10-K. The historical results are not necessarily indicative of the results to be expected in any future period. No cash dividends have been declared for any period.

PDI, Inc.
Annual Report on Form 10-K

(in thousands, except per share data)	2009	2008	2007	2006	2005
Continuing operations data:					
Total revenues, net	$ 84,871	$ 112,528	$ 117,131	$ 239,242	$ 305,205
Gross profit	26,280	4,513 (3)	31,615	55,844	52,402
Operating expenses	48,739 (1)	40,917 (4)	45,853 (5)	49,931 (6)	65,064 (7)
Asset impairment	18,118 (2)	23	42	-	6,178 (8)
Total operating expenses	66,857	40,940	45,895	49,931	71,242
(Loss) income from continuing operations	$ (33,560)	$ (34,461)	$ (9,974)	$ 11,375	$ (11,407)
Per share data from continuing operations:					
(Loss) income per share of common stock					
Basic	$ (2.36)	$ (2.42)	$ (0.70)	$ 0.81	$ (0.79)
Diluted	$ (2.36)	$ (2.42)	$ (0.70)	$ 0.81	$ (0.79)
Weighted average number of shares outstanding:					
Basic	14,219	14,240	14,150	14,046	14,366
Diluted	14,219	14,240	14,150	14,075	14,366
Balance sheet data:					
Cash and short-term investments	$ 72,627	$ 90,233	$ 106,985	$ 114,684	$ 97,634
Working capital	71,631	81,639	110,739	112,186	92,264
Total assets	109,776	149,036	179,554	201,636	200,159
Total long-term debt	-	-	-	-	-
Stockholders' equity	74,890	107,107	140,189	149,197	135,610

(1) Includes $8.7 million in facilities realignment costs. See Note 16, Facilities Realignment, to the consolidated financial statements for additional details.

(2) Represents $18.1 million in non-cash charges for the impairment of goodwill and intangible assets related to our Pharmakon business unit. See Note 6, Goodwill and Other Intangible Assets, to the consolidated financial statements for additional details.

(3) Includes $10.3 million in charges related to an accrued contract loss. See Note 11, Product Commercialization Contract, to the consolidated financial statements for additional details.

(4) Includes $1.2 million in charges for executive severance costs and $0.1 million in facilities realignment costs. See Notes 15, Executive Severance, and Note 16, Facilities Realignment, to the consolidated financial statements for additional details.

(5) Includes $1.0 million in charges for facilities realignment costs. See Note 16, Facilities Realignment, to the consolidated financial statements for additional details.

(6) Includes $4.0 million in credits to legal expense related to the settlement of certain litigation matters and $2.0 million in charges for facilities realignment costs.

(7) Includes $5.7 million for executive severance costs and $2.4 million for facilities realignment costs.

(8) Asset impairment charges include a $3.3 million non-cash charge for the impairment of the goodwill associated with the Shared Sales Teams business unit; and a $2.8 million non-cash charge for the impairment of the Siebel sales force automation platform.

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 Form 10-K.

OVERVIEW

We are a leading provider of outsourced promotional services in the United States to pharmaceutical companies. Additionally, we provide marketing research and physician interaction programs to the same customer base. Our services offer customers a range of promotional options for the commercialization of their products throughout those products' lifecycles, from development through maturity.

Our business depends in large part on demand from the pharmaceutical and healthcare industries for outsourced sales and marketing services. In recent years, this demand has been adversely impacted by certain industry-wide factors affecting pharmaceutical 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 and decreased pipeline productivity. Recently, there has been a slow-down in the rate of approval of new products by the FDA and this trend may continue. Additionally, a number of pharmaceutical companies have recently made changes to their commercial models by reducing the number of sales representatives employed internally and through outside organizations like PDI. A very significant portion of our revenue is derived from our sales force arrangements with large pharmaceutical companies, and we have therefore been significantly impacted by cost control measures implemented by these companies, including a substantial reduction in the number of sales representatives deployed. These trends culminated in the expiration or termination of a number of our significant sales force contracts during the past three years, which resulted in a significant decrease in our revenue. This reduction in demand for outsourced pharmaceutical sales and marketing services has been further exacerbated by the recent economic and financial crisis occurring worldwide. For example, during 2008 and 2009, certain Marketing Services customers delayed the implementation or reduced the scope of a number of marketing initiatives. In addition, we continue to experience a high degree of customer concentration, and this trend may continue as a result of recent and continuing consolidation within the pharmaceutical industry. If companies in the life sciences industries significantly reduce their promotional, marketing and sales expenditures or significantly reduce or eliminate the role of pharmaceutical sales representatives in the promotion of their products, our business, financial condition and results of operations would be materially and adversely affected.

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

DESCRIPTION OF REPORTING SEGMENTS

For the year ended December 31, 2009, our three reporting segments were as follows:

- Sales Services, which is comprised of the following business units:
  - Dedicated Sales Teams; and
  - Shared Sales Teams.
- Marketing Services, which is comprised of the following business units:
  - Pharmakon; and
  - TVG Marketing Research and Consulting (TVG).
- Product Commercialization Services (PC Services).

Selected financial information for each of these segments is contained in Note 19, Segment Information, to the consolidated financial statements 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 the 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 the most significant judgments on the part of our management 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.

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. Many of the product detailing contracts allow for additional periodic incentive fees to be earned if certain performance benchmarks have been attained.

Revenue under pharmaceutical detailing contracts is generally based on the number of physician details made or the number of sales representatives utilized. With respect to risk-based contracts, all or a portion of revenues earned are based on contractually defined percentages of either product revenues or the market value of prescriptions written and filled in a given period. These contracts are generally for terms of one to two years and may be renewed or extended. The majority of these contracts, however, are terminable by the customer for any reason upon 30 to 90 days' notice. Certain contracts provide for termination payments if the customer terminates the agreement without cause. Typically, however, these penalties do not offset the revenue we could have earned under the contract or the costs we may incur as a result of its termination.

Revenue earned from incentive fees is recognized in the period earned and when we are reasonably assured that payment will be made. Under performance based contracts, revenue is recognized when the performance criteria has been achieved. 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. Revenue from recruiting and hiring contracts is recognized at the time the candidate begins full-time employment less a provision for sales allowances based on contractual commitments and historical experience.

The loss or termination of a large pharmaceutical detailing contract or the loss of multiple contracts could have a material adverse effect on our business, 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 services 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, 2009 our two largest customers, who each individually represented 10% or more of our service revenue, together accounted for approximately 58.5% of our service revenue. For the years ended December 31, 2008 and 2007, our three largest customers, who each individually represented 10% or more of our service revenue, together accounted for approximately 52.5% and 37.9% of our service revenue, respectively. See Note 14, Significant Customers, to our consolidated financial statements for additional information.

Revenue under marketing service contracts are generally based on a series of deliverable services associated with the design and execution of interactive promotional programs or marketing research/advisory 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 made on behalf of the customer. There is significant customer concentration in our Pharmakon business, and the loss or termination of one or more of Pharmakon's large master service agreements could have a material adverse effect on our business and results of operations. Due to the typical size of most TVG contracts, it is unlikely the loss or termination of any individual TVG contract would have a material adverse effect on our business, financial condition or results of operations.

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 price is fixed and determinable; the delivered elements have stand-alone value to the customer; there is objective and reliable evidence of the fair value of the undelivered elements; and there is no right of return or refund. The contract revenue is then allocated to the separate units of accounting based on their relative fair values. Revenue and cost of services are recognized for each unit of accounting separately as the related services are rendered.

Revenue from marketing research contracts is recognized upon completion of the contract. These contracts are generally short-term in nature typically lasting from two to six months.

Cost of services consist primarily of the costs associated with executing product detailing programs, performance based contracts or other sales and marketing services identified in the contract. Cost of services include personnel costs and other costs associated with executing a product detailing or other marketing or promotional program, as well as the initial direct costs associated with staffing a product detailing program. Such costs include, but are not limited to, facility rental fees, honoraria and travel expenses, sample expenses and other promotional expenses. These costs are expensed as incurred.

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. 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 product detailing program. All personnel costs and initial direct program costs, other than training costs, are expensed as incurred for service offerings.

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 operations.

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. For contracts where we are responsible for training costs, these costs are deferred and amortized on a straight-line basis over the shorter of the life of the contract to which they relate or 12 months.

Contract Loss Provisions

Provisions for losses to be incurred on contracts are recognized in full in the period in which it is determined that a loss will result from performance of the contractual arrangement.

Goodwill, Intangibles and Other Long-Lived Assets

We allocate the cost of acquired companies to the identifiable tangible and intangible assets and liabilities acquired, with the remaining amount being 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 annual impairment tests require significant management judgments and estimates. These estimates are made based on, among other factors, consultations with an accredited independent valuation consultant, reviews of projected future operating results and business plans, economic projections, anticipated future cash flows and the 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 thereby impacting the fair value of these assets, which could result in an impairment of the goodwill and acquired intangible assets.

We test goodwill for impairment at least annually (as of December 31) and whenever events or circumstances change that indicate impairment may have occurred. 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 its operating segments. Goodwill has been assigned to the reporting units to which the value of the goodwill relates. We currently have five reporting units; however, only one reporting unit, Pharmakon, includes goodwill. We tested goodwill by estimating the fair value of the reporting unit using a discounted cash flow model and a market multiple approach. The estimated fair value of the reporting unit is then compared with its carrying value including goodwill, to determine if any impairment exists. In assessing the recoverability of goodwill, projections regarding the highest and best use of estimated future cash flows and other factors are made to determine the fair value of the respective reporting units. The key estimates and factors used in the discounted cash flow valuation include revenue growth rates and profit margins based on internal forecasts, terminal value and a market participant's weighted-average cost of capital used to discount future cash flows. During our 2009 annual impairment testing as of December 31, 2009, we recognized an $8.5 million impairment charge.

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 fourth quarter of 2009, we recognized an impairment charge of $9.6 million related to our customer relationships and tradename. In addition, future events impacting cash flows for existing assets could render a write-down or write-off necessary that was not previously required.

While we use available information to prepare our estimates and to perform impairment evaluations, actual results could differ significantly from these estimates or related projections, resulting in additional impairment and losses related to recorded goodwill or long-lived asset balances.

Contingencies

In the normal course of business, we are subject to various contingencies. Loss 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. We are currently involved in certain legal proceedings and, as required, we 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 is an inherently subjective and complex process and estimating related costs and exposures involves substantial uncertainties that may cause actual results to differ materially from our estimates.

Income Taxes

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. 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. These accruals represent accounting estimates that are subject to inherent uncertainties associated with the tax audit process. We adjust these accruals 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 for a reporting period.

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 minimum amount of future taxable income that would have to be generated to realize our net deferred tax assets is approximately $46 million and 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. As a result, we established a full federal and state valuation allowance for the net deferred tax assets at December 31, 2009 and 2008 because we determined that it was more likely than not that these assets would not be realized.

Self-Insurance Accruals

We are self-insured for benefits paid under employee healthcare programs. Our 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. We maintain stop-loss coverage with third-party insurers to limit our total exposure on all of these programs. Periodically, we evaluate the level of insurance coverage and adjust 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, we were 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, we became fully insured through an outside carrier for these losses. Our 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. The final cost of many of these claims may not be known for five years or longer.

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 13, Stock-Based Compensation, to our consolidated financial statements.

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 compete the restructurings and facility realignment and related costs 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.

BASIS OF PRESENTATION

Revenue, net

We derive revenues primarily from:

- pharmaceutical detailing contracts based on the number of physician details made or the number of sales representatives utilized; and
- marketing service contracts based on a series of deliverable services associated with the design and execution of interactive promotional programs or marketing research/advisory programs.

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 benchmarks have been achieved.

Cost of services

Cost of services include personnel costs and other costs associated with executing a product detailing or other marketing or promotional program, as well as the initial direct costs associated with product detailing or other marketing or promotional programs such as facility rental fees, honoraria and travel expenses, sample expenses and other promotional expenses.

Compensation expense

Compensation expense includes corporate payroll and related payroll benefits, stock-based compensation, recruiting and hiring and staff training and development expenses.

Other selling, general and administrative expenses

Other selling, general and administrative expenses include professional fees, investor relations costs, rent and other office expenses, depreciation expense for furniture, equipment, software and leasehold improvements, amortization expense for intangible assets associated with the Pharmakon acquisition, and business development costs.

Asset impairment

These charges are associated with the impairment of goodwill or other long-lived assets at the Pharmakon reporting unit.

Facilities realignment

Facility realignment costs are associated with the consolidation of operations, downsizing and/or improvement of operating efficiencies and include lease termination costs and other exit costs when these actions take place.

Other income, net

Other income, net includes investment income earned on our cash and cash equivalents less associated fees and realized gains or losses on our available for sale and held to maturity investments.

CONSOLIDATED RESULTS OF OPERATIONS

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

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	Years Ended December 31,		
Continuing operations data	2009	2008	2007
Revenue, net	100.0%	100.0%	100.0%
Cost of services	69.0%	96.0%	73.0%
Gross profit	31.0%	4.0%	27.0%
Operating expenses:			
Compensation expense	26.3%	20.3%	20.9%
Other selling, general and administrative	20.6%	14.9%	17.3%
Asset impairment	21.3%	0.0%	0.0%
Executive severance	0.3%	1.1%	0.0%
Facilities realignment	10.3%	0.1%	0.9%
Total operating expenses	78.8%	36.4%	39.2%
Operating loss	(47.8%)	(32.4%)	(12.2%)
Other income, net	0.2%	2.5%	5.2%
Loss before income tax	(47.6%)	(29.8%)	(7.0%)
Income tax (benefit) expense	(8.1%)	0.8%	1.5%
Net loss	(39.5%)	(30.6%)	(8.5%)

Comparison of 2009 and 2008

(in thousands)	Sales Services	Marketing Services	PC Services	Eliminations	Consolidated
Year ended December 31, 2009:					
Revenue	$ 73,232	$ 16,748	$ -	$ (5,109)	$ 84,871
Cost of Services	$ 57,541	$ 8,704	$ (2,497)	$ (5,157)	$ 58,591
Gross Profit	$ 15,691	$ 8,044	$ 2,497	$ 48	$ 26,280
Gross Profit %	21.4%	48.0%	-	0.9%	31.0%
Year ended December 31, 2008:					
Revenue	$ 89,656	$ 23,872	$ (1,000)	$ -	$ 112,528
Cost of Services	$ 71,266	$ 14,121	$ 22,628	$ -	$ 108,015
Gross Profit	$ 18,390	$ 9,751	$ (23,628)	$ -	$ 4,513
Gross Profit %	20.5%	40.8%	-	-	4.0%

Revenue, net

Revenue for the year ended December 31, 2009 was $84.9 million, or 24.6% less than revenue of $112.5 million for the year ended December 31, 2008. Sales Services' revenue for the year ended December 31, 2009 decreased by approximately $16.4 million, or 18.3%, as compared to the year ended December 31, 2008 primarily due to a reduction in sales force engagements. Sales Services' revenue from new contracts and expansions of existing contracts was more than offset by lost revenue from the internalization of our contract sales force by one of our long-term customers and the expiration or termination of certain sales force arrangements in effect during 2008.

Marketing Services' revenue for the year ended December 31, 2009 decreased by approximately $7.1 million, or 29.8%, as compared to the year ended December 31, 2008. This was primarily attributable to a decrease in revenue within our TVG business unit of $2.8 million due to fewer projects in 2009, and a decrease in our Pharmakon business unit of $2.0 million due to a reduction in the number of projects performed for its two largest customers due to delays in the implementation or reduced scope of a number of marketing initiatives in the first six months of 2009. The segment was also affected by a decrease in revenue of approximately $2.3 million in our Vital Issues in Medicine business unit which closed in 2009.

PC Services had no revenue for the year ended December 31, 2009 and had negative revenue of $1.0 million for the year ended December 31, 2008 due to a non-refundable upfront payment made to Novartis as per the terms of our former promotion agreement.

Cost of services

Cost of services for the year ended December 31, 2009 was $58.6 million, or 45.8% less than the cost of services of $108.0 million for the year ended December 31, 2008. Sales Services' cost of services decreased for the year ended December 31, 2009 versus the comparable prior year period primarily due to a reduction in the average sales representative headcount and related costs correlating to an overall reduction in the number and size of our sales force engagements. Marketing Services' cost of services decreased $5.4 million for the year ended December 31, 2009 versus the comparable prior year period due to the decline in revenue attributable to the overall continued softness in the market for these types of services. PC Services' cost of services was a credit of $2.5 million for the year ended December 31, 2009 due to the reversal of the excess amount of our 2008 contract loss accrual. PC Services had cost of services of $22.6 million for the year ended December 31, 2008, including $10.3 million that was recorded in the fourth quarter of 2008 related to the accrued contract loss. See Note 11, Product Commercialization Contract, to our consolidated financial statements for additional details.

Gross profit

The overall increase in gross profit percentage from 4.0% for the year ended December 31, 2008 to 31.0% for the year ended December 31, 2009 was primarily the result of the impact of our product commercialization contract with Novartis. The year ended December 31, 2009 benefited from the reversal of the excess contract loss accrual of approximately $2.5 million associated with the settlement of our promotional agreement within PC Services. The year ended December 31, 2008 had negative gross profit of approximately $23.6 million associated with the promotion agreement, including $10.3 million related to the contract loss accrual mentioned above. Sales Services' gross profit percentages were 21.4% and 20.5% for the years ended December 31, 2009 and 2008, respectively. The 2009 increase in gross profit was attributable to an increase in gross profit percentage within the Shared Sales Teams business unit due to: lower fuel and mileage reimbursement costs; lower insurance costs; and certain operating efficiencies within our Shared Sales Teams. Gross profit percentage for the Marketing Services increased to 48.0% for the year ended December 31, 2009 from 40.8% for the year ended December 31, 2008. This increase was driven by improved margins at Pharmakon and TVG, both of which had increases of approximately five percentage points, as well as closing our lower-margin Vital Issues in Medicine business unit during the quarter ended September 30, 2009. The Pharmakon margin improvement was driven primarily by a change in its product mix on a year-over-year basis.

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 revenue	Marketing Services	% of revenue	PC Services	% of revenue	Total	% of revenue
2009	$ 13,601	18.6%	$ 8,335	49.8%	$ 374	-	$ 22,310	26.3%
2008	13,176	14.7%	8,361	35.0%	1,301	-	22,838	20.3%
Change	$ 425		$ (26)		$ (927)		$ (528)	

The decrease in compensation expense for the year ended December 31, 2009 was primarily the result of 2008 costs of approximately $0.5 million related to replacing our former chief executive officer not recurring in 2009. As a percentage of revenue, compensation expense for the year ended December 31, 2009 increased to 26.3% as compared to 20.3% for the year ended December 31, 2008. This percentage increase was primarily due to the decrease in revenue in 2009. The increase in Sales Services was primarily attributable to greater recruiting and hiring costs during the year ended December 31, 2009. Marketing Services' compensation expense was comparable in both periods. Compensation expense for the year ended December 31, 2009 in Marketing Services included approximately $0.8 million in severance costs which were essentially offset by our savings from headcount reductions.

PC Services' compensation expense decreased for the year ended December 31, 2009 as compared to the prior year period as a result of the April 2009 termination of our promotion agreement within PC Services.

Other selling, general and administrative expenses (in thousands)

Year Ended December 31,	Sales Services	% of revenue	Marketing Services	% of revenue	PC Services	% of revenue	Total	% of revenue
2009	$ 13,181	18.0%	$ 4,017	24.0%	$ 276	-	$ 17,474	20.6%
2008	11,745	13.1%	3,872	16.2%	1,150	-	16,767	14.9%
Change	$ 1,436		$ 145		$ (874)		$ 707	

Total other selling, general and administrative expenses increased by approximately $0.7 million, or 4.2%, for the year ended December 31, 2009. This increase was primarily due to higher consulting costs, partially offset by lower facility and depreciation costs. As a percentage of revenue, other selling, general and administrative expenses increased to 20.6% in 2009 from 14.9% in 2008. This percentage increase can be attributed to lower revenue in 2009. The increase in the Sales Services segment of $1.4 million was primarily due to the redistribution of corporate costs that were allocated to PC Services in 2008.

Executive severance

For the year ended December 31, 2009, we incurred approximately $0.2 million in executive severance costs associated with the departure of an executive in Marketing Services. During the year ended December 31, 2008, we incurred approximately $1.2 million in executive severance costs that related to the departure of our former chief executive officer and an executive departure in Marketing Services.

Asset impairment

For the year ended December 31, 2009, we incurred approximately $18.1 million in asset impairment charges within Marketing Services. These impairment charges were associated with the write-down of goodwill of $8.5 million and other intangible assets of $9.6 million in our Pharmakon business unit. The recent decline in revenue from significant customers in the business unit, the decrease in new business generated by this business unit and uncertain economic conditions within the United States and the pharmaceutical industry were the main factors contributing to the impairment.

Facilities realignment

For the year ended December 31, 2009, Sales Services incurred charges of approximately $4.7 million related to office space at our Saddle River facility and approximately $1.9 million related to the impairment of fixed assets associated with the office space. For the year ended December 31, 2009, Marketing Services incurred charges of approximately $1.4 million related to office space at our Dresher facility and approximately $0.7 million related to the impairment of fixed assets associated with the office space. In 2008, we had charges of approximately $75,000 related to the excess office space at our Dresher facility.

Operating loss

There was an operating loss of $40.6 million and $36.4 million during the years ended December 31, 2009 and 2008, respectively. The operating loss in 2009 was primarily attributable to the asset impairment charges of $18.1 million and the facilities realignment charges of $8.7 million discussed above. The operating loss in 2008 is primarily attributable to the $26.2 million in negative revenue and expenses associated with our promotional program within PC Services in 2008. Excluding the impact of the asset impairment and facilities realignment charges, both the 2009 and 2008 operating results were negatively impacted by declining revenues over relatively flat operating expenses.

Other income, net

Other income, net for the years ended December 31, 2009 and 2008 was approximately $0.2 million and $2.8 million, respectively, and consisted primarily of interest income. The decrease in interest income is primarily due to lower interest rates and lower average cash balances for the year ended December 31, 2009.

Provision for income taxes

We recorded a benefit for income tax of $6.8 million in 2009 and a provision for income taxes of $0.9 million for 2008. Our overall effective tax rate was a benefit of 16.9% and a provision of 2.6% for 2009 and 2008, respectively. The tax benefit for 2009 was primarily attributable to the ability to carry back federal net operating losses to additional tax years under the *Worker, Homeownership, and Business Assistance Act*, (the "Act") passed in November 2009. Prior to the passing of the Act, we had established a full valuation allowance against our net operating losses. In connection with the impairment of goodwill at the Pharmakon business unit during 2009, the deferred tax liability at December 31, 2008 reversed and resulted in a current year tax benefit of approximately $1.4 million.

Comparison of 2008 and 2007

(in thousands)	Sales Services	Marketing Services	PC Services	Consolidated
Year ended December 31, 2008:				
Revenue, net	$ 89,656	$ 23,872	$ (1,000)	$ 112,528
Cost of Services	$ 71,266	$ 14,121	$ 22,628	$ 108,015
Gross Profit	$ 18,390	$ 9,751	$ (23,628)	$ 4,513
Gross Profit %	20.5%	40.8%	-	4.0%
Year ended December 31, 2007:				
Revenue, net	$ 86,766	$ 30,365	$ -	$ 117,131
Cost of Services	$ 68,554	$ 16,962	$ -	$ 85,516
Gross Profit	$ 18,212	$ 13,403	$ -	$ 31,615
Gross Profit %	21.0%	44.1%	-	27.0%

Revenue, net

The decrease in total revenues of $4.6 million, or 3.9%, was primarily related to a decrease in revenue in Marketing Services. Sales Services revenue increased by $2.9 million for the year ended December 31, 2008 compared to the year ended December 31, 2007 primarily due to new and expanded sales force engagements for our Shared Sales Teams business unit during 2008, which contributed to a 32.6% increase in that business unit's revenue.

Revenue for Marketing Services decreased by approximately 21.4% as revenue at our TVG and our Pharmakon business units was lower due in part to a decrease in new projects as well as the curtailment or postponement of certain existing projects within these business units. Pharmakon revenue decreased by 28.5% as its two major customers postponed many of their projects with Pharmakon due to budget constraints.

PC Services recorded negative revenue of $1.0 million. This pertained to a non-refundable upfront payment we made to Novartis as per the terms of our promotion agreement. This segment had no revenue in 2007.

Cost of services

The increase of approximately $22.5 million in costs of services was primarily attributed to cost of services of $22.6 million associated with our promotional program within PC Services for the year ended December 31, 2008. Included within that amount is $10.3 million associated with an accrued contract loss, which represented the future loss expected to be incurred by us to fulfill our contractual obligations under the promotional program until February 1, 2010, the early termination date for this program. See Note 11, Product Commercialization Contract, to our consolidated financial statements for more details. This segment had no activity in the year ended December 31, 2007. Sales Services had an increase of $2.7 million in cost of services, which is primarily attributable to the increase in revenue at the Shared Sales Teams business unit. Cost of services within Marketing Services decreased approximately $2.8 million, or 16.7% primarily due to the decrease in new projects and the curtailment or postponement of certain existing projects at our Pharmakon business unit.

Gross profit

Gross profit in Sales Services increased slightly on higher revenue for the year ended December 31, 2008 as compared to year ended December 31, 2007. For the year ended December 31, 2007, we recognized $0.6 million in revenue associated with a contract with a former emerging pharmaceutical customer for services performed for the year ended December 31, 2006. Because of the uncertainty surrounding collections, we recognized revenue from this customer on a cash basis and all costs associated with this contract were recognized in the year ended December 31, 2006.

The decrease in gross profit attributable to Marketing Services was commensurate with the decrease in revenue discussed above as total gross profit decreased at all three business units within Marketing Services. The gross profit percentage decreased to 40.8% for the year ended December 31, 2008 from 44.1% in the comparable prior year period primarily due to a decrease in margin percentage at our TVG business unit attributed to a change in product mix.

PC Services' negative gross profit was attributable to our sales force, promotional costs and contract loss accrual associated with our promotional program plus the $1.0 million non-refundable upfront payment we made to Novartis as per the terms of our promotion agreement.

(Note: Compensation 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 revenue	Marketing Services	% of revenue	PC Services	% of revenue	Total	% of revenue
2008	$ 13,176	14.7%	$ 8,361	35.0%	$ 1,301	-	$ 22,838	20.3%
2007	15,973	18.4%	8,543	28.1%	-	-	24,516	20.9%
Change	$ (2,797)		$ (182)		$ 1,301		$ (1,678)	

The decrease in compensation expense for the year ended December 31, 2008 was primarily a result of a reduction in incentive compensation accrued for the year ended December 31, 2008 due to our financial performance relative to the financial targets established for the year ended December 31, 2008 under our incentive compensation plan. The decrease for both Sales Services and Marketing Services for the year ended December 31, 2008 can be attributed to the reason discussed above.

PC Services had compensation costs of $1.3 million. This was primarily attributable to employee and sales services support costs. There was no compensation expense attributable to this segment for the year ended December 31, 2007.

Other selling, general and administrative expenses (in thousands)

Year Ended December 31,	Sales Services	% of revenue	Marketing Services	% of revenue	PC Services	% of revenue	Total	% of revenue
2008	$ 11,745	13.1%	$ 3,872	16.2%	$ 1,150	-	$ 16,767	14.9%
2007	15,295	17.6%	5,021	16.5%	-	-	20,316	17.3%
Change	$ (3,550)		$ (1,149)		$ 1,150		$ (3,549)	

Total other selling, general and administrative expenses decreased primarily due to the following: 1) a decrease in depreciation expense of approximately $0.7 million primarily due to the conversion to a new financial reporting system that was at a much lower capitalized cost than our previous system; 2) a decrease in net franchise taxes of approximately $1.0 million primarily due to the settlement of one state's assessment for less than the $0.6 million that had been accrued in 2007; 3) a reduction in executive consulting of approximately $1.0 million; and 4) a reduction in business insurance expense of approximately $0.4 million. As a percentage of revenue, other selling, general and administrative expenses decreased to 14.7% for the year ended December 31, 2008 from 17.1% for the year ended December 31, 2007.

Executive severance

For the year ended December 31, 2008, we incurred approximately $1.2 million in executive severance costs that related to the departure of our chief executive officer and one other executive. In the year ended December 31, 2007, we did not have any executive severance costs.

Facilities realignment

For the year ended December 31, 2008, we had charges of approximately $75,000 related to the excess office space at our Dresher, Pennsylvania location. For the year ended December 31, 2007, we had net charges of approximately $1.0 million primarily related to the impairment of fixed assets and other expenses related to our exiting the computer data center space at our Saddle River, New Jersey location in December 2007. Total charges for the year ended December 31, 2007 for Sales Services were approximately $1.0 million and approximately $26,000 was credited to Marketing Services.

Operating loss

The increased operating loss for the year ended December 31, 2008 was primarily attributable to the $26.2 million in negative revenue and expenses associated with our promotional program within PC Services. This was partially offset by a reduction in our total operating expenses of approximately $5.0 million, or 10.8%.

Other income, net

Other income, net for the years ended December 31, 2008 and 2007 was approximately $2.8 million and $6.1 million, respectively, and consisted primarily of interest income. The decrease in interest income for the year ended December 31, 2008 was primarily due to lower interest rates and lower average cash balances for that year.

Provision for income taxes

We recorded a provision for income taxes of $0.9 million for the year ended December 31, 2008 and $1.8 million for the year ended December 31, 2007. Our overall effective tax rate was a provision of 2.6% and 21.5% for 2008 and 2007, respectively. The tax provision for the year ended December 31, 2007 is primarily attributable to the full valuation allowance on the net deferred tax assets except for the basis difference in goodwill. Federal tax attribute carryforwards at December 31, 2008, consisted primarily of approximately $29.2 million of net operating losses and $339,000 of capital losses. In addition, at December 31, 2008, we had approximately $63.5 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 will begin to expire in 2027 and if the current state net operating losses are not utilized they begin to expire in 2009. The capital losses can only be utilized against capital gains and $339,000 will expire in 2009.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2009, we had cash and cash equivalents and short-term investments of approximately $72.6 million and working capital of $71.6 million, compared to cash and cash equivalents and short-term investments of approximately $90.2 million and working capital of approximately $81.6 million at December 31, 2008. As of December 31, 2009 and 2008, we had no outstanding commercial debt.

During the years ended December 31, 2009 and 2008, net cash used in operating activities was $16.0 million and $16.0 million, respectively. The main components of cash used in operating activities during the year ended December 31, 2009 was a net loss of $33.6 million, a reduction in the accrued contract loss of $10.0 million and a $3.3 million increase in income tax receivable. This was partially offset by a reduction in accounts receivable of $3.9 million and non-cash items of $23.6 million. The net non-cash items consist primarily of asset impairment charges of $18.1 million, depreciation and amortization of $2.8 million, non-cash facility realignment charges of $2.6 million and stock-based compensation of $1.4 million.

As of December 31, 2009, we had $3.5 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. As of December 31, 2009, we had approximately $6.8 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 when earned.

For the year ended December 31, 2009, net cash used in investing activities was approximately $1.6 million as compared to net cash provided by investing activities of $6.9 million during the year ended December 31, 2008. For the year ended December 31, 2009, this consisted of capital expenditures of $1.7 million which were primarily associated with our new corporate office and with a new sales force automation platform.

During 2009 and 2008, net cash used in financing activities was approximately $63,000 and $62,000, respectively. This 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 $5.7 million and $5.9 million at December 31, 2009 and 2008, respectively, as collateral for our existing insurance policies and our facility leases. Our standby letters of credit automatically renew every year unless cancelled 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 $6.1 million, $75,000 and $1.0 million during the years ended December 31, 2009, 2008 and 2007, respectively, that were for costs related to excess leased office space at our Saddle River, New Jersey and Dresher, Pennsylvania facilities. We currently have secured subleases through the remainder of the lease term for approximately 37,000 square feet out of approximately 84,000 square feet at our Saddle River location and approximately 26 percent of the vacant space at our Dresher location has been subleased through 2012. We are currently seeking to sublease the remaining excess space at both our Dresher and Saddle River locations. A rollforward of the activity for the facility realignment accrual is as follows: (in thousands)

Balance as of December 31, 2007	$	675
Accretion		13
Payments		(204)
Adjustments		75
Balance as of December 31, 2008	$	559
Accretion		37
Payments		(442)
Additions		6,099
Balance as of December 31, 2009	$	6,253

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 and November 2016 for the Dresher, Pennsylvania facility). All lease termination amounts are shown net of projected sublease income.

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 2009 accounted for approximately 42.0% and 16.5%, respectively, or approximately 58.5% in the aggregate, of our revenue for the year ended December 31, 2009. We believe that we will continue to experience a high degree of customer concentration. 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. In addition, Shared Sales Teams' services to a significant customer are seasonal in nature, occurring primarily in the winter season.

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. In 2009 we instituted a number of cost-saving initiatives, including a reduction in employee headcount and office relocation. In addition, we are currently seeking to sublet additional unused office space in our Saddle River, New Jersey and Dresher, Pennsylvania facilities, although there is no guarantee that we will be able to successfully sublet this unused office space, particularly in light of the current economic and financial crisis. 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.

Going Forward

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 $1.0 million in 2010. We expect our working capital requirements to increase as a result of new customer contracts generally providing for longer than historical payment terms.

We continue to right-size our facilities and corporate structure on a go-forward basis. In 2009, we incurred approximately $8.7 million in facilities realignment charges pertaining to office space at our Saddle River and Dresher facilities. During the third quarter of 2009, management committed to a cost savings initiative to exit our three-floor Saddle River, New Jersey facility and relocate our corporate headquarters to a smaller, strategically located office space in Parsippany, New Jersey. In November 2009, we signed a seven and one-half year lease for approximately 23,000 square feet of office space in Parsippany, New Jersey commencing on or about January 1, 2010. The minimum lease payments associated with this lease total $4.4 million. We are currently seeking to sublease our third floor office space, approximately 47,000 square feet, in Saddle River, New Jersey. Additionally, we are currently seeking to sublease approximately 22,000 square feet of unused space at our Dresher, Pennsylvania facility. There can be no assurance, however, that we will be able to successfully sublet all of our unused office space, on favorable terms or at all, particularly in light of the current economic conditions. The recognition of these charges requires certain sublease assumptions and estimates and judgments regarding lease termination costs and other exit costs when these actions take place. Actual results may vary from these estimates.

Although we expect to incur a net loss for the year ending December 31, 2010, we believe that our existing cash balances and expected cash flows generated from operations will be sufficient to meet our operating requirements beyond the next 12 months. However, we may require alternative forms of financing to achieve our longer-term strategic plans.

Contractual Obligations

We have committed cash outflow related to operating lease agreements and other contractual obligations. The following table summarizes our contractual obligations and commercial commitments as of December 31, 2009 (in thousands):

	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	After 5 Years
Contractual obligations [1]	$ 617	$ 617	$ -	$ -	$ -
Operating lease					
Minimum lease payments	25,093	3,418	7,677	7,981	6,017
Less: minimum sublease rentals [2]	(6,039)	(1,025)	(2,065)	(1,913)	(1,036)
Net minimum lease payments	19,054	2,393	5,612	6,068	4,981
Total	$ 19,671	$ 3,010	$ 5,612	$ 6,068	$ 4,981

(1) Amounts represent contractual obligations related to software license contracts, data center hosting, and outsourcing contracts for software system support.

(2) In November 2009, we signed an agreement to extend our existing sublease of approximately 16,000 square feet of the first floor at our corporate headquarters facility in Saddle River, New Jersey through the remainder of our lease, and provides for approximately $2.2 million in lease payments over that period. In July 2007, we signed an agreement to sublease approximately 20,000 square feet of the second floor at our corporate headquarters. The sublease term is through the remainder of our lease, which is approximately eight and one-half years and will provide for approximately $4.5 million in lease payments over that period. Also in 2007, we signed two separate subleases at our facility in Dresher, Pennsylvania. These subleases are for five-year terms and will provide approximately $0.7 million combined in lease payments over the five-year period.

As a result of the net operating loss carryback claims which have been filed or are expected to be filed by us, and the impact of those claims on the relevant statute of limitations, it is not practicable to predict the amount or timing of the impact of uncertain tax liabilities in the table above and, therefore, these liabilities have been excluded from the table above.

Off-Balance Sheet Arrangements

As of December 31, 2009, we had no off-balance sheet arrangements.

Selected Quarterly Financial Information (unaudited)

The following tables set forth selected quarterly financial information for the years ended December 31, 2009 and 2008 (in thousands except per share data):

	For the Quarters ended			
	March 31	June 30	September 30	December 31
2009 Quarters:				
Revenues, net	$ 23,531	$ 16,291	$ 21,041	$ 24,008
Gross profit	4,972	6,882	6,859	7,568
Operating loss (1)	(5,579)	(4,682)	(4,566)	(25,749)
Net loss	(5,715)	(4,835)	(4,562)	(18,447)
Loss per share:				
Basic	$ (0.40)	$ (0.34)	$ (0.32)	$ (1.30)
Diluted	$ (0.40)	$ (0.34)	$ (0.32)	$ (1.30)
Weighted average number of shares:				
Basic	14,223	14,210	14,216	14,227
Diluted	14,223	14,210	14,216	14,227

	For the Quarters ended			
	March 31	June 30	September 30	December 31
2008 Quarters:				
Revenues, net	$ 32,229	$ 30,399	$ 24,496	$ 25,404
Gross profit	8,699	3,590	412	(8,189)
Operating loss (2)	(1,708)	(7,900)	(9,589)	(17,231)
Net loss	(1,060)	(7,477)	(9,004)	(16,920)
Loss per share:				
Basic	$ (0.07)	$ (0.52)	$ (0.63)	$ (1.19)
Diluted	$ (0.07)	$ (0.52)	$ (0.63)	$ (1.19)
Weighted average number of shares:				
Basic	14,223	14,292	14,243	14,202
Diluted	14,223	14,292	14,243	14,202

Note: Quarterly- and year-to-date computations of per share amounts are made independently. Therefore, the sum of per share amounts for the quarters may not equal per share amounts for the year.

(1) The quarter ended June 30, 2009 includes facilities realignment charges of $1.8 million. The quarter ended September 30, 2009 includes executive severance costs of $0.2 million and facilities realignment charges of $1.2 million. The quarter ended December 31, 2009 includes facilities realignment costs of $5.7 million and goodwill and intangible asset impairment charges of $18.1 million.

(2) The quarters ended June 30, 2008 and September 30, 2008 include executive severance costs of $0.7 million and $0.4 million, respectively. The quarter ended December 31, 2008 includes facilities realignment costs of $0.1 million and an accrued contract loss of $10.3 million.

(3) The first and fourth quarters of each year were positively impacted by a seasonally promoted product.

Our results of operations have varied, and are expected to continue to vary, from quarter to quarter. These fluctuations result from a number of factors including, among other things, seasonality of the products we promote and the timing of commencement, completion or cancellation of major contracts. In the future, our revenue may also fluctuate as a result of a number of additional factors, including the types of products we market and sell, delays or costs associated with acquisitions, government regulatory initiatives and conditions in the healthcare industry generally. Revenue, generally, is recognized as services are performed. Program costs, other than training costs, are expensed as incurred. As a result, we may incur substantial expenses associated with staffing a new detailing program during the first two to three months of a contract without recognizing any revenue under that contract. This could have an adverse impact on our operating results for the quarters in which those expenses are incurred. Revenue related to performance incentives is recognized in the period when the performance based parameters are achieved and payment is assured. A significant portion of this revenue could be recognized in the first and fourth quarters of a year.

EFFECT OF NEW ACCOUNTING PRONOUNCEMENTS

Recent Adopted Standards

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162" (SFAS No. 168). SFAS No. 168 was codified as Accounting Standards Codification (ASC) Topic 105-10 and replaces SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles," to establish the FASB ASC as the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the SEC, which are sources of authoritative GAAP for SEC registrants. All other non-grandfathered, non-SEC accounting literature not included in the ASC became nonauthoritative. We began using the new guidelines and numbering system prescribed by the ASC when referring to GAAP in the third quarter of 2009. As the ASC was not intended to change or alter existing GAAP, it did not have any impact on our consolidated financial statements.

Effective April 1, 2009, we adopted three accounting standard updates which were intended to provide additional application guidance and enhanced disclosures regarding fair value measurements and impairments of securities. They also provide additional guidelines for estimating fair value in accordance with fair value accounting. The first update, as codified in ASC 820-10-65, provides additional guidelines for estimating fair value in accordance with fair value accounting. The second accounting update, as codified in ASC 320-10-65, changes accounting requirements for other-than-temporary-impairments of debt securities by replacing the current requirement that a holder have the positive intent and ability to hold an impaired security to recovery in order to conclude an impairment was temporary with a requirement that an entity conclude it does not intend to and it will not be required to sell the impaired security before the recovery of its amortized cost basis. The third accounting update, as codified in ASC 825-10-65, increases the frequency of fair value disclosures. These updates were effective for fiscal years and interim periods ended after June 15, 2009. The adoption of these accounting standard updates did not have a material impact on our consolidated financial statements.

In February 2008, the FASB issued an accounting standard update that, as codified in ASC 820-10, delayed the effective date of fair value measurements accounting until the beginning of the first quarter of fiscal 2009 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), including goodwill and other non-amortizable intangible assets. The provisions of ASC 820-10 will be applied at such time a fair value measurement of a non-financial asset or non-financial liability is required and may result in a fair value that is materially different. We adopted this accounting standard update effective January 1, 2009. The adoption of this update had no impact on our consolidated financial statements.

Effective January 1, 2009, we adopted a new accounting standard update regarding business combinations. As codified under ASC 805, this update requires that the purchase method be used for all business combinations and for an acquirer be identified for each business combination. ASC 805 defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. ASC 805 requires an acquirer in a business combination, including business combinations achieved in stages (step acquisitions), to recognize the assets acquired, liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date fair value, with limited exceptions. It also requires the acquisition-date recognition of assets acquired and liabilities assumed arising from certain contractual contingencies at their acquisition-date fair value. Additionally, ASC 805 requires that acquisition-related costs be recognized in theperiod in which the costs are incurred and services are received. Excluding the accounting for valuation allowances on deferred taxes and acquired contingencies under ASC 805-740, any impact resulting from the adoption of ASC 805 is being applied on a prospective basis for all business combinations with an acquisition date on or after January 1, 2009. The adoption of this update had no impact on our consolidated financial statements.

Effective January 1, 2009, we adopted a new accounting standard update from the Emerging Issues Task Force (EITF) consensus regarding unvested share-based payment awards that contain nonforfeitable rights to dividends. This update, as codified in ASC 260-10-45, requires that 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. The provisions of ASC 260 10-45 did not have a material impact on our earnings per share calculation.

Accounting Standards Updates Not Yet Effective

In September 2009, the FASB issued Update No. 2009-13, “Multiple-Deliverable Revenue Arrangements—a consensus of the FASB Emerging Issues Task Force” (ASU 2009-13). ASU 2009-13 updates the existing multiple-element revenue arrangements guidance currently included under ASC 605-25. The revised guidance eliminates the need for objective and reliable evidence of the fair value for the undelivered element in order for a delivered item to be treated as a separate unit of accounting and eliminates the residual method to allocate arrangement consideration. In addition, the updated guidance also expands the disclosure requirements for revenue recognition. ASU 2009-13 is effective for us beginning January 1, 2011 and can be applied prospectively or retrospectively. We are currently evaluating the impact this update will have, if any, on our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk for changes in the market values of some of our investments (investment risk) and the effect of interest rate changes (interest rate risk). Our financial instruments are not currently subject to foreign currency risk or commodity price risk. We have no financial instruments held for trading purposes and we have no interest bearing long-term or short-term debt. At December 31, 2009, 2008, and 2007, we did not hold any derivative financial instruments.

The objectives of our investment activities are: to preserve capital, maintain liquidity, and maximize returns without significantly increasing risk. In accordance with our investment policy, we attempt to achieve these objectives by investing our cash in a variety of financial instruments. These investments are principally restricted to government sponsored enterprises, high-grade bank obligations, investment-grade corporate bonds, certain money market funds of investment grade debt instruments such as obligations of the U.S. Treasury and U.S. Federal Government Agencies, municipal bonds and commercial paper.

Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if forced to sell securities that have seen a decline in market value due to changes in interest rates. Our cash and cash equivalents and short-term investments at December 31, 2009 were composed of the instruments described in the preceding paragraph. If interest rates were to increase or decrease by one percent, the fair value of our investments would have an insignificant increase or decrease primarily due to the quality of the investments and the relative near term maturity.

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 Ernst & Young LLP, are presented following Item 15 of this report.

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 the end of the period covered by this Form 10-K. Based on that evaluation, our chief executive officer and chief financial officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms; and (ii) accumulated and communicated to management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our management, with the participation of our chief executive officer and chief financial officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2009. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework. Our management has concluded that, as of December 31, 2009, our internal control over financial reporting is effective based on these criteria. The effectiveness of our internal control over financial reporting as of December 31, 2009 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in its report appearing in this Form 10-K, which report expressed an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2009.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of PDI, Inc.

We have audited PDI, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). PDI Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, 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.

In our opinion, PDI, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of PDI, Inc. as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009 of PDI, Inc. and our report dated March 5, 2010 expressed an unqualified opinion thereon.

/s/Ernst &Young LLP

MetroPark, New Jersey
March 5, 2010

ITEM 9B. OTHER INFORMATION

None.

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 Form 10-K will be included in our Proxy Statement in connection with our 2010 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 Form 10-K will be included in our Proxy Statement in connection with our 2010 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 Form 10-K will be included in our Proxy Statement in connection with our 2010 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 Form 10-K will be included in our Proxy Statement in connection with our 2010 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 Form 10-K will be included in our Proxy Statement in connection with our 2010 annual meeting of stockholders and such information is incorporated by reference herein.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this 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
3.1	Certificate of Incorporation of PDI, Inc. (1)
3.2	By-Laws of PDI, Inc. (1)
3.3	Certificate of Amendment of Certificate of Incorporation of PDI, Inc. (3)
4.1	Specimen Certificate Representing the Common Stock (1)
10.1*	1998 Stock Option Plan (1)
10.2*	2000 Omnibus Incentive Compensation Plan (2)
10.3*	Executive Deferred Compensation Plan, filed herewith
10.4*	2004 Stock Award and Incentive Plan (4)
10.5*	Form of Restricted Stock Unit Agreement for Employees (13)
10.6*	Form of Stock Appreciation Rights Agreement for Employees (13)
10.7*	Form of Restricted Stock Unit Agreement for Directors (13)
10.8*	Form of Restricted Share Agreement, filed herewith
10.9*	Agreement between the Company and John P. Dugan (1)
10.10*	Employment Separation Agreement between the Company and Nancy Lurker (9)
10.11*	Amended and Restated Employment Agreement between the Company and Jeffrey Smith (10)
10.12*	Employment Separation Agreement between the Company and David Kerr, filed herewith
10.13*	Employment Separation Agreement between the Company and Rich Micali (14)
10.14*	Employment Separation Agreement between the Company and Howard Drazner (14)
10.15	Saddle River Executive Centre Lease (5)
10.16	Saddle River Executive Centre 2005 Sublease (5)
10.17	Saddle River Executive Centre 2007 Sublease (8)

PDI, Inc.
Annual Report on Form 10-K (continued)

Exhibit No.	Description
10.18	First Amendment to Saddle River Executive Centre 2005 Sublease (12)
10.19	Morris Corporate Center Lease (11)
21.1	Subsidiaries of the Registrant (13)
23.1	Consent of Ernst & Young 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.
(1)	Filed as an exhibit to our Registration Statement on Form S-1 (File No 333-46321), and incorporated herein by reference.
(2)	Filed as an exhibit to our definitive proxy statement dated May 10, 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, and incorporated herein by reference.
(4)	Filed as an exhibit to our definitive proxy statement dated 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, and incorporated herein by reference.
(6)	Filed as an exhibit to our Form 10-Q for the quarter ended June 30, 2006, and incorporated herein by reference.
(7)	Filed as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2006, and incorporated herein by reference.
(8)	Filed as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2007, and incorporated herein by reference.
(9)	Filed as an exhibit to our Current Report on Form 8-K filed on November 18, 2008, and incorporated herein by reference.
(10)	Filed as an exhibit to our Current Report on Form 8-K filed on January 7, 2009, and incorporated herein by reference.

(11)	Filed as an exhibit to our Quarterly Report on Form 10-Q filed on November 5, 2009, and incorporated herein by reference.
(12)	Filed as an exhibit to our Current Report on Form 8-K filed on December 4, 2009, and incorporated herein by reference.
(13)	Filed as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2008, and incorporated herein by reference.
(14)	Filed as an exhibit to our Current Report on Form 8-K filed on April 7, 2009, and incorporated herein by reference.

PDI, Inc.
Annual Report on Form 10-K (continued)

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 5th day of March, 2010.

PDI, INC.

/s/ Nancy Lurker
Nancy 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 E. 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 5th day of March, 2010.

Signature	Title
/s/ John P. Dugan John P. Dugan	Chairman of the Board of Directors
/s/ Nancy Lurker Nancy Lurker	Chief Executive Officer and Director (principal executive officer)
/s/ Jeffrey E. Smith Jeffrey E. Smith	Chief Financial Officer and Treasurer (principal accounting and financial officer)
/s/ John M. Pietruski John M. Pietruski	Director
/s/ Jan Martens Vecsi Jan Martens Vecsi	Director
/s/ Frank Ryan Frank Ryan	Director
/s/ John Federspiel John Federspiel	Director
/s/ Stephen J. Sullivan Stephen J. Sullivan	Director
/s/ Jack E. Stover Jack E. Stover	Director
/s/ Gerald Belle Gerald Belle	Director
/s/ Veronica Lubatkin Veronica Lubatkin	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, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PDI, Inc. at December 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PDI, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 5, 2010 expressed an unqualified opinion thereon.

/s/Ernst &Young LLP

MetroPark, New Jersey
March 5, 2010

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

	December 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 72,463	$ 90,074
Short-term investments	164	159
Accounts receivable, net	11,858	15,786
Unbilled costs and accrued profits on contracts in progress	3,483	2,469
Income tax refund receivable	3,298	-
Other current assets	5,245	4,511
Total current assets	96,511	112,999
Property and equipment, net	3,530	5,423
Goodwill	5,068	13,612
Other intangible assets, net	2,542	13,388
Other long-term assets	2,125	3,614
Total assets	$ 109,776	$ 149,036
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,994	$ 2,298
Unearned contract revenue	6,793	3,678
Accrued salary and bonus	6,071	5,640
Accrued contract loss	-	10,021
Other accrued expenses	10,022	9,723
Total current liabilities	24,880	31,360
Long-term liabilities	10,006	10,569
Total liabilities	34,886	41,929
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; 100,000,000 shares authorized; 15,308,160 and 15,272,704 shares issued, respectively; 14,242,715 and 14,223,669 shares outstanding, respectively	153	153
Additional paid-in capital	123,295	121,908
Accumulated deficit	(35,003)	(1,443)
Accumulated other comprehensive (loss) income	3	(16)
Treasury stock, at cost (1,065,445 and 1,049,035 shares, respectively)	(13,558)	(13,495)
Total stockholders' equity	74,890	107,107
Total liabilities and stockholders' equity	$ 109,776	$ 149,036

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

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

	For The Years Ended December 31, 2009	2008	2007
Revenue, net	$ 84,871	$ 112,528	$ 117,131
Cost of services	58,591	108,015	85,516
Gross profit	26,280	4,513	31,615
Operating expenses:			
Compensation expense	22,310	22,838	24,516
Other selling, general and administrative expenses	17,474	16,767	20,316
Executive severance	221	1,237	-
Asset impairment	18,118	23	42
Facilities realignment	8,734	75	1,021
Total operating expenses	66,857	40,940	45,895
Operating loss	(40,577)	(36,427)	(14,280)
Other income, net	183	2,841	6,073
Loss before income tax	(40,394)	(33,586)	(8,207)
(Benefit) provision for income tax	(6,834)	875	1,767
Net loss	$ (33,560)	$ (34,461)	$ (9,974)
Loss per share of common stock:			
Basic	$ (2.36)	$ (2.42)	$ (0.70)
Diluted	$ (2.36)	$ (2.42)	$ (0.70)
Weighted average number of common shares and common share equivalents outstanding:			
Basic	14,219	14,240	14,150
Diluted	14,219	14,240	14,150

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,					
	2009		2008		2007	
	Shares	Amount	Shares	Amount	Shares	Amount
Common stock:						
Balance at January 1	15,273	$ 153	15,223	$ 152	15,097	$ 151
Common stock issued	62	-	64	1	-	-
Restricted stock issued			122	1	167	1
Restricted stock forfeited	(27)	-	(136)	(1)	(41)	-
Balance at December 31	15,308	153	15,273	153	15,223	152
Treasury stock:						
Balance at January 1	1,049	(13,495)	1,039	(13,433)	1,018	(13,214)
Treasury stock purchased	16	(63)	10	(62)	21	(219)
Balance at December 31	1,065	(13,558)	1,049	(13,495)	1,039	(13,433)
Additional paid-in capital:						
Balance at January 1		121,908		120,422		119,189
Common stock issued		-		299		-
Restricted stock issued		-		(1)		(1)
Restricted stock forfeited		-		(7)		(164)
Stock-based compensation expense		1,387		1,195		1,640
Excess tax expense on stock-based compensation		-		-		(242)
Balance at December 31		123,295		121,908		120,422
(Accumulated deficit)retained earnings:						
Balance at January 1		(1,443)		33,018		42,992
Net (loss) income		(33,560)		(34,461)		(9,974)
Balance at December 31		(35,003)		(1,443)		33,018
Accumulated other comprehensive income (loss):						
Balance at January 1		(16)		30		79
Reclassification of realized loss (gain), net of tax		8		(17)		(76)
Unrealized holding gain (loss), net of tax		11		(29)		27
Balance at December 31		3		(16)		30
Total stockholders' equity		74,890		107,107		140,189
Comprehensive (loss) income:						
Net (loss) income		$ (33,560)		$ (34,461)		$ (9,974)
Reclassification of realized loss (gain), net of tax		8		(17)		(76)
Unrealized holding gain (loss), net of tax		11		(29)		27
Total comprehensive (loss) income		$ (33,541)		$ (34,507)		$ (10,023)

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,		
	2009	2008	2007
Cash Flows From Operating Activities			
Net loss from operations	$ (33,560)	$ (34,461)	$ (9,974)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation, amortization and accretion	2,838	4,613	5,607
Deferred income taxes, net	(1,443)	331	1,113
Provision for (recovery of) bad debt, net	30	31	(15)
Recovery of doubtful notes, net	-	-	(150)
Stock-based compensation	1,387	1,487	1,476
Excess tax expense from stock-based compensation	-	-	242
Asset impairment	18,118	23	42
Non-cash facilities realignment	2,584	75	796
Other losses and expenses (gains), net	38	(38)	48
Other changes in assets and liabilities:			
Decrease in accounts receivable	3,928	6,965	2,680
(Increase) decrease in unbilled costs	(1,014)	1,012	743
(Increase) decrease in income tax receivable	(3,298)	-	1,888
Decrease in other current assets	558	554	2,970
Decrease in other long-term assets	-	1,023	375
Decrease in accounts payable	(304)	(494)	(1,123)
Increase (decrease) in unearned contract revenue	2,490	(4,781)	(5,793)
Increase (decrease) in accrued salaries and bonus	431	(1,496)	(3,056)
(Decrease) increase in accrued contract loss	(10,021)	10,021	-
Decrease in accrued liabilities	(107)	(829)	(5,224)
Increase (decrease) in long-term liabilities	1,373	(27)	1,179
Net cash used in operating activities	(15,972)	(15,991)	(6,176)
Cash Flows From Investing Activities			
Purchase of available-for-sale investments	-	-	(11,700)
Proceeds from sales of available-for-sale investments	-	-	44,285
Purchase of held-to-maturity investments	(5,546)	(15,050)	(24,290)
Proceeds from maturities of held-to-maturity investments	5,700	22,391	53,165
Repayments from Xylos	-	-	150
Purchase of property and equipment	(1,730)	(399)	(1,009)
Net cash (used in) provided by investing activities	(1,576)	6,942	60,601
Cash Flows From Financing Activities			
Excess tax expense from stock-based compensation	-	-	(242)
Cash paid for repurchase of restricted shares	(63)	(62)	(219)
Net cash used in financing activities	(63)	(62)	(461)
Net (decrease) increase in cash and cash equivalents	(17,611)	(9,111)	53,964
Cash and cash equivalents – beginning	90,074	99,185	45,221
Cash and cash equivalents – ending	$ 72,463	$ 90,074	$ 99,185
Cash paid for interest	$ -	$ -	$ 1
Cash paid for taxes	$ 267	$ 211	$ 123

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 an outsourced promotional services company serving the biopharmaceutical and healthcare industries. See Note 19, Segment Information, 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 accounts of PDI, Inc. and its wholly owned subsidiaries (TVG, Inc., ProtoCall, Inc., InServe Support Solutions, and PDI Investment Company, Inc.) 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 incentives earned or penalties incurred on contracts, loss contract provisions, valuation allowances related to deferred income taxes, self-insurance loss accruals, allowances for doubtful accounts and notes, income tax accruals, 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 no allowance for doubtful accounts as of December 31, 2009 and 2008. The Company operates almost exclusively in the pharmaceutical industry and to a great extent its revenue is dependent on a limited number of large pharmaceutical companies. The Company also partners with customers in the emerging pharmaceutical sector, some of whom may have limited financial resources. A general downturn in the pharmaceutical industry or adverse material event to one or more of the Company's emerging pharmaceutical customers could result in higher than expected customer defaults and additional allowances may be required.

Unbilled Costs and Accrued Profits and Unearned Contract Revenue

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.

Normally, in the case of 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. 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 is recorded to estimated fair value. 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. The Company records interest income on the impaired loans; however, that amount is fully reserved if the investee is not making its interest payments. 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, 2009 and 2008, the Company had a loan receivable balance of $0.5 million which was 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. 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

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.

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, under the temporary guarantee program for money market funds, are insured by the United States Treasury. 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 Other Intangible Assets

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

The Company tests goodwill for impairment at least annually (as of December 31) and whenever events or circumstances change that indicate impairment may have occurred. 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. The Company tests goodwill for impairment at the reporting unit level, which is one level below its operating segments. Goodwill has been assigned to the reporting units to which the value of the goodwill relates. The Company currently has five reporting units; however, only one reporting unit, Pharmakon, includes goodwill. Goodwill is tested by estimating the fair value of the reporting unit using a discounted cash flow model. The estimated fair value of the reporting unit is then compared with the carrying value including goodwill, to determine if any impairment exists. In assessing the recoverability of goodwill, projections regarding estimated future cash flows and other factors are made to determine the fair value of the respective reporting units. The key estimates and factors used in the highest and best use discounted cash flow valuation include revenue growth rates and profit margins based on internal forecasts, terminal value and the market participant weighted-average cost of capital used to discount future cash flows. 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 2009 annual impairment test of goodwill, management identified potential impairment. The Company's management then determined the Pharmakon reporting unit's goodwill was impaired and recognized an impairment loss of $8.5 million since the carrying value of the Pharmakon reporting unit was in excess of its fair value. If Pharmakon's projected long-term sales growth rate, profit margins, or terminal rate continue to 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 goodwill may also be impaired. See Note 3, Fair Value Measurements, and Note 6, Goodwill and Other Intangible Assets, for additional information.

Long-Lived Assets

The Company reviews the recoverability of long-lived assets and finite-lived intangible assets whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. 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. In addition, future events impacting cash flows for existing assets could render a write-down or write-off necessary that was not previously required.

During the year ended December 31, 2009, the Company recorded a non-cash charge of approximately $9.6 million related to the impairment of the Pharmakon intangible assets. See Note 6, Goodwill and Other Intangible Assets, for additional information. During the year ended December 31, 2009, the Company recorded non-cash charges of approximately $2.6 million for the impairment of certain furniture, leasehold improvements and office equipment due to the relocation of the Company's headquarters and the consolidation of certain operations. In December 2007, the Company relocated its data center to a secured, hosted facility and recorded a non-cash charge of approximately $1.1 million related to computer equipment, furniture and leasehold improvements previously used in that data center. Also in 2007, the Company subleased the space formerly occupied by the data center in its Saddle River, New Jersey location. See Note 16, 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. At December 31, 2009 and 2008, self-insurance accruals totaled $1.0 million and $1.9 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. Loss 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. 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. Many of the product detailing contracts allow for additional periodic incentive fees to be earned if certain performance benchmarks have been attained.

Revenue under pharmaceutical detailing contracts generally is based on the number of physician details made or the number of sales representatives utilized. With respect to risk-based contracts, all or a portion of revenues earned are based on contractually defined percentages of product revenues or the market value of prescriptions written and filled in a given period. These contracts are generally for terms of one to two years and may be renewed or extended. The majority of these contracts, however, are terminable by the customer for any reason upon 30 to 90 days' notice. Certain contracts provide for termination payments to the Company if the customer terminates the agreement without cause. Typically, however, these penalties only partially offset the revenue the Company could have earned under the contract or the costs the Company may incur as a result of its termination.

Revenue earned from incentive fees is recognized in the period earned and when we are reasonably assured that payment will be made. Under performance based contracts, revenue is recognized when the performance based parameters are achieved. 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. Commissions based revenue is recognized when performance is completed. Revenue from recruiting and hiring contracts is recognized at the time the candidate begins full-time employment less a provision for sales allowances based on contractual commitments and historical experience.

The loss or termination of large pharmaceutical detailing contracts could have a material adverse effect on the Company's business, financial condition and results of operations. Historically, the Company has derived a significant portion of its service revenue from a limited number of customers. Concentration of business in the pharmaceutical services industry is common and the industry continues to consolidate. As a result, the Company is likely to continue to experience significant customer concentration in future periods. For the year ended December 31, 2009, the Company's two largest customers, each of whom individually represented 10% or more of its service revenue, together accounted for approximately 58.5% of its service revenue. For the years ended December 31, 2008 and 2007, the Company's three largest customers, each of whom individually represented 10% or more of its service revenue, together accounted for approximately 52.5% and 37.9% of its service revenue, respectively. See Note 14, Significant Customers, for additional information.

Revenue under marketing service contracts are generally based on a series of deliverable services associated with the design and execution of interactive promotional programs or marketing research/advisory 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 made on behalf of the customer. There is significant customer concentration in the Company's Pharmakon business, and the loss or termination of one or more of Pharmakon's large master service agreements could have a material adverse effect on the Company's business, and results of operations. Due to the typical small size of most contracts of TVG Marketing Research and Consulting (TVG) it is unlikely the loss or termination of any individual TVG contract would have a material adverse effect on the Company's business, financial condition or results of operations.

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 price is fixed and determinable; the delivered elements have stand-alone value to the customer; there is objective and reliable evidence of the fair value of the undelivered elements; and there is no right of return or refund. The contract revenue is then allocated to the separate units of accounting based on their relative fair values. Revenue and cost of services are recognized for each unit of accounting separately as the related services are rendered.

Revenue from marketing research contracts is recognized upon completion of the contract. These contracts are generally short-term in nature typically lasting two to six months.

Cost of services consist primarily of the costs associated with executing product detailing programs, performance based contracts or other sales and marketing services identified in the contract. Cost of services include personnel costs and other costs associated with executing a product detailing or other marketing or promotional program, as well as the initial direct costs associated with staffing a product detailing program. Such costs include, but are not limited to, facility rental fees, honoraria and travel expenses, sample expenses and other promotional expenses. These costs are expensed as incurred.

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. 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 product detailing program. All personnel costs and initial direct program costs, other than training costs, are expensed as incurred for service offerings.

Reimbursable out-of-pocket expenses include those relating to travel 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 operations. For the years ended December 31, 2009, 2008 and 2007, reimbursable out-of-pocket expenses were $8.2 million, $12.6 million and $14.3 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. For contracts where the Company is responsible for training costs, these costs are deferred and amortized on a straight-line basis over the shorter of the life of the contract to which they relate or 12 months.

Contract Loss Provisions

Provisions for losses to be incurred in connection with contract performance are recognized in full in the period in which it is determined that a loss will result from performance of the contractual arrangement. The Company recognized a contract loss related to its existing product commercialization agreement in 2008. At December 31, 2009, the Company had no accrued contract losses. See Note 11, Product Commercialization Contract, for further information.

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 13, Stock-Based Compensation, to our consolidated financial statements. The fair value of restricted stock units (RSUs) and restricted shares is equal to the closing stock price on the date of grant.

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.

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 normally includes 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.

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 per Share

Basic earnings per common share are computed by dividing net income by the weighted average number of share outstanding during the year. 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.

Comprehensive Income

Comprehensive income includes net income and the net unrealized gains and losses on investment securities, net of tax. Other comprehensive income is net of reclassification adjustments to adjust for items currently included in net income, such as realized gains and losses on investment securities. The deferred tax expense for unrealized holding gains arising from investment securities during the year ended December 31, 2009 and 2007 was $7,000 and $18,000, respectively. The deferred tax benefit for unrealized holding losses arising from investment securities during the year ended December 31, 2008 was $11,000. The deferred tax benefit for reclassification adjustments for losses included in net income on investment securities during the year ended December 31, 2009 was $5,000. The deferred tax expense for reclassification adjustments for gains included in net income on investment securities during the years ended December 31, 2008 and 2007 was $11,000 and $48,000, respectively.

Subsequent Events

The Company has determined that there were no subsequent events to recognize or disclose in these audited consolidated financial statements.

Reclassifications

The Company reclassified certain prior period financial statement balances to conform to the current year presentation.

2. Recent Accounting Standards

Recently Adopted Standards

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, *"The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162"* (SFAS No. 168). SFAS No. 168 was codified as Accounting Standards Codification (ASC) Topic 105-10 and replaces SFAS No. 162, "*The Hierarchy of Generally Accepted Accounting Principles*," to establish the FASB ASC as the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the SEC, which are sources of authoritative GAAP for SEC registrants. All other non-grandfathered, non-SEC accounting literature not included in the ASC became nonauthoritative. The Company began using the new guidelines and numbering system prescribed by the ASC when referring to GAAP in the third quarter of 2009. As the ASC was not intended to change or alter existing GAAP, it did not have any impact on the Company's consolidated financial statements.

Effective April 1, 2009, the Company adopted three accounting standard updates which were intended to provide additional application guidance and enhanced disclosures regarding fair value measurements and impairments of securities. They also provide additional guidelines for estimating fair value in accordance with fair value accounting. The first update, as codified in ASC 820-10-65, provides additional guidelines for estimating fair value in accordance with fair value accounting. The second accounting update, as codified in ASC 320-10-65, changes accounting requirements for other-than-temporary-impairments of debt securities by replacing the current requirement that a holder have the positive intent and ability to hold an impaired security to recovery in order to conclude an impairment was temporary with a requirement that an entity conclude it does not intend to and it will not be required to sell the impaired security before the recovery of its amortized cost basis. The third accounting update, as codified in ASC 825-10-65, increases the frequency of fair value disclosures. These updates were effective for fiscal years and interim periods ended after June 15, 2009. The adoption of these accounting standard updates did not have a material impact on the Company's consolidated financial statements.

In February 2008, the FASB issued an accounting standard update that, as codified in ASC 820-10, delayed the effective date of fair value measurements accounting until the beginning of the first quarter of fiscal 2009 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), including goodwill and other non-amortizable intangible assets. The provisions of ASC 820-10 will be applied at such time a fair value measurement of a non-financial asset or non-financial liability is required and may result in a fair value that is materially different. The Company adopted this accounting standard update effective January 1, 2009. The adoption of this update had no impact on the Company's consolidated financial statements.

Effective January 1, 2009, the Company adopted a new accounting standard update regarding business combinations. As codified under ASC 805, this update requires that the purchase method be used for all business combinations and that an acquirer is identified for each business combination. ASC 805 defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. ASC 805 requires an acquirer in a business combination, including business combinations achieved in stages (step acquisitions), to recognize the assets acquired, liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date fair value, with limited exceptions. It also requires the acquisition-date recognition of assets acquired and liabilities assumed arising from certain contractual contingencies at their acquisition-date fair value. Additionally, ASC 805 requires that acquisition-related costs be recognized in the period in which the costs are incurred and services are received. Excluding the accounting for valuation allowances on deferred taxes and acquired contingencies under ASC 805-740, any impact resulting from the adoption of ASC 805 is being applied on a prospective basis for all business combinations with an acquisition date on or after January 1, 2009. The adoption of this update had no impact on the Company's consolidated financial statements.

Effective January 1, 2009, the Company adopted a new accounting standard update from the Emerging Issues Task Force (EITF) consensus regarding unvested share-based payment awards that contain nonforfeitable rights to dividends. This update, as codified in ASC 260-10-45, requires that 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 adopting ASC 260-10-45, the Company restated prior year earnings per share calculations. The provisions of ASC 260-10-45 did not have a material impact on the Company's earnings per share calculation.

Accounting Standards Updates Not Yet Effective

In September 2009, the FASB issued Update No. 2009-13, "Multiple-Deliverable Revenue Arrangements—a consensus of the FASB Emerging Issues Task Force" (ASU 2009-13). ASU 2009-13 updates the existing multiple-element revenue arrangements guidance currently included under ASC 605-25. The revised guidance eliminates the need for objective and reliable evidence of the fair value for the undelivered element in order for a delivered item to be treated as a separate unit of accounting and eliminates the residual method to allocate arrangement consideration. In addition, the updated guidance also expands the disclosure requirements for revenue recognition. ASU 2009-13 is effective for the Company beginning January 1, 2011 and can be applied prospectively or retrospectively. The Company is currently evaluating the impact this update will have, if any, on its consolidated financial statements.

3. Fair Value Measurements

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

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

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

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

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

A description of 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 below.

The fair value of marketable securities is valued using market prices in active markets (level 1). As of December 31, 2009, 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 following table summarizes the Company's financial assets measured at fair value on a recurring basis as of December 31, 2009:

	As of December 31, 2009		Fair Value Measurements as of December 31, 2009		
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Marketable securities:					
Money market funds	$ 202	$ 202	$ 202	$ -	$ -
Mutual funds	74	74	74	-	-
U.S. Treasury securities	2,814	2,814	2,814	-	-
Government agency securities	2,782	2,782	2,782	-	-
	$ 5,872	$ 5,872	$ 5,872	$ -	$ -

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. The fair value of letters of credit is determined to be $0 as management does not expect any material losses to result from these instruments because performance is not expected to be required.

The Company's non-financial assets, such as goodwill and 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 the Company's financial assets measured at fair value on a nonrecurring basis as of December 31, 2009:

	Carrying Amount as of December 31, 2009	Fair Value Measurements as of December 31, 2009		
		Level 1	Level 2	Level 3
Long-lived assets held and used:				
Other intangible assets	$ 2,542	-	-	$ 2,542
Goodwill	5,068	-	-	5,068
	$ 7,610	$ -	$ -	$ 7,610

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A review of Pharmakon's historic, current and forecasted operating results indicated that the carrying amount of the Company's finite-lived intangible assets may not be recoverable from the sum of future undiscounted cash flows. As a result, customer relationships and the corporate tradename were written down to their fair value of approximately $2.5 million, resulting in an impairment charge of approximately $9.6 million included in asset impairment in the consolidated statements of operations. Goodwill was tested by estimating the fair value of the reporting unit using a consideration of market multiples and a discounted cash flow model and was written down to its implied fair value. See Note 6, Goodwill and Other Intangible Assets, for additional information.

4. Investments in Marketable Securities

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

Available-for-sale securities consist of assets in a rabbi trust associated with its deferred compensation plan. At December 31, 2009 and 2008, the carrying value of available-for-sale securities was approximately $164,000 and $159,000, respectively, which are included in short-term investments. The available-for-sale securities at December 31, 2009 and 2008 consisted of approximately $90,000 and $103,000, respectively, in money market accounts, and approximately $74,000 and $56,000, respectively, in mutual funds. At December 31, 2009 accumulated other comprehensive income included gross unrealized holding gains of $6,000 and no gross unrealized holding losses. At December 31, 2008 accumulated other comprehensive income included no gross unrealized holding gains and gross unrealized holding losses of approximately $27,000. During the year ended December 31, 2009, other income, net included gross realized losses of $15,000 and $1,000 of net realized gains. During the year ended December 31, 2008, other income, net included gross realized gains of approximately $29,000 and no gross realized losses.

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 $5.7 million and $5.9 million at December 31, 2009 and 2008, respectively, as collateral for its existing insurance policies and facility leases. At December 31, 2009, approximately $3.6 million and $2.1 million of held-to-maturity investments were included in other current assets and other long-term assets, respectively. At December 31, 2008, approximately $2.2 million and $3.6 million of held-to-maturity investments were included in other current assets and other long-term assets, respectively.

At December 31, 2009 and 2008, held-to-maturity investments included:

		Maturing			Maturing	
	December 31, 2009	within 1 year	after 1 year through 3 years	December 31, 2008	within 1 year	after 1 year through 3 years
Cash/money market funds	$ 112	$ 112	$ -	$ 733	$ 733	$ -
US Treasury securities	2,814	1,911	903	2,043	1,000	1,043
Government agency securities	2,782	1,635	1,147	3,071	500	2,571
Total	$ 5,708	$ 3,658	$ 2,050	$ 5,847	$ 2,233	$ 3,614

5. Property and Equipment

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Property and equipment consisted of the following as of December 31, 2009 and 2008:

	December 31, 2009	December 31, 2008
Furniture and fixtures	$ 3,673	$ 3,281
Office equipment	1,228	1,306
Computer equipment	5,902	4,800
Computer software	9,058	9,580
Leasehold improvements	6,903	6,036
	26,764	25,003
Less accumulated depreciation	(23,234)	(19,580)
	$ 3,530	$ 5,423

Depreciation expense was approximately $1.5 million, $3.3 million and $3.1 million, for the years ended December 31, 2009, 2008 and 2007, respectively. Included in depreciation expense is amortization expense for capitalized computer software cost of approximately $0.1 million, $0.9 million and $1.2 million, respectively.

During the year ended December 31, 2009, the Company recorded a non-cash charge of approximately $2.6 million for furniture, leasehold improvements and office equipment related to the vacated space in Saddle River, New Jersey and for furniture and leasehold improvements related to the Dresher, Pennsylvania facility. During the year ended December 31, 2007, the Company recorded a non-cash charge of approximately $1.0 million for furniture and leasehold improvements related to the excess leased space at its Saddle River and Dresher locations. The charges discussed above can be found in the facilities realignment line on the income statement in their respective period. See Note 16, Facilities Realignment, for additional information.

6. Goodwill and Other Intangible Assets

Goodwill and finite-lived intangible assets recorded as of December 31, 2009 and 2008 are attributable to the 2004 acquisition of Pharmakon. During the Company's annual goodwill impairment test as of December 31, 2009, management identified a potential impairment. The Company's management then determined the Pharmakon reporting unit's goodwill was impaired and recognized an impairment loss of $8.5 million since the carrying value of the Pharmakon reporting unit was in excess of its fair value. As of December 31, 2009 and 2008, the carrying amount of goodwill was $5.1 million and $13.6 million, respectively.

During the Company's annual budgeting process and based on the evaluation of historic, current, budgeted and forecasted operating results, there were indications that the carrying amount of the Company's finite-lived intangible assets, customer relationships and corporate tradename, may not be recoverable from the sum of future undiscounted cash flows. Impairments of $0.8 million for the corporate tradename and $8.8 million for the customer relationships were calculated as the amount by which the carrying value of each asset exceeded its fair value and was recorded within asset impairment in the consolidated statement of operations.

The fair value of the corporate tradename, with the assistance of third-party valuation analysts, was determined using the "Relief from Royalty Method" (RFRM), a variation of the "Income Approach" to valuing tradenames. 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 Pharmakon 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. As of December 31, 2009, the amortizable life of the corporate tradename was determined to be seven years.

The fair value of the customer relationship was determined using the "Excess Earnings Method" a variation of the "Income Approach" to valuing customer relationships. This method reflects the present value of the operating cash flows generated by existing customer relationships 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 customer relationships was based on the reporting unit's revenue projections with consideration given to: an estimated attrition rate; the value and required rate of return for other contributory assets of the reporting unit; and the benefit of tax amortization of the customer relationships. As of December 31, 2009, the amortizable life of the customer relationships was determined to be seven years.

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	As of December 31, 2009			As of December 31, 2008		
	Carrying Amount	Accumulated Amortization	Net	Carrying Amount	Accumulated Amortization	Net
Noncompete covenant	$ 140	$ 140	$ -	$ 140	$ 121	$ 19
Customer relationships	1,751	-	1,751	16,300	4,709	11,591
Corporate tradenames	791	-	791	2,500	722	1,778
Total	$ 2,682	$ 140	$ 2,542	$ 18,940	$ 5,552	$ 13,388

Amortization expense related to continuing operations for the years ended December 31, 2009, 2008 and 2007 was approximately $1.3 million for each of the three years, respectively. Estimated amortization expense for the next five years is as follows:

2010	2011	2012	2013	2014
$ 363	$ 363	$ 363	$ 363	$ 363

7. 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-tax compensation. Effective January 1, 2004, the Company makes a safe harbor non-elective 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 related to the Company's 401(k) plans for the years ended December 31, 2009, 2008 and 2007 was approximately $0.6 million, $0.8 million, and $0.7 million, respectively.

8. Deferred Compensation Arrangements

Beginning in 2000, the Company established a deferred compensation arrangement whereby a portion of certain employees' salaries is withheld and placed in a rabbi trust. The plan permits the participants to diversify these assets through a variety of investment options. Members of the Company's Board of Directors also have the opportunity to defer their compensation through this arrangement. The Company includes the net assets of the trust in its financial statements. The deferred compensation obligation has been classified as a current liability and the net assets in the trust are classified as available-for-sale securities and are included in short-term investments.

9. Long-Term Liabilities

Long-term liabilities consisted of the following as of December 31, 2009 and 2008:

	December 31,	
	2009	**2008**
Deferred tax	$ -	$ 1,443
Rent payable	2,458	2,736
Accrued income taxes	3,920	6,003
Facilities realignment	3,628	387
	$ 10,006	$ 10,569

10. Commitments and Contingencies

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. Lease and auto expense under these agreements for the years ended December 31, 2009, 2008 and 2007 was approximately $4.0 million, $4.9 million, and $5.0 million, respectively, of which $2.2 million, $2.9 million and $2.9 million, respectively, related to automobiles leased for use by employees for a term of one year from the date of delivery with annual renewal options.

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As of December 31, 2009, 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)]	$ 617	$ 617	$ -	$ -	$ -
Operating lease					
Minimum lease payments	25,093	3,418	7,677	7,981	6,017
Less: minimum sublease rentals [(2)]	(6,039)	(1,025)	(2,065)	(1,913)	(1,036)
Net minimum lease payments	19,054	2,393	5,612	6,068	4,981
Total	$ 19,671	$ 3,010	$ 5,612	$ 6,068	$ 4,981

(1) Amounts represent contractual obligations related to software license contracts, data center hosting, and outsourcing contracts for software system support.

(2) In August 2009, we signed an agreement to extend our existing sublease of approximately 16,000 square feet of the first floor at our then corporate headquarters facility in Saddle River, New Jersey through the remainder of our lease. This agreement provides for approximately $2.2 million in lease payments over that period. In July 2007, we signed an agreement to sublease approximately 20,000 square feet of the second floor at our corporate headquarters. The sublease term is through the remainder of our lease and will provide for approximately $4.5 million in lease payments over that period. Also during the year ended December 31, 2007, we signed two separate subleases at our facility in Dresher, Pennsylvania. These subleases are for five-year terms and will provide approximately $0.7 million combined in lease payments over the five-year period.

Letters of Credit

As of December 31, 2009, the Company has $5.7 million in letters of credit outstanding as required by its existing insurance policies and its facility leases.

Litigation

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

Bayer-Baycol Litigation

The Company was named as a defendant in numerous lawsuits, including two class action matters, alleging claims arising from the use of Baycol, a prescription cholesterol-lowering medication. Baycol was distributed, promoted and sold by Bayer in the United States until early August 2001, at which time Bayer voluntarily withdrew Baycol from the U.S. market. Bayer had retained certain companies, such as the Company, to provide detailing services on its behalf pursuant to contract sales force agreements. In February 2003, the Company entered into a joint defense and indemnification agreement with Bayer, pursuant to which Bayer has agreed to assume substantially all of the Company's defense costs in pending and prospective proceedings and to indemnify the Company in these lawsuits, subject to certain limited exceptions. The Company did not incur any costs or expenses relating to these matters during 2007, 2008 or 2009. In July 2009 the final Baycol lawsuit in which the Company was named as a defendant was dismissed, and as of December 31, 2009, there were no pending Baycol-related claims against the Company.

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11. Product Commercialization Contract:

On April 11, 2008, the Company announced the signing of a promotion agreement with Novartis Pharmaceuticals Corporation (Novartis). Pursuant to the agreement, the Company had the co-exclusive right to promote on behalf of Novartis the pharmaceutical product Elidel® (pimecrolimus) Cream 1% (Product) to physicians in the United States.

At December 31, 2008, the Company accrued a contract loss of approximately $10.3 million, representing the anticipated future loss that the Company expected to incur to fulfill its contractual obligations under this product commercialization agreement through February 2010, the earliest termination date for this contract. The loss contract provision for this agreement included the cost of the sales force needed to deliver the contracted number of sales calls.

On April 22, 2009, the Company and Novartis mutually agreed to terminate this promotion agreement. In connection with the termination, the Company entered into an amendment to a currently existing fee for service sales force agreement (the Sales Force Agreement) with Novartis relating to another Novartis branded product, whereby the Company agreed to provide Novartis a credit of approximately $5 million to be applied to the services provided by the Company under the Sales Force Agreement through the scheduled December 31, 2009 agreement expiration date. Under the amendment to the Sales Force Agreement, the Company also agreed to provide Novartis with an additional credit of approximately $250,000 to be applied against any services that the Company may perform for Novartis during 2010. The Company recognized a benefit of approximately $2.5 million due to the reversal of excess contract loss accrual in the second quarter of 2009.

At December 31, 2009, the Company owes Novartis approximately $45,000 under the Sales Force Agreement, as amended.

12. Preferred Stock

The 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, 2009 and 2008, there were no issued and outstanding shares of preferred stock.

13. 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 grants options, SARs and restricted shares from the PDI, Inc. 2004 Stock Award and Incentive Plan (the 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 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 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.

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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 stock-based awards granted during the years ended December 31, 2009, 2008, and 2007 respectively:

	2009	2008	2007
Risk-free interest rate	1.38%	2.25%	4.54%
Expected life	3.5 years	3.5 years	3.5 years
Expected volatility	44.99%	41.31%	50.87%

Stock Incentive Plan

In June 2004, the Board and stockholders approved the 2004 Plan. The 2004 Plan replaced the 1998 Stock Option Plan (the 1998 Plan) and the 2000 Omnibus Incentive Compensation Plan (the 2000 Plan). The 2004 Plan reserved an additional 893,916 shares for new awards and combined the remaining shares available under the 1998 Plan and 2000 Plan. The maximum number of shares that can be granted under the 2004 Plan is approximately 2.9 million shares. Eligible participants under the 2004 Plan include officers and other employees of the Company, members of the Board and outside consultants, as specified under the 2004 Plan and designated by the Compensation and Management Development Committee of the Board. Unless earlier terminated by action of the Board, the 2004 Plan will remain in effect until such time as no stock remains available for delivery under the 2004 Plan and the Company has no further rights or obligations under the 2004 Plan with respect to outstanding awards thereunder. No participant may be granted more than the annual limit of 400,000 shares plus the amount of the participant's unused annual limit relating to share-based awards as of the close of the previous year, subject to adjustment for splits and other extraordinary corporate events.

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 issued 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 generally have vesting periods that range from eighteen months to three years 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 will vest 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 vesting schedule as the restricted stock units but are only exercisable if the following stock 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. The weighted-average fair value of non-performance based SARs granted during the years ended December 31, 2009, 2008 and 2007 was estimated to be $1.99, $2.54 and $3.97, respectively. There were no exercises of options or SARs during the years ended December 31, 2009, 2008 or 2007. Historically, shares issued upon the exercise of options have been new shares and have not come from treasury shares. As of December 31, 2009, 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 2.2 years.

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The impact of stock options, SARs, performance shares, RSUs and restricted stock on net (loss) income and cash flow for the years ended December 31, 2009, 2008 and 2007 is as follows:

	2009	2008	2007
Stock options and SARs	$ 252	$ 260	$ 435
Common stock awards	-	300	-
Performance awards	78	9	11
RSUs and restricted stock	1,057	918	1,030
Total stock-based compensation expense	$ 1,387	$ 1,487	$ 1,476

A summary of stock option and SARs activity for the year ended December 31, 2009 and changes during the year then ended is presented below:

	Shares	Weighted-Average Grant Price	Weighted-Average Remaining Contractual Period (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2009	797,377	$ 13.04	4.77	$ -
Granted	166,445	5.45	4.59	41
Exercised	-	-		
Forfeited or expired	(179,710)	13.76		
Outstanding at December 31, 2009	784,112	11.26	4.41	192
Exercisable at December 31, 2009	320,387	20.33	3.11	-
Vested and expected to vest	568,402	13.63	4.05	111

A summary of the status of the Company's nonvested SARs for the year ended December 31, 2009 and changes during the year ended December 31, 2009 is presented below:

	Shares	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2009	370,548	$ 1.82
Granted	166,445	1.80
Vested	(126,612)	2.32
Forfeited	(64,906)	2.47
Nonvested at December 31, 2009	345,475	$ 1.50

A summary of the Company's nonvested shares of restricted stock and restricted stock units for the year ended December 31, 2009 and changes during the year then ended is presented below:

	Shares	Weighted-Average Grant Date Fair Value	Average Remaining Vesting Period (in years)	Aggregate Intrinsic Value
Nonvested at January 1, 2009	324,425	$ 7.20	2.56	$ 1,301
Granted	299,632	4.10	2.41	1,444
Vested	(127,047)	8.32		
Forfeited	(56,435)	6.42		
Nonvested at December 31, 2009	440,575	$ 4.87	2.28	$ 2,124

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14. Significant Customers

During the years ended December 31, 2009, 2008 and 2007, 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 during each of the periods presented.

	Years Ended December 31,		
Customer	2009	2008	2007
A	$ 35,739	$ 31,697	$ 15,155
B	13,946	15,304	-
C	-	12,072	13,259
D		-	15,992

The Company recorded revenue in both Sales Services and Marketing Services for each of the customers above.

For the year ended December 31, 2009 the Company's two largest customers, each represented 10% or more of its revenue, accounted for, in the aggregate, approximately 58.5% of its revenue. For the years ended December 31, 2008, and 2007, the Company's three largest customers, who each individually represented 10% or more of its revenue, accounted for in the aggregate, approximately 52.5% and 37.9% respectively, of its revenue. At December 31, 2009 and 2008, the Company's two and three largest customers respectively, represented 53.5% and 72.2%, respectively, of the aggregate of outstanding accounts receivable and unbilled services.

On March 21, 2007, the Company announced that a large pharmaceutical company customer had notified them of its intention not to renew its contract sales engagement with the Company upon its scheduled expiration on May 12, 2007. This contract had a one-year term and represented approximately $37 million in annual revenue.

15. Executive Severance

In the third quarter of 2009, there was an executive departure within the Company's Marketing Services segment. The Company incurred approximately $0.2 million in compensation expense related to this executive departure. On June 20, 2008, the Company announced the retirement of its former chief executive officer and board member and recorded approximately $0.9 million of compensation expense. In the third quarter of 2008, the Company also announced an executive departure and incurred approximately $0.3 million in additional compensation expense. There were no executive severance charges for the year ended December 31, 2007.

16. Facilities Realignment

As part of the Company's cost savings initiative, the Company relocated its corporate headquarters to a smaller office space located in Parsippany, New Jersey in December 2009. As a result of exiting the Saddle River, New Jersey facility, the Company recorded facility realignment charges of approximately $3.9 million in the December 2009. The Company also recorded a non-cash impairment charge of approximately $1.5 million related to furniture, leasehold improvements and office equipment in the office space. Effective September 1, 2009, the Company extended the sublease for the first floor of its Saddle River, New Jersey facility through the remainder of the facility lease term. The sublease is expected to provide approximately $2.3 million in sublease income through January 2016, but will not fully offset the Company's lease obligations for this space. As a result, the Company recorded a $0.8 million facility realignment charge in the third quarter of 2009. The Company also recorded a non-cash impairment charge of approximately $0.4 million related to furniture and leasehold improvements in the office space. In 2007, the Company entered into a sublease for the second floor of its Saddle River, New Jersey facility through the end of the facility's lease term, January 2016. This sublease will not fully offset the Company's lease obligations for this space; therefore, the Company recorded a $1.0 million charge for facility realignment and related asset impairment for furniture and leasehold improvements in the office space. The Company is currently seeking to sublease the remaining office space, approximately 47,000 square feet, at its Saddle River, New Jersey facility.

The Company continues to rightsize its operations in Dresher, Pennsylvania. As a result, the Company recorded facility realignment charges totaling approximately $1.4 million in 2009 related to exited space of approximately 18,000 square feet at its Dresher, Pennsylvania facility. The Company also recorded a non-cash impairment charge of approximately $0.7 million related to furniture and leasehold improvements in the unused office space as the Company determined it was unlikely that it will be able to recover the carrying value of these long-lived assets. In 2007, the Company secured subleases for approximately 8,000 square feet of the approximately 12,000 square feet exited in 2005. The Company is currently seeking to sublease approximately 22,000 square feet of the remaining unused space at its Dresher, Pennsylvania facility.

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A summary of the significant components of the facility realignment charges for the years ended December 31, 2007, 2008 and 2009 by segment is as follows:

2007:	Sales Services	Marketing Services	Total
Facility lease obligations	$ (198)	$ (82)	$ (280)
Asset impairments	1,020	56	1,076
Related charges	225	-	225
Total facility realignment charge	$ 1,047	$ (26)	$ 1,021
2008:			
Facility lease obligations	$ -	$ 75	$ 75
Total facility realignment charge	$ -	$ 75	$ 75
2009:			
Facility lease obligations	$ 4,674	$ 1,374	$ 6,048
Asset impairments	1,881	703	2,584
Related charges	54	48	102
Total facility realignment charge	$ 6,609	$ 2,125	$ 8,734

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The following table presents a reconciliation of the restructuring charges in 2008 and 2009 to the balance at December 31, 2009 and 2008, which is included in other accrued expenses ($2.6 million and $0.2 million, respectively) and in long-term liabilities ($3.6 million and $0.4 million, respectively):

	Sales Services	Marketing Services	Total
Balance as of December 31, 2007	$ 273	$ 402	$ 675
Accretion	6	7	13
Adjustments	-	75	75
Payments	(87)	(117)	(204)
Balance as of December 31, 2008	$ 192	$ 367	$ 559
Accretion	12	25	37
Additions	4,694	1,405	6,099
Payments	(168)	(274)	(442)
Balance as of December 31, 2009	$ 4,730	$ 1,523	$ 6,253

Charges for facility lease obligations relate to real estate lease contracts where the Company has exited certain space and is required to make payments over the remaining lease term (January 2016 and November 2016 for the Saddle River, New Jersey facility and for the Dresher, Pennsylvania facility, respectively). All lease termination amounts are shown net of projected sublease income. The charges in 2008 pertained to a change in the estimated time it will take to sublet the remaining Dresher space. The charges in 2007 were primarily related to the exiting of the computer data center space at its Saddle River location as the Company is now outsourcing that capability.

17. Income Taxes

The (benefit) provision for income taxes for the years ended December 31, 2009, 2008 and 2007 is comprised of the following:

	2009	2008	2007
Current:			
Federal	$ (5,518)	$ 278	$ 465
State	195	266	189
Total current	(5,323)	544	654
Deferred:			
Federal	(1,386)	314	1,058
State	(125)	17	55
Total deferred	(1,511)	331	1,113
(Benefit) provision for income taxes	$ (6,834)	$ 875	$ 1,767

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, the Company established a full federal and state valuation allowance for the net deferred tax assets at December 31, 2009 and 2008 because the Company determined that it was more likely than not that these assets would not be realized. In connection with the Worker, Homeownership, and Business Assistance Act ("Act"), passed in November 2009, the Company was able to carry back net operating losses incurred during the December 31, 2008 tax year to the 2003 and 2004 tax years. This carry back resulted in a benefit of approximately $3.3 million related to 2008 net operating losses for which a valuation allowance had been previously established. At December 31, 2009 and 2008, the Company had a valuation allowance of approximately $34.2 million and $25.6 million, respectively, related to the Company's net deferred tax assets. The tax effects of significant items comprising the Company's deferred tax assets and (liabilities) as of December 31, 2009 and 2008 are as follows:

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	2009	2008
Current deferred tax assets (liabilities) included in other current assets:		
Allowances and reserves	$ 1,401	$ 4,931
Compensation	2,390	3,022
Valuation allowance on deferred tax assets	(3,791)	(7,953)
	-	-
Noncurrent deferred tax assets (liabilities) included in other long-term assets:		
State net operating loss carryforwards	4,318	3,171
Federal net operating loss carryforwards	13,848	10,218
State taxes	1,087	1,052
Compensation	-	(474)
Equity investment	-	135
Self insurance and other reserves	1,388	1,736
Property, plant and equipment	2,318	978
Intangible assets	5,529	(681)
Other reserves - restructuring	1,899	25
Valuation allowance on deferred tax assets	(30,387)	(17,603)
	-	(1,443)
Net deferred tax liability	$ -	$ (1,443)

The noncurrent net deferred tax liability as of December 31, 2008 relates to tax amortization of the tax basis in goodwill associated with the Pharmakon acquisition. The Company determined that this deferred tax liability would not be realizable for an indeterminate time in the future and consequently should not be included in net deferred tax assets for purposes of calculating the valuation allowance in any period. In connection with the impairment of goodwill at the Pharmakon business unit during 2009, the deferred tax liability at December 31, 2008 reversed and resulted in a current year tax benefit of approximately $1.4 million.

Federal tax attribute carryforwards at December 31, 2009, consist primarily of approximately $46.0 million of net operating losses. In addition, the Company has approximately $92.9 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 if the current state net operating losses are not utilized they begin to expire in 2010.

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

	2009	2008	2007
Federal statutory rate	35.0%	35.0%	35.0%
State income tax rate, net of Federal tax benefit	0.1%	(1.8%)	(1.0%)
Meals and entertainment	0.1%	(0.1%)	(0.4%)
Valuation allowance	(27.0%)	(34.1%)	(46.8%)
Goodwill Impairment	3.6%	0.0%	0.0%
Other non-deductible	0.0%	(0.9%)	(0.2%)
Tax exempt income	0.0%	0.0%	2.7%
Net change in Federal and state uncertain tax positions	(5.1%)	(0.7%)	(10.8%)
Effective tax rate	16.9%	(2.6%)	(21.5%)

On January 1, 2007, the Company adopted authoritative guidance related to accounting for uncertainty in income taxes. Upon adoption, the Company did not recognize a material adjustment in the liability for unrecognized income tax benefits. At the adoption date of January 1, 2007, the Company had $4.0 million of unrecognized tax benefits, all of which would affect its effective tax rate if recognized. At December 31, 2007, the Company had $4.1 million of unrecognized tax benefits, all of which would affect its effective tax rate if recognized.

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The Company's income tax liabilities as of January 1, 2007 included approximately $4.0 million for unrecognized tax benefits, excluding approximately $0.9 million of related accrued interest, and approximately $0.3 million of related penalties. A reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding accrued interest and penalties, is as follows:

	Unrecognized Tax Benefits
Balance of unrecognized benefits as of January 1, 2007	$ 4,027
Additions for tax positions related to the current year	11
Additions for tax positions of prior years	209
Reductions for tax positions of prior years	(137)
Balance as of December 31, 2007	$ 4,110
Reductions for tax positions of prior years	(157)
Balance as of December 31, 2008	$ 3,953
Reductions for tax positions of prior years	(17)
Balance as of December 31, 2009	$ 3,936

As of December 31, 2009 and 2008, the total amount of gross unrecognized tax benefits was $3.9 million and $4.0 million, respectively. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of December 31, 2009 and 2008 were $1.7 million and $4.0 million, respectively. Also included in the balance of unrecognized tax benefits at December 31, 2009 are $2.2 million of tax benefits that, if recognized, would result in an increase to deferred tax assets and a corresponding decrease to the valuation allowance against deferred tax assets.

The Company recognizes interest and penalties accrued related to uncertain tax positions in income tax expense. At December 31, 2009 and 2008, accrued interest and penalties, net were $2.3 million and $2.1 million, respectively.

During 2009 the Company recorded a reduction to its net unrecognized tax benefits of approximately $2.3 million. This reduction was primarily related to the Act which would allow the Company to utilize its existing NOLs if these uncertain benefits resulted in additional taxable income.

The Company and its subsidiaries file a U.S. Federal consolidated income tax return and consolidated and separate income tax returns in numerous state and local tax jurisdictions. The following tax years remain subject to examination as of December 31, 2009:

Jurisdiction	Tax Years
Federal	2003-2008
State and Local	2002-2008

The Company reached an agreement with the Internal Revenue Service (IRS) examiner in regards to the audit of the 2003, 2004 and 2005 tax years. The adjustments are not material to the Company's financial position, results of operations or cash flows. The Company does not anticipate a significant change to the total amount of unrecognized tax benefits within the next 12 months.

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18. 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, 2009, 2008 and 2007 is as follows:

	Years Ended December 31, 2009	2008	2007
Basic weighted average number of common shares	14,219	14,240	14,150
Potential dilutive effect of stock-based awards	-	-	-
Diluted weighted average number of common shares	14,219	14,240	14,150

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:

	Years Ended December 31, 2009	2008	2007
Options	236,355	304,531	372,441
Stock-settled stock appreciation rights (SARs)	242,757	212,846	274,384
Restricted stock units (RSUs)	410,712	203,304	-
Performance contingent SARs	305,000	280,000	-
Performance shares	-	-	3,602
	1,194,824	1,000,681	650,427

19. 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 operating segments on the basis of total salary costs. Corporate charges include corporate headquarter costs and certain depreciation expenses. Certain corporate capital expenditures have not been allocated from Sales Services to the other operating 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 and Shared Sales Teams. This segment uses teams to deliver services to a wide base; they have similar long-term average gross margins, contract terms, types of customers and regulatory environments. One segment manager oversees the operations of all of these units and regularly discusses the results of operations, forecasts and activities of this segment with the chief operating decision maker;

Marketing Services segment – includes the Company's marketing research and medical education and communication services. This segment is project driven; the units comprising it have a large number of smaller contracts, share similar gross margins, have similar customers, and have low barriers to entry for competition. The offerings within this segment include marketing research and communications and formerly continuing medical education (CME). The CME portion of this segment was discontinued in 2009. Two unit managers oversee the operations of these units and regularly discuss the results of operations, forecasts and activities of this segment with the chief operating decision maker; and

PC Services segment – includes revenues and expenses associated with the Company's licensing and co-promotion of pharmaceutical products. In 2008, this segment consisted of our now terminated promotional agreement with Novartis which was terminated in April 2009. Any business opportunities are reviewed by the chief executive officer and other members of senior management.

PDI, Inc.
Notes to the Consolidated Financial Statements (Continued)
(tabular information in thousands, except share and per share data)

	Sales Services	Marketing Services	PC Services	Eliminations	Consolidated
For the year ended December 31, 2009:					
Revenue	$ 73,232	$ 16,748	$ -	$ (5,109)	$ 84,871
Operating (loss) income	$ (16,724)	$ (25,748)	$ 1,847	$ 48	$ (40,577)
Capital expenditures	$ 2,148	$ 241	$ -	$ -	$ 2,389
Depreciation expense	$ 1,096	$ 417	$ 23	$ -	$ 1,536
Total assets	$ 94,714	$ 15,062	$ -	$ -	$ 109,776
For the year ended December 31, 2008:					
Revenue	$ 89,656	$ 23,872	$ (1,000)	$ -	$ 112,528
Operating loss	$ (7,196)	$ (3,070)	$ (26,161)	$ -	$ (36,427)
Capital expenditures	$ 339	$ 60	$ -	$ -	$ 399
Depreciation expense	$ 2,570	$ 652	$ 97	$ -	$ 3,319
Total assets	$ 112,469	$ 36,567	$ -	$ -	$ 149,036
For the year ended December 31, 2007:					
Revenue	$ 86,766	$ 30,365	$ -	$ -	$ 117,131
Operating loss	$ (13,918)	$ (362)	$ -	$ -	$ (14,280)
Capital expenditures	$ 870	$ 139	$ -	$ -	$ 1,009
Depreciation expense	$ 3,477	$ 828	$ -	$ -	$ 4,305
Total assets	$ 140,161	$ 39,393	$ -	$ -	$ 179,554

PDI, INC.
VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

Description	Balance at Beginning of Period	Additions Charged to Operations	(1) Deductions Other	Balance at end of Period
2009				
Allowance for doubtful accounts	$ -	$ -	$ -	$ -
Allowance for doubtful notes	686,345	30,417	-	716,762
Tax valuation allowance	25,555,804	-	8,621,675	34,177,479
Accrued sales returns	230,859	-	-	230,859
2008				
Allowance for doubtful accounts	$ -	$ -	$ -	$ -
Allowance for doubtful notes	655,845	30,500	-	686,345
Tax valuation allowance	11,744,803	-	13,811,001	25,555,804
Accrued sales returns	230,859	-	-	230,859
2007				
Allowance for doubtful accounts	$ 35,713	$ -	$ (35,713)	$ -
Allowance for doubtful notes	784,592	30,416	(159,163)	655,845
Tax valuation allowance	6,784,217	-	4,960,586	11,744,803
Accrued sales returns	230,859	-	-	230,859

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

PDI, Inc.

EXECUTIVE
DEFERRED COMPENSATION
PLAN DOCUMENT

EXECUTIVE DEFERRED COMPENSATION PLAN
PLAN DOCUMENT

1.0 PURPOSE

1.1. The purpose of the PDI, Inc. Executive Deferred Compensation Plan (the "Plan") is to allow executive management and other selected officers and highly compensated employees of the Company to defer receipt of cash compensation and maximize deferrals which might otherwise exceed contribution limits under a "qualified plan" under Section 401(a) of the Code, and to allow members of the Board of Directors to defer their cash retainer and other fees.

1.2. The Plan has been constructed and will be administered in accordance with all applicable federal and state tax laws, rules and regulations.

2.0 DEFINITIONS

2.1. Beneficiary. "Beneficiary" means the person, persons, or entity designated by the Participant to receive any benefits payable under the Plan. If no designated Beneficiary survives the Participant or if no Beneficiary is designated, the legal representative of the Participant's estate shall be the Beneficiary. If a designated Beneficiary survives the Participant but dies before full payment of Plan benefits has been made, the legal representative of such Beneficiary's estate shall become the Beneficiary. Any Beneficiary designation made by a Participant shall be made in a written instrument filed, received and accepted by the Plan Administrators.

2.2. Board of Directors. "Board of Directors" or "Board" shall mean the Board of Directors of PDI, Inc. as constituted from time to time.

2.3. Change in Control Event. "Change in Control Event" shall mean the consummation of any one of the following events, within the meaning of and as defined under Section 409A of the Code: (i) a change in the ownership of PDI, Inc., (ii) a change in effective control of the PDI, Inc., or (iii) a change in the ownership of a substantial portion of the assets of PDI, Inc.

2.3.1. A "change in the ownership of PDI, Inc." occurs on the date that any one person, or more than one person acting as a group, acquires ownership of stock of PDI, Inc. that, together with stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of PDI, Inc.

2.3.2. A "change in effective control of PDI, Inc." occurs only on the date that either: (i) any one person, or more than one person acting as a group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of PDI, Inc. possessing thirty-five percent (35%) or more of the total voting power of the stock of PDI, Inc., or (ii) a majority of members of PDI, Inc.'s Board of Directors is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of PDI, Inc.'s Board of Directors prior to the date of the appointment or election.

2.3.3. A "change in the ownership of a substantial portion of the assets of PDI, Inc." occurs on the date that any one person, or more than one person acting as a group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from PDI, Inc. that have a total gross fair market value equal to or more than forty percent (40%) of the total gross fair market

2.3.4. value of all of the assets of PDI, Inc. immediately prior to such acquisition or acquisitions. For this purpose, "gross fair market value" means the value of the assets of the corporation, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

2.4. Code. All references to the "Code" shall be to the Internal Revenue Code of 1986, as amended, including any regulations as may be adopted from time to time pursuant thereto.

2.5. Company. "Company" means PDI, Inc., its successors, any subsidiary or affiliated organizations authorized by the Plan Administrators to participate in the Plan, and any organization into which or with which the Company may merge or consolidate or to which all or substantially all of its assets may be transferred.

2.6. Compensation Committee. "Compensation Committee" means the Compensation Committee of the Board of Directors of PDI, Inc.

2.7. Deferral Election. "Deferral Election" means the agreement filed by a Participant in accordance with the terms of this Plan by which the Participant elects to defer under the Plan cash compensation for services rendered to the Company for a particular service period.

2.8. Deferred Account. "Deferred Account" means the account or accounts maintained under the terms of the Plan for each Participant pursuant to Section 6.0. Separate Deferred Accounts shall be maintained for each Participant.

2.9. Disabled or Disability. A Participant shall be considered "Disabled" (and he shall be considered to have a "Disability") if he or she (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Company.

2.10. Participant. "Participant" means any member of the Board of Directors or any selected officer or member of executive management of the Company or any other highly compensated employee of the Company who is individually designated by the Plan Administrators to participate in the Plan, who has completed 30 days of service as a member of the Board of Directors or an employee of the Company, as the case may be, and who elects to participate in the Plan by completing a Deferral Election.

2.11. Plan Administrators. The Plan shall be administered by the "Plan Administrators", consisting of individuals approved by the Compensation Committee. The Plan Administrators shall have the authority to make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and decide or resolve any and all questions, including interpretations of this Plan, as may arise in connection with the Plan. The Plan Administrators will have the responsibility to establish investment guidelines with respect to the Trust, and deliver such guidelines to the Plan Trustee. In addition, the Plan Administrators shall have the authority to select, monitor, instruct, and terminate any contractual relationship with a third party trustee, record-keeper or other

2.12. party, who may be responsible to invest, manage and provide accounting for any deferred assets pursuant to this Plan.

2.12. **Plan Trustee.** The "Plan Trustee" shall be an institution selected by the Plan Administrators to invest, manage and maintain assets of the Trust and to maintain accounts on behalf of the Participants. The Plan Trustee shall be responsible to maintain the Deferred Account, make proper allocations and distributions as directed by the Plan Administrators, and take such other actions as are appropriate under the terms of the Plan.

2.13. **Plan Year.** "Plan Year" means a twelve month period commencing January 1 and ending the following December 31.

2.14. **Separation from Service.** A Participant who is an employee of the Company has a "Separation from Service" when he or she dies, retires, or otherwise has a termination of employment within the meaning of Section 409A of the Code. A Participant who is an independent contractor of the Company has a "Separation from Service" upon the good-faith and complete termination of his or her contractual relationship with the Company within the meaning of Section 409A of the Code.

2.15 **Trust.** The grantor trust (sometimes referred to as a "rabbi" trust) which has or may be established by PDI, Inc. with respect to the Plan.

2.16. **Unforeseeable Emergency.** An "Unforeseeable Emergency" is a severe financial hardship of the Participant resulting from an illness or accident of the Participant or the Participant's spouse, Beneficiary or dependent (within the meaning of Section 152 of the Code, without regard to Section 152(b)(1), (b)(2) and (d)(1)(B)), loss of the Participant's property due to casualty (including the need to rebuild a home following damage to a home not otherwise covered by insurance) or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant determined in accordance with Section 409A of the Code.

3.0 ADMINISTRATION

3.1 Binding Effect of Decisions. The decisions and/or actions of the Plan Administrators with respect to any questions arising out of or in connection with the administration, interpretation, and application of the Plan and the rules and regulations promulgated hereunder shall be final, conclusive, and binding upon all persons having any interest in the Plan. No decision or action taken by the Plan Administrators will constitute precedent which would preclude the Plan Administrators from taking different actions, based on their evaluation of the situation. Notwithstanding any other provision of the Plan to the contrary, benefits under the Plan will be paid only if the Plan Administrators, in their discretion, determine that the applicant is entitled to them pursuant to the terms of the Plan.

3.2 Claims Procedure. Generally, a Participant does not need to make a claim for benefits under the Plan. However, a Participant or his or her authorized representative may file a written claim with the Plan Administrators for any benefits to which the Participant believes he or she is entitled and has not received. Within 90 days after the receipt of a claim, the Plan Administrators will provide the claimant with written notice of its decision on the claim.

Appeals. In the event that a Participant or other interested party wishes to submit a written appeal, he or she, or his or her Beneficiary if the Participant is deceased, may do so in writing, within sixty (60) days of the disputed action. The appeal will be reviewed by the Plan Administrators, and the decision of the Plan Administrators shall be final, conclusive, and binding on the Participant and all persons claiming by, through, or under the Participant.

3.3 Indemnification of Plan Administrators. PDI, Inc. will hold harmless and indemnify the Plan Administrators (including former Plan Administrators) for any and all liabilities, losses, costs and expenses (including reasonable legal fees and expenses) of whatsoever kind and nature that may be imposed on, incurred by or asserted against the Plan Administrators by reason of the performance of a Plan Administrator function if the Plan Administrator did not act dishonestly, in bad faith or in willful violation of the law or regulation under which such liability, loss, cost or expense arises.

4.0 PARTICIPATION

4.1 Participation. Participation in the Plan shall be limited to members of the Board of Directors and executive management and officers and other highly compensated employees of the Company as selected by the Plan Administrators, who have completed 30 days of service as a member of the Board of Directors or an employee of the Company, as the case may be, and who have elected to participate in the Plan by filing a Deferral Election with the Plan Administrators or who is otherwise allocated supplemental contributions pursuant to Section 5.3 of the Plan.

5.0 DEFERRAL

5.1 Deferral Amount. By filing a Deferral Election for a Plan Year, a Participant may elect for such Plan Year to defer all or a portion of his or her cash compensation from the Company for such Plan Year consisting of salary and/or other cash incentive compensation. By filing a Deferral Election for a Plan Year, a Participant who is a director may elect for such Plan Year to defer all or a portion of his or her cash compensation from PDI, Inc. for such Plan Year consisting of annual retainer and/or other cash fees. The amount that may be deferred pursuant to a Deferral Election may be specified in one percent (1%) increments, whole one thousand dollar amounts, or an amount over a specified dollar amount.

5.2 Elective Deferred Cash Compensation. Except as otherwise provided in this Plan, a Deferral Election to defer compensation for services to be performed by a Participant during a Plan Year must occur before the close of the preceding Plan Year and shall become irrevocable as of the last day of the Plan Year preceding the Plan Year to which it relates.

5.2.1 Notwithstanding Section 5.2 above, in the first Plan Year in which a Participant becomes eligible to participate in the Plan, the Participant may file an initial Deferral Election within 30 days after the date of eligibility with respect to compensation paid by the Company for services to be performed during the remainder of the Plan Year after the date of such election. Any such election shall become irrevocable when made.

Notwithstanding Section 5.2 above, a Participant may file an initial Deferral Election with respect to cash compensation that is otherwise permitted to be deferred under the Plan and that constitutes "performance-based compensation" within the meaning of Section 409A of the Code) (i.e., generally compensation that is contingent upon the satisfaction of preestablished organizational or individual performance criteria relating to a performance period of at least twelve (12) consecutive months) no later than six (6) months before the end of the applicable performance period. An initial Deferral Election will not be permitted under this subsection 5.2.2. after such compensation has become readily ascertainable (determined in accordance with Section 409A of the Code) and a Participant may make an election pursuant to this subsection 5.2.2 only if he or she has performed services continuously from the later of the beginning of the performance period or the date the performance criteria are established through the date the Deferral Election is filed. Any election made under this subsection 5.2.2 shall become irrevocable as of the date that is six (6) months before the end of the performance period.

5.2.2 A Deferral Election for a Plan Year becomes irrevocable and cannot be changed or reversed by a Participant, including to increase or decrease the amount of compensation to be deferred pursuant to the election on the date specified herein.

5.2.3 A Deferral Election must be in writing and specify: (i) the amount of cash compensation to be deferred; (ii) the type of eligible compensation to be deferred (e.g., base salary, incentive compensation, Director's retainer and/or other fees); (iii) the time of payment of the deferred amount (i.e., the length of the deferral period) as described in Section 7; and (iv) the form of payment of the deferred amount (e.g., lump sum payment or annual installment payments over a period of five (5) or ten (10) years)) as described in Section 7. The amount of cash compensation a Participant elects to defer will be evidenced by an executed Deferral Election with respect to each Plan Year of participation; provided, however, that except as otherwise provided in Section 5.4, a Participant's initial Deferral Election regarding the time and form of payment of his or her Deferred Account shall be an irrevocable one-time election and shall apply to all amounts credited to his Deferred Account.

5.3 Supplemental Company Contributions. At the sole discretion of the Compensation Committee, the Company may make supplemental contributions to a Participant's Deferred Account in the form of cash; such contributions shall be made on a discretionary basis and shall be based on the Company's profitability or otherwise. The Compensation Committee's determination to credit a supplemental contribution to a Participant's Deferred Account in any Plan Year does not entitle a Participant to be granted a supplemental contribution in any future years. The Compensation Committee's determination under the Plan may, but need not, be uniform and may be made on a Participant-by-Participant basis (whether or not two or more Participants are similarly situated).

5.4 Election Changes. Prior to a Participant's 54th birthday, he or she may submit a written request to the Plan Administrators to make a one-time election to change the form of payment of amounts in his or her Deferred Account to either a lump sum payment or annual installment payments over a five (5) year or ten (10) year payout schedule. An election under this Section shall be treated for purposes of Section 7 as a Deferral Election and will be irrevocable when made. Any election under this Section 5.4 shall delay payment of deferred amounts as described below but, except as otherwise

5.5 permitted under Section 409A of the Code, the time or schedule of any payment under the Plan may not be accelerated.

5.5.1 A one-time election under this Section shall not take effect until at least twelve (12) months after the date on which the election is made.

5.5.2 The first payment with respect to which a one-time election under this Section is made shall be deferred for a period of five (5) years from the date such payment would otherwise have been made, except in the case of payments made on account of a Participant's death or Unforeseeable Emergency.

5.5.3 Any one-time election under this Section that pertains to a payment of amounts in a Participant's Deferred Account to be made at a specified time or pursuant to a fixed schedule specified in the Participant's initial Deferral Election may not be made less than twelve (12) months prior to the date of the first such scheduled payment.

6.0 DEFERRED ACCOUNT

6.1 Deferred Account. A Deferred Account will be established for each Participant under the terms of the Plan that tracks deferrals, any supplemental contributions credited thereto in accordance with the terms of the Plan and any gains/losses that may be credited thereon. All amounts credited to a Participant's Deferred Account will be held under the Trust. While it is intended that amounts held in such Trust shall only be available to pay intended benefits under the Plan, all funds within a Participant's Deferred Account remain subject to the claims of the creditors of the Company regardless of vesting, in the event of its bankruptcy or insolvency.

6.2 Investment Options. The Plan Administrators will establish broad based investment options in which deferrals and supplemental contributions may be invested, and may modify the type and number of investment options available under the Plan. A Participant may request, in writing, his or her elections of the designated investment options established by the Plan Administrators with respect to the crediting of amounts credited to his or her Deferred Account, subject to the approval of the Plan Administrators.

6.3 Rabbi Trust. The Company will have any amounts that are credited to a Participant's Deferred Account deposited and maintained in the Trust, containing the Deferred Accounts of all Participants. The Plan Trustee shall invest such funds in the manner directed by the Plan Administrators. The funds in such trust remain subject to the claims of creditors of the Company in the event of the Company's bankruptcy or insolvency.

6.4 Vesting of Deferred Account. A Participant shall be immediately 100% vested in the portion of his Deferred Account attributable to his or her deferrals of cash compensation deferred under the Plan. The Participant will become vested ratably in any supplemental contributions over a five (5) year period (i.e., 20% at the end of each of the 5 years immediately following the Plan Year for which the supplemental contribution is made), or as specified by a written contract between PDI, Inc. and the Participant. Notwithstanding the foregoing, upon the occurrence of a Change in Control Event with respect to a Participant, all unvested amounts credited to the Participant's Deferred Account shall be fully vested.

Statement of Accounts. The Plan Trustee, as directed by the Plan Administrator, shall submit to each Participant, on at least a quarterly basis, a statement, in such form as the Plan Administrators deems desirable. Such statement shall include the balance of the Deferred Account as of the most recent Valuation Date, transactions that occurred during the period, and the status of investments.

6.6. **Adjustment of Deferred Accounts.** Each Deferred Account shall be adjusted in accordance with this Section 6.6 in a uniform, non-discriminatory manner, as of each business day on which the New York Stock Exchange is open (each an “Valuation Date”). As of each Valuation Date, the balance of each Deferred Account shall be adjusted as follows:

(a) <u>first</u>, charge to the Deferred Account balance the amount of any distributions under the Plan with respect to that Deferred Account that have not previously been charged;

(b) <u>then</u>, credit to the Deferred Account balance the amount of deferrals to be credited in accordance with the Plan and the amount of other contributions to be credited in accordance with the Plan that have not previously been credited; and

(c) <u>then</u>, adjust the Deferred Account balance for the applicable assumed rate of earnings in accordance with this Section 6.

6.7. **Adjustment of Deferred Accounts for Earnings.** The amounts credited to a Participant’s Deferred Account in accordance with this Section 6 shall be adjusted as of each Valuation Date to reflect the value of an investment equal to the Participant’s Deferred Account balance in one or more assumed investments that the Plan Administrators offer from time to time, and which the Participant directs the Plan Administrators to use for purposes of adjusting his Deferred Account. Such amount shall be determined without regard to taxes that would be payable with respect to any such assumed investment, but will be adjusted for any investment management or similar fee that is customarily paid with respect to the assumed investment. The Plan Administrators may eliminate any assumed investment alternative at any time; provided, however, that the Plan Administrators may not retroactively eliminate any assumed investment alternative. To the extent permitted by the Plan Administrators, the Participant may elect to have different portions of his Deferred Account balance for any period adjusted on the basis of different assumed investments. Notwithstanding the election by Participants of certain assumed investments and the adjustment of their Deferred Accounts based on such investment decisions, the Plan does not require, and no trust or other instrument that may be maintained in connection with the Plan shall require, that any assets or amounts which are set aside in trust or otherwise for the purpose of paying Plan benefits shall actually be invested in the investment alternatives selected by Participants.

7.0 BENEFITS

7.1 Payment of Benefits. The balance in a Participant's Deferred Account will be paid to the Participant at the later of his or her attaining the age of 55 or his or her Separation from Service or at such other time as elected by the Participant pursuant to Section 7.2, in the form of a lump sum payment or in annual installment payments over a period of five (5) or ten (10) years, as elected by the Participant pursuant to the terms of the Plan.

7.2 Installment payments under the Plan shall be treated as a single payment for purposes of Section 409A.

7.3 Early Distribution. At the time the Participant files his initial Deferral Election, a Participant may elect to receive payment of all or a portion of the balance in his Deferred Account in a lump sum at a specified date or upon Separation of Service prior to the regular distribution of the Deferred Account provided for in Section 7.1.

7.4 Distributions to Certain Specified Employees Upon Separation from Service. In the case of a Participant who is a "specified employee" within the meaning of Section 409A of the Code, no distribution on account of such Participant's Separation from Service shall be made from his or her Deferred Account prior to the date that is six (6) months after the date of such separation from service. Any payments to which a Participant who is a specified employee would otherwise be entitled during the six-month period immediately following the date of his or her Separation from Service shall be accumulated and paid in the seventh month after separation from service.

7.5 Payment of Small Accounts. In the event that, upon a Participant's Separation from Service, the balance in the Participant's Deferred Account (taking into account all amounts deferred under deferred compensation arrangements that are required to be aggregated with the Plan under Section 409A of the Code) determined as of the valuation date immediately preceding the Participant's Separation from Service, does not exceed the applicable dollar limit under Section 402(g)(1)(B) of the Code, the Plan Administrators may instruct the Plan Trustee to make one lump sum payment at the time the Participant has a Separation from Service, regardless of the time and form of distribution previously elected by the Participant.

7.6 Disability. In the event that a Participant becomes Disabled, leading to his or her Separation from Service prior to attaining age 55, the Participant shall have payment of the balance in his or her Deferred Account, determined as of the valuation date immediately preceding his or her Separation from Service, made in a lump sum.

7.7 Death. In the event of a Participant's death before the entire balance of the Participant's Deferred Account has been paid, the Participant's Beneficiary or Beneficiaries shall receive the remaining balance of the Participant's Deferred Account, in a lump sum payment.

7.8 Form of Payment. Upon the happening of the date or event described in Sections 7.1, 7.5, or 7.6, the Plan Administrator shall direct the Plan Trustee to pay to the Participant or his or her Beneficiary the balance of the Participant's Deferred Account in a lump sum or in either five (5) or ten (10) annual installments, as initially elected by the Participant or as subsequently elected pursuant to Section 5.4. If payment of any portion of the Participant's Deferred Account balance is to be made in the form of installment payments, the amount of each installment payment shall be equal to the portion of the Participant's Deferred Account balance that is to be paid in the form of installments, determined as of the valuation date immediately prior to the payment of the installment, divided by the number of installments remaining to be made, including the then current installment.

7.9 Lump-Sum Payment upon Change in Control Event. Upon the occurrence of a Change in Control Event with respect to a Participant, the Plan Administrators shall direct the Plan Trustee to make a lump sum payment to each Participant of the balance

7.10 credited to his or her Deferred Account determined as of the valuation date immediately preceding the Change in Control Event.

7.11 Withdrawals for Unforeseeable Emergency. A Participant may make a written request for a withdrawal from his or her Deferred Account in the event that the Participant suffers an Unforeseeable Emergency. In the case of any such request, the Plan Administrators shall determine, based upon the relevant facts and circumstances, whether a Participant has demonstrated an Unforeseeable Emergency permitting distribution of amounts deferred under the Plan. In the event that the Plan Administrators determine that an Unforeseeable Emergency exists, they may pay to the Participant from his or her Deferred Account only the amount reasonably necessary to satisfy the emergency need, which may include amounts necessary to pay any federal, state, or local income taxes or penalties reasonably anticipated to result from the distribution. In any case, a distribution on account of an Unforeseeable Emergency may not be made to the extent such Unforeseeable Emergency is or may be relieved through reimbursement or compensation from insurance or otherwise or by liquidation of the Participant's assets (to the extent such liquidation would not cause severe financial hardship).

7.12 Withholding of Taxes. To the extent required by the law in effect at the time payments are made from a Participant's Deferred Account, there shall be withheld from any such payments any taxes required to be withheld under applicable federal, state or local law.

7.13 Commencement of Payments. Any payment required under the Plan shall be made or commence, as soon as administratively practicable following the applicable payment date determined in accordance with the terms of this Section 7. Any lump sum payment shall be made as soon as practicable, but in no event more than 30 days, after the applicable payment date. The initial installment payment shall be made as soon as practicable, but in no event more than 30 days, after the date on which payments are to begin and any subsequent installment payment will be made on the anniversary of the initial payment date (or within 30 days thereafter).

8.0 BENEFICIARY DESIGNATION

8.1 Beneficiary Designation. Each Participant shall have the right, at any time, to designate a Beneficiary or Beneficiaries (both principal as well as contingent) to whom payment under this Plan shall be paid in the event of his or her death prior to complete distribution to the Participant of the proceeds due him or her under the Plan.

8.2 Amendments. A Beneficiary Designation may be changed by a Participant by the written filing of such change, on a form prescribed by the Company. The filing with, and acceptance of a new Beneficiary Designation Form by the Plan Administrators will supersede all Beneficiary Designations previously filed.

8.3 No Beneficiary Designation. If a Participant fails to designate a Beneficiary as provided for in Section 8.1 or 8.2, or if all designated Beneficiaries predecease the Participant, then any amounts to be paid to the Participant's Beneficiary shall be paid to the Participant's estate.

Effect of Payment. The payment to the designated Beneficiary on file with the Plan Administrators (or the Participant's estate, if none) shall completely discharge the Company's obligations under this Plan with respect to the Participant.

9.0 AMENDMENT AND TERMINATION OF PLAN

9.1 **Amendment.** The Compensation Committee may at any time amend the Plan in whole or part, provided, however, that no amendment shall be effected which decreases or restricts the balance contained in any Deferred Account at the time of such amendment.

9.2 **Company's Right to Terminate.** The Compensation Committee may at any time terminate the Plan for any reason; provided, however, that acceleration of the time and form of payment of benefits under the Plan shall be permitted on termination of the Plan only in accordance with Section 409A of the Code.

10.0 GENERAL

10.1 Effective Date of the Plan. The Plan shall be effective as of December 1, 1999, the date of adoption of the Plan by the Board of Directors. The Plan will continue in effect until such time as the Plan is modified or terminated by the Compensation Committee.

10.2 Unsecured General Creditor. Participants and their Beneficiaries shall have no legal or equitable rights, interest, or claims in any property or assets of the Company, as a result of their status as Participants or Beneficiaries. The Trust or assets of the Plan shall be and remain the general, unpledged, unrestricted assets of the Company. The Company's obligation under the Plan shall be merely that of an unfunded and unsecured promise of the Company to pay money in the future.

10.3 Non-assignability. Neither a Participant nor any other person shall have the right to sell, assign, transfer, mortgage, or otherwise encumber, transfer, hypothecate, or convey in advance of actual amounts, if any, payable hereunder. No part of the amounts payable shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony, or separate maintenance owed by a Participant or any other person, nor be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency.

10.4 Not a Contract of Employment or Continued Service. The terms and conditions of this Plan shall not be deemed to constitute a contract of employment or continued service between the Company and any Participant (or his or her Beneficiary). A Participant shall have no rights against the Company except as may otherwise be specifically provided herein. Moreover, nothing in this Plan shall be deemed to give a Participant the right to be retained in the service of the Company or to interfere with the right of the Company to discipline or discharge him or her at any time.

10.5 Protective Provisions. A Participant will cooperate with the Company by furnishing any and all information requested by the Company in order to facilitate the payment of benefits hereunder, and by taking such other action as may be requested by the Company.

PDI, INC.
RESTRICTED STOCK GRANT AGREEMENT

Grant Date:

Dear :

Pursuant to the PDI, Inc. ("PDI") 2004 Stock Award and Incentive Plan (the "Plan"), PDI hereby awards to you «No_of_Restricted_Stock_Awarded» shares of its Common Stock, $.01 par value per share (the "Shares") pursuant to the terms and conditions of this letter and the Plan. PDI represents that the Shares are fully paid and non-assessable. The Shares are subject to the vesting provisions set forth herein and certain other restrictions as provided for herein.

You are entitled to all the rights and privileges of a holder of the Shares (including the right to receive and retain all cash dividends declared thereon). As used herein the term "Shares" shall mean and include, in addition to the above referenced number of shares, any new shares or other securities convertible into shares resulting from any merger or reorganization of PDI, or the recapitalization, reclassification or split of the Shares, or any stock dividend paid on the Shares.

By accepting the Shares you agree as follows:

1. The Shares shall vest on the third anniversary of the Grant Date (the "Vesting Date").

2. No Shares shall be sold, conveyed, transferred, pledged, encumbered or otherwise disposed of (any such disposition being herein called a "Transfer") prior to the date on which such Shares shall have vested as provided in Section 1 above (the period beginning on the date hereof and ending on the Vesting Date, being hereinafter called the "Risk Period"), except that this Transfer restriction shall lapse, and the vesting shall be accelerated with respect to all non-vested Shares upon (i) your death; (ii) your disability (which in the opinion of a physician designated by PDI permanently prevents you from being able to render services to PDI); (iii) your retirement at age 62 or older (provided you were employed by the Company for at least two years at the time of your retirement); or (iv) a "change in control" (as defined herein).

3. For the purposes of this Agreement:

(a) a “**change in control**” shall be deemed to occur upon (i) the sale by PDI of all or substantially all of its assets to any person (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended), (ii) the consolidation or merger of PDI with any person as a result of which merger PDI is not the surviving entity and with respect to which persons who were the stockholders of PDI immediately prior to such consolidation or merger do not, immediately thereafter own more than 50% of the combined voting power entitled to vote generally in the election of directors of the consolidated or merged company’s then outstanding voting securities; or (iii) a tender offer, merger, consolidation, sale of assets or contested election or any combination of the foregoing transactions in which the persons who were directors of PDI immediately before the transaction cease to constitute a majority of the Board of Directors of PDI or any successor to PDI;

(b) an “**Affiliate**” shall mean any person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, PDI; and

(c) the “**Company**” shall mean PDI and any of its subsidiaries or other Affiliates.

4. If at any time prior to the Vesting Date, your employment is terminated by the Company for any reason or you terminate your employment for any reason, unless your employment is terminated pursuant to the circumstances described in subsections (i) through (iv) of Section 2 above (any termination other than pursuant to Section 2 above shall be referred to herein as an “Event of Retransfer”) then, upon such Event of Retransfer the Escrowee (as defined in Section 8 below) shall transfer to PDI that number of the Shares as to which the Transfer restriction shall still apply on the day following such termination. Immediately upon such Event of Retransfer, such Shares shall be deemed to have been transferred to PDI and you shall have no further rights or privileges as a holder of the Shares so transferred.

5. If you are an Affiliate, you represent and agree that you will only sell, transfer, pledge or hypothecate any of the Shares pursuant to an effective registration statement under the Securities Act of 1933, as amended (the “Securities Act”), or in a transaction wherein registration under the Securities Act of 1933 is not required.

6. If you are determined by PDI to be an Affiliate on the Vesting Date, all certificates for Shares shall be endorsed as follows:

> “The shares represented by this certificate have not been registered under the Securities Act of 1933, as amended. The shares have been acquired for investment purposes and must be held unless they are subsequently registered under the Securities Act of 1933, as amended, or, in the opinion of counsel to for the Company, an exemption from registration under said Act is available.”

7. You will be required to satisfy any potential federal, state, local or other tax withholding liability. Such liability must be satisfied at the time the Shares become “substantially

vested" (as defined in the regulations issued under Section 83 of the Internal Revenue Code), which would likely be when the restrictions on the Shares lapse. At such time you will be required to report the total value of the Shares as of the date the Shares become substantially vested as ordinary income. This could result in a significant income tax burden to you if the Shares greatly appreciate in value from the Grant Date through such time as the Shares become substantially vested. Alternatively, you can pay all withholding taxes at the time of the grant by filing an election under Section 83(b) of the Internal Revenue Code with the IRS within 30 days of the Grant Date. If you choose to file an election under Section 83(b) of the Internal Revenue Code, you will be required to pay PDI an amount in cash equal to the withholding tax obligation that arises at that time. Thereafter, when the restrictions on the Shares lapse you may not have any further income tax consequences until you decide to sell or otherwise dispose of the Shares. **YOU ARE SOLELY RESPONSIBLE FOR MAKING THIS ELECTION IN A TIMELY FASHION.** Please be advised that additional restrictions may apply to an election under Section 83(b) of the Internal Revenue Code and, once made, an election can only be revoked with IRS approval. **THE FOREGOING IS NOT INTENDED TO CONSTITUTE TAX ADVICE NOR IS IT NECESSARILY COMPREHENSIVE IN LIGHT OF YOUR PERSONAL TAX SITUATION. ACCORDINGLY, YOU SHOULD CONSULT YOUR TAX ADVISOR GENERALLY WITH RESPECT TO THE TAX IMPLICATIONS OF THIS AWARD AND TO DETERMINE WHETHER AN ELECTION UNDER SECTION 83(B) OF THE INTERNAL REVENUE CODE WOULD BE BENEFICIAL TO YOU.**

If you elect to file a Section 83(b) election, the per share price of the Shares is $.

If you choose NOT to file a Section 83(b) election, unless we approve other arrangements, you must either deliver to us a check or money order in the amount of the required withholding amount on the Vesting Date. In the event of a shortfall, we will withhold the remaining required withholding amount from your salary or bonus.

8. In order to facilitate compliance with the transactions described herein, until the Shares vest, they will be held in escrow by our transfer agent, American Stock Transfer & Trust Company, 40 Wall Street, New York, NY 10005 (the " Escrowee"), in a book entry account in your name. If and when Shares vest, and if you are not then an Affiliate, they will be released to you, as soon as is reasonably practicable, as unrestricted shares that are free and clear of all restrictions, subject to your payment of applicable withholding taxes. If you are an Affiliate on the Vesting Date, the certificate representing the Shares released to you shall bear the restrictive legend set forth in paragraph 6 above. The Escrowee will hold the shares of PDI restricted stock issued to you pursuant to the terms and conditions of this Restricted Stock Grant Agreement, together with stock powers in the form annexed hereto duly endorsed by you, in blank, with your signature guaranteed thereon by a commercial bank, and shall dispose of them in accordance with all of the terms hereof. The deposit of the Shares into escrow shall not affect your rights as the holder of the Shares. The Escrowee shall be under no duty except to receive the Shares and dispose of them in accordance with the terms hereof. PDI may redesignate an Escrowee at any time on notice to you.

9. This agreement shall be binding upon and inure to the benefit of you and PDI and your and its respective successors and legal representatives.

Acceptance for Grant Date:

I hereby accept the Shares and agree to all of the terms and conditions described herein.

____
Name:
Title:
Employee ID:

Executed By:_________________________________

EMPLOYMENT SEPARATION AGREEMENT

This Employment Separation Agreement (the "Agreement") is effective as of April 20, 2009, by and between PDI, Inc., a Delaware corporation (the "Company"), having its principal place of business at 1 Route 17 South, Saddle River, New Jersey 07458, and David Kerr, residing at (the "Executive"), pursuant to which the aforementioned parties agree:

1. **Employment.** In connection with Executive's acceptance of that certain offer of employment letter dated April 19, 2009 (the "Offer Letter") and contingent upon Executive's successful completion of any pre-employment screening requirements set forth in the Offer Letter and execution of the Company's Confidentiality, Non-Solicitation and Covenant Not to Compete Agreement,, the Company shall employ the Executive as Senior Vice President – Business Development of the Company, which employment shall terminate upon notice by either party, for any reason. ***Executive understands and agrees that Executive's employment with the Company is at will and can be terminated at any time by either party, and for any or no reason.***

2. **Compensation and Benefits Payable Upon Involuntary Termination without Cause or Resignation for Good Reason.**

a. **Triggering Event**. In further consideration for Executive's employment, Executive will receive the compensation and benefits set forth in Section 2(b) if the following requirements (hereinafter referred to as the "Triggering Event") are met:

i. Executive's employment is terminated involuntarily by the Company at any time for reasons other than death, total disability or Cause, or Executive resigns from employment for Good Reason; and

ii. As of the 30th day following his or her termination date, Executive has executed the Agreement and General Release in substantially the form attached to this Agreement or in such form as may be provided by the Company (the "Release"), any applicable revocation period has expired and Executive has not revoked the Release during such revocation period.

b. **Compensation and Benefits**. Following the occurrence of a Triggering Event, the Company will provide the following compensation and benefits to Executive:

i. The Company will pay Executive a lump sum payment equal to the product of twelve (12) times Executive's Base Monthly Salary (excluding incentives, bonuses, and other compensation), plus the average of the annual amounts paid to Executive under any cash-based incentive or bonus plan in which Executive participates with respect to the last three (3) full fiscal years of Executive's participation in such plan prior to the date of termination of Executive's employment with the Company (or, if Executive's number of full fiscal years of participation in any such plan prior to the date of termination of Executive's employment is less than three (3), the average of the annual amounts paid to Executive over the number of full fiscal years of Executive's participation in such plan prior the date of termination of Executive's employment). Subject to Section 2(c) below, such payment shall be made within forty-five (45) days after Executive's termination date.

ii. The Company will reimburse Executive for the cost of the premiums for COBRA group health continuation coverage under the Company's group health plan paid by

Executive for coverage during the period beginning following Executive's termination date and ending on the earlier of either: (A) first anniversary of Executive's termination date; or (B) the date on which Executive becomes eligible for other group health coverage, provided that no reimbursement shall be paid unless and until Executive submits proof of payment acceptable to the Company within 90 days after Executive incurs such expense. Any reimbursements of the COBRA premium that are taxable to the Executive shall be made on or before the last day of the year following the year in which the COBRA premium was incurred, the amount of the COBRA premium eligible for reimbursement during one year shall not affect the amount of COBRA premium eligible for reimbursement in any other year, and the right to reimbursement shall not be subject to liquidation or exchange for another benefit.

c. **Delay of Payment to Comply with Code Section 409A**. Notwithstanding anything herein to the contrary, if at the time of Executive's termination of employment with the Company, Executive is a "specified employee" within the meaning of Code Section 409A and the regulations promulgated thereunder, then the Company shall delay the commencement of such payments (without any reduction) by a period of six (6) months after Executive's termination of employment. Any payments that would have been paid during such six (6) month period but for the provisions of the preceding sentence shall be paid in a lump sum to Executive six (6) months and one (1) day after Executive's termination of employment. The 6-month payment delay requirement of this Section 2(c) shall apply only to the extent that the payments under this Section 2 are subject to Code Section 409A. With respect to payments or benefits under this Agreement that are subject to Code Section 409A, whether Executive has had a termination of employment shall be determined in accordance with Code Section 409A and applicable guidance issued thereunder.

3. **Other Compensation**.

a. Except as may be provided under this Agreement, any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements of the Company shall be determined and paid in accordance with the terms of such plans, policies and arrangements, and Executive shall have no right to receive any other compensation or benefits, or to participate in any other plan or arrangement, following the termination of Executive's employment by either party for any reason.

b. Notwithstanding any provision contained herein to the contrary, in the event of any termination of employment, the Company shall pay Executive his or her earned, but unpaid, base salary within ten (10) days of Executive's termination date and shall reimburse Executive for any accrued, but unpaid, reasonable business expenses, in each case, earned or accrued as of the date of termination. Executive shall submit documentation of any business expenses within ninety (90) days of his or her termination date and any reimbursements of such expenses that are taxable to the Executive shall be made on or before the last day of the year following the year in which the expense was incurred, the amount of the expense eligible for reimbursement during one year shall not affect the amount of reimbursement in any other year, and the right to reimbursement shall not be subject to liquidation or exchange for another benefit.

4. **Withholding**. All amounts otherwise payable under this Agreement shall be subject to customary withholding and other employment taxes, and shall be subject to such other withholding as may be required in accordance with the terms of this Agreement or applicable law.

5. **Confidentiality, Non-Solicitation and Covenant Not to Compete Agreement**. In the event Executive's employment with the Company is terminated by either party for any reason, Executive shall continue to be bound by the Company's Confidentiality, Non-Solicitation and Covenant Not to Compete Agreement for the periods set forth therein (a copy of which is attached to this Agreement).

6. **Definitions**.

a. **Cause** shall mean: (i) the failure of Executive to use Executive's best efforts in accordance with Executive's position, skill and abilities to achieve Executive's goals as periodically set by the Company; (ii) the failure by Executive to comply with the reasonable instructions of the Chief Executive Officer and/or the Company's Board of Directors (the "Board"); (iii) a material breach by Executive of any of the terms or conditions of this Agreement; (iv) the failure by Executive to adhere to the Company's documented policies and procedures; (v) the failure of Executive to adhere to moral and ethical business principles consistent with the Company's Code of Business Conduct and Guidelines on Corporate Governance as in effect from time to time; (vi) Executive's conviction of a criminal offense (including the entry of a nolo contendere plea); (vii) any documented act of material dishonesty or fraud by the Executive in the commission of his or her duties; or (viii) Executive engages in an act or series of acts constituting misconduct resulting in a misstatement of the Company's financial statements due to material non-compliance with any financial reporting requirement within the meaning of Section 304 of The Sarbanes-Oxley Act of 2002.

b. **Base Monthly Salary** shall mean an amount equal to one-twelfth of Executive's then current annual base salary. Base Monthly Salary shall not include incentives, bonus(es), health and welfare benefits, car allowances, long term disability insurance or any other compensation or benefit provided to executive employees of the Company.

c. **Change of Control** shall mean: (i) any merger by the Company into another corporation or corporations which results in the stockholders of the Company immediately prior to such transaction owning less than 51% of the surviving corporation; (ii) any acquisition (by purchase, lease or otherwise) of all or substantially all of the assets of the Company by any person, corporation or other entity or group thereof acting jointly; (iii) the acquisition of beneficial ownership of voting securities of the Company (defined as common stock of the Company or any securities having voting rights that the Company may issue in the future) or rights to acquire voting securities of the Company (defined as including, without limitation, securities that are convertible into voting securities of the Company (as defined above) and rights, options, warrants and other agreements or arrangements to acquire such voting securities) by any person, corporation or other entity or group thereof acting jointly, in such amount or amounts as would permit such person, corporation or other entity or group thereof acting jointly to elect a majority of the members of the Board, as then constituted; or (iv) the acquisition of beneficial ownership, directly or indirectly, of voting securities and rights to acquire voting securities having voting power equal to 51% or more of the combined voting power of the Company's then outstanding voting securities by any person, corporation or other entity or group thereof acting jointly. Notwithstanding the preceding sentence, any transaction that involves a mere change in identity form or place of organization within the meaning of Section 368(a)(1)(F) of the Code, or a transaction of similar effect, shall not constitute a Change of Control.

d. **Good Reason**. Executive's termination of employment with the Company shall be for Good Reason if (i) Executive notifies the Company in writing that one of the Good Reason Events (as defined below) has occurred, which notice shall be provided within ninety (90) days after he or she first becomes aware of the occurrence of such Good Reason Event, (ii) the Company fails to cure such Good Reason Event within thirty (30) days after receipt of the written notice from Executive (the “Cure Period”), and (iii) Executive resigns employment within thirty (30) days following expiration of the Cure Period. For purposes of this Agreement, a “Good Reason Event” shall mean any of the following which occur without Executive’s consent:

i. Prior to a Change of Control,

A. The failure by the Company to pay Executive any material amount of his or her current salary, or any material amount of his or her compensation deferred under any plan, agreement or arrangement of or with the Company that is currently due and payable;

B. A material reduction in Executive’s annual base salary; provided that a reduction consistent with reductions made to the annual base salaries for similarly situated senior executives of no more than 15% shall not constitute Good Reason; or

C. The relocation of Executive’s principal place of employment to a location more than fifty (50) miles from Executive’s current principal place of employment.

ii. During the two (2) year period following any Change of Control,

A. The failure by the Company to pay Executive any material amount of his or her current salary, or any material amount of his or her compensation deferred under any plan, agreement or arrangement of or with the Company that is currently due and payable;

B. A material reduction in Executive’s annual base salary; provided that a reduction consistent with reductions made to the annual base salaries for similarly situated senior executives of no more than 15% shall not constitute Good Reason;

C. The relocation of Executive’s principal place of employment to a location more than fifty (50) miles from Executive’s current principal place of employment;

D. A material adverse alteration of Executive’s duties and responsibilities from those in effect immediately prior to the Change of Control;

E. An intentional, material reduction by the Company of Executive’s aggregate target incentive awards under any short-term and/or long-term incentive plans; and

F. The material failure of the Company to maintain Executive’s relative level of coverage under its material employee benefit, retirement, or fringe benefit plans, policies, practices, or arrangements in which Executive participates, both in terms of the amount of benefits provided and the relative level of Executive’s participation as in effect immediately before a Change of Control and with all improvements therein subsequent thereto (other than those plans or improvements that have expired thereafter in accordance with their original terms), or the taking of any action which would materially reduce Executive's benefits under such plans or deprive him of any material fringe benefit enjoyed by him immediately before a Change of Control. For this purpose, the Company may eliminate and/or modify existing employee benefit plans and coverage levels on a consistent and non-discriminatory basis applicable to all such executives; provided, however, that Executive's level of coverage under all such programs must be at least as great as is such coverage provided to employees who have the same or lesser levels of reporting responsibilities within the organization.

e. **Code** shall mean the Internal Revenue Code of 1986, as amended.

7. **Integration; Amendment**. This Agreement, the Company's Confidentiality, Non-Solicitation and Covenant Not to Compete Agreement, and the Executive's Individual Stock Agreement (if any) (a copy of which are attached to this Agreement) constitute the entire agreement between the parties hereto with respect to the matters set forth herein and supersede and render of no force and effect all prior understandings and agreements between the parties with respect to the matters set forth herein. No amendments or additions to such agreements shall be binding unless in writing and signed by both parties, provided, however, that this Agreement may be unilaterally amended by the Company where necessary to ensure any benefits payable hereunder are either excepted from Code Section 409A or otherwise comply with Code Section 409A.

8. **Governing Law; Headings**. This Agreement and its construction, performance and enforceability shall be governed by, and construed in accordance with, the laws of the State of New Jersey, without regard to its conflicts of law provisions. Headings and titles herein are included solely for convenience and shall not affect, or be used in connection with, the interpretation of this Agreement.

9. **Jurisdiction**. Except as otherwise provided for herein, each of the parties: (a) irrevocably submits to the exclusive jurisdiction of any state court sitting in Bergen County, New Jersey or federal court sitting in New Jersey in any action or proceeding arising out of or relating to this Agreement; (b) agrees that all claims in respect of the action or proceeding may be heard and determined in any such court; (c) agrees not to bring any action or proceeding arising out of or relating to this Agreement in any other court; and (d) waives any right such party may have to a trial by jury with respect to any action or proceeding arising out of or relating to this Agreement. Each of the parties waives any defense of inconvenient forum to the maintenance of any action or proceedings so brought and waives any bond, surety or other security that might be required of any other party with respect thereto. Any party may make service on another party by sending or delivering a copy of the process to the party to be served at the address set forth above or such updated address as may be provided to the other party. Nothing in this Section 9, however, shall affect the right of any party to serve legal process in any other manner permitted by law.

[Signature Page Follows]

IN WITNESS WHEREOF the parties have duly executed this Agreement as of the date first above written.

EXECUTIVE

By: _/s/ David Kerr______________________
David Kerr

PDI, INC.

By: _/s/ Nancy Lurker_____________________
Nancy Lurker
Chief Executive Officer

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

1. Registration Statement (Form S-8 No. 333-61231) pertaining to the 1998 stock option plan of PDI, Inc.,
2. Registration Statement (Form S-8 No. 333-60512) pertaining to the 2000 Omnibus Incentive Plan of PDI, Inc., and
3. Registration Statement (Form S-8 No. 333-123312) pertaining to the 2004 Stock Award and Incentive Plan of PDI, Inc.;

of our reports dated March 5, 2010, with respect to the consolidated financial statements and schedule of PDI, Inc. and the effectiveness of internal control over financial reporting of PDI, Inc., included in the Annual Report (Form 10-K) for the year ended December 31, 2009.

/s/ Ernst & Young LLP

MetroPark, New Jersey
March 5, 2010

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, 2009 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 5, 2010

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

Exhibit 31.2

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

I, Jeffrey E. Smith, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2009 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 5, 2010

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

Exhibit 32.1

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

In connection with the Annual Report of PDI, Inc. (the "Company") on form 10-K for the fiscal year ended December 31, 2009 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 5, 2010

/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, 2009 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jeffrey E. Smith, as Chief Financial and Accounting 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 5, 2010

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

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